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If you are in any doubt as to any aspect of this Circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand the Circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

Dealings in the securities of the Company may be settled through CCASS operated by HKSCC Nominees Limited. You should consult your licensed securities dealer or other registered institutions in securities, bank manager, solicitor, professional accountant or other professional advisers for details of those settlement arrangements and how such arrangements may affect your rights and interests.

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China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

- (1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF APPROXIMATELY 48.10% INTEREST IN YOUZAN TECHNOLOGY;**
(2) ISSUANCE OF SHARES UNDER SPA SPECIFIC MANDATE;
(3) APPLICATION FOR WHITEWASH WAIVER;
(4) PROPOSED SHARE AWARD GRANT;
(5) NOTICE OF SGM; AND
(6) CLOSURE OF REGISTER OF MEMBERS

Financial Adviser to the Company



Independent Financial Adviser to

the GEM LR Independent Board Committee and the Independent Shareholders

ALTUS CAPITAL LIMITED

Capitalised terms used in this cover shall have the same meanings as defined in this Circular.

A letter from the Board is set out on pages 9 to 55 of this Circular. A letter from the GEM LR Independent Board Committee is set out on pages 56 to 57 of this Circular. A letter from the Independent Financial Adviser, containing its advice to the GEM LR Independent Board Committee and the Independent Shareholders is set out on pages 58 to 107 of this Circular.

A notice convening the SGM to be held at 10:00 a.m. on Wednesday, 27 December 2023 at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wan Chai, Hong Kong is set out on pages SGM-1 to SGM-3 of this Circular.

A form of proxy for use at the SGM is enclosed with this Circular. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM and any adjournment thereof should you so desire and in such case, the proxy form shall be deemed to be revoked.

This Circular will remain on the Stock Exchange's website at www.hkexnews.hk on the "Latest Listed Company Information" page for at least 7 days from the date of its publication and on the website of the Company at www.chinayouzan.com.

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CHARACTERISTICS OF GEM

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 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.

EXPECTED TIMETABLE

EXPECTED TIMETABLE

Despatch of the Circular and the notice of SGM Thursday,
30 November 2023

Latest time for lodging transfer documents for
entitlements to the right to attend and
vote at the SGM 4:30 p.m. on Tuesday, 19 December 2023

Book closure of register of members
for determining the entitlement to attend
and vote at the SGM From Wednesday, 20 December 2023
to Wednesday, 27 December 2023
(inclusive of both days)

Latest time for lodging proxy forms for the SGM . . . 10:00 a.m. on Monday, 25 December 2023
(Note 4)

Record date for determining the entitlement of
the Shareholders to attend and vote at the SGM Wednesday, 27 December 2023

SGM 10:00 a.m. on Wednesday, 27 December 2023

Announcement of voting results of the SGM Wednesday, 27 December 2023

Notes:

- (1) Shareholders should note that the dates or deadlines specified in the expected timetable as set out above, and in other parts of this Circular, are indicative only. In the event any special circumstances arise, the Board may extend, or make adjustment to, the timetable if it considers appropriate to do so. The Company will make an announcement to notify Shareholders and the Stock Exchange of any such extension or adjustment to the expected timetable.
- (2) All times and dates in this Circular refer to Hong Kong local times and dates.
- (3) For determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 20 December 2023 to Wednesday, 27 December 2023, both days inclusive, during which period no transfer of shares will be effected and registered. In order to be eligible to attend and vote at the SGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 19 December 2023.
- (4) Please note that 23 December 2023, 24 December 2023 and 25 December 2023 are not working days in Hong Kong and Computershare Hong Kong Investor Services Limited's offices will not be open on these days for physical delivery of the proxy forms. To be effective, all proxy appointments must be lodged with Computershare Hong Kong Investor Services Limited before the deadline.

DEFINITIONS

In this Circular, unless the context otherwise requires, the following expressions have the following meanings:

“2018 Acquisition”	the acquisition of 51.90% of the issued share capital of Youzan Technology by the Company in accordance with the terms and conditions of the sale and purchase agreement dated 17 March 2017, which was completed on 18 April 2018
“2018 Share Award Scheme”	the share award scheme adopted by the Company on 31 May 2018
“2023 AGM Scheme Mandate Limit”	the maximum number of Shares which may be issued in respect of all options and awards to be granted under all share schemes of the Company involving the issue of new shares, being 1,842,164,209 Shares approved at the AGM and representing 10% of the Shares in issue as at the date of the AGM
“Acquisition”	the proposed acquisition of the Sale Shares by the Company from the Sellers in accordance with the terms and conditions of the Sale and Purchase Agreement
“acting in concert”	has the meaning as ascribed to it under the Takeovers Code
“AGM”	the annual general meeting of the Company held on 29 June 2023 at which (among others) the resolutions for the grant of the General Mandate to the Directors and the adoption of the 2023 AGM Scheme Mandate Limit was passed by the Shareholders
“Announcement”	the announcement of the Company dated 23 May 2023 in relation to, among other things, (i) the Acquisition of 48.10% interest in Youzan Technology, (ii) issuance of Shares under the SPA Specific Mandate; and (iii) application for Whitewash Waiver
“associate(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Awards”	share awards currently representing shares of Youzan Technology that are proposed to be granted under the Youzan Technology Share Award Plan A
“Board”	the board of Directors

DEFINITIONS

“Business Day”	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are open for the transaction of normal business
“Circular”	this circular of the Company dated 30 November 2023
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Company” or “China Youzan”	China Youzan Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the GEM of the Stock Exchange (Stock Code: 8083)
“Completion”	completion of the Acquisition
“Completion Date”	the date on which Completion is scheduled to occur, which shall be 5 Business Days after the satisfaction or (if applicable) waiver of all conditions to the Completion under the Sale and Purchase Agreement, or such other date as agreed in writing by the Company and the Sellers
“Conditions”	has the meaning ascribed to it under the section headed “TAKEOVERS CODE IMPLICATIONS – Application for Whitewash Waiver” in the Letter from the Board
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration”	the total consideration of HK\$2,618,999,998.02 payable by the Company in the form of the Consideration Shares for all of the Sale Shares
“Consideration Shares”	the 14,549,999,989 new Shares in aggregate to be issued and allotted to the Sellers upon Completion
“Conversion”	has the meaning ascribed to it under the section headed “PROPOSED SHARE AWARD GRANT” in the Letter from the Board
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group immediately upon completion of the Acquisition

DEFINITIONS

“Exchanged Shares”	has the meaning ascribed to it under the section headed “PROPOSED SHARE AWARD GRANT” in the Letter from the Board
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission from time to time or any delegate of such Executive Director
“Fee Shares”	new Shares to be issued and allotted to Oriental Patron as remuneration for its financial advisory services to the Company in connection with the Acquisition and the transactions contemplated thereunder
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM of the Stock Exchange
“GEM LR Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors, being Dr. Fong Chi Wah, Mr. Deng Tao and Mr. Li Shaojie, established to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate)
“General Mandate”	the general mandate which was granted to the Directors by the Shareholders pursuant to the resolution passed at the AGM to allot and issue up to 3,684,328,419 new Shares, representing approximately 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the AGM
“GMV”	gross merchandise volume, the total sales volume in dollar value for merchandise sold through a particular marketplace over a certain period of time
“Grantees”	eligible participants under the Youzan Technology Share Award Plan A to which the Proposed Share Award Grant is proposed to be made
“Group”	the Company and its subsidiaries
“HK\$” or “HKD”	Hong Kong dollar(s), the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Financial Adviser”	Altus Capital Limited, a corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the GEM LR Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate) and the Whitewash Waiver
“Independent Shareholders”	the Shareholders other than the Sellers, their associates and parties acting in concert with any of the Sellers, the Trustee (in respect of Shares held on behalf of the non-Independent Shareholders) and any other Shareholder who is interested in or involved in any of the Acquisition and the Whitewash Waiver
“Independent Third Party(ies)”	third party(ies) independent of the Company and the connected persons (as defined in the GEM Listing Rules) of the Company
“Independent Valuer”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the valuer appointed by the Company to value the Sale Shares
“Issue Price”	HK\$0.18 per Share
“Last Trading Day”	22 May 2023, being the date on which trading in the Shares last occurred prior to the signing of the Sale and Purchase Agreement
“Latest Practicable Date”	27 November 2023, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained herein
“Listing Committee”	the Listing Committee of the Stock Exchange
“Long Stop Date”	has the meaning ascribed to it under the section headed “Conditions to the Completion under the Sale and Purchase Agreement” in the Letter from the Board

DEFINITIONS

“Mr. Cui”	Mr. Cui Yusong, an executive Director of the Company
“Mr. Huang”	Mr. Huang Rongrong
“Mr. Yu”	Mr. Yu Tao, an executive Director of the Company
“Mr. Zhu”	Mr. Zhu Ning, an executive Director and chairman of the Board
“Ms. Ying”	Ms. Ying Hangyan, an executive Director of the Company
“Oriental Patron”	Oriental Patron Asia Limited, a licensed corporation under the Securities and Futures Ordinance (Cap. 571) to carry on type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities
“PRC”	the People’s Republic of China, excluding Hong Kong for the purposes of this Circular
“Principal Subsidiary”	has the meaning ascribed to it under Rule 23.14 of the GEM Listing Rules
“Proposed Share Award Grant”	a total of 106,428,391 Awards proposed to be granted to 401 Grantees (who are not existing Shareholders) under the Youzan Technology Share Award Plan A, subject to the satisfaction of the conditions set forth under the section headed “Conditions to the Completion of the Sale and Purchase Agreement” of the Letter from the Board, and further subject to the acceptance of the Awards by the Grantees, and with Shares the awards of which to be made under the 2023 AGM Scheme Mandate Limit and the Scheme Specific Mandate
“Proposed Transfer”	the proposed transfer of all the Exchanged Shares held by Qima Teamwork to the Trustee after Completion for the purpose of satisfying the Awards granted under the Youzan Technology Share Award Plan A
“Purchaser”	the Company
“Relevant Period”	the period commencing from a date falling six months before the date of the Announcement, up to and including the Latest Practicable Date

DEFINITIONS

“Remuneration Committee”	the remuneration committee of the Company
“RMB”	Renminbi, the lawful currency of PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 23 May 2023 and entered into among the Sellers and the Company for the sale and purchase of the Sale Shares
“Sale Shares”	812,310,975 ordinary shares in the issued share capital of Youzan Technology, representing approximately 48.10% of the issued share capital of Youzan Technology as at the Latest Practicable Date
“Scheme Specific Mandate”	the specific mandate to be sought at the SGM for making the part of the Proposed Share Award Grant with respect to the 64,166,170 Shares in excess of the 2023 AGM Scheme Mandate Limit
“Sellers”	collectively, (i) Whitecrow Investment Ltd. (“ Whitecrow Investment ”); (ii) V5.Cui Investment Ltd. (“ V5. Cui Investment ”); (iii) Rory Huang Investment Ltd. (“ Rory Huang ”); (iv) Youzan Teamwork Inc. (“ Youzan Teamwork ”); (v) Qima Teamwork Inc. (“ Qima Teamwork ”); (vi) Xincheng Investment Limited (“ Xincheng Investment ”); (vii) Baidu (Hong Kong) Limited (“ Baidu Hong Kong ”); (viii) Aves Capital, LLC (“ Aves Capital ”); (ix) HKDWD Holdings Limited (formerly known as Hillhouse KDWD Holdings Limited) (“ HKDWD Holdings ”); (x) Ralston Global Holdings Limited (“ Ralston Global ”);

DEFINITIONS

(xi) Hangzhou San Ren Yan Xing Investment Partnership (LLP) (杭州三仁焱興投資合夥企業(有限合夥)) (“**Hangzhou San Ren Yan Xing**”);

(xii) Franchise Fund LP (“**Franchise Fund**”);

(xiii) Happy Zan Holdings Limited (“**Happy Zan**”);

(xiv) Tembusu HZ II Limited (“**Tembusu HZ**”);

(xv) Matrix Partners China III, LP (“**Matrix Partners China III**”);

(xvi) Matrix Partners China III-A, LP (“**Matrix Partners China III-A**”);

(xvii) GCYZ Holdings Limited (“**GCYZ Holdings**”); and

(xviii) GCQM Holdings Limited (“**GCQM Holdings**”),

the details of which are set out in the paragraph headed “Information of the Sellers” in Letter from the Board, and “Seller” means any one of them

“SFO” the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)

“SGM” a special general meeting to be convened by the Company at 10:00 a.m. on Wednesday, 27 December 2023 at 40th Floor, Dah Sing Financial Centre, No. 248 Queen’s Road East, Wan Chai, Hong Kong to consider and approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate), the Whitewash Waiver and the Scheme Specific Mandate, notice of which is set out on pages SGM-1 to SGM-3 of this Circular, or any adjournment thereof

“Shareholders” the holders of the Shares

“Share(s)” the issued ordinary share(s) in the share capital of the Company

DEFINITIONS

“SPA Specific Mandate”	the specific mandate to be sought at the SGM for the approval of the allotment and issuance of the Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Trustee”	Computershare Hong Kong Trustees Limited, the trustee appointed by China Youzan for the purposes of the 2018 Share Award Scheme
“US\$”	United States dollar, the lawful currency of the United States of America
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Sellers to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Sellers and parties acting in concert with them as a result of the Completion
“Youzan Technology”	Youzan Technology Inc. (有贊科技有限公司)(formerly known as Qima Holdings Ltd.), an exempted company incorporated in the Cayman Islands with limited liability on 11 August 2014, and as of the Latest Practicable Date, a non-wholly owned subsidiary of the Company
“Youzan Technology Group”	Youzan Technology and its subsidiaries
“Youzan Technology Share Award Plan A”	the share award plan A adopted by Youzan Technology on 6 May 2021
“%”	per cent.

In this Circular, unless the context otherwise requires, any reference to the singular includes the plural and vice versa and any reference to a gender includes a reference to the other gender and the neuter.

Unless otherwise specified, for the purpose of this Circular and for illustration purposes only, amounts denominated in HK\$ have been converted to RMB at the rate of HK\$1.00:RMB0.9182 and HK\$1.00:US\$0.1283, and vice versa. The Company does not make any representation that any amounts in RMB or HK\$ had been or may be converted at the date of this Circular or any other date at such rate or any other rate.

LETTER FROM THE BOARD



China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

Executive Directors:

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

Registered Office:

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10, Bermuda

Independent Non-executive Directors:

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

*Principal place of business and head office
in Hong Kong:*

Unit 1511, 15/F,
Shui On Centre
No. 6-8 Harbour Road
Wan Chai, Hong Kong

30 November 2023

To the Shareholders

Dear Sir or Madam,

- (1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION OF APPROXIMATELY 48.10% INTEREST IN
YOUZAN TECHNOLOGY;**
(2) ISSUANCE OF SHARES UNDER SPA SPECIFIC MANDATE;
(3) APPLICATION FOR WHITEWASH WAIVER;
(4) PROPOSED SHARE AWARD GRANT;
(5) NOTICE OF SGM;
AND
(6) CLOSURE OF REGISTER OF MEMBERS

INTRODUCTION

Reference is made to the Announcement in respect of, among other things, the Sale and Purchase Agreement.

LETTER FROM THE BOARD

The purposes of this Circular are to provide you with, among other things, (i) further details of the Acquisition, the SPA Specific Mandate, the application for the Whitewash Waiver and the Proposed Share Award Grant; (ii) further details of the Youzan Technology Group; (iii) a letter of recommendation from the GEM LR Independent Board Committee to the Independent Shareholders; (iv) a letter of advice from the Independent Financial Adviser to the GEM LR Independent Board Committee and the Independent Shareholders; (v) a notice of the SGM; and (vi) other information as required under the GEM Listing Rules and the Takeovers Code.

THE ACQUISITION

On 23 May 2023, the Company entered into the Sale and Purchase Agreement with the Sellers, pursuant to which the Company has conditionally agreed to acquire, and each of the Sellers has conditionally and severally agreed to sell, the Sale Shares, in aggregate representing approximately 48.10% of the entire issued share capital of Youzan Technology as at the Latest Practicable Date.

Principal Terms of the Sale and Purchase Agreement

The principal terms of the Sale and Purchase Agreement are set out below:

Date	:	23 May 2023
Parties	:	(i) The Company; and (ii) The Sellers

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to purchase, and each of the Sellers has conditionally and severally agreed to sell, the respective Sale Shares, in aggregate which in total representing approximately 48.10% of the entire issued share capital of Youzan Technology as at the Latest Practicable Date.

Consideration and basis of determination

The total Consideration for the Acquisition is HK\$2,618,999,998.02, which shall be satisfied by the Company allotting and issuing 14,549,999,989 new Shares (the “**Consideration Shares**”) in aggregate at an issue price of HK\$0.18 per Consideration Share (the “**Issue Price**”) to the Sellers in proportion to their shareholding in Youzan Technology at Completion.

LETTER FROM THE BOARD

The number of Sale Shares agreed to be sold by each Seller and the number of Consideration Shares proposed to be allotted and issued to each Seller under the Sale and Purchase Agreement are set out forth below:

Name of Seller	Number of Sale Shares in Youzan Technology held by such Seller and proposed to be sold to the Company	Approximate shareholding % in Youzan Technology held by such Seller as at the Latest Practicable Date	Number of Consideration Shares proposed to be allotted and issued to such Seller
Whitecrow Investment	240,265,623	14.23	4,303,604,065
V5.Cui Investment	26,165,281	1.55	468,668,835
Rory Huang	5,288,544	0.31	94,727,656
Youzan Teamwork	66,835,954	3.95	1,197,156,213
Qima Teamwork	106,428,391	6.29	1,906,330,379
Xincheng Investment	32,101,782	1.90	575,002,606
Baidu Hong Kong	17,737,531	1.05	317,712,161
Aves Capital	21,755,998	1.29	389,690,377
HKDWD Holdings	75,812,422	4.49	1,357,941,446
Ralston Global	8,401,392	0.50	150,484,552
Hangzhou San Ren Yan Xing	8,401,392	0.50	150,484,552
Franchise Fund	30,659,587	1.82	549,170,212
Happy Zan	3,332,997	0.20	59,700,173
Tembusu HZ	90,268,812	5.35	1,616,882,271
Matrix Partners China III	38,148,261	2.26	683,306,288
Matrix Partners China III-A	4,238,696	0.25	75,922,926
GCYZ Holdings	6,118,075	0.36	109,586,099
GCQM Holdings	30,350,237	1.80	543,629,178
Total	812,310,975	48.10	14,549,999,989

Please refer to the section headed “Effect of the issuance of the Consideration Shares and the Fee Shares on the shareholding structure of the Company” in this letter for the illustrative shareholding structure of the Company upon the allotment and issuance of the Consideration Shares and the Fee Shares.

The total Consideration was determined after arm’s length negotiations among the Company and the Sellers with reference to, among others, (i) the market value of the Sale Shares as of 31 January 2023 pursuant to a preliminary valuation conducted by the Independent Valuer available at the time of the signing of the Sale and Purchase Agreement adopting the market approach through guideline transaction method and cross-checked against the result using the guideline public company method, taking into account the market capitalisation of the Company and the value of the payment and other business of the Company, among other things; (ii) the historical performance of Youzan Technology; (iii) the future business prospects of the Youzan Technology Group; and (iv) the benefits to be derived by the Group from the Acquisition as described under the section headed “Reasons for and benefits of the Acquisition” in this letter.

LETTER FROM THE BOARD

The total Consideration of HK\$2,619,000,000 equals to the the market value of 48.1% of the entire issued share capital of Youzan Technology as at 31 January 2023 (the “Youzan Technology 31 January Reference Value”) pursuant to the then preliminary valuation prepared by the Independent Valuer, being the latest available reference value for the purpose of arm’s length negotiations amongst the Company and the Sellers to determine the Consideration before the signing of the Sale and Purchase Agreement.

Subsequent to the signing of the Sale and Purchase Agreement, the valuation report has been finalised and updated for the purpose of this Circular based on valuation dates of 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023. As set out in Appendix V to this Circular, the market value of 48.1% of the issued share capital of Youzan Technology as at 31 March 2023 was RMB1,525,000,000 (equivalent to approximately HK\$1,741,000,000 applying the reference exchange rate of RMB1 to HK\$1.1421 as at 31 March 2023) (the “**Youzan Technology 31 March Reference Value**”), as at 31 July 2023 was RMB1,164,000,000 (equivalent to approximately HK\$1,270,000,000 applying the reference exchange rate of RMB1 to HK\$1.0909 as at 31 July 2023) (the “**Youzan Technology 31 July Reference Value**”), and as at 31 August 2023 was RMB843,268,000 (equivalent to approximately HK\$911,235,000 applying the reference exchange rate of RMB1 to HK\$1.0806 as at 31 August 2023) (the “**Youzan Technology 31 August Reference Value**”). The difference in the valuation of Youzan Technology with valuation dates of 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 respectively was primarily due to the market approach methodology adopted by the Independent Valuer in valuing Youzan Technology, and an important element of such methodology is the share price of China Youzan on these valuation reference dates (which was a downward trend considering the challenging market condition over the period). Such downward trend in the share price of China Youzan may or may not continue, but in any case these were developments which were outside the control of the Company. Further details are set out in the latter part of this letter.

The full valuation report in respect of the Sale Shares as of 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 are set out in Appendix V to this Circular. The foregoing paragraph is subject to and should be read in conjunction with the bases, limitations and assumptions set out in Appendix V to this Circular. The estimation of the market value of 48.10% of the issued share capital of Youzan Technology in Appendix V and the qualification and experience of the Independent Valuer have been reported on by Oriental Patron, the full text of which is set out in Appendix VI to this Circular.

Shareholders and potential investors of China Youzan should note that each of the Youzan Technology 31 January Reference Value, the Youzan Technology 31 March Reference Value, the Youzan Technology 31 July Reference Value and the Youzan Technology 31 August Reference Value estimated by the Independent Valuer does not represent the trading price of China Youzan immediately following Completion or at any time. Upon Completion, trading price of the Shares may fluctuate subject to prevailing market conditions and may materially differ from the Youzan Technology 31 January

LETTER FROM THE BOARD

Reference Value, the Youzan Technology 31 March Reference Value, the Youzan Technology 31 July Reference Value and the Youzan Technology 31 August Reference Value as appraised by the Independent Valuer. Accordingly, the Company, investors and potential investors of China Youzan should not rely on the Youzan Technology 31 January Reference Value, the Youzan Technology 31 March Reference Value, the Youzan Technology 31 July Reference Value and the Youzan Technology 31 August Reference Value as estimated by the Independent Valuer as the basis for the trading price of the Shares upon Completion and should exercise caution in relying on the Youzan Technology 31 January Reference Value, the Youzan Technology 31 March Reference Value, the Youzan Technology 31 July Reference Value, the Youzan Technology 31 August Reference Value and the valuation report prepared by the Independent Valuer in assessing the merits or demerits of the Acquisition.

Taking into account that (i) the valuation report as set out in Appendix V to this Circular which has been prepared by the Independent Valuer with relevant qualifications and experience and in compliance with the relevant valuation procedures and standards; (ii) the approach adopted by the Independent Valuer was an appropriate valuation methodology for assets of this nature; (iii) the Independent Valuer has reviewed relevant financial information and data concerning Youzan Technology; (iv) the report of Oriental Patron as set out in Appendix VI to this Circular; and (v) the Directors have reviewed the methodology, basis and assumptions adopted in the valuation report as set out in Appendix V to this Circular and considered the assumptions against the specific circumstances of Youzan Technology and have been advised that the valuation assumptions adopted have been prepared by the Independent Valuer with due care, consideration and objectivity, the Directors (including the independent non-executive Directors) are of the view that the valuation method and principal assumptions of the valuation report as set out in Appendix V to this Circular are fair and reasonable. Shareholders are advised to refer to the views of the independent non-executive Directors as to the fairness and reasonableness of the Acquisition for the purpose of Chapter 20 of the GEM Listing Rules as set out in the "Letter from the GEM LR Independent Board Committee" in this Circular.

Consideration Shares

The 14,549,999,989 Consideration Shares in aggregate represent approximately 78.98% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 44.12% of the issued share capital of the Company as enlarged by the allotment and issuance of the Consideration Shares and Fee Shares immediately upon Completion (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Completion Date, save for the issuance of the Consideration Shares and Fee Shares).

The market value of the Consideration Shares ranged from HK\$960.3 million and HK\$4,365.0 million as calculated based on the lowest closing price of HK\$0.066 (on 1 November 2022) and highest closing price of HK\$0.3 (on 13 January 2023) for the past 12 months from the date of the Sale and Purchase Agreement, i.e. 23 May 2022 to 22 May 2023.

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Issue Price

The Issue Price for each Consideration Share represents the following:

- (i) a premium of approximately 22.45% over the closing price of HK\$0.1470 per Share as quoted on the Stock Exchange as at 22 May 2023, being the last trading day prior to the signing of the Sale and Purchase Agreement;
- (ii) a premium of approximately 20.81% over the average closing price of HK\$0.1490 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;
- (iii) a premium of approximately 14.65% over the average closing price of HK\$0.1570 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;
- (iv) a discount of approximately 0.77% to the average closing price of HK\$0.1814 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;
- (v) a premium of 57.89% over the closing price per Share of HK\$0.114 as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a premium of approximately 190.32% over the audited consolidated net asset value per Share of approximately RMB0.057 (equivalent to approximately HK\$0.062 per share) as at 31 December 2022;
- (vii) a premium of approximately 195.08% over the unaudited consolidated net asset value per Share of approximately RMB0.056 (equivalent to approximately HK\$0.061 per share) as at 30 June 2023; and
- (viii) a premium of approximately 200% over the unaudited consolidated net asset value per Share of approximately RMB0.055 (equivalent to approximately HK\$0.060 per share) as at 30 September 2023.

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The Issue Price was determined after arm's length negotiation between the Company and the Sellers, with reference to the prevailing market prices of the Shares and recent market conditions at the time leading up to the signing of the Sale and Purchase Agreement. The Company has taken into account, among others, the following key considerations in determining the Issue Price of the Consideration Shares:

(i) the market price of the Shares in the last 30 trading days prior to the signing of the Sale and Purchase Agreement;

During this period, the market price of the Shares has experienced a decline of approximately 19%, dropping from HK\$0.1814 per Share to HK\$0.147 per Share. The Directors considered the premium as represented by the Issue Price over the majority of this period serves as an effective anti-dilution measure in terms of value for the Shareholders.

(ii) the trading volume of the Shares during the 30 trading days prior to the signing of the Sale and Purchase Agreement;

Throughout this period, the daily trading volume of the Shares varied between a low of 40.85 million Shares and a high of 219.96 million Shares, representing approximately 0.3% and approximately 1.5% respectively of the total Consideration Shares. The Directors considered the relatively thin daily trading volume of the Shares in comparison to the Consideration Shares in total would make the eventual monetization of the Consideration Shares in the open market by the Sellers more expensive, thereby aligning the Sellers' interests with the Company in the long term.

(iii) the financial results of the Company for the financial year ended 31 December 2022 and for the three months ended 31 March 2023;

The Company is still in a phase of development where it continues to incur losses. The reported losses for the financial year ended 31 December 2022 and for the three months ended 31 March 2023 was approximately RMB645.8 million and approximately RMB9.3 million (unaudited) respectively. The Directors considered the Issue Price has priced in the latest financial position of the Company.

(iv) recent share price trend;

The recent share price of the Company showed a downward trend during the period beginning on 13 January 2023 of HK\$0.30 to the date prior to the date of signing of the Sale and Purchase Agreement of HK\$0.147. This decline represents a decrease of approximately 51.0%. Recognising this trend, the Directors considered setting an issue price with a downward adjustment of not more than 51.0% would be advantageous to the Company.

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(v) the volatility of Shares; and

The lowest and highest closing price of the Shares during the twelve-month period prior to the date of signing of the Sale and Purchase Agreement was HK\$0.066 on 1 November 2022 and HK\$0.30 on 13 January 2023. The volatility measurement of the Shares during the twelve-month period was approximately 93.9% as quoted by Bloomberg. Given the relatively high volatility of the trading price of the Shares which increases the uncertainty in the realisable monetary value of the Consideration Shares, the Company considers that the Issue Price (which was at a premium to the then prevailing trading price of the Shares as at the last trading day prior to the Sale and Purchase Agreement and at a slight discount to the average trading price quoted within last 30 consecutive trading days prior to the date of the Sale and Purchase Agreement) is within a reasonable range.

(vi) the lock-up period for the Consideration Shares.

The Consideration Shares are subject to a lock-up period of six months which restricts the Sellers to monetize them directly in the open market. Given the downward price trend, high volatility and relatively thin trading volume of the Shares leading up to the date of the signing of the Sale and Purchase Agreement, the lock-up arrangement would further increase the market risks for the Sellers in holding the Consideration Shares.

As set out above, the relevant Directors have considered a range of factors in determining the total Consideration, including but not limited to (i) the market value of the Sale Shares as of 31 January 2023 pursuant to a preliminary valuation conducted by the Independent Valuer, the historical performance and future business prospect of Youzan Technology; (ii) the total Consideration was determined through arm's length negotiations; (iii) although the total Consideration is higher than the Youzan Technology 31 March Reference Value, the Youzan Technology 31 July Reference Value and the Youzan Technology 31 August Reference Value, the valuation and the value of the Consideration Shares were also affected by the recent significant volatility in the share price of the Company; (iv) the Acquisition is expected to benefit the Company through allowing the Company to further broaden its shareholders' base; and (v) the relevant Directors who have an actual or potential conflict of interest have abstained from voting in respect of the resolutions of the Board in connection with approving the Acquisition.

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Having considered the Youzan Technology 31 March Reference Value, the Youzan Technology 31 July Reference Value and the Youzan Technology 31 August Reference Value, which were updated subsequent to the Sale and Purchase Agreement having been entered into between the Company and the Sellers on 23 May 2023, the Directors have conducted a further assessment of the fairness and reasonableness of the Consideration with reference to the Issue Price. The valuation report contained in Appendix V to the Circular indicates that 48.1% of the issued share capital of Youzan Technology as of 31 January 2023 was valued at approximately HK\$2,619.0 million, as of March 31, 2023 was valued at approximately HK\$1,741.0 million, as of 31 July, 2023 was valued at approximately HK\$1,270.0 million and as of 31 August 2023 was valued at approximately HK\$911.2 million. The effective prices of the Consideration Shares on January 31, 2023, March 31, 2023, July 31, 2023 and August 31, 2023 were approximately HK\$0.18, HK\$0.1197, HK\$0.0873 and HK\$0.0626 (the “**Effective Prices**”), respectively, which were calculated by dividing the respective reference values (i.e. the Youzan Technology 31 January Reference Value, the Youzan Technology 31 March Reference Value, the Youzan Technology 31 July Reference Value and the Youzan Technology 31 August Reference Value) by the number of Consideration Shares. Comparing these Effective Prices to the closing price of HK\$0.1470 per Share as quoted on the Stock Exchange on 22 May 2023, being the last trading day prior to the date of the signing of the Sale and Purchase Agreement, the Effective Price on 31 January 2023 represented a premium of approximately 22.45%, the Effective Price on 31 March 2023 represented a discount of approximately 18.57%, the Effective Price on 31 July 2023 represented a discount of approximately 40.61% and the Effective Price on 31 August 2023 represented a discount of approximately 57.41%.

In light of the Youzan Technology 31 January Reference Value, the Youzan Technology 31 March Reference Value, the Youzan Technology 31 July Reference Value, the Youzan Technology 31 August Reference Value and the Effective Prices, the Directors have assessed the key considerations pertaining to the Issue Price, as outlined in the section headed “The Acquisition – Issue Price” in this letter, in particular, the declining values of the Consideration (as reflected by the value of the Consideration Shares) as demonstrated by (1) the downward trend of the Share price continuing after the signing of the Sale and Purchase Agreement where the Share price further dropped to HK\$0.114 on the Latest Practicable Date from the closing price of HK\$0.1470 per Share as quoted on the Stock Exchange on May 22, 2023, being the last trading day prior to the date of the signing of the Sale and Purchase Agreement (representing a further decline of approximately 22.45% over approximately 6 months following the decline of approximately 51% in share price from January 13, 2023 to May 22, 2023, as mentioned in the section headed “The Acquisition – Issue Price”) and (2) the declining daily trading volume from approximately 85.6 million Shares on 22 May 2023 to approximately 41.8 million Shares on the Latest Practicable Date (a decline of approximately 51.17%). As such, it is considered that the Consideration (as reflected by the value of the Consideration Shares) is commensurate with the declining appraised values of Youzan Technology, despite the declines of the two are not in a perfect linear relationship.

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Having considered all the above factors and taking into account the basis and methodology of the valuation of the Youzan Technology shares adopted by the Independent Valuer which would subject the valuation of the Youzan Technology Shares to a certain degree of volatility based on the prevailing trading price of China Youzan, the executive Directors (being Mr. Zhu, Mr. Cui, Mr. Yu and Ms. Ying who were considered to have a material interest in the Acquisition and the transactions contemplated thereunder) consider that the Issue Price and the Consideration are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. **Shareholders are however advised to refer to the views of the Independent Financial Adviser that the Acquisition is not fair and not reasonable and the views of the GEM LR Independent Board Committee as to the fairness and reasonableness of the Acquisition as set out in the “Letter from the Independent Financial Adviser” and the “Letter from the GEM LR Independent Board Committee” in this Circular respectively.**

SPA Specific Mandate and application for listing

The Consideration Shares will be allotted and issued pursuant to the SPA Specific Mandate to be sought from the Independent Shareholders at the SGM. An application will be made to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares, when allotted and issued upon the Completion, will rank *pari passu* in all respects with the existing Shares in issue.

Effect of the issuance of the Consideration Shares and the Fee Shares on the shareholding structure of the Company

As at the Latest Practicable Date, other than the 18,421,642,097 Shares in issue and 257,304,000 options exercisable into 257,304,000 new Shares under the share option scheme adopted by the Company on 12 June 2019 in issue, the Company has no other convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code).

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For illustrative purposes only, assuming there is no other change to the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date up to and including the Completion Date and the date of grant of Awards under the Proposed Share Award Grant, set out below is the shareholding structure of the Company (a) as at the Latest Practicable Date; (b) immediately after the issuance of the Fee Shares; (c) immediately after the issuance of the Consideration Shares and the Fee Shares; and (d) immediately after the grant of Awards under the Proposed Share Award Grant:

Name of the shareholders of the Company	As at the Latest Practicable Date (Note 1)		Immediately after the allotment and issuance of the Fee Shares (Note 2)		Immediately after the allotment and issuance of the Consideration Shares and the Fee Shares (Note 3)		Immediately after the grant of Awards under the Proposed Share Award Grant (Note 14)	
	Number of Shares held	Approximate shareholding %	Number of Shares held	Approximate shareholding %	Number of Shares held	Approximate shareholding %	Number of Shares held	Approximate shareholding %
Sellers								
Whitecrow Investment	1,440,601,703	7.82	1,440,601,703	7.82	5,744,205,768	17.42	5,744,205,768	17.42
V5.Cui Investment	241,885,127	1.31	241,885,127	1.31	710,553,962	2.15	710,553,962	2.15
Rory Huang (Note 12)	-	0.00	-	0.00	94,727,656	0.29	94,727,656	0.29
Youzan Teamwork	363,170,101	1.97	363,170,101	1.97	1,560,326,314	4.73	1,560,326,314	4.73
Qima Teamwork	-	0.00	-	0.00	1,906,330,379	5.78	-	-
Xincheng Investment	118,959,335	0.65	118,959,335	0.65	693,961,941	2.10	693,961,941	2.10
Baidu Hong Kong	-	0.00	-	0.00	317,712,161	0.96	317,712,161	0.96
Aves Capital	1,123,478	0.01	1,123,478	0.01	390,813,855	1.19	390,813,855	1.19
HKDWD Holdings	-	0.00	-	0.00	1,357,941,446	4.12	1,357,941,446	4.12
Ralston Global	-	0.00	-	0.00	150,484,552	0.46	150,484,552	0.46
Hangzhou San Ren Yan Xing	-	0.00	-	0.00	150,484,552	0.46	150,484,552	0.46
Franchise Fund	-	0.00	-	0.00	549,170,212	1.67	549,170,212	1.67
Happy Zan	-	0.00	-	0.00	59,700,173	0.18	59,700,173	0.18
Tembusu HZ	100,000,000	0.54	100,000,000	0.54	1,716,882,271	5.21	1,716,882,271	5.21
Matrix Partners China III	180,000,000	0.98	180,000,000	0.98	863,306,288	2.62	863,306,288	2.62
Matrix Partners China III-A	20,000,000	0.11	20,000,000	0.11	95,922,926	0.29	95,922,926	0.29
GCYZ Holdings	257,735,849	1.40	257,735,849	1.40	367,321,948	1.11	367,321,948	1.11
GCQM Holdings	-	0.00	-	0.00	543,629,178	1.65	543,629,178	1.65
Sellers	2,723,475,593	14.78	2,723,475,593	14.78	17,273,475,582	52.39	15,367,145,203	46.60

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Name of the shareholders of the Company	As at the Latest Practicable Date (Note 1)		Immediately after the allotment and issuance of the Fee Shares (Note 2)		Immediately after the allotment and issuance of the Consideration Shares and the Fee Shares (Note 3)		Immediately after the grant of Awards under the Proposed Share Award Grant (Note 14)	
	Number of Shares held	Approximate shareholding %	Number of Shares held	Approximate shareholding %	Number of Shares held	Approximate shareholding %	Number of Shares held	Approximate shareholding %
Mr. Zhu (Note 4)	28,000,000	0.15	28,000,000	0.15	28,000,000	0.08	28,000,000	0.08
Mr. Cui (Note 5)	8,900,000	0.05	8,900,000	0.05	8,900,000	0.03	8,900,000	0.03
Mr. Yu (Note 6)	13,848,000	0.08	13,848,000	0.08	13,848,000	0.04	13,848,000	0.04
Ms. Ying (Note 6)	852,000	0.00	852,000	0.00	852,000	0.00	852,000	0.00
Mr. Zhou Kai (Note 7)	1,000,000	0.01	1,000,000	0.01	1,000,000	0.00	1,000,000	0.00
Sellers and parties acting in concert with it	2,776,075,593	15.07	2,776,075,593	15.07	17,326,075,582	52.54	15,419,745,203	46.76
The Trustee (in respect of Shares held on behalf of the non-Independent Shareholders) (Notes 9 and 11)	38,815,021	0.21	38,815,021	0.21	38,815,021	0.21	38,815,021	0.21
Dr. Fong Chi Wah (Note 8)	1,000,000	0.01	1,000,000	0.01	1,000,000	0.00	1,000,000	0.00
Mr. Li Shaojie (Note 8)	1,000,000	0.01	1,000,000	0.01	1,000,000	0.00	1,000,000	0.00
Non-Independent Shareholders	2,816,890,614	15.29	2,816,890,614	15.29	17,366,890,603	52.66	15,460,560,224	46.88
Oriental Patron	-	-	6,666,666	0.04	6,666,666	0.02	6,666,666	0.02
The Trustee (in respect of Shares held on behalf of the Independent Shareholders) (Notes 10 and 11)	561,274,032	3.05	561,274,032	3.05	561,274,032	1.70	2,467,604,411	7.48
Other Shareholders	15,043,477,451	81.66	15,043,477,451	81.63	15,043,477,451	45.62	15,043,477,451	45.62
Independent Shareholders	15,604,751,483	84.71	15,611,418,149	84.71	15,611,418,149	47.34	17,517,748,528	53.12
Total	18,421,642,097	100.00	18,428,308,763	100.00	32,978,308,752	100.00	32,978,308,752	100.00

Notes:

- The percentage was calculated on the basis of 18,421,642,097 Shares in issue as at the Latest Practicable Date and is rounded to the nearest 2 decimal places. Numbers may not add up to 100% due to rounding.
- The percentage was calculated on the enlarged issued share capital of the Company as a result of the issue of the Fee Shares comprising a total of 18,428,308,763 Shares and is rounded to the nearest 2 decimal places. Numbers may not add up to 100% due to rounding. The allotment and issuance of the Fee Shares are not contingent upon the status or development of the Acquisition and transactions contemplated thereunder.
- The percentage was calculated on the enlarged issued share capital of the Company as a result of the issue of the Consideration Shares and the Fee Shares comprising a total of 32,978,308,752 Shares and is rounded to the nearest 2 decimal places. Numbers may not add up to 100% due to rounding.
- As at the Latest Practicable Date, Mr. Zhu holds the Shares on his own and through Whitecrow Investment. In addition, Mr. Zhu held share options issued by the Company for which (a) 100,000,000 new Shares may be issued at the exercise price of HK\$1.00 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 pursuant to the terms and conditions of such share options.

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5. As at the Latest Practicable Date, Mr. Cui holds the Shares on his own and through V5.Cui Investment, a company wholly-owned by him; in addition, Mr. Cui held share options issued by the Company for which (a) 20,000,000 new Shares may be issued at the exercise price of HK\$0.90 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 pursuant to the terms and conditions of such share options.
6. Each of Mr. Yu and Ms. Ying is an executive Director. As at the Latest Practicable Date, Mr. Yu holds share options issued by the Company for which (a) 15,000,000 new Shares may be issued at the exercise price of HK\$0.90 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 pursuant to the terms and conditions of such share options. In addition, as at the Latest Practicable Date, Ms. Ying holds share options issued by the Company for which (a) 15,000,000 new Shares may be issued at the exercise price of HK\$0.90 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 per Share pursuant to the terms and conditions of such share options.
7. As at the Latest Practicable Date, Mr. Zhou Kai holds 6% in Youzan Teamwork and as a result is presumed to be acting in concert with the Sellers. In addition, as at the Latest Practicable Date, Mr. Zhou Kai also held share options issued by the Company for which (a) 10,000,000 new Shares may be issued at the exercise price of HK\$0.75 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 per Share pursuant to the terms and conditions of such share options, and Mr. Zhou Kai also had interest in certain awarded Shares representing 10,000,000 Shares granted under the 2018 Share Award Scheme as further detailed in note 9 below.
8. Each of Dr. Fong Chi Wah and Mr. Li Shaojie is an independent non-executive Director and, having approved the entering into of the Sale and Purchase Agreement prior to the publication of the Announcement, is regarded as having an interest in the Acquisition under the Takeovers Code and is therefore required to abstain from voting on the relevant resolutions approving the Acquisition and the Whitewash Waiver as a Shareholder at the SGM.
9. Such Shares represent the Shares underlying the awards granted to certain non-Independent Shareholders under the 2018 Share Award Scheme, which have been vested in the relevant individuals and were currently held by the Trustee on their behalf as at the Latest Practicable Date, comprising (i) 10,000,000 Shares held on behalf of Mr. Zhou Kai; (ii) 8,215,021 Shares held on behalf of Mr. Zhu Kun, who is the sibling of Mr. Zhu and presumed to be acting in concert with the Sellers as a result; and (iii) 20,600,000 Shares held on behalf of Mr. Huan Fang, who holds 6% in Youzan Teamwork as at the Latest Practicable Date and therefore is presumed to be acting in concert with the Sellers. For the avoidance of doubt, such Shares will not be counted as Shares held by the Independent Shareholders and the Trustee holding such Shares shall not be entitled to vote on the relevant resolutions approving the Acquisition and the Whitewash Waiver.

As at the Latest Practicable Date, (i) Mr. Zhu Kun also held share options issued by the Company for which 7,500,000 new Shares may be issued at the exercise price of HK\$0.75 per Share; and (ii) Mr. Huan Fang also held share options issued by the Company for which (a) 11,252,000 new Shares may be issued at the exercise price of HK\$0.75 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 per Share pursuant to the terms and conditions of such share options.

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10. Such Shares represent the Shares which are held by the Trustee for the purposes of satisfying unvested awards involving 66,843,440 underlying Shares (representing approximately 0.36% of the total issued Shares as at the Latest Practicable Date) under the 2018 Share Award Scheme or vested awards involving 494,430,592 underlying Shares (representing approximately 2.68% of the total issued Shares as at the Latest Practicable Date) under the 2018 Share Award Scheme and held on behalf of the Independent Shareholders. For the avoidance of doubt, the Trustee shall not exercise the voting rights attached to the unvested Shares pursuant to the relevant trust deed for the 2018 Share Award Scheme.
11. Pursuant to the relevant trust deed for the 2018 Share Award Scheme, the Trustee shall not exercise the voting rights in respect of awarded Shares held under the trust which have not been vested in the relevant grantees. After the awarded Shares are vested, the relevant grantee shall be entitled to exercise the voting rights in respect of such Shares through giving instructions to the Trustee. As part of an arrangement implemented by the Company to ensure that the flow of sale proceeds to the relevant grantees (who had received the awards under the 2018 Share Award Scheme and who are located in the PRC) is in compliance with relevant foreign exchange control laws and regulations in the PRC, the awarded Shares are held by the Trustee for and on behalf of the relevant grantees and the Trustee will dispose of the Shares as directed by such grantees and will facilitate the transfer of the sale proceeds into the PRC for onward transfer to such grantees. There is no limitation period within which the disposal of vested Shares held on behalf of the relevant grantees by the Trustee should be made.
12. Mr. Huang is the sole ultimate beneficial owner of Rory Huang and presumed to be acting in concert with the Sellers as a result. As at the Latest Practicable Date, Mr. Huang holds share options for which 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 per Share pursuant to the terms and conditions of such share options.
13. This table shows details of the Shareholders who are entitled to vote at the SGM and those who are required to abstain from voting at the SGM (i.e. the non-Independent Shareholders) in respect of the relevant resolutions approving the Acquisition and the Whitewash Waiver. This table does not however show details of the Shareholders who are considered to be public and those who are considered not to be public.
14. The figures are calculated on the assumption that the Scheme Specific Mandate has been approved at the SGM, the Proposed Transfer has been completed and the Trustee has not transferred or disposed of the Shares underlying the relevant Awards which will be immediately vested in the relevant Grantees under the Proposed Share Award Grant.
15. This represents an aggregate of the number of Shares as described under note 10 above and the 1,906,330,379 Shares which will be transferred from Qima Teamwork to the Trustee under the Proposed Transfer for the purpose of satisfying the Awards granted under the Proposed Share Award Grant after Completion.

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For illustrative purposes only, assuming there is no other change to the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date up to and including the Completion Date and the date of grant of Awards under the Proposed Share Award Grant, set out below is the level of public float of the Company (a) as at the Latest Practicable Date; (b) immediately after the issuance of the Fee Shares; (c) immediately after the issuance of the Consideration Shares and the Fee Shares; and (d) immediately after the grant of Awards under the Proposed Share Award Grant:

	As at the Latest Practicable Date (Note 1)		Immediately after the allotment and issuance of the Fee Shares (Note 2)		Immediately after the allotment and issuance of the Consideration Shares and the Fee Shares (Note 3)		Immediately after the grant of Awards under the Proposed Share Award Grant (Notes 3 and 4)	
	No. of Shares	As a percentage of the issued share capital of the Company	No. of Shares	As a percentage of the issued share capital of the Company	No. of Shares	As a percentage of the issued share capital of the Company	No. of Shares	As a percentage of the issued share capital of the Company
Aggregate number of Shares held by persons other than the public (within the meaning of the GEM Listing Rules) (Note 5)	2,699,345,984	14.65	2,699,345,984	14.65	10,575,105,476	32.07	10,575,105,476	32.07
Aggregate number of Shares held by the public (within the meaning of the GEM Listing Rules) (Note 5)	<u>15,722,296,113</u>	<u>85.35</u>	<u>15,728,962,779</u>	<u>85.35</u>	<u>22,403,203,276</u>	<u>67.93</u>	<u>22,403,203,276</u>	<u>67.93</u>
Total	<u>18,421,642,097</u>	<u>100</u>	<u>18,428,308,763</u>	<u>100</u>	<u>32,978,308,752</u>	<u>100</u>	<u>32,978,308,752</u>	<u>100</u>

Notes:

- The percentage was calculated on the basis of 18,421,642,097 Shares in issue as at the Latest Practicable Date and is rounded to the nearest 2 decimal places. Numbers may not add up to 100% due to rounding.
- The percentage was calculated on the enlarged issued share capital of the Company as a result of the issue of the Fee Shares comprising of a total of 18,428,308,763 Shares and is rounded to the nearest 2 decimal places. Numbers may not add up to 100% due to rounding. The allotment and issuance of the Fee Shares are not contingent upon the status or development of the Acquisition and transactions contemplated thereunder.
- The percentage was calculated on the enlarged issued share capital of the Company as a result of the issue of the Consideration Shares and the Fee Shares comprising a total of 32,978,308,752 Shares and is rounded to the nearest 2 decimal places. Numbers may not add up to 100% due to rounding.
- The figures are calculated on the assumption that the Scheme Specific Mandate has been approved at the SGM, the Proposed Transfer has been completed and the Trustee has not transferred or disposed of the Shares underlying the relevant Awards which will be immediately vested in the relevant Grantees under the Proposed Share Award Grant.

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5. For the purpose of the GEM Listing Rules, the public float of the Company comprised Shares other than those respectively held by Whitecrow Investment, V5.Cui Investment, Youzan Teamwork, Qima Teamwork (prior to the Proposed Transfer), Mr. Zhu, Mr. Cui, Mr. Yu, Ms. Ying, Dr. Fong Chi Wah, Mr. Li Shaojie, the Trustee (in respect of all the Shares held by it under the 2018 Share Award Scheme and, after the Proposed Transfer, the Youzan Technology Share Award Plan A).

Conditions to the Completion under the Sale and Purchase Agreement

Completion is conditional upon the satisfaction (or waiver, if applicable) of the following conditions:

- (1) the Company having obtained the requisite approval of the Independent Shareholders at the SGM in respect of (i) the Sale and Purchase Agreement and the Acquisition contemplated thereunder; (ii) the allotment and issuance of the Consideration Shares (including without limitation the SPA Specific Mandate) and (iii) the Whitewash Waiver, in accordance with the GEM Listing Rules and the Takeovers Code;
- (2) the Whitewash Waiver having been granted by the Executive and remaining in full force and effect and not having been revoked;
- (3) each Seller having severally (and not jointly and not jointly and severally) obtained all necessary approvals (if required by the relevant Seller) from the relevant governmental authorities in the PRC in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (4) (if required) Youzan Technology having obtained all necessary approvals from relevant governmental authorities or third parties in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (5) (if required) the Company having obtained all necessary approvals, registrations or filings in connection with the Acquisition and the allotment and issuance of the Consideration Shares from the relevant governmental authorities (including regulatory authorities) under the GEM Listing Rules, the Takeovers Code and any other applicable laws, regulations and guidelines or from any third parties;
- (6) (if required) the Company having obtained such shareholder approval(s) as may be required under applicable laws and regulations of Bermuda for the allotment and issuance of the Consideration Shares;
- (7) the Company having obtained the listing approval granted by the Stock Exchange for the allotment and issuance of Consideration Shares;

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- (8) the Stock Exchange not having directed that the Acquisition constitutes, or the Acquisition otherwise constitutes, a reverse takeover or an extreme transaction as defined under the GEM Listing Rules;
- (9) all Sellers not having breached any representations, warranties and undertakings contained in the Sale and Purchase Agreement in any material aspects;
- (10) the Company not having breached any representations, warranties and undertakings contained in the Sale and Purchase Agreement in any material aspects; and
- (11) no governmental authority having implemented or enacted any legislation, regulations or decisions or decided to impose any measures or actions to prohibit or restrict the transactions contemplated under the Sale and Purchase Agreement.

The Company may in its absolute discretion waive at any time prior to 31 December 2023 (or such other date as may be agreed by the parties to the Sale and Purchase Agreement) (the “**Long Stop Date**”) by notice to the Sellers any condition set out in paragraphs (4) (in respect of any necessary third party approvals only), (5) (in respect of any necessary third party approvals, registrations and filings only) or (9) above. The Sellers may by unanimous agreement in its absolute discretion waive at any time prior to the Long Stop Date by notice in writing to the Company any condition set out in paragraph (10) above. Conditions set out in paragraphs (1), (2), (3), (4) (in respect of any necessary approvals from relevant governmental authorities only), (5) (in respect of any necessary approvals, registrations or filings from relevant governmental authorities (including regulatory authorities) only), (6), (7), (8) and (11) above are not waivable by any party to the Sale and Purchase Agreement.

In respect of the condition as set out in paragraph (2) above, the Sellers have applied to the Executive for, and the Executive has indicated that it is minded to grant, the Whitewash Waiver, subject to, amongst others, (a) the Whitewash Waiver being approved by at least 75% of the independent votes cast in person or by proxy at the SGM by the Independent Shareholders; and (b) the Acquisition being approved by more than 50% of the independent votes cast in person or by proxy at the SGM by the Independent Shareholders.

In respect of the condition set out in paragraph (4) above, as at the Latest Practicable Date, China Youzan is not aware of any necessary approvals from relevant governmental authorities or third parties which will be required to be obtained by Youzan Technology prior to the Completion in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder.

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In respect of the condition set out in paragraph (6) above, as at the Latest Practicable Date, other than the requisite shareholders' approval for the increase in authorised share capital of the Company, the Company is not aware of any other shareholders' approval that would be required under the applicable laws and regulations of Bermuda for the allotment and issuance of the Consideration Shares. In respect of the condition set out in paragraph (5) above, as at the Latest Practicable Date, other than as set out in paragraphs (1), (2), (6), and (7) above, the Company is not aware of any other necessary approvals, registrations or filings that would be required to be obtained by the Company prior to the Completion in connection with the Acquisition from the relevant governmental authorities or third parties under the GEM Listing Rules, the Takeovers Code and any other applicable laws, regulations and guidelines or from any third parties.

As at the Latest Practicable Date, none of the conditions as set out above has been satisfied or (if applicable) waived.

In the event that any of the conditions set out above shall not have been satisfied (or waived, if applicable) prior to the Long Stop Date, the Sale and Purchase Agreement shall be automatically terminated without prejudice to any antecedent breach of the Sale and Purchase Agreement by any of the parties.

Completion

Completion shall take place on the Completion Date after all the conditions precedent of the Sale and Purchase Agreement have been satisfied (or waived, if applicable).

If Completion is unable to take place on the Completion Date as a result of the failure of the Company to fulfil any obligation to be fulfilled at Completion, any Seller may by notice to the Company elect to (in respect of its Sale Shares only): (a) defer the Completion Date to a date which is within 28 days after the original Completion Date (provided that the deferred Completion Date shall not be later than the Long Stop Date); (b) proceed with Completion to the extent reasonably practicable; or (c) (with respect to such Seller and its Sale Shares only) terminate the Sale and Purchase Agreement and the sale of the Sale Shares.

If Completion is unable to take place on the Completion Date as a result of failure of any Seller to fulfil any obligation to be fulfilled at Completion, the Company may by notice to any defaulting Seller (in which case the notice shall relate to the Sale Shares of such Seller only) or all Sellers (in which case the notice shall related to all Sale Shares) elect to: (a) defer the Completion Date to a date which is within 28 days after the original Completion Date (provided that the deferred Completion Date shall not be later than the Long Stop Date); (b) proceed with Completion to the extent reasonably practicable; or (c) terminate the Sale and Purchase Agreement and the sale of the relevant Sale Shares.

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Sellers' lock-up undertakings

Each of the Sellers has severally undertaken to the Company that, unless with the prior written approval from the Company, it shall not directly dispose of any of its Consideration Shares within 6 months from the Completion Date, except for (a) the transfer of any or all of its Consideration Shares to its wholly-owned subsidiary subject to certain limitations including, among other things, the relevant subsidiary giving (and the relevant Seller procuring such subsidiary to give) an undertaking to the Company that it will be bound by the obligations under the Sale and Purchase Agreement, and if it ceases to be a wholly-owned subsidiary of the relevant Seller, it will transfer all of the Consideration Shares to the relevant Seller or another wholly-owned subsidiary of such Seller; or (b) the creation of any encumbrances on the Consideration Shares for the purpose of obtaining a bona fide commercial loan from an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), provided that such encumbrances will not result in the Consideration Shares being directly or indirectly transferred to any third party.

The Company's undertakings

The Company has undertaken that other than (i) the allotment and issuance of the Consideration Shares in accordance with the Sale and Purchase Agreement and the allotment and issuance of the Fee Shares; (ii) the grant of share awards or share options under the relevant share award schemes or share option schemes adopted by the Company as at the date of the Sale and Purchase Agreement or the allotment and issuance of any new Shares for the purposes of satisfying any existing share awards or share options granted by the Company pursuant to the terms of such existing share awards and share options; or (iii) as otherwise agreed by the Sellers, the Company will not effect any change in its issued share capital structure (including but not limited to any issue of new Shares, capitalisation issue, bonus issue, rights issue, share consolidation, share subdivision or reduction of capital) during the period from the date of the Sale and Purchase Agreement up to and including the Completion Date.

Save for the Proposed Share Award Grant, as of the Latest Practicable Date, the Company has no intention to grant any share awards or share options under the share schemes of the Group, or allot and issue any new Shares for the purposes of satisfying any existing share awards or share options granted by the Group pursuant to the terms of the relevant share schemes.

Termination

The Sale and Purchase Agreement may be terminated at any time prior to the Completion:

- (i) upon the written agreement of all parties thereunder;
- (ii) if the Company commits a material breach of the terms and conditions of the Sale and Purchase Agreement or if the representations and warranties provided by the Company under the Sale and Purchase Agreement are materially untrue, inaccurate or misleading, upon the written notice by any Seller to the Company; or

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- (iii) if any Seller commits a material breach of the terms and conditions of the Sale and Purchase Agreement or if the representations and warranties provided by any Seller under the Sale and Purchase Agreement are materially untrue, inaccurate or misleading, upon (a) written notice by the Company to any Seller, in which case the Sale and Purchase Agreement shall be terminated with respect to such Seller only but shall remain effective as between the Company and the remaining Sellers; or (b) written notice by the Company to all Sellers, in which case the Sale and Purchase Agreement shall be terminated with respect to all Sellers.

REASONS FOR AND BENEFITS OF THE ACQUISITION

As at the Latest Practicable Date, Youzan Technology is a direct non-wholly owned subsidiary of the Company which is held as to 51.90% by the Company, and the financial results of Youzan Technology is currently consolidated into those of the Company. Following Completion, Youzan Technology will become a direct wholly-owned subsidiary of the Company which is held as to 100% by the Company, and Youzan Technology's financial results will continue to be consolidated into those of the Company.

The Company believes that the Acquisition will provide substantial benefits to our shareholders, and would like to set forth the rationale behind this strategic decision as follows:

1. Unlocking value of Youzan Technology with significant growing business and financial prospects

Despite making loss during the three years and six months ended 30 June 2023, the business and financial performance of Youzan Technology Group have grown substantially in terms of GMV as described below in this paragraph since the completion of the 2018 Acquisition under the strategic leadership of the Company and due to the Company's commitment of immense efforts and resources. Youzan Technology Group offers a diverse range of solution to merchants, including subscription solutions and merchant solutions. These solutions are designed to facilitate the business development of merchants across various scenarios, ultimately leading to the growth of their GMV. Youzan Technology Group's GMV over the years demonstrates its capability to effectively meet the business needs of merchants. As merchants experience higher GMV through the solution offerings provided by Youzan Technology Group, it creates more opportunities for Youzan Technology Group to generate revenue. This is particularly relevant for value-added services within the merchant solutions, such as service fees for Youzan Distribution and Youzan Worryfree Shopping, which are determined based on the GMV generated by merchants through these solutions. In addition, given that one of the Group's core businesses is to provide transaction services to merchants to help merchants accept, process and settle transactions in GMV generation scenarios, thereby contributing transaction fee income to the Group, thus with the growth of Youzan Technology Group's GMV, it will also bring more transaction fee income to the Group. As set out in the annual reports of the Company, the GMV of Youzan Technology has grown from approximately RMB32.6 billion in 2018 to approximately RMB101.4 billion in

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2022, and the revenue from external customers from Youzan Technology Group has grown from approximately RMB432.5 million for the period of 18 April 2018 (being the date on which Youzan Technology was acquired by China Youzan up) to 31 December 2018 to approximately RMB1,166.6 million in 2022. Moreover, Youzan Technology Group has experienced a consistent increase in its overall gross margin, increasing from approximately 66.4% in 2020 to approximately 69.0% in 2021, and further to approximately 72.6% in 2022. Despite the challenging circumstances brought about by the COVID pandemic, Youzan Technology Group has demonstrated aforesaid positive financial and business performance. This was attributable to a strategic focus on optimizing the cost structure and emphasizing the improvement of Youzan Technology Group's product mix. By providing more solution offerings to merchants with higher potentials to achieve greater GMVs, Youzan Technology Group has effectively navigated the adverse effects of the pandemic and sustained its path. The uptick in the business of Youzan Technology prior to the long subsistence of the COVID pandemic demonstrates the strong potential it has in the post-COVID era, as the Chinese economy continues to recover.

In addition to the abovementioned surging business and financial performance, the Company believes that the positive policy direction from the PRC government towards the development of the digital economy provides additional growth potential for Youzan Technology. In particular, the Report to the 20th National Congress of the Communist Party of China (the “**Twentieth Congress Report**”) includes measures accelerating the development of digital economy, building internationally competitive digital industry clusters and building a modern infrastructure system with a better layout and structure, more effective functions and greater system integration of the digital economy and the real economy as part of its strategy in accelerating the creation of a new development plan and pursuing high-quality development.

According to the National Bureau of Statistics of the PRC, the total sales of consumer retail goods in the PRC recorded consistent growth over a five year period. Starting from RMB37,778.3 billion in 2018, and the sales increased annually, reaching RMB43,973.3 billion in 2022. This represents an annualized growth rate of approximately 3.1% during the relevant period. The total online retail sales in the PRC also recorded continuous growth over the same five-year span. Beginning at RMB9,006.5 billion in 2018, the sales showed yearly increases, reaching RMB13,785.3 billion in 2022. This represents an annualized growth rate of approximately 8.9% over the relevant period. These statistics suggest that there is a tremendous market space and growth potential for the merchant services business of Youzan Technology. The market share of Youzan Technology for each of the years from 2018 to 2022 was approximately 0.4%, 0.6%, 0.9%, 0.8% and 0.7%, respectively, which was calculated by dividing Youzan Technology Group's GMV by the total online retail sales in the PRC for the respective year. By acquiring the remaining minority interests of Youzan Technology, the Company can fully realize the benefits of Youzan Technology's business and financial performance by riding on the tide of the growing market of the merchant services business in the PRC as the global economy recovers, thus, creating additional value in the shares for its shareholders.

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2. Improving operational efficiency

Youzan Technology is a provider of merchant solutions and SaaS products in the e-commerce sector in the PRC. The financial challenges faced by Youzan Technology was attributed to various factors, including the rapidly evolving and highly competitive e-commerce landscape in which it operates. Currently, as a matter of good governance strategic plans, mergers and acquisitions, formation of alliances and material changes in business plans that involve the substantive participation of member(s) of the Youzan Technology Group, are made available to minority shareholders of Youzan Technology for deliberations and consultations. This diverts both management time and resources to deal with and align the interests of shareholders of Youzan Technology with that of the Group as a whole. With Youzan Technology becoming a wholly owned subsidiary of the Company upon Completion, the Board and its delegates will have full control over the management decisions of Youzan Technology. This positions the Group in a better position to reduce costs, eliminate duplicated resources, devise more focused corporate strategic adjustment in a more timely manner, thereby unlocking the synergies and optimize the operation and management of Youzan Technology. This will result in an improved operational and management efficiency, ultimately maximising value to the Shareholders.

3. Broadening shareholder base

Upon Completion, the market capitalization of the Company will be enlarged following the issue of the Consideration Shares. The Company believes that this could make the Company an attractive investment target for more potential institutional investors particularly for financial institutions that prefer investing in listed companies with market capitalization. Moreover, the minority shareholders of Youzan Technology (including prominent funds and key industry player) will become Shareholders. The Company believes that this would enhance the awareness and recognition amongst investors. In addition, aligning the interests of the Group as a whole with the minority shareholders of Youzan Technology, in particular Baidu Hong Kong, which is owned by a leading player in the new economy sector, may open up potential opportunities for strategic cooperation. In turn, this will allow the Group to capture the long-term capital appreciation potential and generate greater returns for the Shareholders.

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Having considered the factors set out above, the executive Directors (being Mr. Zhu, Mr. Cui, Mr. Yu and Ms. Ying who were considered to have a material interest in the Acquisition and the transactions contemplated thereunder) believe that the Acquisition will bring long-term and strategic benefits to the Group, and are of the view that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate) are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole. **Shareholders are however advised to refer to the views of the Independent Financial Adviser that the Acquisition is not fair and not reasonable and the views of the GEM LR Independent Board Committee as to the fairness and reasonableness of the Acquisition as set out in the “Letter from the Independent Financial Adviser” and the “Letter from the GEM LR Independent Board Committee” in this Circular respectively.**

INTENTION OF THE SELLERS IN RESPECT OF THE GROUP

Upon Completion, the Sellers (i) intend for the Group to continue its existing business and to be continued to be own by the existing management of the Group; and (ii) have no intention to introduce any major changes in the Group’s business (including any redeployment of the fixed assets of the Group) or the continued employment of the employees of the Group other than in the ordinary course of business of the Group.

INFORMATION OF THE GROUP, THE SELLERS AND YOUZAN TECHNOLOGY GROUP

Information of the Group

The Company is an investment holding company. The Group mainly provides online and offline e-commerce solutions known as SaaS (Software as a Service) and various payment services for merchants in the PRC. The Group’s operation consists of five operating segments, namely (i) merchant services – provision of a variety of SaaS products and comprehensive services in the PRC through Youzan Technology Group; (ii) third party payment services; (iii) Onecomm – provision of third party payment system solutions and sales of integrated smart point of sales devices; (iv) general trading and (v) others which mainly include factoring.

Information of the Sellers

The Sellers comprised Whitecrow Investment, V5.Cui Investment, Rory Huang, Youzan Teamwork, Qima Teamwork, Xincheng Investment, Baidu Hong Kong, Aves Capital, HKDWD Holdings, Ralston Global, Hangzhou San Ren Yan Xing, Franchise Fund, Happy Zan, Tembusu HZ, Matrix Partners China III, Matrix Partners China III-A, GCYZ Holdings, GCQM Holdings, each of them being a shareholder of Youzan Technology as at the Latest Practicable Date. The Sellers collectively held 812,310,975 ordinary shares in the issued share capital of Youzan Technology, representing approximately 48.10% of the issued share capital of Youzan Technology as at the Latest Practicable Date.

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The following table sets out certain basic information of the Sellers:

Name of Seller	Description	Ultimate beneficial owner(s) of the Seller as at the Latest Practicable Date	Directors of the Seller and of the Seller's ultimate beneficial owner(s) (where relevant) as at the Latest Practicable Date
Whitecrow Investment	An investment holding company incorporated in the British Virgin Islands with limited liability	100% by Tricor Equity Trustee Limited as the trustee of a discretionary trust established by Mr. Zhu for the benefit of himself and certain of his family members. Please refer to the paragraph headed "GEM Listing Rules Implications" for the relationship between the Company and Mr. Zhu.	Mr. Zhu is the sole director of Whitecrow Investment. Nicholas Andrew Messum, Li Yan Wing Rita, Lee Mei Yi and Ted Francis are the directors of Tricor Equity Trustee Limited.
V5.Cui Investment	An investment holding company incorporated in the British Virgin Islands with limited liability	Mr. Cui as to 100%. Please refer to the section headed "GEM LISTING RULES IMPLICATIONS – Acquisition – Connected transaction" for the relationship between the Company and Mr. Cui.	Mr. Cui is the sole director of V5.Cui Investment.
Rory Huang	An investment holding company incorporated in the British Virgin Islands with limited liability	Mr. Huang as to 100%. Mr. Huang is an Independent Third Party.	Mr. Huang is the sole director of Rory Huang.

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Name of Seller	Description	Ultimate beneficial owner(s) of the Seller as at the Latest Practicable Date	Directors of the Seller and of the Seller's ultimate beneficial owner(s) (where relevant) as at the Latest Practicable Date
Youzan Teamwork	An investment holding company incorporated in the BVI with limited liability	Whitecrow Investment as to 18%; Mr. Zhu as to 8%; Mr. Huang as to 38%; each of Mr. Cui, Mr. Yu and Ms. Ying as to 8% and each of Mr. Huan Fang and Mr. Zhou Kai as to 6%.	Mr. Zhu is the sole director of Youzan Teamwork and Whitecrow Investment.
		Please refer to the section headed "GEM LISTING RULES IMPLICATIONS – Acquisition – Connected transaction" for the relationships between the Company and Mr. Zhu, Mr. Cui, Mr. Yu, Ms. Ying and Mr. Huan Fang.	
Qima Teamwork	An investment holding company incorporated in the British Virgin Islands with limited liability	Mr. Hong Bo, a nominee shareholder as to 100%. Qima Teamwork is a special purpose vehicle which holds Youzan Technology Shares for the purpose of the Youzan Technology Share Award Plan A	Mr. Hong Bo is the sole director of Qima Teamwork.
		Each of Qima Teamwork and Mr. Hong Bo is an Independent Third Party.	
Xincheng Investment	An investment holding company incorporated in the British Virgin Islands with limited liability	100% by TMF (Cayman) Limited as the trustee of a discretionary trust established by Mr. Li Zhiguo for the benefit of himself and certain of his family members.	Mr. Li Zhiguo is the sole director of Xincheng Investment.
		Each of Xincheng Investment, Mr. Li Zhiguo and his relevant family members is an Independent Third Party.	Evert Rakers and Lesley den Exter are the directors of TMF (Cayman) Limited.

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Name of Seller	Description	Ultimate beneficial owner(s) of the Seller as at the Latest Practicable Date	Directors of the Seller and of the Seller's ultimate beneficial owner(s) (where relevant) as at the Latest Practicable Date
Baidu Hong Kong	An investment holding company incorporated in Hong Kong with limited liability	<p>Baidu, Inc., a company listed on NASDAQ (stock code: BIDU) and the Stock Exchange (stock code: 9988) as to 100%.</p> <p>Each of Baidu Hong Kong and Baidu, Inc. is an Independent Third Party.</p>	<p>Mr. Liu Li, Mr. Tu Shunde and Mr. Li Yanhong are the directors of Baidu Hong Kong.</p> <p>Mr. Robin Li, Mr. James Ding, Mr. Yuanqing Yang, Mr. Brent Callinicos and Mr. Jixun Foo are the directors of Baidu, Inc..</p>
Aves Capital	An exempted company and investment holding company incorporated in the Cayman Islands with limited liability	<p>Mr. Ming Hua Xiong as to 90%, Mr. Benjamin Xiong as to 5% and Rong Hu as to 5%.</p> <p>Each of Aves Capital, Mr. Ming Hua Xiong, Mr. Benjamin Xiong and Rong Hu is an Independent Third Party.</p>	<p>Mr. Ming Hua Xiong is the sole director of Aves Capital.</p>
HKDWD Holdings	An investment holding company incorporated in the British Virgin Islands with limited liability	<p>Hillhouse Investment Management, Ltd. is the sole management company of Hillhouse Fund II, L.P., which owned HKDWD Holdings. The general partner of Hillhouse Fund II, L.P. is Hillhouse Fund II GP, Ltd.</p> <p>Each of HKDWD Holdings, Hillhouse Investment Management, Ltd., Hillhouse Fund II, L.P. and Hillhouse Fund II GP, Ltd. are Independent Third Parties.</p>	<p>Mr. Colm O'Connell is the sole director of HKDWD Holdings.</p>

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Name of Seller	Description	Ultimate beneficial owner(s) of the Seller as at the Latest Practicable Date	Directors of the Seller and of the Seller's ultimate beneficial owner(s) (where relevant) as at the Latest Practicable Date
Ralston Global	An investment holding company established in the British Virgin Islands with limited liability.	Ms. Wen Qun as to 100%. Each of Ralston Global and Ms. Wen Qun is an Independent Third Party.	Ms. Wen Qun is the sole director of Ralston Global.
Hangzhou San Ren Yan Xing	A limited liability partnership incorporated in the PRC, a discretionary managed fund	Hangzhou San Ren Investment Management Co. Ltd. (杭州三仁投資管理有限公司) as the general partner. Based on public information, Hangzhou San Ren Investment Management Co., Ltd. is held as to 50% by each of Mr. Cao Guoxiong and Mr. Ni Zhengdong. Each of Hangzhou San Ren Yan Xing, Hangzhou San Ren Investment Management Co., Ltd., Mr. Cao Guoxiong and Mr. Ni Zhengdong is an Independent Third Party.	Mr. Song Aixia is the sole director of Hangzhou San Ren Investment Management Co., Ltd..
Franchise Fund	An exempted limited partnership formed under the laws of the Cayman Islands, a discretionary managed fund	Managed by Franchise GP Limited, as general partner, which is ultimately owned as to 100% by Mr. Wang Shihong. Each of Franchise Fund, Franchise GP Limited and Mr. Wang Shihong is an Independent Third Party.	Mr. Wang Shihong, Ms. Stacey Kirkconnell and Mr. Mark Fagan are the directors of Franchise GP Limited.

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Name of Seller	Description	Ultimate beneficial owner(s) of the Seller as at the Latest Practicable Date	Directors of the Seller and of the Seller's ultimate beneficial owner(s) (where relevant) as at the Latest Practicable Date
Happy Zan	An investment holding company incorporated in the Cayman Islands with limited liability	Mr. Wang Haining as to 54.7%, certain management personnel and staff as to 31.8%, Linzhi Yongchuang Information Technology Co., Ltd.* (林芝永創信息科技有限公司, “ Linzhi ”) as to 8.9%, Tianjin Lefeng Asset Management Partnership (Limited Partnership) (天津樂峰資產管理合夥企業(有限合夥), “ Lefeng ”, whose general partner is Shanghai Fengshang Investment Management Limited* (上海峰上投資管理有限公司, “ Lefeng GP ”)) as to 3%, Zhuhai Yuexi Asset Investment Co (Limited Partnership)* (珠海悅熙股權投資企業(有限合夥) (“ Yuexi ”), whose general partner is Zhuhai Yuexin Asset Investment Limited* (Limited Partnership) (珠海悅昕投資管理企業(有限合夥), “ Yuexi GP ”) as to 1.6%.	Mr. Wang Haining is the sole director of Happy Zan. Mr. Tao Lei is the sole director of Linzhi.
		Each of Happy Zan, Mr. Wang Haining, Linzhi, Lefeng, Lefeng GP, Yuexi and Yuexi GP is an Independent Third Party.	

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Name of Seller	Description	Ultimate beneficial owner(s) of the Seller as at the Latest Practicable Date	Directors of the Seller and of the Seller's ultimate beneficial owner(s) (where relevant) as at the Latest Practicable Date
Tembusu HZ	An investment holding company established in the British Virgin Islands with limited liability	<p>Matrix Chuangda (Hangzhou) Venture Investment Limited Partnership as to 100%, the general partner of which is Hangzhou Matrix Tengchuang Investment Management L.P. The general partner of Hangzhou Matrix Tengchuang Investment Management L.P. is Shanghai Jingwei Equity Investment Management Co., Ltd.</p> <p>Each of Tembusu HZ, Matrix Chuangda (Hangzhou) Venture Investment Limited Partnership, Hangzhou Matrix Tengchuang Investment Management L.P. and Shanghai Jingwei Equity Investment Management Co., Ltd. is an Independent Third Party.</p>	<p>Mr. David Su Tuong Sing is the sole director of Tembusu HZ.</p> <p>Zuo Lingye is the sole director of Shanghai Jingwei Equity Investment Management Co., Ltd..</p>
Matrix Partners China III	An exempted limited partnership formed under the laws of Cayman Islands, a discretionary managed fund	<p>The general partner of Matrix Partners China III is Matrix China Management III, L.P., whose general partner is Matrix China III GP GP, Ltd. Matrix Partners China III has 41 limited partners and none of whom holds more than one third of the voting power of Matrix Partners China III. Mr. David Su, Mr. Ho Kee Harry Man and Ms. Xiaoning Liu are directors of Matrix China III GP GP, Ltd. and are deemed to have shared investment voting power over the shares held by Matrix Partners China III.</p> <p>Each of Matrix Partners China III, Mr. David Su, Mr. Ho Kee Harry Man and Ms. Xiaoning Liu, Matrix China Management III, L.P. and Matrix China III GP GP, Ltd. is an Independent Third Party.</p>	<p>Mr. David Su, Mr. Ho Kee Harry Man and Ms. Xiaoning Liu are the directors of Matrix China III GP GP, Ltd..</p>

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Name of Seller	Description	Ultimate beneficial owner(s) of the Seller as at the Latest Practicable Date	Directors of the Seller and of the Seller's ultimate beneficial owner(s) (where relevant) as at the Latest Practicable Date
Matrix Partners China III-A	An exempted limited partnership formed under the laws of the Cayman Islands, a discretionary managed fund	<p>The general partner of Matrix Partners China III-A is Matrix China Management III, L.P., whose general partner is Matrix China III GP GP, Ltd. Matrix Partners China III-A has 39 limited partners and none of whom holds more than one third of the voting power of Matrix Partners China III-A. Mr. David Su, Mr. Ho Kee Harry Man and Ms. Xiaoning Liu are directors of Matrix China III GP GP, Ltd. and are deemed to have shared investment voting power over the shares held by Matrix Partners China III-A.</p> <p>Each of Matrix Partners China III-A, Mr. David Su, Mr. Ho Kee Harry Man and Ms. Xiaoning Liu, Matrix China Management III, L.P. and Matrix China III GP GP, Ltd. is an Independent Third Party.</p>	Mr. David Su, Mr. Ho Kee Harry Man and Ms. Xiaoning Liu are the directors of Matrix China III GP GP, Ltd..
GCYZ Holdings	An investment holding company incorporated in the Cayman Islands with limited liability	<p>Gaocheng Fund I, L.P. as to 100%. The general partner of Gaocheng Fund I, L.P. is Gaocheng Holdings GP, Ltd.</p> <p>Each of GCYZ Holdings, Gaocheng Fund I, L.P. and Gaocheng Holdings GP, Ltd is an Independent Third Party.</p>	<p>Jing Hong is the sole director of GCYZ Holdings.</p> <p>Jing Hong, Vumindaba Dube and Riyaz Nooruddin are the directors of Gaocheng Holdings GP, Ltd.</p>

LETTER FROM THE BOARD

Name of Seller	Description	Ultimate beneficial owner(s) of the Seller as at the Latest Practicable Date	Directors of the Seller and of the Seller's ultimate beneficial owner(s) (where relevant) as at the Latest Practicable Date
GCQM Holdings	An investment holding company incorporated in the Cayman Islands with limited liability	GCQM L.P. as to 100%. The general partner of GCQM L.P. is Gaocheng Holdings GP, Ltd. Each of GCQM Holdings, GCQM L.P. and Gaocheng Holdings GP, Ltd. is an Independent Third Party.	Jing Hong is the sole director of GCQM Holdings. Jing Hong, Vumindaba Dube and Riyaz Nooruddin are the directors of Gaocheng Holdings GP, Ltd.

The original acquisition costs incurred by Whitecrow Investment, V5.Cui Investment and Youzan Teamwork, each a connected person of China Youzan as outlined below, for the acquisition of the respective Sale Shares were USD1,000,000 (representing the amount of capital injection into Youzan Technology in October 2015), nil (as such Sale Shares were acquired by V5.Cui Investment as a founding shareholder in August 2014), nil (as Youzan Teamwork was established as a shareholding platform to incentivise the employees and senior management of Youzan Technology and such Sale Shares were transferred to Youzan Teamwork in June 2016) respectively.

Save as disclosed above, the Sellers and their ultimate beneficial owners are Independent Third Parties.

INFORMATION OF YOUZAN TECHNOLOGY

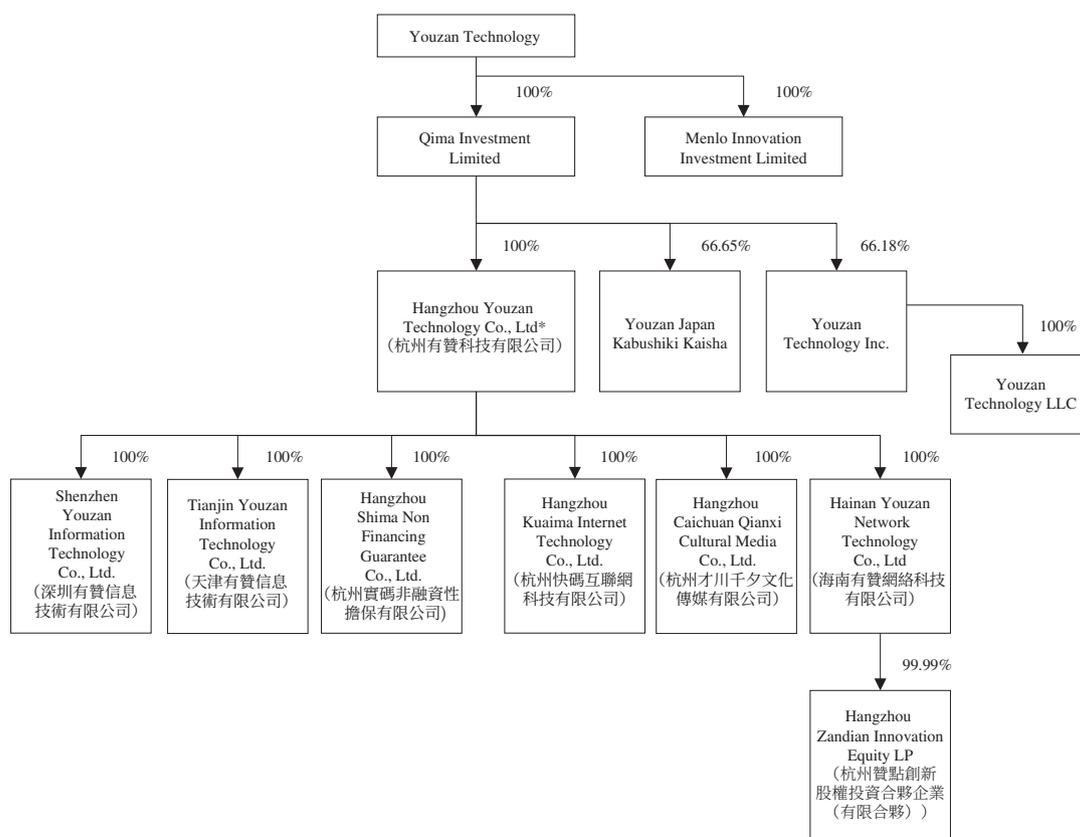
Youzan Technology is a company incorporated in the Cayman Islands. The Youzan Technology Group is principally engaged in providing a variety of cloud-based commerce services to merchants through its subscription solutions and merchant solutions. Subscription solutions mainly comprise SaaS products designed for merchants of various industries including Youzan WeiMall (有贊微商城), Youzan Retail (有贊零售), Youzan Chain (有贊連鎖), Youzan Beauty (有贊美業), and Youzan Education (有贊教育). Merchant solutions mainly comprise value-added services offered to merchants to address their online and/or offline operational needs. Through its subscription solutions and merchant solutions, merchants can establish online presence, digitalise critical business operations, integrate online/offline activities, take ownership of and manage their online/offline customer traffic, boost customer acquisition and repeat purchases, and enhance operating efficiency.

LETTER FROM THE BOARD

Set out below is the key audited financial information of the Youzan Technology Group for the two financial years ended 31 December 2021 and 31 December 2022, respectively:

	For the year ended	
	31 December	
	2021	2022
	<i>RMB million</i>	<i>RMB million</i>
Revenue	1,284.0	1,167.3
Loss before taxation	995.4	642.7
Loss for the year	1,124.0	636.9
Total assets	1,309.6	1,343.0
Net liabilities	273.0	876.9

The structure chart of the Youzan Technology Group as at the Latest Practicable Date is shown below:



LETTER FROM THE BOARD

Disclaimer of Opinion

The accountants' report of Youzan Technology Group in Appendix II to this Circular contains a disclaimer of opinion relating to Youzan Technology Group's going concern due to the existence of multiple uncertainties, including:

- a) Youzan Technology Group had incurred losses and cash outflows from operating activities for the three years and six months ended 30 June 2023;
- b) as of 30 June 2023, Youzan Technology Group had net current liabilities and net liabilities of approximately RMB118.1 million and RMB941.6 million respectively; and
- c) Youzan Technology Group will need to repay a loan from the Company (the "**Loan**") on 31 December 2024 ("**Loan Maturity Date**") which is estimated at principal and accrued interests of approximately USD96,109,000 (equivalent to approximately RMB695,922,000 at the exchange rate as of 30 June 2023) by then.

The Directors of the Company and management of Youzan Technology Group (collectively, the "**Management**") have prepared cash flow forecasts of Youzan Technology Group which forecast Youzan Technology Group will have sufficient financial resources to meet its obligations as and when they fell due in foreseeable future provided that the Loan can be successfully extended or capitalised before the Loan Maturity Date which requires the approval of the independent shareholders of the Company and other procedures and approvals required under the GEM Listing Rules.

The disclaimer of opinion states that the achievement of Management's forecasts and plans are subject to significant multiple uncertainties including but not limited to the decision of the independent shareholders of the Company in special general meeting to approve the contemplated extension or capitalization of the Loan before the Loan Maturity Date. As demonstrated in previous years, the Company has been providing full financial support to Youzan Technology Group by extending the terms of the indebtedness due from it after approval by independent shareholders in special general meetings in accordance with GEM Listing Rules. Upon Completion, Youzan Technology Group will become wholly owned by the Group, and the GEM Listing Rules no longer requires the provision of financial support to the Youzan Technology Group be subject to independent shareholders' approval whether by loan extension or by loan capitalization. Thus this shall help to alleviate the going concern issue of Youzan Technology Group.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE ACQUISITION

After the Acquisition, Youzan Technology will become a wholly-owned subsidiary of the Company.

(i) Effect on net assets

Based on the unaudited pro forma statement of financial position of the Enlarged Group as set out in Appendix IV to this Circular, which is prepared as if the Acquisition had completed on 30 June 2023 to illustrate the effect of the Acquisition, it is expected that the total assets of the Enlarged Group would remain at approximately RMB5,892.8 million, the total liabilities of the Enlarged Group would increase from approximately RMB4,854.1 million to approximately RMB4,861.8 million and the net assets of the Enlarged Group would decrease from approximately RMB1,038.7 million to approximately RMB1,031.0 million.

(ii) Effect on earnings

Upon Completion, it is expected that the financial results of the Youzan Technology Group subsequent to the Acquisition will no longer be shared with non-controlling shareholders. Instead, the financial results of the Youzan Technology Group, as wholly-owned subsidiaries of the Company, will be solely attributable to the owners of the Company. The accumulated losses of the Youzan Technology Group prior to the Acquisition, which were previously attributable to non-controlling shareholders, will be transferred to the Enlarged Group's other reserves attributable to the owners of the Company without impacting the Enlarged Group's profit or loss. Furthermore, estimated transaction expenses amounted to RMB7,746,000 and Fee Shares amounted to RMB1,111,000 attributable to the Acquisition will be charged to the consolidated profit or loss of the Enlarged Group upon completion of Acquisition.

The above analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Enlarged Group would actually be after Completion.

Further details of the financial effects of the Acquisition, assuming Completion took place on 30 June 2023 with sufficient funding available for the Consideration, on the balance sheet of the Group upon Completion together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out in Appendix IV to this Circular.

LETTER FROM THE BOARD

ISSUANCE OF FEE SHARES UNDER GENERAL MANDATE FOR ADVISORY SERVICES OF FINANCIAL ADVISER

In connection with the Acquisition and the transactions contemplated thereunder, the Company has appointed Oriental Patron as its financial adviser. The Company proposes to remunerate Oriental Patron's financial services by way of issuance of 6,666,666 Fee Shares at the Issue Price of HK\$0.18 per Share for the reasons that the issuance of the Fee Shares would conveniently help preserve the cash outflow impact which may affect the financial position of the Group. The total value of the Fee Shares therefore amounts to approximately HK\$1,200,000.

The Fee Shares

Subject to the Stock Exchange granting the listing of, and permission to deal in, the Fee Shares, at (i) the date of issuance of the Consideration Shares or (ii) within 14 business days after the termination of the Sale and Purchase Agreement, assuming there is no other change in the issued share capital of the Company (save for 14,549,999,989 Consideration Shares to be issued under the Acquisition), 6,666,666 Fee Shares will be issued, which represent:

- (i) approximately 0.04% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 0.02% of the issued share capital of the Company as enlarged by the allotment and issue of Fee Shares and Consideration Shares.

Please refer to the section headed "The Acquisition – Issue Price" in this letter for a comparison of value of the Issue Price.

The number of Fee Shares to be issued to Oriental Patron is fixed and is not subject to any further change. Oriental Patron's advisory fee is non-refundable and not contingent upon the status or development of the Acquisition and transactions contemplated thereunder.

Oriental Patron is a third party independent of the Company and the Sellers. As at the Latest Practicable Date, Oriental Patron does not hold any Shares.

The Fee Shares will rank *pari passu* in all respects with the Shares then in issue as at the date of the issuance. An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Fee Shares.

The General Mandate to Issue the Fee Shares

The Fee Shares will be issued under the General Mandate granted to the Directors by a resolution of the Shareholders passed at the AGM, subject to the limit of 20% of the then issued share capital of the Company as at the date of the AGM. Under the General Mandate, the Company is authorized to issue up to 3,684,328,419 new Shares.

LETTER FROM THE BOARD

Up to the Latest Practicable Date, no new Shares were issued or proposed to be issued under the General Mandate other than the Fee Shares. Accordingly, the issuance of 6,666,666 Fee Shares under the General Mandate is not subject to any further approval of the Shareholders.

EQUITY FUNDRAISING ACTIVITIES IN THE PAST TWELVE MONTHS

There have been no equity fundraising activities by the Company in the past twelve (12) months immediately preceding the date of the Sale and Purchase Agreement and up to the Latest Practicable Date.

PROPOSED SHARE AWARD GRANT

For the purpose of rewarding the employees of the Youzan Technology Group for their historical contributions to the success of the business of the Youzan Technology Group, the Board proposed to grant a total of 106,428,391 Awards to 401 Grantees under the Youzan Technology Share Award Plan A, subject to Completion taking place and the acceptance of the Awards by the Grantees. Details of the Proposed Share Award Grant are as follows:

Number of Grantees	:	401 Grantees who are currently employees of the Youzan Technology Group and none of them is an existing Shareholder.
Number of Awards granted	:	106,428,391 Awards (each Award shall entitle the Grantees to obtain one share of Youzan Technology).
Number of shares underlying the Awards	:	106,428,391 existing shares of Youzan Technology (representing approximately 6.29% of the total issued share capital of Youzan Technology as at the Latest Practicable Date) which are currently held by Qima Teamwork pursuant to the Youzan Technology Share Award Plan A.

Pursuant to the Acquisition as detailed in this Circular, Qima Teamwork would sell 106,428,391 existing shares of Youzan Technology to the Company in consideration of 1,906,330,379 Consideration Shares being allotted and issued to Qima Teamwork (representing (i) approximately 10.35% of the total issued share capital of the Company as at the Latest Practicable Date and (ii) approximately 5.78% of the total issued share capital of the Company as enlarged by the issuance of all Consideration Shares and Fee shares). Upon Completion, 106,428,391 existing shares of Youzan Technology currently held by Qima Teamwork would then be exchanged into 1,906,330,379 shares of the Company (the “**Exchanged Shares**”) for the purpose of satisfying the Awards granted (the “**Conversion**”) and each Award shall then entitle the Grantees to obtain the corresponding number of Exchanged Shares in proportion to the Grantees’ entitlement to each existing share of Youzan Technology. The change in subject matter underlying the Awards granted as detailed above will be specified in the relevant grant letters to be issued to the Grantees.

LETTER FROM THE BOARD

Purchase price : None.
payable by the
Grantees

Proposed timing of : Subject to Completion taking place, the Awards will be vested
vesting as follows: (i) (approximately 65% of the Awards) subject to a vesting period of 1 to 3 years, the portions vested in each year of the vesting period would vary amongst the Grantees depending on the Grantees' position and seniority; (ii) (approximately 20% of the Awards) subject to a vesting period of 4 years with proportionate vesting throughout the period; and (iii) (approximately 15% of the Awards) would be vested immediately as the nature of such grants are intended to be as the bonus portion of the relevant Grantees' remuneration. For the avoidance of doubt, no shares of Youzan Technology would be vested before Completion.

The Board and the Remuneration Committee are of the view that the shorter vesting period described under (iii) above is appropriate and aligns with the purpose of the Youzan Technology Share Award Plan A as it serves to reward historical contributions and exceptional performers with accelerated vesting and incentivise the relevant Grantees through providing a more competitive remuneration package.

LETTER FROM THE BOARD

Performance targets and clawback mechanism : No performance targets and clawback provisions are stipulated. The Board and the Remuneration Committee consider that it is not necessary to attach any performance targets or clawback conditions to the Proposed Share Award Grant having considered that (i) the Grantees are employees of the Youzan Technology Group who have contributed directly to the overall business performance, sustainable development and/or good corporate governance of the Group in the past; (ii) such grants, on their own, represent a means of direct encouragement and form part of the remuneration package for relevant Grantees, which is commensurate with their progression within the Group; and (iii) the grants, without any performance targets or clawback mechanism attached thereto, will serve as a more attractive reward for the Grantees' historical contributions to the success of the Youzan Technology Group and the Group, and are expected to bring about immediate incentivization and motivation effect to the relevant Grantees to reinforce their commitment to long term services with the Group, which is in line with the purpose of the Youzan Technology Share Award Plan A.

Rights attached to the Awards : The Grantees are not entitled to any interest or right in the awarded shares prior to the vesting of such Awards.

The Proposed Share Award Grant would not result in the options and awards granted and to be granted to each Grantee in the 12-month period up to and including the date of such grant in aggregate to exceed 1% of the Shares in issue. None of the Grantees is a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or an associate of any of them or an existing Shareholders.

For the avoidance of doubt, the Completion of the Acquisition is not conditional upon the completion of the Proposed Share Award Grant. Upon all the conditions precedent of the Sale and Purchase Agreement have been satisfied (or waived, if applicable), Completion of the Acquisition shall take place regardless of whether the Proposed Share Award Grant is completed. Notwithstanding the above, in the event that Completion of the Acquisition does not take place, the Proposed Share Award Grant will not proceed.

LETTER FROM THE BOARD

As detailed in the section headed “THE ACQUISITION – Sellers’ lock-up undertakings” in this Circular, pursuant to the Sale and Purchase Agreement, the Exchanged Shares are subject to a lock-up period of six months from the Completion Date during which Qima Teamwork shall not, unless with the prior written approval from the Company, directly dispose of any of its Consideration Shares. Accordingly, after Completion, it is intended that Qima Teamwork will obtain the requisite consent from the Company to transfer all the Exchanged Shares held by it to the Trustee for the purpose of satisfying the Awards granted under the Youzan Technology Share Award Plan A (the “**Proposed Transfer**”).

Utilisation of the 2023 AGM Scheme Mandate Limit

As disclosed in the table above, upon Completion, 106,428,391 existing shares of Youzan Technology currently held by Qima Teamwork would be exchanged for 1,906,330,379 Shares for the purpose of satisfying the Awards granted under the Proposed Share Award Grant, and each Award shall then entitle the Grantees to obtain the corresponding number of the Exchanged Shares in proportion to the Grantees’ entitlement to each existing share of Youzan Technology.

Since the Proposed Share Award Grant essentially involves the grant of new Shares to the relevant Grantees, such grants will utilise the existing 2023 AGM Scheme Mandate Limit of the Company. At the AGM, the 2023 AGM Scheme Mandate Limit was approved at 1,842,164,209 Shares, representing 10% of the Shares in issue as at the date of the AGM. As no option or award was granted by the Company since the AGM, the maximum number of Shares available for grant under the 2023 AGM Scheme Mandate Limit remains at 1,842,164,209 Shares.

As the total number of Shares to be issued as part of the Consideration Shares and for the purpose of the Proposed Share Award Grant and upon the Conversion will exceed the available 2023 AGM Scheme Mandate Limit (i.e. 64,166,170 Shares in excess of the 2023 AGM Scheme Mandate Limit), the Board will therefore seek separate approval from the Shareholders at the SGM for making the part of the Proposed Share Award Grant beyond the 2023 AGM Scheme Mandate Limit in accordance with Rule 23.03C(3) of the GEM Listing Rules (the “**Scheme Specific Mandate**”). Subject to the passing of the relevant resolution to approve the Scheme Specific Mandate, the Scheme Specific Mandate will be utilised to partially satisfy the Awards proposed to be granted to Mr. Huang which comprises a total of 10,000,000 Awards with 179,118,594 Shares (representing approximately 0.97% of the issued Shares as at the Latest Practicable Date) underlying such Awards upon Conversion (among which 64,166,170 Shares are subject to the Shareholders approving the Scheme Specific Mandate) for the purpose of rewarding Mr. Huang, who was one of the founding members of Youzan Technology, for his contributions to the success of the business of the Youzan Technology Group throughout the years. The Board believes that the proposed grant of Awards to Mr. Huang will incentivise Mr. Huang to continue to contribute to the long-term growth of the Group and to ensure that his interests are aligned with those of the Group and the Shareholders, and therefore serves the purposes of the Youzan Technology Share Award Plan A.

LETTER FROM THE BOARD

In the event that the Scheme Specific Mandate is not approved at the SGM, the number of Awards to be granted to Mr. Huang shall be accordingly reduced from 10,000,000 to 6,417,471 such that the Proposed Share Award Grant to Mr. Huang shall comprise 114,952,424 Shares upon Conversion. In addition, it is proposed that each of Qima Teamwork and Mr. Hong Bo (the nominee shareholder of Qima Teamwork as to 100%) will give an undertaking in favour of the Company, pursuant to which each of them will undertake that, after Completion and having obtained the prior written approval from the Company under the Sale and Purchase Agreement to waive the lock-up requirement, Qima Teamwork shall (and Mr. Hong Bo shall procure Qima Teamwork to) (i) transfer only a portion of the Exchanged Shares held by Qima Teamwork (i.e. 1,842,164,209 Shares) to the Trustee under the Proposed Transfer; and (ii) dispose of the remaining portion of the Exchanged Shares (i.e. 64,166,170 Shares) in the open market and transfer the sale proceeds to the Group afterwards.

After completion of the Proposed Share Award Grant, the 2023 AGM Scheme Mandate Limit will be fully utilised and accordingly, no further grant of award or option could be made by the Company under its share option or share award schemes. The Company will seek the approval of the Shareholders to refresh the scheme mandate limit as and when desirable in accordance with the GEM Listing Rules.

Grant mechanism under the Youzan Technology Share Award Plan A

Decisions of grants are made jointly by an operational committee comprising certain senior management of Youzan Technology (which include representatives of certain Sellers), and the salary and remuneration department of Youzan Technology (being persons authorised by the board of directors of Youzan Technology to administer the Youzan Technology Share Award Plan A, none of which is a representative of any Seller), with reference to certain objective criteria, including but not limited to the years of services of the relevant participants in Youzan Technology, the seniority of such participants, and the current remuneration level of such participants.

Grants under the Youzan Technology Share Award Plan A may be broadly classified into two categories:

- (a) “fixed” grants which are made to employees of level 4 or above (out of a total of 8 applicable levels) whose remuneration packages comprise partly cash and partly share incentives. These grants are made with reference to the seniority of the employees (i.e. all employees of the same level will be entitled to the same amount of share incentives), and the amount of share incentives to be granted to each level of employees will be determined based on the share incentive policy (the “**Share Incentive Policy**”) prepared by the salary and remuneration department of Youzan Technology with reference to the remuneration package of comparable companies of Youzan Technology, and approved by the operational committee; and

LETTER FROM THE BOARD

- (b) “variable” grants which are made to selected employees each year with reference to certain criteria, such as the relevant key performance indicators of the relevant employee and the internal performance evaluation by the team heads of the relevant employee. These variable grants will also be made with reference to the share incentive policy.

The salary and remuneration department of Youzan Technology is responsible for preparing and reviewing the list of grantees and the amount of grants with reference to these criteria, while the operational committee is responsible for providing approval for the list of grantees and amount of grants. As such, any proposed grantee will be determined by the salary and remuneration department of Youzan Technology (and not the operational committee).

GEM LISTING RULES IMPLICATIONS

Acquisition – Major transaction

As the highest applicable percentage ratio (as defined in Rule 19.07 of the GEM Listing Rules) in respect of the Acquisition is more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Rule 19.06(3) of the GEM Listing Rules and will accordingly be subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 19 of the GEM Listing Rules.

Acquisition – Connected transaction

As at the Latest Practicable Date, Youzan Technology is a non-wholly owned subsidiary of the Company which is owned as to 51.90% by the Company, and a connected subsidiary of the Company for reasons set out below.

As at the Latest Practicable Date, Youzan Technology is owned as to 19.73% in aggregate by Whitecrow Investment, V5.Cui Investment and Youzan Teamwork. Each of Whitecrow Investment, V5.Cui Investment and Youzan Teamwork is a connected person of the Company as (i) Whitecrow Investment is 100% by Tricor Equity Trustee Limited as the trustee of a discretionary trust established by Mr. Zhu, a Director and a director and a substantial shareholder of Youzan Technology for the benefit of himself and certain of his family members; (ii) V5.Cui Investment is 100% beneficially held by Mr. Cui, a Director and a director of Youzan Technology; and (iii) Youzan Teamwork is owned as to 8% by Mr. Zhu (who is the sole director of Youzan Teamwork and hence, has control over Youzan Teamwork), 18% by Whitecrow Investment, 38% by Mr. Huang, 8% by Mr. Cui, 8% by Ms. Ying, 8% by Mr. Yu, 6% by Mr. Huan Fang and 6% by Mr. Zhou Kai, where Mr. Zhu, Mr. Cui, Mr. Yu and Ms. Ying are all Directors and Mr. Zhu, Mr. Cui, Mr. Yu, Ms. Ying and Mr. Huan Fang are directors of Youzan Technology. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules, which is subject to reporting, announcement, circular and independent shareholders’ approval requirements.

LETTER FROM THE BOARD

As Mr. Zhu, Mr. Cui, Mr. Yu and Ms. Ying (all being the executive Directors) were considered to have a material interest in the Acquisition and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate) and the Whitewash Waiver, they have abstained from voting on the relevant board resolutions of the Company approving these matters. Save as disclosed above, no other Directors had a material interest in the Acquisition, the transactions contemplated thereunder (including the issuance of the Consideration Shares under the Specific Mandate) and the Whitewash Waiver which require them to abstain from voting on the relevant board resolutions of the Company and therefore no other Director has abstained from voting on the relevant board resolutions of the Company.

Notwithstanding that the Sellers are or may be regarded as acting in concert with each other in respect of the Company as a result of a shareholders' agreement entered into in respect of Youzan Technology and that their aggregate shareholding (together with the parties acting in concert with them) in the Company is expected to exceed 30% upon the Completion, on the basis that: (i) the shareholders' agreement in respect of Youzan Technology is expected to terminate upon Completion; (ii) there is not and will not be any agreement or arrangement on the exercise of voting rights among the Sellers at the Company level and (iii) no single Seller and any parties acting in concert with it will be entitled to exercise or control the exercise of 30% or more of the voting rights in the Company, it is expected that there will not be any new controlling shareholder of the Company or any change in control of the Company (within the meaning of the GEM Listing Rules) upon Completion.

Proposed Share Award Grant

Pursuant to Rule 23.13 of the GEM Listing Rules, Rules 23.02 to 23.04 and Rules 23.06 to 23.09 of the GEM Listing Rules, (with appropriate modifications) apply to share schemes of a Principal Subsidiary of a listed issuer (whether they involve new or existing shares of the Principal Subsidiary) as if they were share schemes of the issuer as described in Rule 23.01(1) of the GEM Listing Rules. As at the Latest Practicable Date, Youzan Technology is a Principal Subsidiary of the Company and accordingly, the Youzan Technology Share Award Plan A is a share award scheme falling within the ambit of Chapter 23 of the GEM Listing Rules. In addition, the Proposed Share Award Grant is also subject to the requirements of Chapter 19 and/or Chapter 20 of the GEM Listing Rules.

As the proposed grants of Awards by Youzan Technology under the Proposed Share Award Grant to the Grantees concern a total of 106,428,391 existing shares of Youzan Technology as the highest applicable percentage ratio in respect of the Proposed Share Award Grant thereunder exceeds 5% but is lower than 25%, the Proposed Share Award Grant thereunder constituted a discloseable transaction of the Company which require the compliance with the announcement and reporting requirements under Chapter 19 of the GEM Listing Rules.

LETTER FROM THE BOARD

In addition, as elaborated under the section headed “PROPOSED SHARE AWARD GRANT – Utilisation of the 2023 AGM Scheme Mandate Limit” above, since the Proposed Share Award Grant essentially involves the grants of new Shares of the Company as a result of the Conversion, such grants will utilise the existing 2023 AGM Scheme Mandate Limit of the Company. Given the total number of Shares underlying the Proposed Share Award Grant will exceed the maximum number of Shares available for grant under the 2023 AGM Scheme Mandate Limit, the Board will therefore seek separate approval from the Shareholders at the SGM for making the part of the Proposed Share Award Grant (i.e. 64,166,170 Shares in excess of the 2023 AGM Scheme Mandate Limit) beyond the 2023 AGM Scheme Mandate Limit in accordance with Rule 23.03C(3) of the GEM Listing Rules.

None of the Directors is a trustee under the Youzan Technology Share Award Plan A or has a direct or indirect interest in Computershare Hong Kong Trustees Limited, the trustee proposed to be appointed under the Youzan Technology Share Award Plan A after Completion.

TAKEOVERS CODE IMPLICATIONS

Application for Whitewash Waiver

As at the Latest Practicable Date, as disclosed in the section headed “Effect of the issuance of the Consideration Shares and the Fee Shares on the shareholding structure of the Company” in this letter, the Sellers and the parties acting in concert with any of them hold in aggregate approximately 15.07% of the issued Shares in the Company as at the Latest Practicable Date.

Upon Completion, the aggregate shareholding interest of the Sellers and parties acting in concert with any of them in the Company is expected to increase to approximately 52.54% of the total issued share capital of the Company as enlarged by the issuance of all Consideration Shares and Fee shares.

Under Rule 26.1 of the Takeovers Code, the Sellers would be obliged to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Sellers and parties acting in concert with them upon Completion, unless the Whitewash Waiver is obtained from the Executive. In this regard, the Sellers (on behalf of themselves and parties acting in concert with them) will make an application to the Executive for the Whitewash Waiver.

LETTER FROM THE BOARD

The Sellers have applied to the Executive for, and the Executive has indicated that it is minded to grant, the Whitewash Waiver, subject to, amongst others, (a) the Whitewash Waiver being approved by at least 75% of the independent votes cast in person or by proxy at the SGM by the Independent Shareholders; and (b) the Acquisition being approved by more than 50% of the independent votes cast in person or by proxy at the SGM by the Independent Shareholders. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Sale and Purchase Agreement will not become unconditional and the Acquisition will not proceed.

As at the Latest Practicable Date, the Company does not believe that the Acquisition gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the GEM Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Acquisition does not comply with other applicable rules and regulations.

The maximum potential holding of voting rights of the Sellers and parties acting in concert with them resulting from the issuance of the Consideration Shares may exceed 50% of the voting rights of the Company, and the Sellers and parties acting in concert with them may increase their holding without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer thereafter.

THE GEM LR INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

Pursuant to Chapter 20 of the GEM Listing Rules, the GEM LR Independent Board Committee, comprising all of the independent non-executive Directors, has been established to advise the Independent Shareholders regarding the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate). The letter from the GEM LR Independent Board Committee is set out on page 56 to 57 of this Circular.

Given all the executive Directors (being Mr. Zhu, Mr. Cui, Mr. Yu and Ms. Ying) were considered to have a material interest in the Acquisition and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate) and the Whitewash Waiver, they have abstained from voting on the relevant board resolutions of the Company approving these matters.

As all the independent non-executive Directors had approved the entering into of the Sale and Purchase Agreement (even though on the basis with an express reservation about the fairness and reasonableness of the Acquisition and the transactions contemplated thereunder) prior to the publication of the Announcement, all of the independent non-executive Directors are regarded as having an interest in the Acquisition under the Takeovers Code, and are not considered independent for the purposes of providing advices and recommendations to the Independent Shareholders on the Acquisition and the Whitewash Waiver under the Takeovers Code.

LETTER FROM THE BOARD

Altus Capital Limited, a corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, has been appointed with the approval of the GEM LR Independent Board Committee to advise the GEM LR Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate). Pursuant to Rule 2.8 of the Takeovers Code, Altus Capital Limited shall also be primarily responsible for advising the Independent Shareholders in relation to the Whitewash Waiver. The letter from the Independent Financial Adviser is set out on page 58 to 107 of this Circular.

Your attention is also drawn to the letter from the Independent Financial Adviser which contains its advice to the Independent Shareholders in relation to the Acquisition and the Whitewash Waiver. The Independent Financial Adviser considers the Acquisition and the Whitewash Waiver **are not fair and not reasonable** so far as the Independent Shareholders are concerned and are not in the interests of the Company and the Shareholders as a whole. Accordingly, **the Independent Financial Adviser recommends the Independent Shareholders to vote against the relevant resolutions to be proposed at the SGM to approve the Acquisition and the Whitewash Waiver.** The Company however noted that the Independent Financial Adviser is of the view that the terms of the Acquisition are on normal commercial terms. For further information on the principal factors and reasons taken into consideration in arriving at its views, please refer to the letter from the Independent Financial Adviser.

SGM

The SGM will be convened for the Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate), the Whitewash Waiver and the Scheme Specific Mandate.

LETTER FROM THE BOARD

A notice convening the SGM to be held at 10:00 a.m. on Wednesday, 27 December 2023 at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wan Chai, Hong Kong is set out on pages SGM-1 to SGM-3 of this Circular. A form of proxy for use at the SGM is enclosed with this Circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish. The resolutions proposed to be approved at the SGM will be taken by poll and an announcement on the results of the SGM will be made by the Company thereafter.

As the Sellers are parties to the Acquisition, the Sellers, their associates and parties acting in concert with any of the Sellers (including Mr. Zhu, Mr. Cui, Mr. Yu and Ms. Ying) are regarded as having a material interest in the Acquisition and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate) and the Whitewash Waiver. Accordingly, each of the aforementioned parties, Dr. Fong Chi Wah and Mr. Li Shaojie (both being the independent non-executive Directors and having approved the entering into of the Sale and Purchase Agreement prior to the publication of the Announcement), the Trustee (in respect of the vested Shares held on behalf of non-Independent Shareholders under the 2018 Share Award Scheme) and any other Shareholder who is interested in or involved in the Acquisition shall abstain from voting on the relevant resolutions approving the Acquisition and the transactions contemplated thereunder and the Whitewash Waiver. In addition, the Trustee shall not exercise the voting rights attached to unvested Shares under the 2018 Share Award Scheme pursuant to the relevant trust deed for the 2018 Share Award Scheme.

Save as disclosed above, no other Shareholder or any of its associates has a material interest in, or is interested in or involved in the Acquisition and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate) the Whitewash Waiver and the Scheme Specific Mandate, and therefore no other Shareholder would be required to abstain from voting on the relevant resolutions to be proposed at the SGM.

Please refer to the table set out in the section headed "THE ACQUISITION – Effect of the issuance of the Consideration Shares and the Fee Shares on the shareholding structure of the Company" in this Circular for the relevant number of Shares and percentage of shareholding held by the aforementioned parties who are required to abstain from voting at the SGM as at the Latest Practicable Date.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the GEM LR Independent Board Committee on pages 56 to 57 of this Circular which sets out the view and recommendation of the GEM LR Independent Board Committee for the purpose of Chapter 20 of the GEM Listing Rules, the letter from the Independent Financial Adviser on pages 58 to 107 of this Circular, which contains its advice to the Independent Shareholders in relation to the Acquisition and the Whitewash Waiver for the purposes of Chapter 20 of the GEM Listing Rules and the Takeovers Code and the principal factors and reasons taken into consideration in arriving at its recommendations, and the additional information set out in the appendices to this Circular.

Yours faithfully,
By Order of the Board
China Youzan Limited
Zhu Ning
Chairman

LETTER FROM THE GEM LR INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the GEM LR Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of Consideration Shares under the SPA Specific Mandate).



China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

30 November 2023

To the Independent Shareholders

Dear Sir or Madam,

- (1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF APPROXIMATELY 48.10% INTEREST IN YOUZAN TECHNOLOGY;**
- (2) ISSUANCE OF SHARES UNDER SPA SPECIFIC MANDATE;**
- (3) APPLICATION FOR WHITEWASH WAIVER;**
- (4) PROPOSED SHARE AWARD GRANT;**
- (5) NOTICE OF SGM; AND**
- (6) CLOSURE OF REGISTER OF MEMBERS**

We refer to the circular issued by the Company to the Shareholders dated 30 November 2023 (the “**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

LETTER FROM THE GEM LR INDEPENDENT BOARD COMMITTEE

We have been appointed as members of the GEM LR Independent Board Committee to advise you as to whether the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate) are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole for the purpose of Chapter 20 of the GEM Listing Rules. Altus Capital Limited has been appointed as the Independent Financial Adviser in this regard with the approval of the GEM LR Independent Board Committee.

We wish to draw your attention to the “Letter from the Board” and the “Letter from the Independent Financial Adviser” set out in the Circular. Shareholders are reminded that in addition to the various factors and reasons as stated in the “Letter from the Independent Financial Adviser”, in casting their votes, Shareholders should also consider other factors such as whether the price of the Shares would continue to decline after Completion of the Acquisition, the overall benefit the Acquisition would bring to the Group and the prospects and development of the Enlarged Group.

Having considered and weighed the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice, we consider that (i) the Acquisition, which is not in the ordinary usual course of business of the Company, is not fair and reasonable to the Independent Shareholders; (ii) the terms of the Sale and Purchase Agreement, while on normal commercial terms, are not fair and reasonable and not in the interests of the Company and the Shareholders as a whole; and (iii) the issuance of the Consideration Shares under the SPA Specific Mandate is therefore also not fair and reasonable. Accordingly, we recommend the Independent Shareholders not to vote in support of the relevant resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate).

Yours faithfully

For and on behalf of the GEM LR Independent Board Committee of

Dr. Fong Chi Wah

*Independent non-executive
Director*

Mr. Deng Tao

*Independent non-executive
Director*

Mr. Li Shaojie

*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Altus Capital Limited, the Independent Financial Adviser to the GEM LR Independent Board Committee and the Independent Shareholders in respect of (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the SPA Specific Mandate; and (iii) the Whitewash Waiver, which has been prepared for the purpose of incorporation into this Circular.

ALTUS.

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

30 November 2023

To the GEM LR Independent Board Committee and the Independent Shareholders

China Youzan Limited

Unit 1511, 15/F
Shui On Centre
No. 6-8 Harbour Road
Wan Chai
Hong Kong

Dear Sir/Madam,

**(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO
THE ACQUISITION OF APPROXIMATELY 48.10% INTEREST IN
YOUZAN TECHNOLOGY;
(2) ISSUANCE OF SHARES UNDER SPA SPECIFIC MANDATE;
AND
(3) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the GEM LR Independent Board Committee and the Independent Shareholders in respect of the (i) the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the SPA Specific Mandate; and (iii) the Whitewash Waiver, details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 30 November 2023 (the “**Circular**”). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Acquisition

On 23 May 2023, the Company entered into the Sale and Purchase Agreement with each of the Sellers, pursuant to which the Company has conditionally agreed to acquire, and each of the Sellers has conditionally and severally agreed to sell, the Sale Shares, representing approximately 48.10% of the entire issued share capital of Youzan Technology as at the Latest Practicable Date in aggregate.

The total Consideration for the Acquisition is HK\$2,618,999,998.02, which shall be satisfied by the Company allotting and issuing 14,549,999,989 Consideration Shares in aggregate at the Issue Price of HK\$0.18 per Consideration Share to the Sellers in proportion to their shareholding in Youzan Technology at Completion.

The 14,549,999,989 Consideration Shares in aggregate represent approximately 78.98% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 44.12% of the issued share capital of the Company as enlarged by the allotment and issuance of the Consideration Shares and the Fee Shares immediately upon Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Completion Date, save for the issuance of the Consideration Shares and the Fee Shares).

The Consideration Shares will be allotted and issued pursuant to the SPA Specific Mandate to be sought from the Independent Shareholders at the SGM.

Completion is conditional upon the satisfaction (or waiver, if applicable) of several conditions. Details of which are set out in the “Letter from the Board”. As at the Latest Practicable Date, none of the conditions have been satisfied or (if applicable) waived.

Proposed share award grant under the Youzan Technology Share Award Plan A

As described in the Announcement, in light of the Acquisition, Youzan Technology had intended to make grants under the Youzan Technology Share Award Plan A to its eligible participants, which if materialised, may constitute a special deal under Rule 25 of the Takeovers Code. As at the Latest Practicable Date, the Board proposed to grant a total of 106,428,391 Awards to 401 Grantees (who are not existing Shareholders) under the Youzan Technology Share Award Plan A, subject to Completion taking place and the acceptance of the Awards by the Grantees. No grant under the Proposed Share Award Grant will be subject to approval by the Shareholders, and none of the Grantees is a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or an associate (as defined in the Listing Rules) of any of them. None of the Grantees is an existing Shareholder. On this basis, there is no special deal under Rule 25 of the Takeovers Code. Details of the Proposed Share Award Grant are described in the section headed “Proposed Share Award Grant” in the “Letter from the Board”.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

GEM LISTING RULES IMPLICATIONS

Acquisition – Major transaction

As the highest applicable percentage ratio (as defined in Rule 19.07 of the GEM Listing Rules) in respect of the Acquisition is more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Rule 19.06(3) of the GEM Listing Rules and will accordingly be subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

Acquisition – Connected transaction

As at the Latest Practicable Date, Youzan Technology is a non-wholly owned subsidiary of the Company which is owned as to 51.90% by the Company, and a connected subsidiary of the Company for reasons set out below.

As at the Latest Practicable Date, Youzan Technology is owned as to 19.73% in aggregate by Whitecrow Investment, V5.Cui Investment and Youzan Teamwork. Each of Whitecrow Investment, V5.Cui Investment and Youzan Teamwork is a connected person of the Company as (i) Whitecrow Investment is 100% by Tricor Equity Trustee Limited as the trustee of a discretionary trust established by Mr. Zhu, a Director and a director and a substantial shareholder of Youzan Technology for the benefit of himself and certain of his family members; (ii) V5.Cui Investment is 100% beneficially held by Mr. Cui, a Director and a director of Youzan Technology; and (iii) Youzan Teamwork is owned as to 8% by Mr. Zhu (who is the sole director of Youzan Teamwork and hence, has control over Youzan Teamwork), 18% by Whitecrow Investment, 38% by Mr. Huang, 8% by Mr. Cui, 8% by Ms. Ying, 8% by Mr. Yu, 6% by Mr. Huan Fang (“**Mr. Huan**”) and 6% by Mr. Zhou Kai, where Mr. Zhu, Mr. Cui, Mr. Yu and Ms. Ying are all Directors and Mr. Zhu, Mr. Cui, Mr. Yu, Ms. Ying and Mr. Huan are directors of Youzan Technology. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules, which is subject to reporting, announcement, circular and independent shareholders' approval requirements.

As Mr. Zhu, Mr. Cui, Mr. Yu and Ms. Ying (all being the executive Directors) were considered to have a material interest in the Acquisition and transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate) and the Whitewash Waiver, they have abstained from voting on the relevant board resolutions of the Company. Save as disclosed above, no other Directors had a material interest in the Acquisition and transactions contemplated thereunder (including the issuance of the Consideration Shares under the SPA Specific Mandate) and the Whitewash Waiver and no other Director has abstained from voting on the relevant board resolutions of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notwithstanding that the Sellers are or may be regarded as acting in concert with each other in respect of the Company as a result of a shareholders' agreement entered into in respect of Youzan Technology and that their aggregate shareholding (together with the parties acting in concert with them) in the Company is expected to exceed 30% upon Completion, on the basis that: (i) the shareholders' agreement in respect of Youzan Technology is expected to terminate upon Completion; (ii) there is no and will not be any agreement or arrangement on the exercise of voting rights among the Sellers at the Company level; and (iii) no single Seller and any parties acting in concert with it will be entitled to exercise or control the exercise of 30% or more of the voting rights in the Company, it is expected that there will not be any new controlling shareholder of the Company or any change in control of the Company (within the meaning of the GEM Listing Rules) upon Completion.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

Application for Whitewash Waiver

As at the Latest Practicable Date, as disclosed in the paragraph headed "Effect of the issuance of the Consideration Shares and the Fee Shares on the shareholding structure of the Company" in the "Letter from the Board", the Sellers and the parties acting in concert with any of them hold in aggregate approximately 15.07% of the issued share capital of the Company as at the Latest Practicable Date.

Upon Completion, the aggregate shareholding interest of the Sellers and parties acting in concert with any of them in the Company is expected to increase to approximately 52.54% of the total issued share capital of the Company as enlarged by the issuance of all Consideration Shares and the Fee Shares.

Under Rule 26.1 of the Takeovers Code, the Sellers would be obliged to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Sellers and parties acting in concert with them upon Completion, unless the Whitewash Waiver is obtained from the Executive. In this regard, the Sellers (on behalf of themselves and parties acting in concert with them) will make an application to the Executive for the Whitewash Waiver.

As at the Latest Practicable Date, the Sellers have applied to the Executive for, and the Executive has indicated that it is minded to grant, the Whitewash Waiver, subject to, amongst others, (i) the Whitewash Waiver being approved by at least 75% of the independent votes cast in person or by proxy at the SGM by the Independent Shareholders; and (ii) the Acquisition being approved by more than 50% of the independent votes cast in person or by proxy at the SGM by the Independent Shareholders. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Sale and Purchase Agreement will not become unconditional and the Acquisition will not proceed.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the Company does not believe that the Acquisition gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the GEM Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Acquisition does not comply with other applicable rules and regulations.

The maximum potential holding of voting rights of the Sellers and parties acting in concert with them resulting from the issuance of the Consideration Shares may exceed 50% of the voting rights of the Company, and the Sellers and parties acting in concert with them may further increase their holding without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer thereafter.

THE GEM LR INDEPENDENT BOARD COMMITTEE

The GEM LR Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Fong Chi Wah, Mr. Deng Tao and Mr. Li Shaojie, has been established to consider and advise the Independent Shareholders as to (i) whether the terms of the Sale and Purchase Agreement are fair and reasonable; (ii) whether the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; (iii) whether the issuance of the Consideration Shares under the SPA Specific Mandate is fair and reasonable; and (iv) how the Independent Shareholders should vote in respect of the relevant resolutions relating to the Acquisition and the SPA Specific Mandate to be proposed at the SGM, after taking into account the recommendation of the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has approved our appointment as the Independent Financial Adviser to the GEM LR Independent Board Committee in respect of the Acquisition, the SPA Specific Mandate and the Whitewash Waiver.

As the Independent Financial Adviser to the GEM LR Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the GEM LR Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Sale and Purchase Agreement are fair and reasonable; (ii) whether the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; (iii) whether the issuance of new Shares under the SPA Specific Mandate is fair and reasonable; and (iv) how the Independent Shareholders should vote in respect of the relevant resolutions relating to the Acquisition and the SPA Specific Mandate to be proposed at the SGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Shareholders, our role is to give an opinion to the Independent Shareholders as to whether the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned; and (ii) how the Independent Shareholders should vote in respect of the relevant resolution relating to the Whitewash Waiver.

We (i) are not associated or connected, financial or otherwise, with the Company, the Company's substantial shareholder(s) or any parties acting, or presumed to be acting, in concert with any of them; and (ii) we have not acted as an independent financial adviser or financial adviser for other transactions of the Company, the Company's substantial shareholder(s) or any parties acting, or presumed to be acting, in concert with any of them in the last two years prior to the date of the Circular.

Pursuant to Rule 17.96 of the GEM Listing Rules and Rule 2 of the Takeovers Code, and given that (i) remuneration for our engagement to opine on the terms of the Acquisition, the SPA Specific Mandate and the Whitewash Waiver is at market level and not conditional upon the outcome of the Acquisition, the SPA Specific Mandate and the Whitewash Waiver; (ii) no arrangement exists whereby we shall receive any fees or benefits from the Company (other than our said remuneration), the Company's substantial shareholder(s) or any parties acting, or presumed to be acting, in concert with any of them; and (iii) our engagement is on normal commercial terms and approved by the Independent Board Committee, we are independent of and not associated with the Company, the Company's substantial shareholder(s) or any parties acting in concert with any of them and can act as the independent financial adviser to the GEM LR Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the SPA Specific Mandate and the Whitewash Waiver.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others, (i) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”); (ii) the annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”); (iii) the interim report of the Company for the six months ended 30 June 2023 (the “**2023 Interim Report**”); (iv) the quarterly results of the Company for the nine months ended 30 September 2023 (the “**2023 Third Quarter Report**”); (v) the Sale and Purchase Agreement; (vi) the valuation report on the Youzan Technology Group as at the valuation date on 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 respectively (the “**Valuation Report**”); and (vii) other information contained or referred to in the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the “**Management**”). We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and continued to be so as at the Latest Practicable Date. The Company will notify the Shareholders of any material changes to information contained or referred to in the Circular as soon as practicable in accordance with Rule 9.1 of the Takeovers Code up to the date of the SGM. Shareholders will also be informed as soon as practicable when there are any material changes to the information contained or referred to herein as well as changes to our opinion, if any, after the Latest Practicable Date.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading at the time they were made or will be untrue, inaccurate or misleading at the date of the SGM, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us to be untrue, inaccurate or misleading.

We have assumed that all the statements, information, opinions and representations for matters relating to the Company contained or referred to in the Circular and/or provided to us by the Company and the Management have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

The Company is an investment holding company. The Group mainly provides online and offline e-commerce solutions known as SaaS (Software as a Service) and various payment services for merchants in the PRC. The Group’s operation consists of five operating segments, namely (i) merchant services – provision of a variety of SaaS products and comprehensive services in the PRC which mainly comprise the provision of subscription solutions and merchant solutions through Youzan Technology Group; (ii) third party payment services which includes merchant solutions related services provided by group entities of the Group other than Youzan Technology Group; (iii) Onecomm – provision of third party payment system solutions and sales of integrated smart point of sales devices; (iv) general trading; and (v) others which mainly includes factoring.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.1 Financial information of the Group

Set out below is a summary of financial information of the Group extracted from the 2021 Annual Report, 2022 Annual Report, 2023 Interim Report and the 2023 Third Quarter Report.

Extract of consolidated statement of profit or loss

	For the nine months		For the six months		For the year ended 31 December		
	ended 30 September		ended 30 June		ended 31 December		
	2023	2022	2023	2022	2022	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Revenue	1,082,492	1,098,851	724,294	729,275	1,496,977	1,569,991	1,820,723
– Subscription solutions	631,931	660,974	422,266	439,197	890,223	973,813	1,047,951
– Merchant solutions	447,873	430,513	300,029	283,852	597,780	584,778	757,511
– Others	2,688	7,364	1,999	6,226	8,974	11,400	15,261
Gross profit	748,329	690,802	501,396	411,518	961,922	952,263	1,082,084
Loss for the period/year	(48,049)	(521,219)	(18,416)	(485,088)	(645,760)	(3,293,020)	(545,653)
Earnings/(Loss) per share (expressed in RMB per share)							
Basic	0.0009	(0.0154)	0.0010	(0.0153)	(0.0174)	(0.1466)	(0.0180)
Diluted	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: 2021 Annual Report, 2022 Annual Report, 2023 Interim Report and 2023 Third Quarter Report

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Extract of consolidated statement of financial position

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)	As at 31 December 2021 RMB'000 (Audited)	2020 RMB'000 (Audited)
Current assets	4,335,018	4,951,702	4,903,752	8,107,646
– Cash and cash equivalents	840,299	889,944	711,527	1,751,530
Total assets	5,892,784	6,559,725	6,872,975	12,212,480
Current liabilities	4,143,024	5,251,897	5,097,324	7,058,846
Total liabilities	4,854,067	5,514,730	5,536,152	7,582,381
Net assets	1,038,717	1,044,995	1,336,823	4,630,099
Equity attributable to owners of the Company	1,456,396	1,413,178	1,346,466	3,858,795

Source: 2021 Annual Report, 2022 Annual Report and 2023 Interim Report

For the year ended 31 December 2021 (“FY2021”) vs for the year ended 31 December 2020 (“FY2020”)

In FY2021, the Group’s revenue was approximately RMB1,570.0 million as compared with approximately RMB1,820.7 million in FY2020, representing a decrease of about 13.8%, which was mainly attributable to the decrease in revenue for merchant solutions.

Revenue generated from subscription solutions was approximately RMB973.8 million, which represented a decrease of approximately 7.1% as compared to approximately RMB1,048.0 million in FY2020. Such drop was mainly attributable to the drop in revenue in cloud service fees of 58.0% to approximately RMB95.0 million, in FY2021 as compared to approximately RMB225.9 million in FY2020. Apart from cloud service fees, revenue from other subscription solutions increased by 6.9%. Separately, the decrease of approximately 22.8% in revenue from merchant solutions from approximately RMB757.5 million in FY2020 to RMB584.8 million in FY2021 was primarily due to the decline of nearly 30% in revenue generated from transaction services since Hangzhou Youzan Technology Co., Ltd. (“**Hangzhou Youzan**”), one of the Group’s subsidiary, ceased its transaction service in February 2021. Revenue from other businesses, which contributed approximately 0.8% and 0.7% of the total revenue in FY2020 and FY2021 respectively, represented a decrease of 25.3%, mainly due to the cessation of catering services in May 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In FY2021, the Group recorded a gross profit of approximately RMB952.3 million (FY2020: approximately RMB1,082.1 million), representing a year-on-year decrease of 12.0%, due to the decrease of gross profit from subscription solutions and merchant solutions. The Group's gross profit margin increased from 59.4% in FY2020 to 60.7% in FY2021, primarily due to the increase of gross profit margin of merchant solutions.

The Group recorded a 6 times increase in the net loss to approximately RMB3,293.0 million in FY2021 as compared to a net loss of approximately RMB545.7 million in FY2020, which was mainly due to the recognition of a substantial amount of other net losses of approximately RMB2,186.3 million (FY2020: other net gains of approximately RMB1.6 million) arising from the impairment of property, plant and equipment, right-of-use assets, goodwill and intangible assets of approximately RMB2,184.1 million in aggregate¹ under the merchant services cash generating units (“CGU B”).

Loss attributable to owners of the Company for the year ended 31 December 2021 of approximately RMB2,509.5 million (FY2020: approximately RMB294.7 million) increased substantially as compared with the previous year due to the substantial amount of other net losses recognised as explained above.

Net assets of the Group as at 31 December 2021 decreased to approximately RMB1,336.8 million as compared to approximately RMB4,630.1 million as at 31 December 2020 due mainly to the substantial impairment made as mentioned above. As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB711.5 million as compared with approximately RMB1,751.5 million in 2020 and had no bank borrowings.

¹ Due to the challenging market competition in the e-commerce platform industry and the continuing impact brought by the unexpected prolonged COVID-19 pandemic, the Group's merchant services segment recorded significant loss for the year ended 31 December 2021, and the business performance did not achieve the expected results. Based on the past business performance and market change, the Management then considered the future growth of the Group's merchant services would be subject to various uncertainties, including but not limited to the growth prospects of the Group's targeted customer base, the Group's ability to identify and provide new services for the changing market demand, and the intensive competition within the industry. The evolving regulatory requirements and fast changing market environment on operating e-commerce and service platforms in the PRC also presented challenges to the market in which the Group operates. All the aforesaid factors would lead to a downward adjustment of the value in use of the Group's CGU B. As a result, impairment losses of RMB1,622,083,000, RMB459,553,000, RMB22,110,000 and RMB80,393,000 were recognised for CGU B's goodwill, intangible assets, plant and equipment and right-of-use assets respectively for the year ended 31 December 2021.

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For the year ended 31 December 2022 (“FY2022”) vs FY2021

In FY2022, the Group’s revenue was approximately RMB1,497.0 million, representing a decrease of approximately 4.7% as compared to approximately RMB1,570.0 million in FY2021. This was mainly attributable to the decrease in revenue from subscription solutions which was partially offset by the increase in revenue from merchant solutions.

Revenue generated from subscription solutions was approximately RMB890.2 million in FY2022 as compared to approximately RMB973.8 million in FY2021, representing a year-on-year decrease of approximately 8.6% due to a decrease in cloud service fees and the decrease in the subscription fees for SaaS products. Revenue from merchant solutions increased by approximately 2.2% from approximately RMB584.8 million in FY2021 to approximately RMB597.8 million in FY2022 which was in line with the increase in Gross Merchandise Volume (“GMV”) generated by merchants through the merchant solutions. Revenue from other businesses experienced a decrease of approximately 21.3% from approximately RMB11.4 million in FY2021 to approximately RMB9.0 million in FY2022 mainly due to the decrease in revenue from providing catering services which had ceased since May 2021.

In FY2022, the Group recorded a gross profit of approximately RMB961.9 million (FY2021: approximately RMB952.3 million), representing a year-on-year increase of 1.0%, due to the increase of gross profit from merchant solutions which was partially offset by the decrease of gross profit from subscription solutions. The Group’s gross profit margin increased from approximately 60.7% in FY2021 to approximately 64.3% in FY2022, primarily due to the increase of gross profit margin of subscription solutions as well as merchant solutions.

Net loss for FY2022 was approximately RMB645.8 million as compared to approximately RMB3,293.0 million in FY2021, representing an 80.4% year-on-year improvement mainly due to (i) the absence of the impairments of property, plant and equipment, right-of-use assets, goodwill and intangible assets of approximately RMB2,184.1 million in aggregate¹ under the CGU B made in FY2021 and (ii) the reduction in selling expenses, administrative expenses and other operating expenses.

Net assets of the Group as at 31 December 2022 decreased to approximately RMB1,045.0 million as compared to approximately RMB1,336.8 million as at 31 December 2021 due mainly to the loss incurred in FY2022. As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB890.0 million and borrowings of approximately RMB481.0 million as compared to cash and cash equivalents of approximately RMB711.5 million and nil on 31 December 2021.

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For the six months ended 30 June 2023 (“1H FY2023”) vs for the six months ended 30 June 2022 (“1H FY2022”)

The Group’s revenue for 1H FY2023 was approximately RMB724.3 million in comparison to approximately RMB729.3 million in 1H FY2022, representing a decrease of approximately 0.7% compared with 1H FY2022.

Revenue generated from subscription solutions decreased by approximately 3.9% to RMB422.3 million in 1H FY2023 as compared to approximately RMB439.2 million in 1H FY2022, mainly due to the decrease in the number of paying merchants. Revenue from merchant solutions for 1H FY2023 was approximately RMB300.0 million as compared to approximately RMB283.9 million in 1H FY2022, with a year-on-year increase of approximately 5.7%, mainly due to the increase in the revenue from private domain operation service.

The Group recorded a gross profit for 1H FY2023 of approximately RMB501.4 million (1H FY2022: approximately RMB441.5 million), representing a year-on-year increase of approximately 13.6%, due to the increase of gross profit of subscription solutions and merchant solutions. The Group’s gross profit margin increased from 60.5% in 1H FY2022 to 69.2% in 1H FY2023, primarily due to the increase of gross profit margin of subscription solutions and merchant solutions as a result of a series of implementation of cost control measures such as optimising cost structure and streamlining personnel.

Net loss for 1H FY2023 was approximately RMB18.4 million as compared to approximately RMB485.1 million in 1H FY2022, representing a 96.2% year-on-year improvement mainly due to the reduction in selling expenses, administrative expenses and other operating expenses as a result of the rationalisation arrangement of research and development investment and the optimisation of its organisation structure.

Net assets of the Group as at 30 June 2023 decreased to approximately RMB1,038.7 million as compared to approximately RMB1,045.0 million as at 31 December 2022. As at 30 June 2023, the Group had cash and cash equivalents of approximately RMB840.3 million and borrowings of approximately RMB460.6 million as compared to cash and cash equivalents of approximately RMB890.0 million and borrowings of approximately RMB481.0 million on 31 December 2022.

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For the nine months ended 30 September 2023 (“9M FY2023”) vs for the nine months ended 30 September 2022 (“9M FY2022”)

The Group’s revenue for 9M FY2023 was approximately RMB1,082.5 million in comparison to approximately RMB1,098.9 million in 9M FY2022, exhibiting a decrease of approximately 1.5% compared with 1H FY2022.

Revenue generated from subscription solutions decreased by approximately 4.4% to RMB631.9 million in 9M FY2023 as compared to approximately RMB661.0 million in 9M FY2022, as the number of paying merchants continued to decrease. Revenue from merchant solutions for 9M FY2023 was approximately RMB447.9 million as compared to approximately RMB430.5 million in 9M FY2022, with a year-on-year increase of approximately 4.0%, mainly due to the increase in the revenue from private domain operation service.

The Group’s gross profit for 9M FY2023 further improved to approximately RMB748.3 million (9M FY2022: approximately RMB690.8 million), representing a year-on-year increase of approximately 8.3%, due to the increase of gross profit of both subscription solutions and merchant solutions. The Group’s gross profit margin also increased from 62.9% in 9M FY2022 to 69.1% in 9M FY2023, primarily due to the increase of gross profit margin of subscription solutions and merchant solutions as a result of a series of implementation of cost control measures such as optimising cost structure and streamlining personnel.

Net loss for 9M FY2023 was approximately RMB48.0 million as compared to approximately RMB521.2 million in 9M FY2022, representing a 90.8% year-on-year improvement as the Group continued with its efforts on the reduction in selling expenses, administrative expenses and other operating expenses in particular on its research and development investment and its organisation structure.

2. Background information of Youzan Technology

Youzan Technology is a company incorporated in the Cayman Islands. The Youzan Technology Group is principally engaged in providing a variety of cloud-based commerce services to merchants through its subscription solutions and merchant solutions.

Subscription solutions mainly comprise SaaS products designed for merchants of various industries including Youzan WeiMall (有贊微商城), Youzan Retail (有贊零售), Youzan Chain (有贊連鎖), Youzan Beauty (有贊美業), and Youzan Education (有贊教育).

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Merchant solutions mainly comprise value-added services offered to merchants to address their online and/or offline operational needs.

Through its subscription solutions and merchant solutions, merchants can establish online presence, digitalise critical business operations, integrate online/offline activities, take ownership of and manage their online/offline customer traffic, boost customer acquisition and repeat purchases, and enhance operating efficiency.

2.1 Financial information of Youzan Technology Group

Set out below is the key financial information of the Youzan Technology Group for the three financial years ended 31 December 2020, 2021 and 2022 and for the six months ended 30 June 2023, respectively as extracted from Appendix II to the Circular:

Extract of consolidated statement of profit or loss

	For the six months		For the year ended 31 December		
	ended 30 June				
	2023	2022	2022	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Revenue	568,445	574,171	1,167,302	1,284,003	1,575,984
– Subscription solutions	422,266	439,197	890,223	973,813	1,047,951
– Merchant solutions	144,194	129,426	268,261	299,348	513,991
– Others	1,985	5,548	8,818	10,842	14,042
(Cost of Sales)	(134,353)	(175,825)	(319,811)	(398,432)	(529,234)
Gross Profit	434,092	398,346	847,491	885,571	1,046,750
Gross profit margin (%)	76.4%	69.4%	72.6%	69.0%	66.4%
Investment & other income	22,040	19,674	36,065	43,378	41,549
Other gain & (losses)	8,004	(6,203)	21,394	(108,920)	(9,579)
Total Expenses	(507,058)	(963,712)	(1,547,606)	(1,815,404)	(1,432,568)

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	For the six months		For the year ended 31 December		
	ended 30 June				
	2023	2022	2022	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
<i>Including</i>					
– Selling expenses	(327,348)	(471,408)	(820,808)	(956,358)	(779,301)
– Administrative expenses	(45,402)	(161,849)	(242,002)	(261,852)	(168,054)
– Other operating expenses	(97,065)	(197,151)	(290,641)	(568,856)	(394,308)
Loss before tax	(42,922)	(551,895)	(642,656)	(995,375)	(353,848)
Loss for the period/year	(40,282)	(550,947)	(636,881)	(1,124,008)	(337,212)

Extract of consolidated statement of financial position

	As at		As at 31 December	
	30 June			
	2023	2022	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)	(Audited)	(Audited)
Total assets	1,205,478	1,342,992	1,309,576	2,660,100
Total liabilities	2,147,101	2,219,844	1,582,546	1,837,545
Net assets/(liabilities)	(941,623)	(876,852)	(272,970)	822,555

Details of the financial information of the Youzan Technology Group are set out in Appendix II to the Circular.

For the year ended 31 December 2020, 2021 and 2022

Revenue generated from subscription solutions had been on gradual declining trend; decreasing from approximately RMB1,048.0 million in 2020 to approximately RMB973.8 million in 2021 mainly due to decrease in cloud service fee. Revenue further decreased to approximately RMB890.2 million in 2022 primarily due to decrease in cloud service fee and subscription fees for SaaS products.

Revenue generated from merchant solutions decreased from approximately RMB514.0 million in 2020 to approximately RMB299.3 million in 2021 primarily due to decrease in revenue generated from transaction services as one of the subsidiaries of Youzan Technology Group ceased its transaction service in February 2021. Revenue decreased further to approximately RMB268.3 million in 2022 following full year effect of the above cessation of transaction service.

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Revenue from other businesses decreased from approximately RMB14.0 million in 2020 to approximately RMB10.8 million in 2021 and further decreased to approximately RMB8.8 million in 2022, mainly due to the decrease in the revenue from providing catering services which were ceased since May 2021.

Net loss was approximately RMB337.2 million, RMB1,124.0 million and RMB636.9 million for the year ended 31 December 2020, 2021 and 2022. Net loss increased from 2020 to 2021 mainly because of the increase in loss from operations. Following an improvement in loss from operations, net loss for 2022 narrowed.

As of 31 December 2020, Youzan Technology Group record net assets of approximately RMB822.6 million; while it recorded net liabilities of approximately RMB273.0 million and RMB876.9 million as at 31 December 2021 and 2022, respectively. As at 31 December 2020, 2021 and 2022, cash and cash equivalents of Youzan Technology Group amounted to approximately RMB1,324.5 million, RMB312.7 million and RMB684.7 million, respectively.

As of 31 December, 2020, 2021 and 2022, the total borrowings of Youzan Technology Group were nil, nil and RMB1,055.7 million, respectively. The borrowings as of 31 December 2022 principally consisted of the bank loan (including principal and interest payable) which amounted approximately RMB480.6 million and loan from the Company which amounted RMB574.7 million. Youzan Technology Group had subsequently fully repaid the outstanding bank borrowings on 30 May 2023. On the same date, a new bank loan of RMB460.0 million principal amount, with interest rate of 3.9% per annum and maturity date on 29 May 2025 was raised for daily operations.

The gearing ratio of Youzan Technology Group, being its net debts (i.e. total borrowings less cash and cash equivalents) divided by its total equity, was approximately -161.1%, 114.6% and -42.3% as at 31 December 2020, 2021 and 2022, respectively.

For the six months ended 30 June 2023 vs for the six months ended 30 June 2022

Youzan Technology Group's revenue for the six months ended 30 June 2023 decreased marginally by 1.0% to approximately RMB568.4 million, compared with approximately RMB574.2 million in the previous corresponding period.

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Revenue generated from subscription solutions decreased by approximately 3.9% to RMB422.3 million for the six months ended 30 June 2023 as compared to approximately RMB439.2 million for the six months ended 30 June 2022, mainly due to the decrease in the number of paying merchants. Revenue from merchant solutions for the six months ended 30 June 2023 was approximately RMB144.2 million as compared to approximately RMB129.4 million for the six months ended 30 June 2022, with a year-on-year increase of 11.4%, mainly due to the increase in the revenue from the private domain service.

Youzan Technology Group recorded gross profit for the six months ended 30 June 2023 of approximately RMB434.1 million (for the six months ended 30 June 2022: approximately RMB398.3 million), representing a year-on-year increase of approximately 8.8% despite lower revenue. This was due to improved gross profit margin from 69.4% in the previous corresponding period to 76.4% for the six months ended 30 June 2023 which was underpinned by a series of cost control measures such as optimisation of cost structure and streamlining of personnel which have been implemented since the second quarter of 2022.

Based on our discussion with the Management, we noted Youzan Technology Group has undergone a customer refinement process with the aim of acquiring and retaining high quality customers which are expected to generate higher GMV. In this respect, we noticed that while the number of customers had reduced by around 13% as at 30 June 2023 compared to as at 31 December 2022, the average GMV per single merchant had increased by over 27% during the six months ended 30 June 2023 when compared with the six months period ended 30 June 2022. This refinement process in turn resulted in improved operating efficiency, in particular, in terms of sales efficiency.

Overall expenses of Youzan Technology Group had reduced significantly during the six months ended 30 June 2023. In particular, selling expenses were over 30% lower in line with the reduced number of customers and hence, lower sales staff costs and lower channel commission expenses over the period. There was an absence of one-off severance packages, and cost control measures implemented also bore fruit as administrative expenses decreased significantly to RMB45.4 million during the six months ended 30 June 2023 compared with RMB197.2 million in the previous corresponding period. Other operating expenses, which principally comprise research and development costs, also decreased significantly by close to 51% following more efficient deployment of resources.

Consequently, net loss for the six months ended 30 June 2023 narrowed to approximately RMB40.3 million as compared to approximately RMB550.9 million for the six months ended 30 June 2022, representing a 92.7% year-on-year improvement.

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As of 30 June 2023, Youzan Technology Group recorded net liabilities of approximately RMB941.6 million as compared to RMB876.9 million as at 31 December 2022. As at 30 June 2023, cash and cash equivalents of Youzan Technology Group amounted to approximately RMB597.9 million.

As of 30 June 2023, the total borrowings of Youzan Technology Group were approximately RMB1,086.4 million. The borrowings as of 30 June 2023 principally consisted of bank loans (including principal and interest payable) which amounted to approximately RMB460.6 million and loan from the Company which amounted to approximately RMB625.8 million. The gearing ratio of Youzan Technology Group, being its net debts (i.e. total borrowings less cash and cash equivalents) divided by its total equity, was approximately -51.9% as at 30 June 2023.

Net liabilities positions of Youzan Technology

As of 30 June 2023, Youzan Technology Group had net current liabilities and net liabilities of approximately RMB118.1 million and RMB941.6 million respectively. Youzan Technology Group will need to repay a loan from the Company (“**Loan**”) on 31 December 2024 (“**Loan Maturity Date**”) which is estimated at principal and accrued interests of approximately USD96,109,000 (equivalent to approximately RMB695,922,000 at the exchange rate as of 30 June 2023) at the Loan Maturity Date. We noted that RSM Hong Kong, the reporting accountants of Youzan Technology Group, has expressed its opinion in the Accountants’ Report of Youzan Technology Group, with a paragraph on “multiple uncertainties relating to going concern” included.

Issue of going concern basis

As disclosed in Appendix II, the management of Youzan Technology had adopted the going concern basis in the preparation of the consolidated financial statements of Youzan Technology Group having taken into account, among others, (i) its contract liabilities are deferred income in nature and would not require settlement in the form of cash resources; (ii) a cash flow forecast of Youzan Technology Group which forecasts that the Youzan Technology Group will have sufficient financial resources to meet its obligations as and when they fall due in the foreseeable future, provided that the Loan can be successfully extended or capitalised, and the management’s plan to control operating costs (such as staff costs, promotion and advertising expenses); (iii) a refinancing of its bank borrowings with loan maturity extended to May 2025; and (iv) a written confirmation obtained from the Company on the efforts on the part of the directors of the Company. These include the scenarios that should the Youzan Technology Group be unable to repay the Loan at the Loan Maturity Date by its internal resources, the directors of the Company will make their best endeavour to extend the Loan Maturity Date or capitalise the loan on or before the

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Loan Maturity Date, subject to the approval of shareholders of the Company and other procedures and approvals required under the GEM Listing Rules. Please refer to Appendix II for detailed information.

We have considered the above factors and are of the view they do not serve the specific purpose of our assessments of whether the Loan can be extended and/or capitalised given the lack of concrete measures nor undertaking by specific parties in respect of the aforesaid loan extension or loan capitalisation. **We are also not able to conclude whether it is appropriate to prepare the consolidated financial statements of Youzan Technology Group on a going concern basis.**

3. Prospects of the Enlarged Group

Youzan Technology will become a wholly-owned subsidiary of the Company and its financial results will be fully consolidated into the Company's records. The unaudited pro forma net assets of the Enlarged Group, after Completion, will be approximately HK\$1,031.0 million, decreasing marginally from RMB1,038.7 million as discussed in the section headed "5.5 Financial effects of the Acquisition".

The Enlarged Group will continue providing SaaS solutions and payment services to merchants in the PRC, both online and offline. It will offer social network-based SaaS systems to enable multi-channel operations and integrated new retail solutions for merchants. By utilising PaaS cloud service, the Enlarged Group plans to expand its service offerings, including Youzan Worry-free Shopping, Youzan Distribution, and Youzan Promotion. The Enlarged Group aims to assist merchants in enhancing business efficiency, expanding their internet customer base, and achieving comprehensive success through various cloud-based commerce services, subscription solutions, and Youzan Cloud platform.

Further, the Enlarged Group intends to provide tailor-made services for merchants by leveraging the Youzan Cloud platform and PaaS capabilities. It will also offer applications developed by third-party developers through the Youzan App Market. The Enlarged Group plans to offer merchant solutions, including payment solutions, merchandise sourcing and distribution, consumer protection, and online traffic monetisation. It will focus on e-commerce private domain operation solutions for e-commerce customers and store private domain solutions for store customers, integrating online and offline operations. For customers with customer operation demands, the Enlarged Group will provide "Youzan customer operation solutions" to seamlessly connect consumer information from various channels, analyze consumer demands, formulate precise customer profiles, and carry out automated precision marketing and membership value-added marketing.

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Additionally, the Enlarged Group aims to assist chain stores and brand merchants in establishing private domain traffic pools, invigorating online and offline consumers, and exploring the value of private domain assets by focusing on consumers. It will offer consumer operation platforms and services, including Youzan CRM, Youzan WeCom Assistant, Youzan Salespeople Assistant, Youzan Chain, Marketing Canvas, and New Retail Integration Module. These platforms and services will facilitate enterprise customers in accessing multi-channel data, improving their marketing and sales capabilities, and achieving incremental results.

China's software and IT services industry reported consistent growth in the past decade, as per data from the Ministry of Industry and Information Technology. Major companies in the sector recorded a noteworthy 11.2% year-on-year increase, with combined software revenues exceeding RMB10.81 trillion. Moreover, the data reveals an 8.7% increase in revenues from cloud computing and big data services, along with an 18.5% surge in revenues from e-commerce platform technical services. As the main application field of SaaS, e-commerce market and online retail transaction volumes in China have also shown stable growth trends over the past ten years. In 2022, the transaction volume of China's e-commerce platforms reached RMB43.83 trillion. According to the "14th Five-Year" Plan, online retail sales are projected to reach RMB17 trillion by 2025.

We note that there are multiple areas which the Enlarged Group can potentially expand its businesses. However, whether the Enlarged Group is able to capitalise on these opportunities will depend on, amongst others, its ability to continue to enhance its operational efficiency such as its customer refinement process and cost control, as well as its ability to enhance its capital base given its current loss making position.

4. Background information of the Sellers

The Sellers comprised Whitecrow Investment, V5.Cui Investment, Rory Huang, Youzan Teamwork, Qima Teamwork, Xincheng Investment, Baidu Hong Kong, Aves Capital, HKDWD Holdings, Ralston Global, Hangzhou San Ren Yan Xing, Franchise Fund, Happy Zan, Tembusu HZ, Matrix Partners China III, Matrix Partners China III-A, GCYZ Holdings, GCQM Holdings, each of them being a shareholder of Youzan Technology as at the Latest Practicable Date. The Sellers collectively held 812,310,975 ordinary shares in the issued share capital of Youzan Technology, representing approximately 48.10% of the issued share capital of Youzan Technology as at the Latest Practicable Date.

Further information of the Sellers are set out in the "Letter from the Board".

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5. The Acquisition

5.1 Principal terms of the Sale and Purchase Agreement

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to purchase, and each of the Sellers has conditionally and severally agreed to sell, the Sale Shares, representing approximately 48.10% of the entire issued share capital of Youzan Technology as at the Latest Practicable Date in aggregate.

5.2 The Consideration, the Consideration Shares and the Issue Price

5.2.1 Basis of the Consideration

As described in the “Letter from the Board”, the total Consideration of HK\$2,618,999,998.02 was determined after arm’s length negotiations among the Company and the Sellers with reference to, among others,

- (i) the estimated value of the Sale Shares as of 31 January 2023 pursuant to a preliminary valuation conducted by the Independent Valuer adopting the market approach through guideline transaction method and cross checked against the result using the guideline public company method, taking into account the market capitalisation of the Company and the value of the payment and other business of the Company, among other things;
- (ii) the historical performance and future business prospects of Youzan Technology; and
- (iii) the benefits to be derived by the Group from the Acquisition as described under the section headed “Reasons for and benefits of the Acquisition” in the “Letter from the Board”.

We are of the view that the above are reasonable factors to be taken into consideration and have conducted our analysis as follows:

- (i) Estimated value of the Sale Shares

Given the protracted timeline of the Acquisition from the time of discussion to the date of this Circular of over 6 months, the Company has, on four occasions, engaged the Independent Valuer to value the market value of the Sale Shares; being on 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023. Based on the aforesaid valuation, the market value of the Sale Shares amounted to HK\$2.62 billion, HK\$1.74 billion, HK\$1.27 billion and HK\$0.91 billion on 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 respectively (collectively, “**Appraised Values**”).

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In assessing the reasonableness of the value of the Sale Shares relative to the Consideration, we have considered and analyse the factors below:

Independent Valuer's qualification

In assessing the competence of the Independent Valuer, we have reviewed and enquired into (i) the qualification and experience of the Independent Valuer; and (ii) the steps and due diligence measures taken by the Independent Valuer in relation to the preparation of the Valuation Report.

Based on our interview with the Independent Valuer, we noted that the Independent Valuer is an established firm with global presence offering a wide range of appraisal and advisory services to clients in various industries. It is a firm regulated by the Royal Institution of Chartered Surveyors and possesses relevant qualifications to undertake the valuation of the Sale Shares.

Regarding the competence of the Independent Valuer, based on (i) internet search on the Independent Valuer; and (ii) a summary of credentials provided by the Independent Valuer, we noted that the Independent Valuer is equipped with relevant experience in valuing equity interests of companies. In addition, according to the website of the Royal Institution of Chartered Surveyors, the signing principal of the Valuation Report is registered as valuer. Based on the above, we are satisfied with the competence of the Independent Valuer for preparation of the Valuation Report.

Having considered the above and that the Independent Valuer has confirmed it is independent of the Company, Youzan Technology, the Sellers and parties acting in concert with them, we are satisfied with the objectivity of the Independent Valuer.

Valuation Methodology Adopted

We have had discussion with the Independent Valuer on its valuation methodologies and noted that it considered the market approach (which considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to market comparables) to be most appropriate. The Independent Valuer has further developed the value of the Sale Shares through the guideline transaction method under the market approach which takes reference to recent transactions of comparable similar assets between unrelated parties and the multiple of transaction price to Youzan Technology's financial metrics.

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The Independent Valuer stated that as the Shares are publicly traded and Youzan Technology accounts for the majority of the revenue of China Youzan (more than 75% for the financial year ended 31 December 2022), it considers the quoted market price of the Shares to be a recent transaction price of a similar asset to shares of Youzan Technology. The quoted market prices of the Shares on the valuation dates of 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 were HK\$0.260, HK\$0.199, HK\$0.161 and HK\$0.134 per Share respectively. A crosscheck was then performed by using the guideline public company method under the market approach where research was conducted on comparable companies' benchmark multiples and selection of an appropriate multiple.

The Independent Valuer has considered the merits of different approaches, including comparing the market approach adopted with other common approaches such as cost approach and income approach; and within the market approach it adopted, further consider the applicability of the prior transaction method, guideline public company method and guideline transaction method.

Based on our interview with the Independent Valuer, we understand that the market approach adopted is commonly used in valuation of assets similar to the Sale Shares, and the general availability of comparable companies allows for effective cross-checking. Overall, we consider the approach and methods adopted by the Independent Valuer to be reasonable.

An observation we had on the approach adopted by the Independent Valuer is that the Appraised Values are closely related and sensitive to movements of the market trading Share price and such possible fluctuation is acknowledged by the Independent Valuer in the Valuation Report. Due to the above inherent feature when adopting such market approach, we observed that the Appraised Values had generally moved in tandem with movements of the Share price.

Implication of fluctuations of the Appraised Values

As discussed above, the market value of the Sale Shares had declined significantly over the period from 31 January 2023 to 31 August 2023 where the value amounted to HK\$2.62 billion, HK\$1.74 billion, HK\$1.27 billion and HK\$0.91 billion as at 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 respectively.

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We believe the aforesaid valuation fluctuation is an inherent feature of the valuation methodology adopted as prevailing Share price is used as a principal observable input and over the period from January to August 2023, the Share price had been on declining trend.

It may be interpreted that the declining Appraised Values of the Sale Shares over the 7-month period from end January 2023 to end August 2023 reflect the negative sentiments or change of risk appetite of certain investors over this period, which may be market driven. We noted that the Group has been loss making in its past few financial years and the Group's auditors had indicated the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern in its financial statements for FY2021 and FY2022. Based on our discussion with the Management, there has however been no fundamental material adverse changes in operations since January 2023 and over the aforesaid period where based on the 2023 Third Quarter Report, during 9M FY2023, the Group's revenue had remained at similar level compared with 9M FY2022 while its gross profit had improved to approximately RMB748.3 million in 9M FY2023 compared with approximately RMB690.8 million in 9M FY2022 and the Group's net loss had substantially narrowed to approximately RMB48.0 million in 9M FY2023 compared with approximately RMB521.2 million in 9M FY2022. The Group recorded an improvement from net current liabilities position of approximately RMB300.2 million as at 31 December 2022 to a net current assets position of approximately RMB192.0 million as at 30 June 2023. This view is supported by the material change statement in Appendix I. By considering the value of Sale Shares based on the Appraised Values on 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 for the comparison analysis, it provides a comprehensive picture of the effects of market fluctuations which may not be directly correlated to the fundamentals of Youzan Technology.

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The table illustrates the movements of Share price, the Appraised Values and comparison to the Consideration:

Table 1

	31 January 2023	31 March 2023	31 July 2023	31 August 2023
Closing Share price (HK\$ per Share)	0.260	0.199	0.161	0.134
Value of Sale Shares (HK\$)	2.62 billion	1.74 billion	1.27 billion	0.91 billion
(Discount) of value of Sale Shares to Consideration of HK\$2.62 billion	nil	(33.6%)	(51.5%)	(65.3%)

It can be observed that as closing price of Shares declined from 31 January 2023 to 31 March 2023, to 31 July 2023 and then further to 31 August 2023, value of the Sale Shares also decreased. The decreases were not proportionate or linear, where between 31 January 2023 and 31 August 2023, Share price had declined by around 48% while value of Sale Shares decreased by over 65%. Based on our discussion with the Independent Valuer, vice versa if Share price increases, the increase in value of Sale Shares may similarly increase disproportionately.

Alternative analysis

As explained in the paragraph “Valuation Methodology Adopted” above, the Independent Valuer has cross-checked the Appraised Values against comparable companies’ benchmark multiples.

We have discussed and concurred with the Independent Valuer’s selection criteria of focusing on subscription-based SaaS e-commerce platform targeting small and medium businesses. Based on our independent research, we identified the major companies which operate in the PRC market (being the main market of Youzan Technology) as well as those which operate globally.

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We researched on whether public information is available or can be segregated for those identified companies, and the results are generally in line with those identified by the Independent Valuer. We further discussed with the Independent Valuer about factors that may affect comparability and arrived at a view that larger operational scale and market capitalisation comparables such as Weimob Inc. and Shopify Inc. may not be at the same stage of development of Youzan Technology and they may benefit from economics of scale which can translate into better overall value or valuation multiples. Meanwhile, profitable companies such as 91APP INC and Commerce One Holdings Inc. may have different underlying risks and characteristics. We are of the view the aforesaid assumptions and selection criteria adopted by the Independent Valuer for the comparable companies are fair and reasonable.

Overall, we are of the view that such cross-checking is adequate and are not aware of alternative comparable company analysis that differs and are more appropriate than those adopted by the Independent Valuer, and have not conducted any alternative analysis ourselves.

Section conclusion

The total Consideration which the Group will pay to the Sellers for the Sale Shares is HK\$2,619,000,000 which is equivalent to the value of the Sale Shares as appraised on 31 January 2023 as shown in Table 1. This is fairly determined based on the latest available information at the time of signing of the Sale and Purchase Agreement. Meanwhile, based on the fact that the valuations by the Independent Valuer of the Sale Shares had been declining from HK\$2.62 billion, to HK\$1.74 billion, to HK\$1.27 billion and to HK\$0.91 billion on 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 respectively, the Consideration to be paid is not favourable to Independent Shareholders. This is principally due to the declining trend of the Share price which forms the reference to the Appraised Values.

That said, as the Consideration will be satisfied by issuance of the Consideration Shares, and the Appraised Values are closely correlated with prevailing price of Shares; we have further analysed the reasonableness of the Consideration with reference to the values of the Consideration Shares based on the Issue Price as well as prevailing market Share price. These are discussed in the section below.

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5.2.2 Terms of payment – the Consideration Shares

The Consideration will be satisfied by issuance of the Consideration Shares at the Issue Price of HK\$0.18 per share. The value of the Consideration Shares however changes along with movement of Share price; similar to the case where the Appraised Values are closely correlated to, and change with, prevailing price of Shares.

We are of the view that analysis on the reasonableness of the Consideration should be considered in conjunction with the Issue Price as well as prevailing price of Shares.

5.2.3 The Issue Price

The Issue Price for each Consideration Share represents the following:

- (i) a premium of approximately 22.45% over the closing price of HK\$0.1470 per Share as quoted on the Stock Exchange as at 22 May 2023, being the last trading day prior to the signing of the Sale and Purchase Agreement;
- (ii) a premium of approximately 20.81% over the average closing price of HK\$0.1490 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;
- (iii) a premium of approximately 14.65% over the average closing price of HK\$0.1570 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;
- (iv) a discount of approximately 0.77% to the average closing price of HK\$0.1814 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to the date of the Sale and Purchase Agreement;
- (v) a premium of 57.89% over the closing price of HK\$0.1140 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a premium of approximately 190.32% over the audited consolidated net asset value per Share of approximately RMB0.057 per Share (equivalent to approximately HK\$0.062 per Share) as at 31 December 2022;
- (vii) a premium of approximately 195.08% over the unaudited consolidated net asset value per Share of approximately RMB0.056 (equivalent to approximately HK\$0.061 per Share) as at 30 June 2023; and

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(viii) a premium of approximately 200.0% over the unaudited consolidated net asset value per Share of approximately RMB0.055 (equivalent to approximately HK\$0.060 per Share) as at 30 September 2023.

The Issue Price was determined after arm's length negotiation between the Company and the Sellers, with reference to the prevailing market prices of the Shares and recent market conditions, after taking into account (i) the market price of the Shares in the last 30 trading days prior to the signing of the Sale and Purchase Agreement; (ii) the trading volume of the Shares during the 30 trading days prior to the signing of the Sale and Purchase Agreement; (iii) the financial results of the Company for the year ended 31 December 2022 and the three months ended 31 March 2023; (iv) recent Share price trend; (v) the volatility of Shares; and (vi) the lock-up period of the Consideration Shares. We have analysed the Issue Price by considering the following:

Historical price performance of the Shares

Set out below is a chart illustrating the historical closing prices of the Shares as quoted on the Stock Exchange during the period commencing from 3 January 2023 to the Last Trading Day (“**Pre-Announcement Period**”), and subsequently up to and including the Latest Practicable Date (“**Post-Announcement Period**”) (collectively, the “**Review Period**”). We consider movements of Share price during the Review Period can reasonably illustrate its recent trend before and after announcement of the Acquisitions and is appropriate for comparison between the closing prices of the Shares and the Issue Price.



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It can be observed from the chart that the price of Shares has been on a declining trend during the Pre-Announcement Period. After reaching a high of HK\$0.30 in mid-January 2023, it progressively declined, dipping below the Issue Price in early May 2023. During the Post-Announcement Period, Share price continued downward reaching around HK\$0.13 in end May 2023 and hovered at HK\$0.114 level as at the Latest Practicable Date. The Share price has not recovered above the Issue Price in the Post-Announcement Period. Based on our review and discussion with the Management, we are not aware of any specific events (other than announcement of the Acquisition) that can be attributed to movements of Share price during the Review Period.

Trading liquidity of the Shares

Set out below is the average daily trading volume of the Shares on a monthly basis and the respective percentages of the average daily trading volume of the Shares as compared to (i) the total number of issued Shares; and (ii) the Shares held by the public Shareholders during the Review Period.

Month	Number of trading days	Average daily trading volume of Shares	Average daily trading volume as a percentage to the total number of issued Shares (%)	Average daily trading volume as a percentage to the total number of Shares held by public Shareholders (%)
2023				
January	18	328,587,000	1.78	2.11
February	20	156,795,200	0.85	1.00
March	23	124,656,957	0.68	0.80
April	17	78,778,647	0.43	0.50
May (up to the Last Trading Day)	15	105,443,733	0.57	0.68
May (23 May to 31 May)	6	75,674,667	0.41	0.48
June	21	48,595,905	0.26	0.31
July	20	44,998,050	0.24	0.29
August	23	31,332,430	0.17	0.20
September	19	23,416,889	0.13	0.15
October	20	26,812,900	0.15	0.17
November (up to the Latest Practicable Date)	19	58,372,842	0.32	0.37

Trading volume was relatively higher in early 2023 but has been on a declining trend. Based on our discussion with the Management, there was no notable reason for such trend. It is observed that trading volume further declined after the Announcement was made.

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Overall, it is observed that the Share price had been on a downward trend over the Review Period. After the Last Trading Day, the price of Shares has not risen above the Issue Price. Trading volume of Shares had also been declining over the Review Period. We are not aware of any reasons for such trends. While not directly relevant to the Acquisition terms, the relative illiquidity in recent months compared to early 2023 and low price of Shares may imply that the Company would not have been able to place new Shares at an advantageous price in the market to raise the cash to entirely finance the Acquisition, necessitating the issuance of the Consideration Shares.

Comparable issues analysis

We have conducted a comparable analysis through identifying companies listed on the Stock Exchange which announced an issuance of consideration shares for acquisitions during a three-month period from 24 February 2023 up to and including 23 May 2023, being the date of the Sale and Purchase Agreement and thereafter up to the Latest Practicable Date. On such basis, we have identified 20 companies (the “**Consideration Shares Comparables**”) which constitutes an exhaustive list of the relevant comparable companies based on the abovementioned criteria. We consider that a review period of around three months prior to the date of the Sale and Purchase Agreement is reasonable to provide a representative sample of recent Consideration Shares Comparables reflecting the prevailing market sentiment, economic and financial market cycles leading up to the signing of the Sale and Purchase Agreement for the purpose of assessing the reasonableness of the Issue Price. We extended our analysis to the Latest Practicable Date to provide Independent Shareholders with more comprehensive information.

It should be noted that the Consideration Shares Comparables may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company. Circumstances leading the Consideration Shares Comparables to issue consideration shares may differ from that of the Company. Notwithstanding this, considering the similarity in nature of the issue of the Consideration Shares and the Consideration Shares Comparables that both involved issuing new shares to satisfy acquisition considerations, we consider that the Consideration Shares Comparables can provide a valid general reference for similar type of transactions in the Hong Kong market under the recent market environment.

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The following table sets out the issue price of the consideration shares and the discounts of issue price to the respective (average) closing price on the last trading day prior to/on the date of the relevant agreement, and for the last five consecutive trading days prior to/including the date of the relevant agreement of the Consideration Shares Comparables.

Date of announcement	Company name	Stock code	Principal activities	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Premium/(Discount) of the issue price to	
					the closing price on the last trading day prior to/on the date of the relevant agreement %	the average closing price over the last five consecutive trading days prior to/including the date of the relevant agreement %
17 March 2023	Crypto Flow Technology Limited	8198	Crypto Flow Technology Ltd, is an investment holding company mainly engaged in the provision of data analysis and storage services. The Company operates its business through three segments. The Big Data Center Services segment mainly engaged in the provision of data analysis, storage services, auxiliary administrative and consulting services. The Money Lending Business segment is principally engaged in the money lending business. The Data Processor Rental Services segment is mainly engaged in the provision of data processor rental services.	154	(2.33)	(8.50)
28 March 2023	EPS Creative Health Technology Group Limited	3860	EPS Creative Health Technology Group Ltd, is an investment holding company principally engaged in the sale of knitwear apparel products. The Company operates its business through four segments. The Womenswear segment is engaged in the sale of womenswear products. The Menswear segment is engaged in the sale of menswear products. The Kidswear segment is engaged in the sale of kidswear products. The Other segment is engaged in the sale of knitted facial masks, hats, mufflers, and other products. The Company sells apparel products in Japan, the United States, Europe, Hong Kong and other regions.	580	5.26	6.38
29 March 2023	State Energy Group International Assets Holdings Limited	918	State Energy Group International Assets Holdings Ltd. is a Hong Kong-based investment holding company principally engaged in the distribution of garments. The Company operates through two segments. The Garment Business segment mainly engages in the business of sourcing, subcontracting and trading of garments and sportswear products. The Property Investment segment mainly engages in the investment and leasing business of properties.	301	(7.83)	(2.06)

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Date of announcement	Company name	Stock code	Principal activities	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Premium/(Discount) of the issue price to	
					the closing price on the last trading day prior to/on the date of the relevant agreement	the average closing price over the last five consecutive trading days prior to/including the date of the relevant agreement
21 April 2023	Prosperous Printing Company Limited	8385	Prosperous Printing Company Limited is an investment holding company principally engaged in the provision of printing service. The Company's printing products include leisure and lifestyle books (such as photography books, cookbooks and art books); educational textbooks and learning materials (such as primary, secondary and tertiary level school books); children's books (such as movie and video game series); and other paper-related products (such as national maps, leaflets, greeting cards, journals and calendars). The Company's customers include international publishers located in the Hong Kong, United States, United Kingdom, Australia and Europe (excluding United Kingdom).	25	16.97	11.56
27 April 2023	Furniweb Holdings Limited	8480	Furniweb Holdings Limited is a Malaysia-based investment holding company. The principal activity of the Company is investment holding. The principal activities of its subsidiaries are principally engaged in the manufacturing and sales of elastic textile, webbing, rubber tape and polyvinyl chloride (PVC) related products, energy efficiency business. The Company operates through two segments: Manufacturing (the Manufacturing Division), Energy Efficiency (the Energy Efficiency Division). The Company's subsidiaries include FIPB International Limited, Texstrip Manufacturing Sdn. Bhd., Delightful Grace Holdings Limited (DGHL), Meinaide Holdings Group Limited, PRG Land Sdn. Bhd., Energy Solution Global Limited, Furniweb Manufacturing Sdn. Bhd., Furniweb Safety Webbing Sdn. Bhd. and others. Furniweb Manufacturing Sdn. Bhd. is engaged in manufacturing and sales of upholstery webbings, covered elastic yarn and rigid webbings.	171	(6.25)	0.00
5 May 2023	Asia Energy Logistics Group Limited	351	Asia Energy Logistics Group Ltd is an investment holding company principally engaged in the provision of shipping and logistics services. The Company operates its business through two segments. The Shipping and Logistics segment is mainly engaged in the provision of chartered vessels for the transportation of dry bulk cargoes as well as operation of international voyages. The Telecommunications Related Business segment is mainly engaged in the provision of SMS services and 5G communication network solutions.	539	(12.55)	(9.82)

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Date of announcement	Company name	Stock code	Principal activities	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Premium/(Discount)	
					of the issue price to	the average closing price over the last five consecutive trading days prior to/including the date of the relevant agreement
					to/on the date of the relevant agreement	%
29 May 2023	Huili Resources (Group) Limited	1303	Huili Resources (Group) Limited is an investment holding company principally engaged in the mining, processing and sales of nickel, copper, lead and zinc products. The Company operates through two business segments. The Hami Jiatai, which holds two nickel and copper mines, is mainly engaged in the mining, processing and sales of nickel and copper products. The Hami Jinhua Mineral Resource Exploiture Limited, which holds a lead and zinc mine, is mainly engaged in the mining, processing and sales of lead and zinc products. The Company is also involved in the management and investment consultation business through its subsidiaries.	617	(12.30)	(5.30)
15 June 2023	TFG International Group Limited	542	TFG International Group Ltd is an investment holding company mainly engaged in hotel business. The Company operates its business through three segments. The Hotel Business segment is engaged in hotel management business. The Property Development Business segment is engaged in property development and provision of supporting services, including agency and club operation services. The Other Business segment is engaged in the sale of health products.	1,499	(11.50)	(10.00)
29 June 2023	Affluent Partners Holdings Limited	1466	Affluent Partners Holdings Limited, is a Hong Kong-based investment holding company principally engaged in the purchasing, processing, designing, production, wholesaling and distribution of pearls and jewelry products. The Company's primary products include necklaces, earrings, rings, pendants, bracelets, South Sea pearls, Tahitian pearls and freshwater pearls. Its production facility is located in Shenzhen, China. Its customers are mainly located in Europe, North America, Hong Kong and other Asian countries.	441	(23.83)	(24.70)
7 July 2023	Tongguan Gold Group Limited	340	Tongguan Gold Group Ltd is an investment holding company principally engaged in the gold mining business. The Company is engaged in the exploration, mining, processing and sale of gold concentrates and related products. The Company mainly conducts gold mining business in China.	1,832	(16.70)	(18.00)
24 August 2023	Asia Resources Holding Limited	899	Asia Resources Holdings Ltd is an investment holding company principally engaged in property development. The Company operates its business through two segments. The Property Development and Investment segment is engaged in the construction and sale of real estate including residential properties, commercial buildings and industrial parks. The Water Business segment is principally engaged in the production and sales of bottled water. In addition, the Company is also engaged in the mining of spring water.	84	0.00	2.40

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Date of announcement	Company name	Stock code	Principal activities	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Premium/(Discount) of the issue price to the average closing price over the last five consecutive trading days on the last trading day prior to/on the date of the relevant agreement %	prior to/including the date of the relevant agreement %
28 August 2023	Xpeng Inc.	9868	Xpeng Inc is a China-based company engaged in design, development, production and sales of smart electric vehicles (Smart EV). The Company's primary products are environmentally friendly vehicles, namely an SUV (the G3) and a four-door sports sedan (the P7). The Company's Smart EVs primarily target the mid- to high-end segment in China's passenger vehicle market. The Company aims developing full-stack autonomous driving technology, in-car intelligent operating system and core vehicle systems in-house through the its proprietary software, core hardware and data technologies. The Company sells its vehicle products under the brand Xpeng. It also provides a range of services to the clients, including supercharging service, maintenance service, ride-hailing service and vehicle leasing service.	102,062.0	(1.69)	0.00
4 September 2023	Anchorstone Holdings Limited	1592	Anchorstone Holdings Limited is an investment holding company principally engaged in the stone supply and installation. The Company primarily engages in the supply and installation of marble and granite for construction projects. The Company undertakes stone supply projects and stone supply and installation projects, which related to hotel renovation and development; commercial plazas and office towers; as well as residential properties. The Company is engaged in the businesses of trading of marble and granite and the supply and installation of marble and granite under the brand of PMG.	98	66.67	42.14
8 September 2023	Infinites Technology International (Cayman) Holding Limited	1961	Infinites Technology International (Cayman) Holding Limited, formerly Jiu Zun Digital Interactive Entertainment Group Holdings Limited, is an investment holding company mainly engaged in mobile games development and digital media operation business. The mobile game business mainly includes the development and operation of all kinds of mobile games, and its products mainly include multiplayer mobile game development and operation. The digital media business mainly includes digital media content distribution business, such as electronic magazines, comics and music. The Company mainly conducts its businesses in the domestic market.	889	0.00	(3.40)
14 September 2023	MOS House Group Limited	1653	MOS House Group Limited is an investment holding company mainly engaged in the retail of foreign-made ceramic tiles and sanitary ware in Hong Kong. The Company operates its business through two segments. The Retail segment is engaged in the sale of ceramic tile and sanitary ware products through retail or non-retail channels. Its tile products include quartz, ceramic and mosaic tiles. The Property Investment segment is engaged in the property investment business.	84	(4.23)	(3.41)

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Date of announcement	Company name	Stock code	Principal activities	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Premium/(Discount)	
					of the issue price to	the average closing price over the last five consecutive trading days prior to/including the date of the relevant agreement
					the closing price on the last trading day prior to/on the date of the relevant agreement	%
19 September 2023	Alibaba Pictures Group Limited	1060	Alibaba Pictures Group Ltd is an investment holding company principally engaged in the movie promotion and distribution. The Company operates its business through three segments. The Internet-based Promotion and Distribution segment engages in the operation of integrated online to offline (O2O) platform for the promotion and distribution of entertainment content, and the provision of online movie ticketing service to consumers and ticket issuance system to cinemas. The Content Production segment engages in the investment and production of entertainment content such as film and drama series both domestically and internationally. The Integrated Development segment provides professional services centered around copyright, ranging from financing, business placement, promotion and distribution to merchandising.	14,567	(5.50)	(0.30)
16 October 2023	Gome Finance Technology Co., Ltd	628	Gome Finance Technology Co., Ltd is a Hong Kong-based investment holding company principally engaged in the provision of financing services. The main businesses of the Company include the provision of pawn loans services, finance leasing services, commercial factoring services and financial consultancy services in the People's Republic of China (PRC), as well as the provision of money lending services in Hong Kong. Its pawn loan services include real estate mortgages and property pawn loans, among others. Its finance leasing services include guarantee loans, among others. Its factoring services include accommodation of funds, evaluation of commercial funds and credit risk guarantee, among others.	640	0.00	(2.68)
30 October 2023	China Rongzhong Financial Holdings Company Limited	3963	China Rongzhong Financial Holdings Company Limited is a Hong Kong-based investment holding company principally engaged in the provision of financial leasing services. It provides financial leasing services and financial advisory and consultancy services to its customers as value-added services. Its financial leasing services include direct finance leasing and sales and lease back services. It provides services to laser processing industry, plastics industry, industrial processing industry, textile and garments industry and hotel and leisure industry. The Company operates businesses in Hubei Province of China. Its subsidiaries include Rongzhong Capital Holdings Limited, Rongzhong International Finance Lease Holdings Limited and Rongzhong International Financial Leasing Co., Ltd	164	(9.52)	(9.09)

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Date of announcement	Company name	Stock code	Principal activities	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Premium/(Discount) of the issue price to		
					the closing price on the last trading day prior to/on the date of the relevant agreement	the average closing price over the last five consecutive trading days prior to/including the date of the relevant agreement	
31 October 2023	Vongroup Limited	318	Vongroup Limited is an investment holding company principally engaged in the business of technology and media. Together with subsidiaries, the Company operates business through six segments. The Technology and Media segment is involved in the provision of the media, fintech and entertainment and related technology services and products. The Property segment is involved in the rental of properties. The Food and Beverage segment is involved in the operation of casual food and beverage and related businesses. The Financial Services segment is involved in the consumer finance, moneylending and related activities. The Securities segment is involved in the investment of portfolio of securities. The Corporate Treasury Management segment is involved in the management of treasury activities.	72	(13.57)	(14.79)	
13 November 2023	Sanergy Group Limited	2459	Sanergy Group Ltd is a company mainly engaged in the manufacturing of graphite electrodes. The Company is a global manufacturer of ultra high power (UHP) graphite electrodes with a worldwide customer base in over 25 countries comprising major global electric arc furnace (EAF) steel manufacturers in Americas, Europe, the Middle East and Africa (EMEA), Asia Pacific (APAC) and the People's Republic of China (PRC) that sell their products to the automotive, infrastructure, construction, appliance, machinery, equipment and transportation industries. In order to better serve and support customers, the Company have sales presence in Americas, EMEA, APAC and the PRC.	5,990	(17.20)	(16.70)	
					Maximum	66.67	42.14
					Minimum	(23.83)	(24.70)
					Mean	(2.81)	(3.31)
					Median	(5.88)	(3.41)
23 May 2023	The Company	8083		2,450.0	22.45	20.81%	

As shown in the above table, the issue prices of the Consideration Shares Comparables to the respective (average) closing prices on the last trading day prior to/on the date of the relevant announcement, and for the last five consecutive trading days prior to/including the date of the relevant announcement are in a range of premium of 66.67% to discount of 24.70%, with mean discount between 2.81% and 3.31%, and median discount between 3.41% and 5.88%. The premiums of Issue Price to the closing price on the Last Trading Date of 22.45%, and last five consecutive trading days of 20.81% are substantially higher than the mean and median of the Consideration Shares Comparables.

Based on the above, we are of the view that the Issue Price is fair and reasonable when compared with the Consideration Shares Comparables.

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Comparison of Issue Price with Share price used in valuation of Sale Shares as at 31 January 2023

We observed that the Consideration is determined based on the valuation of the Sale Shares on 31 January 2023 (a principal observable input of which was the closing Share price of HK\$0.26 on that day), and according to the Directors, such valuation was the latest available information at the time of entering into of the Sale and Purchase Agreement. Meanwhile, the Issue Price of HK\$0.18 of the Consideration Shares was determined based on, among others, market price of Shares around the time of entering into of the Sale and Purchase Agreement in May 2023.

Although as explained in Table 1 above the fluctuations of Share price and the fluctuations of the resultant valuation of the Sale Shares are not directly proportionate nor have a linear relationship, the 30% discount of the Issue Price of HK\$0.18 to the HK\$0.26 Share price used for the said valuation for 31 January 2023 can generally be interpreted as not favourable to Independent Shareholders. In this regard, we recognise that the effect is partially offset by the premium of the Issue Price to the then prevailing Share price.

Comparison of the value of the Sale Shares and the value of the Consideration Shares

The market value of the Sale Shares as appraised by the Independent Valuer amounted to HK\$2.62 billion, HK\$1.74 billion, HK\$1.27 billion and HK\$0.91 billion on 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 respectively, in tandem with the decrease in price of Shares over the corresponding period.

While the Consideration Shares will be issued at the Issue Price of HK\$0.18 as determined at the time of the signing of the Sale and Purchase Agreement on 23 May 2023, we believe a comparison should be made based on the market value of the Consideration Shares at each of the corresponding valuation date. On this basis, we observed that the value of the 14,549,999,989 Consideration Shares would also similarly had decreased over the corresponding period, and a comparison of the movements of value of the Sale Shares and the value of the Consideration Shares are as follows:

	31 January 2023	31 March 2023	31 July 2023	31 August 2023
Closing Share price (HK\$ per Share)	0.26	0.199	0.161	0.134
Value of the Sale Shares (HK\$)	2.62 billion	1.74 billion	1.27 billion	0.91 billion
Value of the Consideration Shares (HK\$)	3.78 billion	2.90 billion	2.34 billion	1.95 billion

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From the above table, it shows that at each of the valuation date, the value of the Consideration Shares issued by the Company to acquire the Sale Shares was higher than the value of the Sale Shares. On the basis of this comparison, the number of Consideration Shares issued is not favourable to the Independent Shareholders.

Overall, the downward trend of the Share price over the period and the fact that the Share prices form the basis of the valuation of the Sale Shares, resulted in the decline in value of the Sale Shares over the period. The Consideration of HK\$2.62 billion is not reasonable when compared with the value of the Sale Shares at each of the subsequent valuation dates of 31 March 2023, 31 July 2023 and 31 August 2023.

The Consideration Shares will be issued at the Issue Price of HK\$0.18 which was determined at the time of the signing of the Sale and Purchase Agreement on 23 May 2023. Solely by considering the Issue Price relative to the closing Share price on the Last Trading Day and the average closing Share price over the last five consecutive trading days, the Issue Price is fair and reasonable when compared with the Consideration Shares Comparables.

We meanwhile noted the discrepancy between the Share price used in determining the value of Sale Shares on 31 January 2023 of HK\$0.26 (which in turn is used to determine the Consideration) and the Issue Price of HK\$0.18. This can generally be interpreted as not favourable to Independent Shareholders.

A further analysis of the value of the Sale Shares viz-a-viz the value of the Consideration Shares (based on prevailing Share price) on the valuation dates of 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 shows that at each of the above dates the value of Consideration Shares to be issued by the Company to the Vendors would be higher than the value of the Sale Shares. This is not favourable to the Independent Shareholders.

5.3 The SPA Specific Mandate

The Consideration Shares will be allotted and issued pursuant to the SPA Specific Mandate to be sought from the Independent Shareholders at the SGM. An application will be made to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares, when allotted and issued upon the Completion, will rank *pari passu* in all respects with the existing Shares in issue.

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5.4 The Company's rationale for conducting the Acquisition

We have assessed the Company's stated reasons for the Acquisition, which the Company believes can bring substantial benefits to the Shareholders. These are elaborated under the section headed "Reasons and Benefits of the Acquisition" in the "Letter from the Board". Our assessments on the Company's reasons are as follows:

(i) Our assessment of Company's rationale of "Unlocking value of Youzan Technology with significant growing business and financial prospects"

We observed that the business and revenue performance of Youzan Technology have shrunk since years 2021 and 2022 although it has been able to improve its overall gross profitability margin. We are of the view that whether it can take advantage of the potential business and financial prospects would depend on whether Youzan Technology is able to increase its business and revenue again amidst its efforts to rationalise its staff costs and research & development expenses.

(ii) Our assessment of Company's rationale of "Improving operation efficiency"

Based on our discussion with the Management, as a majority owner, the Company can decide on daily operational issues. That said, minority shareholders of Youzan Technology are being consulted on, among other, Youzan Technology's strategic plans, merger and acquisitions, formation of alliances and material changes in business plans. They also have access to Youzan Technology's operational and financial information, operational budgets and are provided with regular updates.

While we recognise that after the Acquisition when the Company becomes a 100% shareholder of Youzan Technology the Company will be able to more expediently and effectively make strategic, operational and management decisions such as devising more focused corporate strategic adjustment in a more timely manner and rationalisation of costs, we hold the view that the incremental benefits of the above is justifiable only if the Acquisition is conducted at an appropriate consideration.

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(iii) Our assessment of Company's rationale of "Broadening shareholder base"

As the Consideration will be satisfied by the issue of Consideration Shares to the Sellers, such share swap arrangement will result in the Sellers becoming Shareholders at the Company level. A number of Sellers are Independent Third Parties who currently do not own Shares. They include entities such as Baidu Hong Kong, which is part of Baidu Inc., a major global new economy technology company, and HKDWD Holdings, which is part of a major global private equity fund. HKDWD Holdings was previously a Shareholder with over 5% shareholding interest in the Company when it obtained Shares in return for selling part of its original stake in Youzan Technology to the Company in 2018.

The combination of an enlarged capitalisation from the issuance of the Consideration Shares, the introduction of high-profile Shareholders, coupled with a clarity of ownership of Youzan Technology (being the main business entity of the Company) theoretically should enhance the profile and awareness of the Company within the global investment communities. Notwithstanding this, given the persistent declining trend of Share price along with weak market sentiments since beginning of year 2023, it is unclear at this moment the extent of this benefit that can accrue to Independent Shareholders when compared against the negative effect of shareholding dilution resulted from the Acquisition.

5.5 Financial effects of the Acquisition

After the Acquisition, Youzan Technology will become a wholly-owned subsidiary of the Company.

(i) Effect on net assets

Based on the unaudited pro forma statement of financial position of the Enlarged Group as set out in Appendix IV to this Circular, which is prepared as if the Acquisition had completed on 30 June 2023 to illustrate the effect of the Acquisition, it is expected that the total assets of the Enlarged Group would remain at approximately RMB5,892.8 million, the total liabilities of the Enlarged Group would increase from approximately RMB4,854.1 million to approximately RMB4,861.8 million and the net assets of the Enlarged Group would decrease from approximately RMB1,038.7 million to approximately RMB1,031.0 million.

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(ii) Effect on earnings

Upon completion of the Acquisition, it is expected that the financial results of the Youzan Technology Group subsequent to the Acquisition will no longer be shared with non-controlling shareholders. Instead, the financial results of the Youzan Technology Group, as wholly-owned subsidiaries of the Company, will be solely attributable to the owners of the Company. The accumulated losses of the Youzan Technology Group prior to the Acquisition, which were previously attributable to non-controlling shareholders, will be transferred to the Enlarged Group's other reserves attributable to the owners of the Company without impacting the Enlarged Group's profit or loss. Furthermore, estimated transaction expenses amounting to RMB7,746,000 and Fee Shares amounting to RMB1,111,000 incurred by the Acquisition will be charged to the consolidated profit or loss of the Enlarged Group upon completion of the Acquisition.

As shown above, the Acquisition will result in a decrease in net assets and a larger loss to the Group on a pro forma basis after Completion. This stems from the fact that Youzan Technology is currently loss making and there are transaction expenses in conducting this Acquisition.

The above analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group would actually be after Completion. Further details of the financial effects of the Acquisition, assuming the completion thereof took place on 30 June 2023 with sufficient funding available for the Consideration, on the balance sheet of the Group upon Completion together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out in Appendix IV to this Circular.

5.6 Effects on the issuance of the Consideration Shares and the Fee Shares on the shareholding structure of the Company

As at the Latest Practicable Date, other than the 18,421,642,097 Shares in issue and 277,754,000 options (exercisable into 277,754,000 new Shares under the share option scheme adopted by the Company on 12 June 2019) in issue, the Company has no other convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code).

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For illustrative purposes only, assuming there is no other change to the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date up to and including the Completion Date and the date of grant of Awards under the Proposed Share Award Grant, set out below is the shareholding structure of the Company: (a) as at the Latest Practicable Date; (b) immediately after the issuance of the Fee Shares; (c) immediately after the issuance of the Consideration Shares and the Fee Shares; and (d) immediately after the grant of Awards under the Proposed Share Award Grant:

Name of the shareholders of the Company	As at the Latest Practicable Date (Note 1)		Immediately after the allotment and issuance of the Fee Shares (Note 2)		Immediately after the allotment and issuance of the Consideration Shares and the Fee Shares (Note 3)		Immediately after the grant of Awards under the Proposed Share Award Grant (Note 14)	
	Number of Shares held	Approximate shareholding %	Number of Shares held	Approximate shareholding %	Number of Shares held	Approximate shareholding %	Number of Shares held	Approximate shareholding %
Sellers								
Whitecrow Investment	1,440,601,703	7.82	1,440,601,703	7.82	5,744,205,768	17.42	5,744,205,768	17.42
V5.Cui Investment	241,885,127	1.31	241,885,127	1.31	710,553,962	2.15	710,553,962	2.15
Rory Huang (Note 12)	-	0.00	-	0.00	94,727,656	0.29	94,727,656	0.29
Youzan Teamwork	363,170,101	1.97	363,170,101	1.97	1,560,326,314	4.73	1,560,326,314	4.73
Qima Teamwork	-	0.00	-	0.00	1,906,330,379	5.78	-	-
Xincheng Investment	118,959,335	0.65	118,959,335	0.65	693,961,941	2.10	693,961,941	2.10
Baidu Hong Kong	-	0.00	-	0.00	317,712,161	0.96	317,712,161	0.96
Aves Capital	1,123,478	0.01	1,123,478	0.01	390,813,855	1.19	390,813,855	1.19
HKDWD Holdings	-	0.00	-	0.00	1,357,941,446	4.12	1,357,941,446	4.12
Ralston Global	-	0.00	-	0.00	150,484,552	0.46	150,484,552	0.46
Hangzhou San Ren Yan Xing	-	0.00	-	0.00	150,484,552	0.46	150,484,552	0.46
Franchise Fund	-	0.00	-	0.00	549,170,212	1.67	549,170,212	1.67
Happy Zan	-	0.00	-	0.00	59,700,173	0.18	59,700,173	0.18
Tembusu HZ	100,000,000	0.54	100,000,000	0.54	1,716,882,271	5.21	1,716,882,271	5.21
Matrix Partners China III	180,000,000	0.98	180,000,000	0.98	863,306,288	2.62	863,306,288	2.62
Matrix Partners China III-A	20,000,000	0.11	20,000,000	0.11	95,922,926	0.29	95,922,926	0.29
GCYZ Holdings	257,735,849	1.40	257,735,849	1.40	367,321,948	1.11	367,321,948	1.11
GCQM Holdings	-	0.00	-	0.00	543,629,178	1.65	543,629,178	1.65
Sellers	2,723,475,593	14.78	2,723,475,593	14.78	17,273,475,582	52.39	15,367,145,203	46.60
Mr. Zhu (Note 4)	28,000,000	0.15	28,000,000	0.15	28,000,000	0.08	28,000,000	0.08
Mr. Cui (Note 5)	8,900,000	0.05	8,900,000	0.05	8,900,000	0.03	8,900,000	0.03
Mr. Yu (Note 6)	13,848,000	0.08	13,848,000	0.08	13,848,000	0.04	13,848,000	0.04
Ms. Ying (Note 6)	852,000	0.00	852,000	0.00	852,000	0.00	852,000	0.00
Mr. Zhou Kai (Note 7)	1,000,000	0.01	1,000,000	0.01	1,000,000	0.00	1,000,000	0.00
Sellers and parties acting in concert with it	2,776,075,593	15.07	2,776,075,593	15.07	17,326,075,582	52.54	15,419,745,203	46.76
The Trustee (in respect of Shares held on behalf of the non-Independent Shareholders) (Notes 9 and 11)	38,815,021	0.21	38,815,021	0.21	38,815,021	0.21	38,815,021	0.21
Dr. Fong Chi Wah (Note 8)	1,000,000	0.01	1,000,000	0.01	1,000,000	0.00	1,000,000	0.00
Mr. Li Shaojie (Note 8)	1,000,000	0.01	1,000,000	0.01	1,000,000	0.00	1,000,000	0.00
Non-Independent Shareholders	2,816,890,614	15.29	2,816,890,614	15.29	17,366,890,603	52.66	15,460,560,224	46.88
Oriental Patron	-	-	6,666,666	0.04	6,666,666	0.02	6,666,666	0.02
The Trustee (in respect of Shares held on behalf of the Independent Shareholders) (Notes 10 and 11)	563,934,148	3.06	563,934,148	3.06	563,934,148	1.71	2,470,264,527	7.49
							(Note 15)	
Other Shareholders	15,040,817,335	81.65	15,040,817,335	81.62	15,040,817,335	45.61	15,040,817,335	45.61
Independent Shareholders	15,604,751,483	84.71	15,611,418,149	84.71	15,611,418,149	47.34	17,517,748,528	53.12
Total	18,421,642,097	100.00	18,428,308,763	100.00	32,978,308,752	100.00	32,978,308,752	100.00

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. The percentage was calculated on the basis of 18,421,642,097 Shares in issue as at the Latest Practicable Date and is rounded to the nearest 2 decimal places. Numbers may not add up to 100% due to rounding.
2. The percentage was calculated on the enlarged issued share capital of the Company as a result of the issue of the Fee Shares comprising a total of 18,428,308,763 Shares and is rounded to the nearest 2 decimal places. Numbers may not add up to 100% due to rounding. The allotment and issuance of the Fee Shares are not contingent upon the status or development of the Acquisition and transactions contemplated thereunder.
3. The percentage was calculated on the enlarged issued share capital of the Company as a result of the issue of the Consideration Shares and the Fee Shares comprising a total of 32,978,308,752 Shares and is rounded to the nearest 2 decimal places. Numbers may not add up to 100% due to rounding.
4. As at the Latest Practicable Date, Mr. Zhu holds the Shares on his own and through Whitecrow Investment. In addition, Mr. Zhu held share options issued by the Company for which (a) 100,000,000 new Shares may be issued at the exercise price of HK\$1.00 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 pursuant to the terms and conditions of such share options.
5. As at the Latest Practicable Date, Mr. Cui holds the Shares on his own and through V5.Cui Investment, a company wholly-owned by him; in addition, Mr. Cui held share options issued by the Company for which (a) 20,000,000 new Shares may be issued at the exercise price of HK\$0.90 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 pursuant to the terms and conditions of such share options.
6. Each of Mr. Yu and Ms. Ying is an executive Director. As at the Latest Practicable Date, Mr. Yu holds share options issued by the Company for which (a) 15,000,000 new Shares may be issued at the exercise price of HK\$0.90 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 pursuant to the terms and conditions of such share options. In addition, as at the Latest Practicable Date, Ms. Ying holds share options issued by the Company for which (a) 15,000,000 new Shares may be issued at the exercise price of HK\$0.90 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 per Share pursuant to the terms and conditions of such share options.
7. As at the Latest Practicable Date, Mr. Zhou Kai holds 6% in Youzan Teamwork and as a result is presumed to be acting in concert with the Sellers. In addition, as at the Latest Practicable Date, Mr. Zhou Kai held share options issued by the Company for which (a) 10,000,000 new Shares may be issued at the exercise price of HK\$0.75 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 per Share pursuant to the terms and conditions of such share options, and Mr. Zhou Kai also had interest in certain awarded Shares representing 10,000,000 granted Shares under the 2018 Share Award Scheme as further detailed in note 9 below.

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8. Each of Dr. Fong Chi Wah and Mr. Li Shaojie is an independent non-executive Director and is regarded as having an interest in the Acquisition under the Takeovers Code and is therefore required to abstain from voting on the relevant resolutions approving the Acquisition and the Whitewash Waiver at the SGM.
9. Such Shares represent the Shares underlying the awards granted to certain non-Independent Shareholders under the 2018 Share Award Scheme, which have been vested in the relevant individuals and were currently held by the Trustee on their behalf as at the Latest Practicable Date, comprising (a) 10,000,000 Shares held on behalf of Mr. Zhou Kai; (b) 8,215,021 Shares held on behalf of Mr. Zhu Kun, who is the sibling of Mr. Zhu and presumed to be acting in concert with the Sellers as a result; and (c) 20,600,000 Shares held on behalf of Mr. Huan Fang, who holds 6% in Youzan Teamwork as at the Latest Practicable Date and therefore is presumed to be acting in concert with the Sellers. For the avoidance of doubt, such Shares will not be counted as Shares held by the Independent Shareholders and the Trustee holding such Shares shall not be entitled to vote on the relevant resolutions approving the Acquisition and the Whitewash Waiver.

As at the Latest Practicable Date, (i) Mr. Zhu Kun also held share options issued by the Company for which 7,500,000 new Shares may be issued at the exercise price of HK\$0.75 per Share; and (ii) Mr. Huan Fang also held share options issued by the Company for which (a) 11,252,000 new Shares may be issued at the exercise price of HK\$0.75 per Share and (b) 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 per Share pursuant to the terms and conditions of such share options.
10. Such Shares represent the Shares which are held by the Trustee for the purposes of satisfying unvested awards involving 66,843,440 underlying Shares (representing approximately 0.36% of the total issued Shares as at the Latest Practicable Date) under the 2018 Share Award Scheme or vested awards involving 494,430,592 underlying Shares (representing approximately 2.68% of the total issued Shares as at the Latest Practicable Date) under the 2018 Share Award Scheme and held on behalf of the Independent Shareholders. For the avoidance of doubt, the Trustee shall not exercise the voting rights attached to the unvested Shares pursuant to the relevant trust deed for the 2018 Share Award Scheme.
11. Pursuant to the relevant trust deed of the 2018 Share Award Scheme, the Trustee shall not exercise the voting rights in respect of awarded Shares held under the trust which have not been vested in the relevant grantees. After the awarded Shares are vested, the relevant grantee shall be entitled to exercise the voting rights in respect of such Shares through giving instructions to the Trustee. As part of an arrangement implemented by the Company to ensure that the flow of sale proceeds to the relevant grantees (who had received the awards under the 2018 Share Award Scheme and who are located in the PRC) is in compliance with relevant foreign exchange control laws and regulations in the PRC, the awarded Shares are held by the Trustee for and on behalf of the relevant grantees and the Trustee will dispose of the Shares as directed by such grantees and will facilitate the transfer of the sale proceeds into the PRC for onward transfer to such grantees. There is no limitation period within which the disposal of vested Shares held on behalf of the relevant grantees by the Trustee should be made.
12. Mr. Huang is the sole ultimate beneficial owner of Rory Huang and presumed to be acting in concert with the Sellers as a result. As at the Latest Practicable Date, Mr. Huang holds share options for which 1,000,000 new Shares may be issued at the exercise price of HK\$0.385 per Share pursuant to the terms and conditions of such share options.

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13. This table shows details of the Shareholders who are entitled to vote at the SGM and those who are required to abstain from voting at the SGM (i.e. the non-Independent Shareholders) in respect of the relevant resolutions approving the Acquisition and the Whitewash Waiver. This table does not however show details of the Shareholders who are considered to be public and those who are considered not to be public.
14. The figures are calculated on the assumption that the Scheme Specific Mandate has been approved at the SGM, the Proposed Transfer has been completed and the Trustee has not transferred or disposed of the Shares underlying the relevant Awards which will be immediately vested in the relevant Grantees under the Proposed Share Award Grant.
15. This represents an aggregate of the number of Shares as described under note 10 above and the 1,906,330,379 Shares which will be transferred from Qima Teamwork to the Trustee under the Proposed Transfer for the purpose of satisfying the Awards granted under the Proposed Share Award Grant after Completion.

It is observed that the shareholding of Independent Shareholders in the Company will be diluted from 84.71% to 47.34%. Such dilution in itself is disadvantageous to the Independent Shareholders.

5.7 Intention of the Sellers in respect of the Group

Upon Completion, the Sellers (i) intend for the Group to continue its existing business, and (ii) have no intention to introduce any major changes in the Group's business (including any redeployment of the fixed assets of the Group) or the continued employment of the employees of the Group other than in the ordinary course of business of the Group.

Each of the Sellers has severally undertaken to the Company that, unless with the prior written approval from the Company, it shall not directly dispose any of its Consideration Shares within 6 months from the Completion Date, except for (a) the transfer of any or all of its Consideration Shares to its wholly-owned subsidiary subject to certain limitations including, among other things, the relevant subsidiary giving (and the relevant Seller procuring such subsidiary to give) an undertaking to the Company that it will be bound by the obligations under the Sale and Purchase Agreement, and if it ceases to be a wholly-owned subsidiary of the relevant Seller, it will transfer all of the Consideration Shares to the relevant Seller or another wholly owned subsidiary of such Seller; or (b) the creation of any encumbrances on the Consideration Shares for the purpose of obtaining a bona fide commercial loan from an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), provided that such encumbrances will not result in the Consideration Shares being directly or indirectly transferred to any third party.

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5.8 Section summary

Overall, the movements of Share price have resulted in changes in the valuation of the Sale Shares, and changes in the value of the Consideration Shares notwithstanding a fixed Issue Price.

Below are the key factors which we believe are relevant to the considerations of the Independent Shareholders.

- The valuation methodology adopted in the Valuation Report uses prevailing Share price as a principal observable input. Hence, valuation of Sale Shares will continuously change during the protracted timeline.
- The Consideration of HK\$2.62 billion was fixed when Sale and Purchase Agreement was signed on 23 May 2023, based on valuation of Sale Shares as at 31 January 2023, being the latest available information at that time according to the Directors. To pay for the Consideration, a fixed number of 14,549,999,989 Consideration Shares at a fixed Issue Price of HK\$0.18 per Share will be issued to the Sellers (instead of, for example, cash). While issued at a fixed Issue Price, the prevailing market value of Consideration Shares had changed along with changes in Share price.
- The value of the Sale Shares had declined and the Consideration of HK\$2.62 billion is not reasonable when compared with the prevailing value of the Sale Shares.
- Comparing the value of the Sale Shares and the value of the Consideration Shares at each of the valuation date of 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023; the value of the Consideration Shares issued by the Company was higher than the value of the Sale Shares, rendering this not favourable to the Company and the Independent Shareholders.
- The Independent Shareholders' shareholding interests in the Company will be diluted to 47.3% as a result of issuance of Consideration Shares, which in itself is not favourable to the Independent Shareholders.
- While we recognise there are qualitative benefits such as further alignment of interests, more expedient decision making and broadening of shareholder base, we believe these incremental benefits are justifiable only if the Acquisition is conducted at an appropriate consideration.

We have further scrutinised the valuation of the Sale Shares and the value of the Consideration Shares based on prevailing and latest market information.

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In this respect, with Share price at HK\$0.114 per Share as at the Latest Practicable Date, the value of the Sale Share would likely have further declined after the valuation on 31 August 2023. We have also observed that the declining trend of Share price had persisted, with Share price as at the Latest Practicable Date, while having rebounded slightly from its lowest point, remained significantly below the levels in early part of 2023. We have also considered the spate of negative developments which have heightened the macro financial market and economic risks of the Acquisition from the point of view of Independent Shareholders. Reflecting the weak financial markets in Hong Kong and the PRC, both Hang Seng Index and Shanghai Stock Exchange Composite Index languished at their year-to-date low levels as at the Latest Practicable Date. Meanwhile, economic outlook of the PRC remains precarious, with the International Monetary Fund revising down in October 2023 its PRC growth forecast to 5% for 2023 and 4.2% for 2024. We believe the risks and adverse effects of the above manifest themselves in the current weak market performance of the Share price.

Having weighed the above, we are of the view that the prevailing depressed valuation of the Sale Shares relative to the Consideration of HK\$2.62 billion and the prevailing value of the Consideration Shares renders the terms of the Sale and Purchase Agreement not fair and reasonable to the Independent Shareholders. While it is on normal commercial terms, the Acquisition is not in the interests of the Company and the Shareholders as a whole at this juncture.

6. Whitewash Waiver

As at the Latest Practicable Date, as disclosed in the paragraph headed “Effect of the issuance of the Consideration Shares and the Fee Shares on the shareholding structure of the Company” in the “Letter from the Board”, the Sellers and the parties acting in concert with any of them hold in aggregate approximately 15.07% of the issued Shares in the Company as at the Latest Practicable Date.

Upon Completion, the aggregate shareholding interest of the Sellers and parties acting in concert with any of them in the Company is expected to increase to approximately 52.54% of the total issued share capital of the Company as enlarged by the issuance of all Consideration Shares and the Fee Shares. As a result, it will trigger an obligation of the Sellers to make a mandatory general offer under Rule 26 of the Takeovers Code for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by the Sellers and parties acting in concert with them upon Completion, unless the Whitewash Waiver is granted by the Executive.

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The Sellers have made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensation from Rule 26 of the Takeovers Code. Pursuant to the Takeovers Code, the Whitewash Waiver will be conditional on, among other things, the approval of the Acquisition at the SGM by way of poll in accordance with the requirements of the Takeovers Code. Save for the Sellers and parties acting in concert with them, no other Shareholder is involved or interested in the Acquisition and/or the Whitewash Waiver, and hence, is required to abstain from voting in favour of the proposed resolution(s) approving the Acquisition and/or the Whitewash Waiver at the SGM. The Whitewash Waiver, if granted by the Executive, would be subject to, amongst others, (a) the Whitewash Waiver being approved by at least 75% of the independent votes cast in person or by proxy at the SGM by the Independent Shareholders; and (b) the Acquisition being approved by more than 50% of the independent votes cast in person or by proxy at the SGM by the Independent Shareholders.

Based on our analysis of the Acquisition above, we consider that the Acquisition is not in the interests of the Company and the Independent Shareholders as a whole. As such, we are of the view that the approval of the Whitewash Waiver, which is a pre-requisite for the Acquisition, is not fair and reasonable so far as the Independent Shareholders are concerned and not in the interests of the Company and the Shareholders as a whole.

7. The Youzan Technology Share Award Plan A

We refer to the disclosures in the Announcement and the section headed “Proposed Share Award Grant” in the Letter from the Board. In light of the Acquisition, Youzan Technology had originally planned to make grants under the Youzan Technology Share Award Plan A to its eligible participants (who are Shareholders) which, if materialised, may constitute a special deal under Rule 25 of the Takeovers Code. The special deal would have been conditional upon, amongst others, (i) the independent financial adviser stating its opinion that the proposed terms of the aforesaid grant are fair and reasonable; (ii) the passing of an ordinary resolution by the relevant disinterested Shareholders at the SGM to approve the aforesaid grant; and (iii) the grant of consent under Rule 25 of the Takeovers Code from the Executive in respect of the aforesaid grant. We note that (i) as at the Latest Practicable Date, the Board proposed to grant a total of 106,428,391 Awards to 401 Grantees (who are not existing Shareholders) under the Youzan Technology Share Award Plan A, subject to Completion taking place and the acceptance of the Awards by the Grantees; (ii) no grant under the Proposed Share Award Grant will be subject to approval by the Shareholders; (iii) according to the Management, none of the Grantees is a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or an associate (as defined in the Listing Rules) of any of them; and (iv) none of the Grantees is an existing Shareholder. On this basis, there is no special deal under Rule 25 of the Takeovers Code and the Company is not required to obtain (i) any independent financial adviser’s view in this respect; (ii) the relevant disinterested Shareholders’ approval in this respect at the SGM; and (iii) the Executive’s consent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATIONS

(a) The Acquisition

Having weighed, in particular, the following:

- (i) the valuation of the Sale Shares to be acquired is lower than the Consideration of HK\$2.62 billion as well as the value of the Consideration Shares to be issued by the Company as consideration of the Acquisition at each of the valuation date of 31 March 2023, 31 July 2023 and 31 August 2023;
- (ii) the declining trend of Share price had persisted and the valuation of the Sale Shares would likely have further decreased based on Share price on the Latest Practicable Date; meanwhile the macro financial market and economic risks of the Acquisition have heightened;
- (iii) the Independent Shareholders' shareholding interests in the Company will be significantly diluted; and
- (iv) we are unable to conclude whether it is appropriate to prepare the consolidated financial statements of Youzan Technology Group on a going concern basis,

we are of the view that the Acquisition, which is not in the ordinary and usual course of business of the Company, is not fair and reasonable to the Independent Shareholders. The terms of the Sale and Purchase Agreement, while on normal commercial terms, is not fair and reasonable and not in the interests of the Company and the Shareholders as a whole. The issuance of the Consideration Shares under the SPA Specific Mandate is therefore also not fair and reasonable. Accordingly, we recommend the Independent Shareholders and the GEM LR Independent Board Committee to advise the Independent Shareholders to vote against the relevant resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and the Acquisition contemplated thereunder as well as the issuance of the Consideration Shares under the SPA Specific Mandate.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) The Whitewash Waiver

Having taken into account our conclusion and recommendation on the Acquisition above, we are of the view that the Whitewash Waiver is not fair and reasonable so far as the Independent Shareholders are concerned and is not in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and the Independent Board Committee to advise the Independent Shareholders to vote against the relevant resolution to be proposed at the SGM to approve the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Jeanny Leung
Partner

Chang Sean Pey
Partner

*Ms. Jeanny Leung (“**Ms. Leung**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*

*Mr. Chang Sean Pey (“**Mr. Chang**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 25 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for the year ended 31 December 2020 (the “**2020 Financial Statements**”) are set out from pages 158 to 370 in the annual report for the year ended 31 December 2020, which is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.youzan.com) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/gem/2021/0331/2021033100045.pdf>

Key audit matter of the Group for the year ended 31 December 2020 are set out from pages 150 to 152 in the annual report for the year ended 31 December 2020.

The audited consolidated financial statements of the Group for the year ended 31 December 2021 (the “**2021 Financial Statements**”) are set out from pages 141 to 354 in the annual report for the year ended 31 December 2021, which is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.youzan.com) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/gem/2022/0330/2022033002240.pdf>

Key audit matter of the Group for the year ended 31 December 2021 are set out from pages 134 to 136 in the annual report for the year ended 31 December 2021.

The audited consolidated financial statements of the Group for the year ended 31 December 2022 (the “**2022 Financial Statements**”) are set out from pages 150 to 350 in the annual report for the year ended 31 December 2022, which is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.youzan.com) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/gem/2023/0329/2023032900411.pdf>

Key audit matter of the Group for the year ended 31 December 2022 are set out from pages 142 to 144 in the annual report for the year ended 31 December 2022.

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2022 (the “**20221H Financial Statements**”) are set out from pages 3 to 28 in the interim report for the six months ended 30 June 2022, which is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.youzan.com) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/gem/2022/0811/2022081100990.pdf>

The unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2022 (the “**2022Q3 Financial Statements**”) are set out from pages 3 to 17 in the quarterly report for the nine months ended 30 September 2022, which is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.youzan.com) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/gem/2022/1115/2022111500009.pdf>

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2023 (the “**20231H Financial Statements**”) are set out from pages 3 to 30 in the interim report for the six months ended 30 June 2023, which is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.youzan.com) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/gem/2023/0811/2023081101010.pdf>

The unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2023 (the “**2023Q3 Financial Statements**”) are set out from pages 3 to 17 in the quarterly report for the nine months ended 30 September 2023, which is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.youzan.com) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/gem/2023/1109/2023110900578.pdf>

The 2020 Financial Statements, 2021 Financial Statements, 2022 Financial Statements, 20221H Financial Statements, 2022Q3 Financial Statements, 20231H Financial Statements and 2023Q3 Financial Statements (but not any other parts of the relevant annual, interim or quarterly reports) are incorporated by reference into this Circular.

A. Summary of financial information of the Group

The following is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2020, 2021 and 2022, the six months ended 30 June 2022 and 2023 and the nine months ended 30 September 2022 and 2023 as extracted from the annual reports, interim reports or quarterly reports of the Company for the relevant year or period.

Save as disclosed under the paragraph headed “Historical Material Uncertainty Related to Going Concern” below, the auditor’s reports from RSM Hong Kong in respect of the Group’s audited consolidated financial statements for the three years ended 31 December 2020, 31 December 2021 and 31 December 2022 respectively did not contain other modified opinion, emphasis of matter or material uncertainty related to going concern.

	For the nine months ended 30 September		For the six months ended 30 June		For the year ended 31 December		
	2023	2022	2023	2022	2022	2021	2020
	(Unaudited)	(Unaudited) (Restated)	(Unaudited)	(Unaudited) (Restated)	(Audited)	(Audited)	(Audited)
Revenue	1,082,492	1,098,851	724,294	729,275	1,496,977	1,569,991	1,820,723
Cost of sales	(334,163)	(408,049)	(222,898)	(287,757)	(535,055)	(617,728)	(738,639)
Gross profit	748,329	690,802	501,396	441,518	961,922	952,263	1,082,084
Investment and other income	44,410	37,233	30,429	26,965	49,517	63,786	76,937
Other gains and losses, net	13,472	18,677	10,778	3,297	36,100	(2,186,924)	1,569
Selling expenses	(496,466)	(649,797)	(331,075)	(474,620)	(830,816)	(959,106)	(781,882)
Administrative expenses	(115,825)	(249,872)	(69,869)	(195,039)	(293,043)	(335,312)	(241,438)
Equity-settled share-based payments	(8,691)	(23,276)	(6,452)	(22,516)	(88,068)	(53,130)	(62,197)
Amortisation of intangible assets	(60,623)	(61,000)	(40,563)	(40,407)	(81,648)	(124,964)	(193,143)
Other operating expenses	(156,341)	(273,254)	(105,909)	(213,310)	(312,268)	(609,294)	(445,165)
Loss from operations	(31,735)	(510,487)	(11,265)	(474,112)	(558,304)	(3,252,681)	(563,235)
Finance costs	(20,749)	(18,196)	(13,736)	(11,039)	(25,631)	(22,642)	(27,886)
Share of losses of associates, net	-	(1,426)	-	(2,424)	(1,135)	(217)	(1,161)
Fair value change in financial assets at fair value through profit and loss (“FVTPL”)	2,482	-	2,482	-	(73,337)	23,758	-
Loss before tax	(50,002)	(530,109)	(22,519)	(487,575)	(658,407)	(3,251,782)	(592,282)
Income tax credit/(expense)	1,953	8,890	4,103	2,487	12,647	(41,238)	46,629
Loss for the period/year	(48,049)	(521,219)	(18,416)	(485,088)	(645,760)	(3,293,020)	(545,653)
Attributable to:							
Owners of the Company	16,162	(265,612)	18,114	(264,287)	(303,089)	(2,509,498)	(294,671)
Non-controlling interests	(64,211)	(255,607)	(36,530)	(220,801)	(342,671)	(783,522)	(250,982)
	(48,049)	(521,219)	(18,416)	(485,088)	(645,760)	(3,293,020)	(545,653)
Earnings/(Loss) per share (expressed in RMB per share)							
Basic	0.0009	(0.0154)	0.0010	(0.0153)	(0.0174)	(0.1466)	(0.0180)
Diluted	N/A	N/A	0.0010	N/A	N/A	N/A	N/A

For each of the three years ended 31 December 2020, 2021 and 2022, the six months ended 30 June 2022 and 2023 and the nine months ended 30 September 2022 and 2023, no dividend or dividend per share has been declared by the Group. Save as disclosed above, there are no other items of income or expenses which are material for each of the three years ended December 31, 2020, 2021 and 2022, the six months ended 30 June 2022 and 2023 and the nine months ended 30 September 2022 and 2023.

Historical Material Uncertainty Related to Going Concern

RSM Hong Kong is the auditor of the Group for the three years ended 31 December 2022.

For year ended 31 December 2020, unmodified report was issued by RSM Hong Kong for the consolidated financial statements of the Group.

As disclosed in the auditor's reports from RSM Hong Kong in respect of the Group's audited consolidated financial statements for the year ended 31 December 2021, the Group had incurred a loss of approximately RMB3,293,020,000 for the year ended 31 December 2021 and the Group had net current liabilities of approximately RMB193,572,000 as at 31 December 2021. 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.

As disclosed in the auditor's reports from RSM Hong Kong in respect of the Group's audited consolidated financial statements for the year ended 31 December 2022, the Group had incurred a loss of approximately RMB645,760,000 for the year ended 31 December 2022 and the Group had net current liabilities of approximately RMB300,195,000 as at 31 December 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.

2. INDEBTEDNESS STATEMENT OF THE GROUP

Bank loan

As at 30 September 2023, bank loan amounted to approximately RMB480,448,000 of which approximately RMB480,000,000 is principal and RMB448,000 is interest payable to the bank.

The bank loan is denominated in RMB, secured and guaranteed by assets pledged by a related company 杭州起碼科技有限公司.

Lease liabilities

As at 30 September 2023, the Group's lease liabilities amounted to approximately RMB101,561,000 in relation to the remaining lease terms of certain lease contracts are unsecured and unguaranteed.

Loan from non-controlling shareholders of a subsidiary

As at 30 September 2023, loan from a non-controlling shareholder of a subsidiary is amounted to approximately RMB190,000. The loan is unsecured, unguaranteed, interest-free, and denominated in Canadian dollar.

Contingent liabilities

At 30 September 2023, the Group has the following unresolved legal disputes:

- A trademark infringement dispute for which the plaintiff claimed for total economic loss and legal costs of RMB1.5 million from Hangzhou Youzan and 2 other defendants.
- Other small unresolved legal disputes totalling RMB0.16 million of compensations.

Except as disclosed above, as of 30 September 2023, the Group did not have other debt securities issued and outstanding or authorised or otherwise created but unissued, mortgage, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

Our Directors have confirmed that there is no material change in our indebtedness since 30 September 2023 and up to the Latest Practicable Date.

3. MATERIAL CHANGE

As at the Latest Practicable Date, save as disclosed in (1) the quarterly report of the Company for the nine months ended 30 September 2023 during which (a) the Group recorded selling expenses of approximately RMB496,466,000 (nine months ended 30 September 2022: approximately RMB649,797,000), representing a period-on-period decrease of approximately 23.6%; (b) the Group recorded loss from operations of approximately RMB31,735,000, whereas loss from operations of approximately RMB510,487,000 was recorded for the nine months ended 30 September 2022, representing a period-on-period significant decrease of approximately 93.8%; and (c) the Group recorded loss for the period of approximately RMB48,049,000 for the nine months ended 30 September 2023, whereas loss for the period of approximately RMB521,219,000 was recorded for the nine months ended 30 September 2022, representing a period-on-period significant decrease of approximately 90.8%; (d) the number of paying merchants of the Group as at 30 September 2023 was 66,628, whereas the number of paying merchants of the Group was 83,439 as at 31 December 2022 (as stated in 2022 annual report of the Company), representing a decrease of approximately 20.2%; and (e) the average GMV of a single merchant was approximately RMB1,120,000 for the nine months ended 30 September 2023, representing an increase of over 35.0% period-on-period and (2) the interim report of the Company for the six months ended 30 June 2023 during which (a) the Group recorded balances with central bank of approximately RMB3,045,717,000 (RMB3,592,688,000 as at 31 December 2022); (b) the Group recorded current assets of approximately RMB4,335,018,000 (RMB4,951,702,000 as at 31 December 2022); (c) the Group recorded settlement obligations of approximately RMB3,194,120,000 (RMB3,702,560,000 as at 31 December 2022); (d) the Group recorded current liabilities of approximately RMB4,143,024,000 (RMB5,251,897,000 as at 31 December 2022); and (e) the Group recorded net current assets of approximately RMB191,994,000 as at 30 June 2023, whereas it recorded net current liabilities of approximately RMB300,195,000 as at 31 December 2022, the Directors confirmed that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to and including the Latest Practicable Date.

4. WORKING CAPITAL SUFFICIENCY

The accountants' report of Youzan Technology Group in Appendix II to this Circular contains a disclaimer of opinion relating to Youzan Technology Group's going concern due to the existence of multiple uncertainties, including:

- a) the Youzan Technology Group had incurred losses and cash outflows from operating activities during the Relevant Periods;
- b) as of 30 June 2023, Youzan Technology Group had net current liabilities and net liabilities of approximately RMB118.1 million and RMB941.6 million respectively; and

- c) Youzan Technology Group will need to repay a loan from the Company (the “**Loan**”) on 31 December 2024 (“**Loan Maturity Date**”) which is estimated at principal and accrued interests of approximately USD96,109,000 (equivalent to approximately RMB695,922,000 at the exchange rate as of 30 June 2023) by then.

The above events and circumstances indicate the existence of material uncertainties which may cast significant doubt over the Group’s ability to continue as a going concern.

In view of the above, the Directors have carefully considered the Group’s future working capital, operating position and available sources of financing so as to assess whether the Group has sufficient working capital and sources of financing to ensure that it can settle its debts when the fall due and continue as going concern for 12 months from the date of this Circular. The Directors had considered a series of factors and plans to mitigate pressure on working capital, including but not limited to:

1. the contract liabilities of RMB585,885,000 as at 30 June 2023 are deferred income in nature and would not require settlement in form of cash resources;
2. cash flow forecasts of Youzan Technology Group which forecast that the Youzan Technology Group will have sufficient financial resources to meet its obligations as and when they fall due in the foreseeable future, provided that the Loan can be successfully extended or capitalised. The forecasts incorporate plans of the Directors of the Company and management of the Youzan Technology Group (collectively, the “**Management**”) to control operating costs (such as staff costs, promotion and advertising expenses);
3. a refinancing of the bank borrowings of Youzan Technology Group with loan maturity extended to May 2025; and
4. written confirmation obtained from the directors of the Company on the efforts on the part of the directors of the Company. These include the scenarios that should the Youzan Technology Group be unable to repay the Loan at the Loan Maturity Date by its internal resources, the directors of the Company will make their best endeavour to extend the Loan Maturity Date or capitalise the Loan on or before the Loan Maturity Date, subject to the approval of independent shareholders of the Company and other procedures and approvals required under the GEM Listing Rules.

Notwithstanding the above, significant uncertainties exist as to whether the Group can achieve the abovementioned forecasts and plans of Management, which are subject to significant multiple uncertainties, including but not limited to the decision of the independent shareholders of the Company in special general meeting to approve the contemplated extension of capitalisation of the Loan before the Loan Maturity Date. As at the date of this Circular, the Company has not yet started the necessary procedures to convene the aforementioned special general meeting of independent shareholders.

Should the Group fail to achieve the abovementioned Management's forecasts and plans, and in particular, obtain the approval of the independent shareholders of the Company in special general meeting for the contemplated extension or capitalization of the Loan before the Loan Maturity Date, and the Group is unable to take other measures to mitigate the above situation, the Group will not have sufficient working capital for its requirements at least the next 12 months from the date of this Circular.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Following Completion, Youzan Technology will become a direct wholly-owned subsidiary of the Company which is held as to 100% by the Company, and Youzan Technology's financial results will continue to be consolidated into those of the Company. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this Circular, the unaudited pro forma net assets of the Enlarged Group immediately upon Completion would be approximately HK\$1,031.0 million. The Company will continue to provide full financial support to Youzan Technology Group, either by way of loan capitalization or loan extension, subject to shareholders' approval (if necessary). If the Company were to capitalise or extend the loan that it provided to Youzan Technology Group, it is not expected to negatively affect the liquidity and operation of the Enlarged Group as the liquidity and operation of the Enlarged Group will have the support of, amongst others, future dividend from the subsidiaries within the Enlarged Group.

Following Completion, the Enlarged Group will continue to commit to providing online and offline commerce solutions which also known as SaaS (Software as a Service) and various payment services for merchants in the PRC.

The Enlarged Group will continue to provide 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 and Youzan Promotion. The Enlarged Group will also continue to 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. The Enlarged Group will offer a wide variety of cloud-based commerce services to merchants through the subscription solutions, a suite of SaaS products such as Youzan WeiMall, Youzan Retail, Youzan Chain, Youzan Beauty and Youzan Education. In addition, leveraging Youzan Cloud platform and the PaaS capabilities, the Enlarged Group also provide customised services for merchants and offer applications by third-party developers on Youzan App Market. The Enlarged Group will also continue to 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 Worry-free Shopping, Youzan Distribution, and Youzan Promotion.

Through "private domain operation solutions" which has been upgraded in the first half of 2022, the Enlarged Group will help customers to make plans and strategic priorities for private domain business based on the customer's overall business planning and phased business

challenges, and provide a suitable portfolio of products and services to help customers who are treasuring private domain to create incremental value and achieve digital upgrades. The new “private domain operation model” is consumer-centered, which opens up the consumer journey of “connection, reach, conversion and loyalty”. It clarifies the value creation, key indicators and key actions of each step to help customers opening up online and offline business scenario and improve consumers’ end-to-end experience.

The Enlarged Group will divide the core customer into three categories: content monetization, direct-to-consumer brand and store digitization. According to the respective characteristics and challenges of these three categories of customers, the Enlarged Group will continue to provide them with comprehensive solutions based on their industry attributes, development stages and business goals. Sales teams of the Enlarged Group will be more focused on the precise expansion of target customers, and take into account the specific business scenarios of customers to promote and sell solutions that match their demands.

For e-commerce customers, the Enlarged Group will focus on the four core scenarios of distribution, community, membership and live streaming to develop e-commerce private domain operation solutions through offering product and service portfolios. For store customers, the Enlarged Group will focus on the scenario of integrating online and offline operations to develop store private domain solutions through offering product and service portfolios. For customers with customer operation demands, we provided “Youzan customer operation solutions” to help merchants seamlessly connect consumer information from all public and private operation channels, analysed and focused on the demands of target consumers at various stages according to their whole life cycle, formulated precise customer profiles through data insights, and carried out automated precision marketing and membership value-added marketing to help merchants achieving performance improvements in whole-life cycle, whole-scenario and whole-chain.

Solutions of Youzan New Retail focused on two major customer bases: store digitisation and direct-to-consumer brand, assisting chain stores and brand merchants in establishing private domain traffic pools, invigorating online and offline consumers, and deeply exploring the value of private domain assets by “focusing on consumers”. Through offering the Youzan’s self-developed consumer operation platforms, including the product matrix which comprising of Youzan CRM, Youzan WeCom Assistant, Youzan Salespeople Assistant, Youzan Chain (有贊連鎖商城), Marketing Canvas (營銷畫布) and New Retail Integration Module (新零售融合艙), as well as services such as operation escort and consultation planning, the Enlarged Group will facilitate enterprise customers to gain access to the multi-channel data, improve their marketing and sales capabilities and realize incremental results.

Following Completion, the Enlarged Group will continue its current development strategies:

1. In 2023, continuing to make continuous improvement in operating efficiency as primary business objective. While achieving a stable growth in cash income, the Enlarged Group will continue to improve operating cash flow and operating results by investing resources in a scientific and rational manner, so as to achieve the long-term sustainable and healthy development of the Enlarged Group.
2. Focusing on the core customer base for market expansion purpose and continuing to upgrade customer structure in a bid to achieving higher fee renewal rates and higher renewal revenue for the continuous optimization of business results.
3. Adhering to the vision of “customer-centric”, continue to deepen the Enlarged Group’s understanding of core customer base’s business, and take “creating value for customers” as the direction to improve the Enlarged Group’s solution capabilities and help merchants to increase their sales.

Set out below is the text of a report received from the independent reporting accountants of the Company, RSM Hong Kong, which has been prepared for the purpose of incorporation in this Circular.

**ACCOUNTANTS' REPORT ON
HISTORICAL FINANCIAL INFORMATION****ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE
DIRECTORS OF CHINA YOUZAN LIMITED (THE "COMPANY")****Introduction**

We were engaged to report on the historical financial information of Youzan Technology Inc. ("**Youzan Technology**") (formerly known as Qima Holdings Ltd.) and its subsidiaries (together, the "**Youzan Technology Group**") set out on pages II-4 to II-133, which comprises the consolidated statements of financial position of the Youzan Technology Group and the statements of financial position of Youzan Technology as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2020, 31 December 2021 and 31 December 2022 and six months ended 30 June 2023 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-133 forms an integral part of this report, which has been prepared for inclusion in the investment circular of China Youzan Limited (the "**Company**") dated 30 November 2023 (the "**Circular**") in connection with the proposed acquisition of approximately 48.1% equity interest of Youzan Technology.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 of Section B to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement. However, because of the matter described in the Basis for Disclaimer of Opinion section of this report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the Historical Financial Information.

Disclaimer of Opinion

We do not express an opinion on the Historical Financial Information. Because of the significance of multiple uncertainties relating to going concern described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the Historical Financial Information.

Basis for Disclaimer of Opinion***Multiple uncertainties relating to going concern***

As disclosed in note 2 of Section B to the Historical Financial Information, the Youzan Technology Group had incurred losses and cash outflows from operating activities during the Relevant Periods, and had net current liabilities and net liabilities of RMB118,071,000 and RMB941,623,000 as at 30 June 2023 respectively. Youzan Technology Group will need to repay a loan from the Company ("Loan") on 31 December 2024 ("Loan Maturity Date") which is estimated at principal and accrued interests of approximately USD96,109,000 (equivalent to approximately RMB695,922,000 at the exchange rate as of 30 June 2023) at the Loan Maturity Date. These conditions, together with other matters described in note 2 of Section B to the Historical Financial Information, indicate the existence of material uncertainties which may cast significant doubt about the Youzan Technology Group's ability to continue as a going concern.

The directors of the Company had adopted the going concern basis in the preparation of the Historical Financial Information of Youzan Technology Group having taken into account the following factors and plans, among others, (i) the contract liabilities of RMB585,885,000 as at 30 June 2023 are deferred income in nature and would not require settlement in form of cash resources; (ii) cash flow forecasts of Youzan Technology Group (“**Forecast**”) which forecast that the Youzan Technology Group will have sufficient financial resources to meet its obligations as and when they fall due in the foreseeable future, provided that the Loan can be successfully extended or capitalised. The forecasts incorporate plans of the directors of the Company and management of the Youzan Technology Group (collectively, the “**Management**”) to control operating costs (such as staff costs, promotion and advertising expenses); (iii) a refinancing of its bank borrowings with loan maturity extended to May 2025; and (iv) written confirmation obtained from the directors of the Company on the efforts on the part of the directors of the Company. These include the scenarios that should the Youzan Technology Group be unable to repay the Loan at the Loan Maturity Date by its internal resources, the directors of the Company will make their best endeavour to extend the Loan Maturity Date or capitalise the Loan on or before the Loan Maturity Date, subject to the approval of shareholders of the Company and other procedures and approvals required under the GEM Listing Rules. After considering the historic voting records of the independent shareholders of the Company in past general meetings to approve the loan advances or extension with over 90% of votes cast in favour and the financial ability of the Company to extend or capitalise the Loan, the Management are of the view that the Loan can successfully be extended or capitalised on or before the Loan Maturity Date.

Should the Youzan Technology Group fail to achieve the abovementioned forecasts and plans, which are subject to significant multiple uncertainties, including but not limited to, the decision of the shareholders of the Company in special general meeting to approve the contemplated extension of capitalisation of the Loan before the Loan Maturity Date, Youzan Technology Group may not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of its assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the Historical Financial Information.

Review of stub period comparative financial information

We were engaged to review the stub period comparative financial information of the Youzan Technology Group which comprises the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the six months ended 30 June 2022 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 of Section B to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Because of the significance of the multiple uncertainties relating to the going concern basis as described in the Basis for Disclaimer of Opinion section of this report, we have not been able to obtain sufficient appropriate evidence to provide a basis for a conclusion on the Stub Period Comparative Financial Information. Accordingly, we do not express a conclusion on the Stub Period Comparative Financial Information.

Report on matters under the GEM Listing Rules of The Stock Exchange of Hong Kong Limited***Adjustments***

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page II-5 has been made.

RSM Hong Kong

Certified Public Accountants

30 November 2023
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay, Hong Kong

**A. HISTORICAL FINANCIAL INFORMATION OF THE YOUZAN TECHNOLOGY
GROUP****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Youzan Technology Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by RSM Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“**Underlying Financial Statements**”).

The Historical Financial Information is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Note	Years ended 31 December			Six months ended 30 June	
		2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (unaudited)	2023 RMB'000
Revenue	8	1,575,984	1,284,003	1,167,302	574,171	568,445
Cost of sales		<u>(529,234)</u>	<u>(398,432)</u>	<u>(319,811)</u>	<u>(175,825)</u>	<u>(134,353)</u>
Gross profit		1,046,750	885,571	847,491	398,346	434,092
Investment and other income	9	41,549	43,378	36,065	19,674	22,040
Other gains and losses, net	10	(9,579)	(108,920)	21,394	(6,203)	8,004
Selling expenses		(779,301)	(956,358)	(820,808)	(471,408)	(327,348)
Administrative expenses		(168,054)	(261,852)	(242,002)	(161,849)	(45,402)
Equity-settled share-based payment		(45,215)	(30,217)	(66,538)	(39,517)	(5,106)
Amortisation of intangible assets	20	(128)	(211)	(191)	(94)	(96)
Other operating expenses		<u>(394,308)</u>	<u>(568,856)</u>	<u>(290,641)</u>	<u>(197,151)</u>	<u>(97,065)</u>
Loss from operations		(308,286)	(997,465)	(515,230)	(458,202)	(10,881)
Finance costs	11	(44,231)	(21,668)	(54,089)	(21,198)	(34,523)
Share of losses of associates		(1,331)	-	-	-	-
Fair value change in financial assets at fair value through profit or loss ("FVTPL")	7(b)	<u>-</u>	<u>23,758</u>	<u>(73,337)</u>	<u>(72,495)</u>	<u>2,482</u>
Loss before tax		(353,848)	(995,375)	(642,656)	(551,895)	(42,922)
Income tax credit/(expense)	13	<u>16,636</u>	<u>(128,633)</u>	<u>5,775</u>	<u>948</u>	<u>2,640</u>
Loss for the year/period	14	<u><u>(337,212)</u></u>	<u><u>(1,124,008)</u></u>	<u><u>(636,881)</u></u>	<u><u>(550,947)</u></u>	<u><u>(40,282)</u></u>
Attributable to:						
Owners of Youzan Technology		(334,118)	(1,120,248)	(633,655)	(549,458)	(39,675)
Non-controlling interests		<u>(3,094)</u>	<u>(3,760)</u>	<u>(3,226)</u>	<u>(1,489)</u>	<u>(607)</u>
		<u><u>(337,212)</u></u>	<u><u>(1,124,008)</u></u>	<u><u>(636,881)</u></u>	<u><u>(550,947)</u></u>	<u><u>(40,282)</u></u>

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME

	Years ended 31 December			Six months ended	
	2020	2021	2022	2022	2023
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Loss for the year/period	<u>(337,212)</u>	<u>(1,124,008)</u>	<u>(636,881)</u>	<u>(550,947)</u>	<u>(40,282)</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")	7(b)	11,347	-	-	-
<i>Item that may be reclassified to profit or loss:</i>					
Exchange differences on translating foreign operations		<u>(10,340)</u>	<u>(6,063)</u>	<u>(34,069)</u>	<u>(21,263)</u>
Other comprehensive income for the year/period, net of tax		<u>1,007</u>	<u>(6,063)</u>	<u>(34,069)</u>	<u>(21,263)</u>
Total comprehensive income for the year/period		<u><u>(336,205)</u></u>	<u><u>(1,130,071)</u></u>	<u><u>(670,950)</u></u>	<u><u>(572,210)</u></u>
Attributable to:					
Owners of Youzan Technology		(333,111)	(1,125,990)	(667,724)	(570,721)
Non-controlling interests		<u>(3,094)</u>	<u>(4,081)</u>	<u>(3,226)</u>	<u>(1,489)</u>
		<u><u>(336,205)</u></u>	<u><u>(1,130,071)</u></u>	<u><u>(670,950)</u></u>	<u><u>(572,210)</u></u>
					<u><u>(69,877)</u></u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
		2020	2021	2022	30 June
	Note	RMB'000	RMB'000	RMB'000	2023
					RMB'000
Non-current assets					
Property, plant and equipment	18	56,330	41,140	13,199	10,267
Right-of-use assets	19	238,850	149,584	8,148	7,937
Long term deposits	26	3,199	5,617	361	286
Intangible assets	20	1,069	1,323	1,132	1,036
Capitalised contract costs	27	24,464	33,550	34,503	24,020
Loan to a director	28	2,650	2,650	–	–
Loan to an employee	28	–	500	–	–
Deferred tax assets	42	231,733	91,209	69,994	69,963
Financial assets at FVTPL	22	–	372,675	285,642	288,824
Earnest money paid for potential investments	23	50,000	–	–	–
		<u>608,295</u>	<u>698,248</u>	<u>412,979</u>	<u>402,333</u>
Current assets					
Inventories	24	676	921	1,246	1,197
Trade receivables	25	1,821	4,292	13,120	11,992
Prepayments, deposits and other receivables	26	507,285	108,515	90,751	69,416
Capitalised contract costs	27	164,064	164,976	125,523	117,292
Loans to fellow subsidiaries	28	16,270	–	–	–
Amounts due from related companies	29(a)	452	800	1,287	1,362
Amounts due from fellow subsidiaries	29(b)	36,582	17,935	10,665	1,185
Amount due from a non-controlling shareholder of a subsidiary	29(c)	–	1,012	–	–
Current tax assets		168	168	168	–
Time deposits	30	–	–	–	100,000
Restricted bank balances	31(i)	24,474	844	4,009	5,199
Bank and cash balances	31(ii)	<u>1,300,013</u>	<u>311,865</u>	<u>683,244</u>	<u>496,687</u>
		<u>2,051,805</u>	<u>611,328</u>	<u>930,013</u>	<u>804,330</u>

	Note	As at 31 December			As at
		2020	2021	2022	30 June
		RMB'000	RMB'000	RMB'000	2023
					RMB'000
Current liabilities					
Trade payables	32	–	–	234	197
Accruals and other payables	33	582,958	526,077	380,112	316,214
Amounts due to fellow subsidiaries	34	4,469	–	–	4,376
Amounts due to non-controlling shareholders of subsidiaries	35	256	306	69	73
Amount due to the Company	36	–	1,043	1,129	1,187
Contract liabilities	37	611,236	683,492	620,136	585,885
Lease liabilities	38	17,777	42,567	14,878	14,270
Borrowings	39	–	–	480,986	199
Payable to merchants	40	277,954	–	–	–
Current tax liabilities		6	6	4	–
		<u>1,494,656</u>	<u>1,253,491</u>	<u>1,497,548</u>	<u>922,401</u>
Net current assets/(liabilities)		<u>557,149</u>	<u>(642,163)</u>	<u>(567,535)</u>	<u>(118,071)</u>
Total assets/(liabilities) less current liabilities		<u>1,165,444</u>	<u>56,085</u>	<u>(154,556)</u>	<u>284,262</u>
Non-current liabilities					
Contract liabilities	37	56,371	55,446	49,351	47,831
Lease liabilities	38	222,411	221,393	73,027	69,467
Borrowings	39	–	–	–	460,449
Loans from the Company	41	–	–	574,692	625,751
Deferred tax liabilities	42	64,107	52,216	25,226	22,387
		<u>342,889</u>	<u>329,055</u>	<u>722,296</u>	<u>1,225,885</u>
NET ASSETS/(LIABILITIES)		<u>822,555</u>	<u>(272,970)</u>	<u>(876,852)</u>	<u>(941,623)</u>

	Note	As at 31 December			As at
		2020	2021	2022	30 June
		RMB'000	RMB'000	RMB'000	RMB'000
Capital and reserves					
Equity attributable to owners of Youzan Technology					
Share capital	43	94	94	105	105
Reserves	44	<u>821,250</u>	<u>(275,854)</u>	<u>(877,040)</u>	<u>(942,447)</u>
		821,344	(275,760)	(876,935)	(942,342)
Non-controlling interests		<u>1,211</u>	<u>2,790</u>	<u>83</u>	<u>719</u>
TOTAL EQUITY/(CAPITAL DEFICIENCIES)		<u><u>822,555</u></u>	<u><u>(272,970)</u></u>	<u><u>(876,852)</u></u>	<u><u>(941,623)</u></u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of Youzan Technology											
	Share capital RMB '000	Share premium account RMB '000	Contribution from the Company RMB '000	Share-based payment reserve RMB '000	Capital reserve RMB '000	Exchange reserve RMB '000	Financial assets at FVTOCI reserve RMB '000	Treasury share reserve RMB '000	Accumulated losses RMB '000	Total RMB '000	Non-controlling interests RMB '000	Total equity/ (Capital deficiencies) RMB '000
At 1 January 2020	88	2,888,485	376,587	-	69,310	(11,635)	(198)	(7)	(5,819,631)	(497,001)	(990)	(497,991)
Total comprehensive income for the year	-	-	-	-	-	(10,340)	11,347	-	(334,118)	(333,111)	(3,094)	(336,205)
Release of FVTOCI reserve upon disposals	-	-	-	-	-	-	(16,149)	-	16,149	-	-	-
Issuance of shares	-	-	-	-	-	-	-	-	-	-	-	-
- to Baidu SPV (note 43(i))	1	214,374	-	-	-	-	-	-	-	214,375	-	214,375
- to the Company (note 43(ii))	2	306,726	-	-	-	-	-	-	-	306,728	-	306,728
- to the Company (note 43(iii))	3	1,085,135	-	-	-	-	-	-	-	1,085,138	-	1,085,138
Acquisition of a subsidiary (note 46(a))	-	-	-	-	-	-	-	-	-	-	5,295	5,295
Equity-settled share-based payments from the Company (note 44(b)(ii))	-	-	45,215	-	-	-	-	-	-	45,215	-	45,215
Changes in equity for the year	6	1,606,235	45,215	-	-	(10,340)	(4,802)	-	(317,969)	1,318,345	2,201	1,320,546
At 31 December 2020	94	4,494,720	421,802	-	69,310	(21,975)	(5,000)	(7)	(4,137,600)	821,344	1,211	822,555
At 1 January 2021	94	4,494,720	421,802	-	69,310	(21,975)	(5,000)	(7)	(4,137,600)	821,344	1,211	822,555
Total comprehensive income for the year	-	-	-	-	-	(5,742)	-	-	(1,120,248)	(1,125,990)	(4,081)	(1,130,071)
Further acquisition of a subsidiary without change in control (note 46(c))	-	-	-	-	(1,331)	-	-	-	-	(1,331)	2,720	1,389
Contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	2,940	2,940
Equity-settled share-based payments from the Company (note 44(b)(ii))	-	-	30,217	-	-	-	-	-	-	30,217	-	30,217
Changes in equity for the year	-	-	30,217	-	(1,331)	(5,742)	-	-	(1,120,248)	(1,097,104)	1,579	(1,095,525)
At 31 December 2021	94	4,494,720	452,019	-	67,979	(27,717)	(5,000)	(7)	(5,257,848)	(275,760)	2,790	(272,970)

Attributable to owners of Youzan Technology												
Share capital RMB '000	Share premium account RMB '000	Contribution from the Company RMB '000	Share-based payment reserve RMB '000	Capital reserve RMB '000	Exchange reserve RMB '000	Financial assets at		Treasury share reserve RMB '000	Accumulated losses RMB '000	Total RMB '000	Non-controlling interests RMB '000	Capital deficiencies RMB '000
						FYTOCI reserve RMB '000	FYTOCI reserve RMB '000					
94	4,494,720	452,019	-	67,979	(27,717)	(5,000)	(7)	(5,257,848)	(275,760)	2,790	(272,970)	
-	-	-	-	-	(34,069)	-	-	(633,655)	(667,724)	(3,226)	(670,950)	
11	-	-	36,920	-	-	-	-	-	36,931	-	36,931	
-	-	-	-	-	-	-	-	-	-	519	519	
-	-	29,618	-	-	-	-	-	-	29,618	-	29,618	
11	-	29,618	36,920	-	(34,069)	-	-	(633,655)	(601,175)	(2,707)	(603,882)	
105	4,494,720	481,637	36,920	67,979	(61,786)	(5,000)	(7)	(5,891,503)	(876,935)	83	(876,852)	
105	4,494,720	481,637	36,920	67,979	(61,786)	(5,000)	(7)	(5,891,503)	(876,935)	83	(876,852)	
-	-	-	-	-	(29,595)	-	-	(39,675)	(69,270)	(607)	(69,877)	
-	-	-	-	-	-	5,000	-	(5,000)	-	-	-	
-	-	-	-	(1,243)	-	-	-	-	(1,243)	1,243	-	
-	-	5,106	-	-	-	-	-	-	5,106	-	5,106	
-	-	5,106	-	(1,243)	(29,595)	5,000	-	(44,675)	(65,407)	636	(64,771)	
105	4,494,720	486,743	36,920	66,736	(91,381)	-	(7)	(5,936,778)	(942,342)	719	(941,623)	

At 1 January 2022

Total comprehensive income for the year

Issuance of shares (note 43(iv))

Further acquisition of a subsidiary without change in control

Equity-settled share-based payments from the Company

(note 44(b)(ii))

Changes in equity for the year

At 31 December 2022

At 1 January 2023

Total comprehensive income for the period

Release of FYTOCI reserve upon disposals

Further acquisition of a subsidiary without change in control

Equity-settled share-based payments from the Company

(note 44(b)(ii))

Changes in equity for the period

At 30 June 2023

Attributable to owners of Youzan Technology											
Share capital RMB '000	Share premium account RMB '000	Contribution from the Company RMB '000	Share-based payment reserve RMB '000	Capital reserve RMB '000	Exchange reserve RMB '000	Financial assets at				Capital deficiencies RMB '000	
						FYTOCI reserve RMB '000	Treasury share reserve RMB '000	Accumulated losses RMB '000	Total RMB '000		Non-controlling interests RMB '000
94	4,494,720	452,019	-	67,979	(27,717)	(5,000)	(7)	(5,257,848)	(275,760)	2,790	(272,970)
-	-	-	-	-	(21,263)	-	-	(549,458)	(570,721)	(1,489)	(572,210)
11	-	-	36,920	-	-	-	-	-	36,931	-	36,931
-	-	2,597	-	-	-	-	-	-	2,597	-	2,597
11	-	2,597	36,920	-	(21,263)	-	-	(549,458)	(531,193)	(1,489)	(532,682)
105	4,494,720	454,616	36,920	67,979	(48,980)	(5,000)	(7)	(5,807,306)	(806,953)	1,301	(805,652)

Unaudited

At 1 January 2022

Total comprehensive income for the period

Issuance of shares (note 45(b))

Equity-settled share-based payments from the Company
(note 44(b)(ii))

Changes in equity for the period

At 30 June 2022

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Years ended 31 December			Six months ended	
		2020 RMB'000	2021 RMB'000	2022 RMB'000	30 June 2022 RMB'000 (unaudited)	2023 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax		(353,848)	(995,375)	(642,656)	(551,895)	(42,922)
Adjustments for:						
Allowance for trade receivables, net	10	1,262	3,488	3,678	1,628	5,944
Allowance/(reversal of allowance) for other receivables, net	10	–	–	3,065	653	(651)
Amortisation of intangible assets	20	128	211	191	94	96
Amortisation of capitalised contract costs	27	212,842	243,288	215,699	118,312	97,554
Depreciation of property, plant and equipment	18	14,903	18,167	10,344	6,307	3,131
Depreciation of right-of-use assets	19	39,000	47,064	22,718	17,531	4,018
Equity-settled share-based payments		45,215	30,217	66,538	39,517	5,106
Fair value change in financial assets at FVTPL	7(b)	–	(23,758)	73,337	72,495	(2,482)
Finance costs	11	44,231	21,668	54,089	21,198	34,523
Gain on disposal of a subsidiary	10	–	–	(4,603)	–	–
Gain on derecognition of other payables	10	–	–	(6,997)	–	(14,432)
Impairment loss of goodwill	21	1,047	–	–	–	–
Impairment loss of property, plant and equipment	18	–	22,110	–	–	–
Impairment loss of right-of-use assets	19	–	80,393	–	–	–
Interest income on bank deposits	9	(2,358)	(12,947)	(9,420)	(1,767)	(8,782)
Interest income from loan to others	9	(109)	–	–	–	–
Interest income from loans to fellow subsidiaries	9	(170)	(569)	–	–	–
Interest income from financial assets at FVTPL	9	(6,204)	(4,406)	(1,423)	(1,262)	–
Rent concession		(1,905)	–	–	–	–
Loss on redemption of financial assets at FVTPL	10	–	–	5,384	–	–
Net gain on disposals of property, plant and equipment	10	(156)	(538)	(2,963)	(610)	(297)
Net gain on early termination of leases	10	(222)	(82)	(32,328)	(10,169)	–
Property, plant and equipment written off	10	2	–	–	–	–
Property, plant and equipment written off for termination of leases	10	–	–	19,002	15,611	–
Allowance/(reversal of allowance) for inventories	24	82	290	(372)	–	–
Written off of trade receivables	10	345	643	–	–	–
Share of loss of associates		1,331	–	–	–	–

APPENDIX II
**ACCOUNTANT'S REPORT OF THE
YOUZAN TECHNOLOGY GROUP**

	Note	Years ended 31 December			Six months ended 30 June	
		2020	2021	2022	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(unaudited)
Operating (loss)/profit before working capital changes		(4,584)	(570,136)	(226,717)	(272,357)	80,806
(Increase)/decrease in inventories		(8)	(535)	47	163	49
Increase in trade receivables		(2,956)	(6,602)	(12,506)	(11,397)	(4,816)
Decrease in prepayments, deposits and other receivables exclude other receivables from payment service providers		164,290	142,626	3,349	8,638	21,851
Decrease in other receivables from payment service providers		45,244	245,534	16,342	–	–
Increase in capitalised contract costs		(280,332)	(253,286)	(177,199)	(111,993)	(78,840)
Decrease/(increase) in amount due from a related company		182	(348)	(408)	(1,208)	(31)
Increase in restricted bank balance		–	–	(2,520)	(2)	(1,438)
(Increase)/decrease in amounts due from fellow subsidiaries		(36,582)	18,654	7,264	(7,428)	10,120
Increase/(decrease) in amounts due to non-controlling shareholders of subsidiaries		5,142	41	(244)	(244)	(3)
(Decrease)/increase in trade payables		(1,822)	–	234	–	(37)
Increase/(decrease) in accruals and other payables		226,885	(67,076)	(137,744)	(105,844)	(49,466)
(Decrease)/increase in amounts due to fellow subsidiaries		(3,031)	–	–	–	4,376
Increase/(decrease) in contract liabilities		213,334	71,331	(69,451)	(32,957)	(35,771)
Decrease in payable to merchants		(56,269)	(277,954)	–	–	–
Cash generated/(used in) from operations		269,493	(697,751)	(599,553)	(534,629)	(53,200)
Interest income received from bank deposits	9	2,358	12,947	9,420	1,767	8,782
Interest income received from loan to others		145	739	–	–	–
Interest income received from financial assets at FVTPL	9	6,204	4,406	1,423	1,262	–
Interest expenses on lease liabilities	11	(19,236)	(21,668)	(15,160)	(10,290)	(4,342)
Income tax paid		(2,986)	–	(2)	(2)	(3)
Net cash generated from/(used in) operating activities		255,978	(701,327)	(603,872)	(541,892)	(48,763)

	Note	Years ended 31 December			Six months ended 30 June	
		2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (unaudited)	2023 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisition of a subsidiary	46(a)	10,328	-	-	-	-
Addition of intangible assets	20	(622)	(465)	-	-	-
Addition of financial assets at FVTPL	7(b)	-	(289,416)	(20,000)	(20,000)	-
Disposal of a subsidiary		-	-	(188)	-	-
Dividend received from an associate		3,625	-	-	-	-
Earnest money paid for potential investments	23	(50,000)	-	-	-	-
Decrease/(increase) in long term deposits		8,076	(2,418)	5,256	5,256	75
Repayment of loan to a director		-	-	2,650	-	-
Loan to an employee		-	(500)	500	-	-
Loan to a related company		(500)	-	-	-	-
Repayment of loan to a related company		1,300	-	-	-	-
Loans to others	26	(10,610)	-	-	-	-
Repayment of loans to others		3,000	10,610	-	-	-
Loans to fellow subsidiaries	28	(16,100)	(22,500)	-	-	-
Repayment of loans to fellow subsidiaries		-	38,600	-	-	-
Cash received from redemption of financial assets at FVTPL	7(b)	-	-	30,000	-	-
(Increase)/decrease in amounts due from fellow subsidiaries		-	(7)	6	6	(640)
(Increase)/decrease in amount due from a non-controlling shareholder of subsidiary		-	(1,012)	1,012	1,012	-
Increase in amount due from a related company		-	-	(79)	-	(44)
Proceeds from disposal of a financial assets at FVTOCI	7(b)	23,058	-	-	-	-
Purchase of property, plant and equipment	18	(23,433)	(25,133)	(2,963)	(2,890)	(456)
Proceeds from disposals of property, plant and equipment		228	582	3,107	623	554
Net cash (used in)/generated from investing activities		(51,650)	(291,659)	19,301	(15,993)	(511)

STATEMENTS OF FINANCIAL POSITION OF YOUZAN TECHNOLOGY

	Note	As at 31 December			As at
		2020	2021	2022	30 June
		RMB'000	RMB'000	RMB'000	2023
					RMB'000
Non-current assets					
Investments in subsidiaries, net of impairment	(a)	1,918,663	–	–	–
Current assets					
Prepayments, deposits and other receivables		–	–	–	59
Amounts due from subsidiaries, net of provision	(b)	–	–	–	2,442
Bank and cash balances		89,147	13,836	2,833	429
		<u>89,147</u>	<u>13,836</u>	<u>2,833</u>	<u>2,930</u>
Current liabilities					
Accruals and other payables		5,929	9,181	2,024	1,001
Amount due to the Company	36	–	1,043	1,129	1,187
		<u>5,929</u>	<u>10,224</u>	<u>3,153</u>	<u>2,188</u>
Net current assets/(liabilities)		<u>83,218</u>	<u>3,612</u>	<u>(320)</u>	<u>742</u>
Total assets less current liabilities		<u>2,001,881</u>	<u>3,612</u>	<u>(320)</u>	<u>742</u>
Non-current liabilities					
Loans from the Company	41	–	–	574,692	625,751
NET ASSETS/(LIABILITIES)		<u>2,001,881</u>	<u>3,612</u>	<u>(575,012)</u>	<u>(625,009)</u>
Capital and reserves					
Share capital	43	94	94	105	105
Reserves	44(c)	2,001,787	3,518	(575,117)	(625,114)
TOTAL EQUITY/(CAPITAL DEFICIENCIES)		<u>2,001,881</u>	<u>3,612</u>	<u>(575,012)</u>	<u>(625,009)</u>

Notes:

- (a) Investments in subsidiaries mainly represent the investment cost of Qima Investment Limited (“QMI”) which is incorporated in Hong Kong. Details of QMI are set out in note 1.
- (b) The amounts due from subsidiaries are interest free, unsecured and repayable on demand.

B. NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. CORPORATE STRUCTURE**

Youzan Technology Inc. is a limited liability company and was incorporated in the Cayman Islands on 11 August 2014. The registered office is Maricorp Services Ltd., 2nd Floor, Strathvale House, 90 North Church Street, P.O. Box 1103, George Town, Grand Cayman KY1-1102, Cayman Islands which effected from 1 May 2023 and the former registered office address is P.O. Box 2075, #31 The Strand, 46 Canal Point Drive, Grand Cayman KY1-1105, Cayman Islands. The address of its principal place of business in the PRC is Building 6, Huatai Pioneer Park, 698 Xixi Road, Xihu District, Hangzhou, PRC and principal place of business in Hong Kong is Unit 1511, 15/F, Shui On Centre, No. 6-8 Harbour Road, Wan Chai, Hong Kong.

Youzan Technology Inc. changed its name from “Qima Holdings Ltd.” to “Youzan Technology Inc.” on 30 December 2020 by passing a board written resolution and shareholder resolution. This change has been effective since 30 December 2020. The Certificate of Incorporation on Change of Name was issued by Registry of Companies, Cayman Islands on 14 January 2021.

Youzan Technology Inc. is an investment holding company. The Youzan Technology Group is principally engaged in providing a variety of cloud-based commerce services to merchants through its subscription solutions and merchant solutions. Subscription solutions mainly comprise SaaS products including Youzan WeiMall (有贊微商城), Youzan Retail (有贊零售), Youzan Chain (有贊連鎖), Youzan Beauty (有贊美業), and Youzan Education (有贊教育). Merchant solutions mainly comprise value-added services offered to merchants to address their online and/or offline operational needs, including merchandise sourcing and distribution, consumer protection and online traffic monetisation. Merchant Solutions mainly include Youzan Worry-Free Shopping (有贊放心購), Youzan Distribution (有贊分銷), and Youzan Promotion (有贊推廣).

In the opinion of the directors of the Company (“**Directors**”), China Youzan Limited (the “**Company**”) is the ultimate holding company of Youzan Technology Inc. since 18 April 2018. China Youzan Limited is a company incorporated in Bermuda with limited liabilities and its shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

During the Relevant Periods and as at the date of this report, Youzan Technology had direct and indirect interests in the following principal subsidiaries, and the particulars of which are set out below:

Name	Note	Place and date of incorporation/ establishments	Issued or paid up capital	Percentage of equity attributable to Youzan Technology			Principal activities	
				As at 31 December 2020	2021	2022		
Qima Investment Limited ("QMI")	(a)	Hong Kong 15 August 2014	2020: HK\$0.01 2021: HK\$0.01 2022: HK\$0.01 2023.06: HK\$0.01	100%	100%	100%	100%	Investment holdings
杭州有贊科技有限公司 Hangzhou Youzan Technology Co., Ltd. ("Hangzhou Youzan")	(b)	PRC 23 September 2014	2020: US\$212,500,045 2021: US\$282,500,045 2022: US\$373,800,045 2023.06: US\$373,800,045	100%	100%	100%	100%	Internet information service, wholesale and retail
深圳有贊信息技術有限公司 Shenzhen Youzan Information Technology Co., Ltd.*	(c)	PRC 11 January 2016	2020: RMB5,000,000 2021: RMB5,000,000 2022: RMB5,000,000 2023.06: RMB5,000,000	100%	100%	100%	100%	Internet information service, wholesale and retail
天津有贊信息技術有限公司 Tianjin Youzan Information Technology Co., Ltd.* ("Tianjin Youzan")	(d)	PRC 2 July 2018	-	100%	100%	100%	100%	Internet information service, wholesale and retail
南京快碼互聯網絡科技有限公司 Nanjing Kuaima Internet Technology Co., Ltd.* ("Nanjing Kuaima")	(e)	PRC 23 April 2020	-	100%	100%	Nil	Nil	Information technology consulting service
杭州快碼互聯網絡科技有限公司 Hangzhou Kuaima Internet Technology Co., Ltd.* ("Hangzhou Kuaima")	(f)	PRC 20 April 2020	-	100%	100%	100%	100%	Information technology consulting service
廣州快碼網絡信息有限公司 Guangzhou Kuaima Internet Information Co., Ltd.* ("Guangzhou Kuaima")	(g)	PRC 24 April 2020	-	100%	100%	Nil	Nil	Information technology consulting service
杭州才川千夕文化傳媒有限公司 Hangzhou Caichuan Qianxi Cultural Media Co., Ltd.* ("Caichuan Qianxi")	(h)	PRC 18 August 2020	-	100%	100%	100%	100%	Information technology consulting service
株式会社Youzan Japan Youzan Japan Kabushiki Kaisha (Formerly known as 株式会社IBS) ("Youzan Japan") (note 48(a))	(i)	Japan 30 January 2007	2020: JPY159,267,000 2021: JPY237,376,250 2022: JPY237,376,250 2023.06: JPY237,376,250	52.63%	66.65%	66.65%	66.65%	Providing operation services for merchants and integrated new retail solutions
Youzan Technology Inc.	(h)	Canada 23 October 2020	2020: CAD352,196 2021: CAD1,161,200 2022: CAD1,959,199 2023.06: CAD2,393,599	51%	51%	51%	66.18%	Information technology consulting service
海南有贊網絡科技有限公司 Hainan Youzan Internet Technology Co., Ltd.*	(h)	PRC 24 June 2021	-	N/A	100%	100%	100%	Investment holding
Menlo Innovation Investment Limited	(h)	British Virgin Islands 31 May 2021	-	N/A	100%	100%	100%	Not yet commence business
杭州有贊餐飲管理有限公司 Hangzhou Youzan Dining Co., Ltd.* ("Hangzhou Youzan Dining")	(j)	PRC 20 September 2016	2020: RMB100,000 2021: RMB100,000 2022: N/A 2023.06: N/A	100%	100%	N/A	N/A	Restaurant management and retail
杭州實碼非融資性擔保有限公司 Shima Non Financing Guarantee Co., Ltd	(h)	3 December 2021	-	N/A	100%	100%	100%	Not yet commence business

Notes:

- (a) The statutory financial statements for years ended 31 December 2020 and 31 December 2021 were audited by H K Wan CPA & Co, Certified Public Accountants and Trilinear CPA & Co. in Hong Kong.
- (b) Hangzhou Youzan is registered as a wholly-foreign-owned enterprise under the PRC law. The statutory financial statements of Hangzhou Youzan for years ended 31 December 2020, 31 December 2021 and 31 December 2022 were audited by Shanghai De Yi Zhi Yuan Certified Public Accountants* 上海德義致遠會計師事務所 in the PRC.
- (c) The statutory financial statements for years ended 31 December 2020, were audited by Shanghai De Yi Zhi Yuan Certified Public Accountants* 上海德義致遠會計師事務所 in the PRC. The statutory financial statements for year ended 31 December 2021 were audited by Shenzhen Xuanyi Certified Public Accountants' Firm 深圳市軒逸會計師事務所 in the PRC.
- (d) The statutory financial statements for years ended 31 December 2020 and 31 December 2021 were audited by Shanghai De Yi Zhi Yuan Certified Public Accountants* 上海德義致遠會計師事務所 in the PRC.
- (e) No audited statutory financial statements were prepared for this company since incorporation and deregistered on 16 July 2022.
- (f) No audited statutory financial statements were prepared for this company since incorporation.
- (g) No audited statutory financial statements were prepared for this company since incorporation and was deregistered on 9 August 2022.
- (h) No audited statutory financial statements were prepared for this company since incorporation. On January 2022, QMI has further invested to this company, as a result, the equity interest increased from 51% to 66.18%.
- (i) No audited statutory financial statements were issued as there are no statutory requirements in its place of incorporation. On 16 April 2021, QMI's equity interest in Youzan Japan increased from 52.63% to 66.65%.
- (j) The statutory financial statements for years ended 31 December 2020 and 31 December 2021 were audited by Shanghai De Yi Zhi Yuan Certified Public Accountants* 上海德義致遠會計師事務所 in the PRC. This company disposed on 29 July 2022, details refer to note 46(d).

* *The English translation name is for identification purpose only. The official name of the entity is in Chinese.*

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards (“**HKAS**”); and Interpretations. The Historical Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of Stock Exchange.

The directors of the Company and management of the Youzan Technology Group (collectively, the “**Management**”) is required to assess the Youzan Technology Group’s ability to continue as a going concern when preparing the consolidated financial statements. The Youzan Technology Group is no longer a going concern if Management either intends to liquidate the company or cease trading, or has no realistic alternative but to do so. The Youzan Technology Group had incurred losses and cash outflows from operating activities during the Relevant Periods, and had net current liabilities and net liabilities of RMB118,071,000 and RMB941,623,000 as at 30 June 2023 respectively. Nevertheless, the Management had adopted the going concern basis in the preparation of the consolidated financial statements of the Youzan Technology Group after due and careful assessment on whether the going concern assumption is appropriate that takes into account all available information about the foreseeable future. When performing the assessment, the Management have considered the following key factors:

- (a) The Youzan Technology Group’s contract liabilities included in current liabilities as at 30 June 2023 amounted to RMB585,885,000 are deferred income in nature and would not require settlement in form of cash resources.
- (b) Management has prepared cash flow forecasts for a period of at least 12 months from the end of the Relevant Periods, having considered the Youzan Technology Group’s historical and expected future performance, and the expected development of the markets in which the Youzan Technology Group operates, which demonstrate that the Youzan Technology Group will have sufficient financial resources to meet its obligations as and when they fall due in the foreseeable future, provided that a loan payable to the Company as set out in (d) below can be successfully extended or capitalised. The forecasts incorporate Management’s plans to control operating costs (such as staff costs, promotion and advertising expenses).

- (c) On 30 May 2023, the Youzan Technology Group fully repaid its then outstanding secured bank loan with principal of RMB480 million and related interest. On 30 May 2023 and 5 July 2023, a new secured bank loan of RMB480 million was raised with an interest rate of 3.9% per annum and a maturity date on 29 May 2025. The bank loans are secured by assets of a related company, 杭州起碼科技有限公司 (Hangzhou Qima Technology Co., Ltd.).
- (d) As set out in note 41(ii), the Youzan Technology Group will need to repay a loan from the Company on 31 December 2024 (“**Loan Maturity Date**”). Management estimates that the principal and accrued interests will be approximately USD96,109,000 (equivalent to approximately RMB695,922,000 at the exchange rate as of 30 June 2023) at the Loan Maturity Date. The Youzan Technology Group has obtained written confirmation from the directors of the Company that, should the Youzan Technology Group be unable to repay the aforesaid loan at the Loan Maturity Date by its internal resources, the directors of the Company will make their best endeavour to extend the Loan Maturity Date or capitalise the loan on or before the Loan Maturity Date, subject to the approval of shareholders of the Company and other procedures and approvals required under the GEM Listing Rules. After considering the historic voting records of the independent shareholders in past general meetings to approve the loan advances or extension with over 90% of votes cast in favour and the financial feasibility of the Company, the Management are of the view that the aforesaid loan can successfully be extended or capitalized on or before the Loan Maturity Date.

In view of the above, the Management are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should Youzan Technology 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 Youzan Technology 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.

3. ADOPTION OF NEW AND REVISED HKFRSs

(a) Application of new and revised HKFRSs

During the Relevant Periods, the Youzan Technology Group has consistently adopted all applicable new, revised or amendments to HKFRSs issued by the HKICPA, which are effective for the accounting period commenced from 1 January 2023 for the preparation and presentation of the Historical Financial Information.

(b) New and revised HKFRSs in issue but not yet effective

The Youzan Technology Group has not applied any new standard, amendments to standards and interpretation that have been issued but are not yet effective for the financial year beginning 1 January 2023. The new standard, amendments to standards and interpretation include the following which may be relevant to the Youzan Technology Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1 – Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 16 – Lease Liability in a Sales and Leaseback	1 January 2024
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024

The Youzan Technology Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. financial instruments that are measured at fair value).

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Youzan Technology Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 5.

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below.

(a) Consolidation

The Historical Financial Information includes the financial statements of Youzan Technology and its subsidiaries up to 31 December. Subsidiaries are entities over which the Youzan Technology Group has control. The Youzan Technology Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Youzan Technology Group has power over an entity when the Youzan Technology Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Youzan Technology Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Youzan Technology Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) Youzan Technology's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated exchange reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Youzan Technology Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to Youzan Technology. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year/period between the non-controlling shareholders and owners of Youzan Technology.

Profit or loss and each component of other comprehensive income are attributed to the owners of Youzan Technology and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in Youzan Technology's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amounts by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of Youzan Technology.

In Youzan Technology's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Cost includes direct attributable costs of investments. The results of subsidiaries are accounted for by Youzan Technology on the basis of dividend received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(b) Business combination (other than under common control) and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Youzan Technology Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Youzan Technology Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Youzan Technology Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Youzan Technology Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(c) **Foreign currency translation**

(i) ***Functional and presentation currency***

Items included in the financial statements of each of the Youzan Technology Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). Youzan Technology's functional currency is United States Dollars ("**US\$**"). Primary subsidiaries of Youzan Technology were incorporated in the PRC and these subsidiaries considered Renminbi ("**RMB**") as their functional currency. The Historical Financial Information are presented in RMB, which is Youzan Technology's and the Youzan Technology Group's presentation currency. The directors of the Company consider that choosing RMB as the presentation currency best suit the needs of shareholders and investors.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in the term of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which Youzan Technology initially recognises such non-monetary assets or liabilities. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all foreign operations (none of which has the currency of hyperinflationary economy) that have a functional currency different from Youzan Technology's presentation currency are translated into Youzan Technology's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustment arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Property, plant and equipment

Property, plant and equipment are held for use in production or supply of goods or services, or for administrative purposes.

Property, plant and equipment are stated in the Historical Financial Information at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Youzan Technology Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	Over the shorter of unexpired term of lease and estimated useful lives, being no more than 20 years after the date of completion
Furniture and office equipment	20% – 33%
Motor vehicles	20% – 25%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset is recognised in profit or loss.

(e) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Intangible assets are amortised over their estimated useful lives on the straight-line method over their estimated useful lives. The principal annual rates are as follows:

Computer software	3 years
Trademark	10 years

The Youzan Technology Group determined the useful life of trademark with reference to the valid period of 10 years upon initial registration as allowed by the Trademark Law of the PRC.

(f) Leases

At inception of a contract, the Youzan Technology Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Youzan Technology Group as a lessee

Where the contract contains lease components and non-lease components, the Youzan Technology Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Youzan Technology Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Youzan Technology Group are primarily laptops and office furniture. When the Youzan Technology Group enters into a lease in respect of a low-value asset, the Youzan Technology Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

To determine the incremental borrowing rate, the Youzan Technology Group:

- where possible, uses recent – third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by its related subsidiaries, which does not have recent – third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Youzan Technology Group entities use that rate as a starting point to determine the incremental borrowing rate.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which the Youzan Technology Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Youzan Technology Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Youzan Technology Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the Youzan Technology Group took advantage of the practical expedient not to assess whether the rent concessions are lease modifications, are recognised the changes in consideration as negative lease payment in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory, property, plant and equipment or intangible assets.

Incremental costs of obtaining a contract are those costs that the Youzan Technology Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Incremental costs of obtaining a contract are capitalised when incurred if the costs are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the costs are expensed when incurred. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Youzan Technology Group entered into the contract. Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Youzan Technology Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised.

(i) Contract assets and contract liabilities

Contract asset is recognised when the Youzan Technology Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (“ECL”) in accordance with the policy set out in note 4(y) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Youzan Technology Group recognises the related revenue. A contract liability would also be recognised if the Youzan Technology Group has an unconditional right to receive consideration before the Youzan Technology Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Youzan Technology Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The Youzan Technology Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Youzan Technology Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Youzan Technology Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Youzan Technology Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Youzan Technology Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Youzan Technology Group derecognises financial liabilities when, and only when, the Youzan Technology Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(k) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt investments

Debt investments held by the Youzan Technology Group are classified into one of the following measurement categories:

- Amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.
- FVTOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVTPL if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Youzan Technology Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the financial assets at FVTOCI reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the financial assets at FVTOCI reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

(l) Trade and other receivables

A receivable is recognised when the Youzan Technology Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Youzan Technology Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Youzan Technology Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less allowance for credit losses.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Youzan Technology Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for ECL.

(n) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Youzan Technology Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out in notes (o) to (q) below.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Youzan Technology Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(p) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an equity after deducting all of its liabilities. Equity instruments issued by Youzan Technology are recorded at the proceeds received, net of direct issue cost.

(r) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Youzan Technology Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Subscription Solutions

The Youzan Technology Group offers SaaS (Software as a Service) which is a cloud-based software and related services to paying merchants. The Youzan Technology Group is responsible for delivering the cloud-based software, paying server hosting fees to external cloud computing infrastructure providers to ensure the SaaS running stably and accessible to all paying merchants. Revenue of subscription solutions includes fixed subscription fees and additional cloud service fees. Fixed subscription fees are generally recognised over time on a rateable basis over the contract term beginning on the date that the service is made available to merchant. The Youzan Technology Group charges the merchants variable cloud service fees that is generally calculated based on number of transactions processed through the SaaS products.

The Youzan Technology Group's channel partners introduce merchants to the Youzan Technology Group and are remunerated by commission based on certain percentage of the subscription fee. The Youzan Technology Group's channel partners are required to follow the Youzan Technology Group's pricing policy and the Youzan Technology Group is primarily responsible for the provision of service. Commissions paid to channel partners are incremental costs of obtaining contracts and are recognised as "capitalised contract costs" followed by charging into selling expenses on a rateable basis which is in line with the revenue recognition.

Most paying merchants have signed contracts with the Youzan Technology Group with terms of one to three years and pay full subscription fees in advance. Paying merchants can choose to pay their cloud service fees in advance or on demand. The portion that underlying service not yet provided to paying merchants at end of reporting period are recognised as "contract liabilities".

The Youzan Technology Group also provides paying merchants with customisation services based on standardised SaaS products. Revenue is recognised when control over the customised SaaS products has been transferred to the paying merchants. Paying merchants cannot receive and consume the benefits simultaneously from the Youzan Technology Group as well as control the customised SaaS products until the product has been passed to them. The Youzan Technology Group generally has no alternative use on the customised SaaS products due to contractual restrictions. However, an enforceable right to payment does not arise until the customised SaaS products are accepted by paying merchants. Therefore, revenue is recognised at a point in time when the customised SaaS products are received and accepted by paying merchants.

Costs to fulfil performance obligation of customisation services are recognised as “capitalised contract costs” followed by charging into cost of sales when the customised SaaS products are received and accepted by paying merchants which is in line with the revenue recognition.

Merchant Solutions

The Youzan Technology Group provides various value-added services to address paying merchants' online and/or offline operation needs, including transaction services, advertisement, online traffic monetisation, merchandise sourcing and distribution, consumer protection and sales of POS equipment.

(i) Transaction services

The Youzan Technology Group provides transaction services to help payees accepting, processing and settling payment transactions of payers in various payment scenarios. Revenue of transaction fees are recognised over the time of delivering of transaction service as paying merchants simultaneously receive and consume the benefits of transaction services. The Youzan Technology Group charges the payee a transaction fee that is generally calculated as a percentage of the total transaction amount processed and the Youzan Technology Group has right to decide the charging fee rate. Transaction services are recognised as revenue on a gross basis as the Youzan Technology Group is the principal in delivery of the transaction solutions to the payees. The Youzan Technology Group has concluded it is the principal because it controls the services before delivery to the payees, it is primarily responsible for the delivery of the services and has discretion in setting prices charged to payees. The Youzan Technology Group also has the unilateral ability to accept or reject a transaction based on criteria established by the Youzan Technology Group. The Youzan Technology Group is also liable for the costs of processing the transactions for the payees, and records such costs within cost of sales.

Transaction costs paid to upstream payment service providers to fulfil the performance obligation of transaction services are costs to fulfil contracts and are recognised as “capitalised contract costs” followed by charging into costs of sales which is in line with the revenue recognition.

(ii) Advertisement

The Youzan Technology Group arranges online marketing service to advertisers. Advertisement charge rate is prescribed by the social media. Social media grant to the Youzan Technology Group rebates in the form of prepayments for the social media’s services mainly based on the gross spending of the advertisers. Advertisers are usually required to pay in advance for the online marketing services. Management assessed that the arrangement suggesting the social media, rather than the Youzan Technology Group, is primarily responsible for providing the online marketing services and control the specified service before that service is transferred to the advertisers. The Youzan Technology Group is regarded as an intermediary in executing these transactions and therefore recognise agreed rebates from social media as revenue.

In some circumstances, the Youzan Technology Group offers discounts or rebates to the advertisers as part of its promotion activities. When determining whether the discounts or rebates represent consideration payable to customers, management assessed that (a) the Youzan Technology Group is an agent in the arrangement (therefore the advertisers are not the Youzan Technology Group’s customers); and (b) the discounts or rebates offered to the advertisers are not contractually required in the agreement between the Youzan Technology Group and the social media (therefore the Youzan Technology Group is not offering discounts or rebates on behalf of social media). As a result, the discounts or rebates offered by the Youzan Technology Group are not considered to represent consideration payable to customers. Rather, the discounts or rebates offered are promotion activities to attract advertisers and are accounted for as selling expenses.

(iii) Other value-added services

The Youzan Technology Group collects service fees from other value-added services, including online traffic monetization (Youzanke – 有贊客), merchandise sourcing and distribution (Youzan Distribution – 有贊分銷), consumer protection (Youzan Worry-Free Shopping – 有贊放心購), etc. The merchants are benefited from the above services only when the consumers accepted or received the underlying goods or services purchased from merchants, therefore revenue of these services are recognised at the point in time when the relevant orders settlement take place.

Revenue from the sale of point of sale equipment is recognised when control of the equipment has transferred, being when the equipment has been shipped to the merchants' specific location. A receivable is recognised by the Youzan Technology Group when the equipment is delivered to the merchants as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Others

Revenue from catering services is recognised at the point of sale of food and beverages to customers.

Revenue from management services provided to a related party is recognised over the time when services are rendered.

Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVTOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(s) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Youzan Technology Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Youzan Technology Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Youzan Technology Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Youzan Technology Group can no longer withdraw the offer of those benefits and when the Youzan Technology Group recognises restructuring costs and involves the payment of termination benefits.

(t) Share-based payments

The Company operates share option schemes where senior management and employees of the Youzan Technology Group are granted share options to acquire the shares of the Company at specified exercise prices. The Company and Youzan Technology also operates share award schemes to grant the shares of the Company and the shares of Youzan Technology to the senior management and employees of the Youzan Technology Group.

The fair value of the employee services received in exchange for the grant of share options and share awards of the Company, and the grant of share awards of Youzan Technology is recognised as staff costs in the consolidated statement of profit or loss with a corresponding increase in “Contribution from the Company” and “Share-based Payment Reserve” respectively. The fair value of the share options and share awards granted is measured at grant date, and spread over the respective vesting period during which the employees become unconditionally entitled to the share options and share awards.

During the vesting period, the number of share options and share awards that are expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years regarding the share options and share awards is charged or credited in the consolidated statement of profit or loss for the year of the review, unless the original staff costs qualify for recognition as an asset, with a corresponding adjustment to the “Contribution from the Company” and “Share-based Payment Reserve” respectively. On vesting date, the amount recognised as staff costs regarding the share options and share awards is adjusted to reflect the actual number of share options and share awards that vest (with a corresponding adjustment to “Contribution of the Company” and “Share-based Payment Reserve” respectively). The equity amount regarding the share options and share awards remains in “Contribution from the Company” and “Share-based Payment Reserve”.

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Youzan Technology Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Any specific borrowing that remain outstanding after the related asset is ready for its intend use or sales included in the general borrowing pool for calculation of capitalisation rate on general borrowing.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(v) Government grants

A government grant is recognised when there is reasonable assurance that the Youzan Technology Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Youzan Technology Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(w) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years/period and items that are never taxable or deductible. The Youzan Technology Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Youzan Technology Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Youzan Technology Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(x) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or that are not yet available for use are reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

The carrying amounts of other non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(y) Impairment of financial assets and contract assets

The Youzan Technology Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Youzan Technology Group always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Youzan Technology Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Youzan Technology Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Youzan Technology Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Youzan Technology Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Youzan Technology Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Youzan Technology Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Youzan Technology Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Youzan Technology Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Youzan Technology Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Youzan Technology Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (i) the financial instrument has a low risk of default,
- (ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Youzan Technology Group considers a financial asset to have low credit risk when the asset has external credit rating of “investment grade” in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of “performing”. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Youzan Technology Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Youzan Technology Group considers the changes in the risk that the specified debtor will default on the contract.

The Youzan Technology Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Youzan Technology Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Youzan Technology Group, in full (without taking into account any collaterals held by the Youzan Technology Group).

Irrespective of the above analysis, the Youzan Technology Group considers that default has occurred when a financial asset is more than 90 days past due unless the Youzan Technology Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Youzan Technology Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Youzan Technology Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Youzan Technology Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Youzan Technology Group in accordance with the contract and all the cash flows that the Youzan Technology Group expects to receive, discounted at the original effective interest rate.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Youzan Technology Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Youzan Technology Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Youzan Technology Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(z) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Youzan Technology Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(aa) Events after the reporting period

Events after the reporting period that provide additional information about the Youzan Technology Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

In applying the Youzan Technology Group's accounting policies, which are described in note 4, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the Historical Financial Information (apart from those involving estimations, which are dealt with below).

(a) *Business model assessment*

Classification and measurement of financial assets depends on the results of the SPPI (i.e. Solely Payments of Principal and Interest) test and the business model test. The Youzan Technology Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Youzan Technology Group monitors financial assets measured at amortised cost or FVTOCI that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Youzan Technology Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

(b) Significant increase in credit risk

As explained in note 4(y), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Youzan Technology Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

(c) Determining the lease term

In determining the lease term at the commencement date for leases that include renewal options exercisable by the Youzan Technology Group, the Youzan Technology Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Youzan Technology Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Youzan Technology Group's operation.

Generally, periods covered by an extension option in other properties leases have not been included in the lease liability because the Youzan Technology Group could replace the assets without significant cost or business disruption. See note 19 for further information.

The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Youzan Technology Group's control. During the Relevant Periods, no lease term has been reassessed.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Youzan Technology Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Youzan Technology Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amounts of property, plant and equipment as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023 were approximately RMB56,330,000, RMB41,140,000, RMB13,199,000 and RMB10,267,000 respectively.

The carrying amounts of right-of-use assets as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023 were approximately RMB238,850,000, RMB149,584,000, RMB8,148,000 and RMB7,937,000 respectively.

(b) Income taxes

The Youzan Technology Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

During the year ended 31 December 2020, income tax credit RMB16,636,000 was recognised. During the year ended 31 December 2021, income tax expenses RMB128,633,000 was recognised. During the year ended 31 December 2022, six months ended 30 June 2022 (unaudited) and 30 June 2023, income tax credit RMB5,775,000, RMB948,000 (unaudited) and RMB2,640,000 were recognised. Income tax credit was recognised in profit or loss based on the estimated future assessable profits of a subsidiary of the Youzan Technology Group and the expected tax rates applicable when those deferred tax reversal occurs.

(c) Impairment of trade receivables

The management of the Youzan Technology Group estimates the amount of impairment loss for ECL on trade receivables based on the credit risk of trade receivables. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Youzan Technology Group in accordance with the contract and all the cash flows that the Youzan Technology Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, the carrying amounts of trade receivables were RMB1,821,000, RMB4,292,000, RMB13,120,000 and RMB11,992,000 (net of allowance of doubtful debts of RMB1,262,000, RMB4,750,000, RMB8,428,000 and RMB14,401,000), respectively.

(d) Impairment loss for deposits and other receivables

The Youzan Technology Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the deposits and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts, in particular of a loss event, requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the prepayment, deposits and other receivables and doubtful debt expenses in the year/period in which such estimate has been changed.

As at 31 December 2022 and 30 June 2023, allowance for prepayment, deposits and other receivables was RMB3,065,000 and RMB2,414,000 respectively.

(e) Investments in financial assets at FVTPL

In the absence of quoted market prices in an active market, the Youzan Technology Group engaged an independent professional valuer to assist the Directors in assessing the fair value of the investments which classified as financial assets at FVTPL as at 31 December 2021, 31 December 2022 and 30 June 2023. The valuer estimated the fair value of the Youzan Technology Group's investments using valuation technique by considering information of the investees from a variety of sources, including the latest financial information of the investees, applicable market comparable financial ratios and discount for lack of marketability. The Directors have exercised their judgement to evaluate the appropriateness of the valuation technique and were satisfied that the method of valuation and assumptions used were reflective of the market conditions.

The carrying amounts of the Youzan Technology Group's investments in financial assets measured at FVTPL as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023 was Nil, RMB372,675,000, RMB285,642,000 and RMB288,824,000 respectively.

6. FINANCIAL RISK MANAGEMENT

The Youzan Technology Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Youzan Technology Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Youzan Technology Group's financial performance.

(a) Foreign currency risk

The Youzan Technology Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Youzan Technology Group entities. The Youzan Technology Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Youzan Technology Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, the Youzan Technology Group had no significant assets or liabilities denominated in currency other than respective functional currencies.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Youzan Technology Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, and other financial instruments. The Youzan Technology Group's exposure to credit risk arising from cash and cash equivalents and restricted bank balances is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Youzan Technology Group considers to have low credit risk.

Trade receivables

Customer credit risk is managed by each business unit subject to the Youzan Technology Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Youzan Technology Group normally does not grant any credit term to customers during the Relevant Periods unless some special cases. For those special cases, the Youzan Technology Group will grant a credit period less than 120 days. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Youzan Technology Group does not obtain collateral from customers.

The Youzan Technology Group apply the HKFRS 9 simplified approach to measure loss allowance for expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The expected loss rates are estimated based on the corresponding historical credit losses experienced over the past one year, adjusted with the expected change between current and forward-looking information on macroeconomic factors, if material.

The following table provides information about the Youzan Technology Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023:

	As at 31 December 2020		
	Expected loss	Gross	Loss
	rate	carrying	allowance
	%	amount	RMB'000
		RMB'000	RMB'000
Current (not past due)	41%	3,083	(1,262)
Up to 3 months past due	N/A	-	-
Over 6 months	N/A	-	-
		3,083	(1,262)
		3,083	(1,262)

As at 31 December 2021			
	Expected loss	Gross carrying amount	Loss allowance
	rate %	RMB'000	RMB'000
Current (not past due)	19%	5,312	(1,020)
Up to 3 months past due	100%	3,106	(3,106)
Over 6 months	100%	<u>624</u>	<u>(624)</u>
		<u>9,042</u>	<u>(4,750)</u>

As at 31 December 2022			
	Expected loss	Gross carrying amount	Loss allowance
	rate %	RMB'000	RMB'000
Current (not past due)	0%	13,120	–
Up to 3 months past due	100%	1,569	(1,569)
Over 6 months	100%	<u>6,859</u>	<u>(6,859)</u>
		<u>21,548</u>	<u>(8,428)</u>

As at 30 June 2023			
	Expected loss	Gross carrying amount	Loss allowance
	rate %	RMB'000	RMB'000
Current (not past due)	0%	11,992	–
Up to 3 months past due	100%	4,175	(4,175)
Over 6 months	100%	<u>10,226</u>	<u>(10,226)</u>
		<u>26,393</u>	<u>(14,401)</u>

Other financial assets at amortised cost

All of the Youzan Technology Group's financial assets at amortised cost are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12-month expected losses.

Financial assets at amortised cost include loan to a director, loan to an employee, deposits and other receivables, loans to fellow subsidiaries, amount due from a non-controlling shareholder of a subsidiary, amounts due from related companies, amounts due from fellow subsidiaries, time deposits, restricted bank balances and bank and cash balances.

Movement in the loss allowance for financial assets at amortised cost is as follows:

	Deposits and other receivables <i>RMB'000</i>
As at 1 January 2020, 31 December 2020 and 1 January 2021	–
Impairment losses recognised for the year	<u>3,065</u>
At 31 December 2021, 1 January 2022 and 31 December 2022	3,065
Reversal of allowance for the period	<u>(651)</u>
At 30 June 2023	<u><u>2,414</u></u>

(c) Liquidity risk

The Youzan Technology Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Youzan Technology Group's financial liabilities is as follows:

	Less than 1 year RMB'000	Between 2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
At 31 December 2020				
Accruals and other payables	523,439	–	–	523,439
Amounts due to fellow subsidiaries	4,469	–	–	4,469
Amount due to non-controlling shareholders of a subsidiary	256	–	–	256
Lease liabilities	31,704	176,935	122,716	331,355
At 31 December 2021				
Accruals and other payables	515,587	–	–	515,587
Amount due to the Company	1,043	–	–	1,043
Amounts due to non-controlling shareholders of a subsidiary	306	–	–	306
Lease liabilities	62,729	194,496	79,848	337,073
At 31 December 2022				
Accruals and other payables	368,732	–	–	368,732
Amount due to the Company	1,129	–	–	1,129
Amounts due to non-controlling shareholders of a subsidiary	69	–	–	69
Borrowings	489,704	–	–	489,704
Lease liabilities	23,359	76,773	14,350	114,482
Loans from the Company	–	657,817	–	657,817
At 30 June 2023				
Accruals and other payables	314,724	–	–	314,724
Amount due to fellow subsidiaries	4,376	–	–	4,376
Amount due to the Company	1,187	–	–	1,187
Amounts due to non-controlling shareholders of a subsidiary	73	–	–	73
Borrowings	199	494,805	–	495,004
Lease liabilities	22,091	84,331	–	106,422
Loans from the Company	–	695,922	–	695,922

(d) Interest rate risk

The Youzan Technology Group's exposure to interest-rate risk major arises from its time deposits, bank deposits, borrowings and loans from the Company. The deposits bear interests at variable rate varied with the prevailing market condition.

The Youzan Technology Group's loan to a director, loan to an employee and loans to fellow subsidiaries during the Relevant Periods were bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Youzan Technology Group's general loans from the Company are charged by 2% per annum above the Hong Kong dollar prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited ("**Prime Rate**") during the Relevant Periods.

The Youzan Technology Group's borrowings from bank during the Relevant Periods were bear interest at fixed rate 3.9% per annum and therefore subject to fair value interest rate risks (note 39).

At 31 December 2020, if interest rates at that date had been 100 basis points higher with all other variables held constant, consolidated loss after tax for the year would have been RMB12,171,000 lower, arising mainly as a result of higher interest income on bank deposits. If interest rates had been 100 basis points lower, with all other variables held constant, consolidated loss after tax for the year would have been RMB12,171,000 higher, arising mainly as a result of lower interest income on bank deposits.

At 31 December 2021, if interest rates at that date had been 100 basis points higher with all other variables held constant, consolidated loss after tax for the year would have been RMB2,605,000 lower, arising mainly as a result of higher interest income on bank deposits net of higher interest expenses on loan from ultimate holding company. If interest rates had been 100 basis points lower, with all other variables held constant, consolidated loss after tax for the year would have been RMB2,605,000 higher, arising mainly as a result of lower interest income on bank deposits net of lower interest expenses on loan from ultimate holding company.

At 31 December 2022, if interest rates at that date had been 100 basis points higher with all other variables held constant, consolidated loss after tax for the year would have been RMB5,637,000 lower, arising mainly as a result of higher interest income on bank deposits. If interest rates had been 100 basis points lower, with all other variables held constant, consolidated loss after tax for the year would have been RMB5,637,000 higher, arising mainly as a result of lower interest income on bank deposits.

At 30 June 2023, if interest rates at that date had been 100 basis points higher with all other variables held constant, consolidated loss after tax for the period would have been RMB5,086,000 lower, arising mainly as a result of higher interest income on bank deposits. If interest rates had been 100 basis points lower, with all other variables held constant, consolidated loss after tax for the period would have been RMB5,086,000 higher, arising mainly as a result of lower interest income on bank deposits.

(e) Categories of financial instruments

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Financial assets:				
Financial assets measured at amortised cost	1,601,458	392,754	767,446	669,520
Financial assets as at FVTPL	<u>–</u>	<u>372,675</u>	<u>285,642</u>	<u>288,824</u>
Financial liabilities:				
Financial liabilities at amortised cost	806,118	516,936	944,856	320,557
Loans from the Company	–	–	574,692	625,751
Borrowings	<u>–</u>	<u>–</u>	<u>480,986</u>	<u>460,648</u>

(f) Fair values

The carrying amounts of the Youzan Technology Group's financial assets and financial liabilities as reflected in the consolidated statements of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

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 Youzan Technology 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 Youzan Technology 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 31 December/30 June:

	Fair value measurements using:			As at
	Level 1	Level 2	Level 3	31 December
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Recurring fair value measurements:				
Financial assets				
Financial assets at FVTOCI – unlisted equity securities	-	-	-	-
Financial assets at FVTPL – unlisted preferred shares	-	-	-	-
Financial assets at FVTPL – unlisted equity securities	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Fair value measurements using:			As at
	Level 1	Level 2	Level 3	31 December
	RMB'000	RMB'000	RMB'000	2021
				RMB'000
Recurring fair value measurements:				
Financial assets				
Financial assets at FVTPL – unlisted preferred shares	-	-	363,740	363,740
Financial assets at FVTPL – unlisted equity securities	-	-	8,935	8,935
	<u>-</u>	<u>-</u>	<u>8,935</u>	<u>8,935</u>
	<u>-</u>	<u>-</u>	<u>372,675</u>	<u>372,675</u>

	Fair value measurements using:			As at
	Level 1	Level 2	Level 3	31 December
	RMB'000	RMB'000	RMB'000	2022
Recurring fair value measurements:				
Financial assets				
Financial assets at FVTPL – unlisted preferred shares	-	-	280,891	280,891
Financial assets at FVTPL – unlisted equity securities	-	-	4,751	4,751
	<u>-</u>	<u>-</u>	<u>4,751</u>	<u>4,751</u>
	<u>-</u>	<u>-</u>	<u>285,642</u>	<u>285,642</u>

	Fair value measurements using:			As at
	Level 1	Level 2	Level 3	30 June
	RMB'000	RMB'000	RMB'000	2023
Recurring fair value measurements:				
Financial assets				
Financial assets at FVTPL – unlisted preferred shares	-	-	283,645	283,645
Financial assets at FVTPL – unlisted equity securities	-	-	5,179	5,179
	<u>-</u>	<u>-</u>	<u>5,179</u>	<u>5,179</u>
	<u>-</u>	<u>-</u>	<u>288,824</u>	<u>288,824</u>

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

	Financial assets at FVTOCI – unlisted equity securities RMB'000	Financial assets at FVTPL – unlisted equity securities RMB'000	Financial assets measured at FVTPL – preferred shares RMB'000	Total RMB'000
Financial assets				
At 1 January 2020	12,407	–	–	12,407
Step acquisition during the year	(696)	–	–	(696)
Total gain or losses recognised in other comprehensive income	11,347	–	–	11,347
Disposal during the year	(23,058)	–	–	(23,058)
At 31 December 2020 and 1 January 2021	–	–	–	–
Addition capital contribution				
– Cash consideration paid for the year	–	10,620	278,796	289,416
– Earnest money paid in the year ended 31 December 2020 and recognised as investment during the year (note 23)	–	–	50,000	50,000
– Consideration payable (note 33)	–	–	10,195	10,195
Total gain or losses recognised				
– In profit or loss	–	(1,685)	25,443	23,758
Exchange difference	–	–	(694)	(694)
At 31 December 2021 and 1 January 2022	–	8,935	363,740	372,675
Additions during the year	–	–	20,000	20,000
Cash received from redemption	–	–	(30,000)	(30,000)
Loss on redemption of financial asset at FVTPL	–	–	(5,384)	(5,384)
Total gain or losses recognised				
– In profit or loss	–	(4,184)	(69,153)	(73,337)
Exchange difference	–	–	1,688	1,688
At 31 December 2022 and 1 January 2023	–	4,751	280,891	285,642
Total gain or losses recognised				
– In profit or loss	–	428	2,054	2,482
Exchange difference	–	–	700	700
At 30 June 2023	–	5,179	283,645	288,824

- (c) Disclosure of valuation process used by the Youzan Technology Group and valuation technique and inputs used in fair value measurements at 31 December/30 June:

The Youzan Technology 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 measurements. 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 once a year.

For level 3 fair value measurements as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, the Youzan Technology Group will normally engage an independent external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Parameters	Effect on fair value for increase of inputs	Sensitivity of fair value to the input	Fair value			
						As at 31 December		As at 30 June	
						2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Financial assets at FVTPL – preferred shares Group Companies A	Market multiple with an adjustment of lack of marketability discount (“DLOM”)	Enterprise value to sales multiple (“EV/S”)	2020: N/A 2021: 6.25x -10.85x 2022: 2.65x -8.9x 2023.06: 2.78x-9.78x	Increase in unobservable input will increase the fair value	2020: N/A 2021: 10%-20% increase/decrease in EV/S would result in increase/decrease fair value by RMB689,000-RMB11,308,000/ RMB712,000-RMB11,652,000 2022: 10%-20% increase/decrease in EV/S would result in increase/decrease fair value by RMB398,000-RMB7,451,000/ RMB420,000-RMB7,815,000 2023.06: 10%-20% increase/decrease in EV/S would result in increase/decrease fair value by RMB496,000-RMB7,948,000/ RMB517,000-RMB8,281,000	N/A	302,510	225,960	235,892
		DLOM	2020: N/A 2021: 17.03%-32.41% 2022: 16.57%-30.64% 2023.06: 16.22%-39.49%	Increase in unobservable input will decrease the fair value	2020: N/A 2021: 20% increase/decrease in DLOM would result in decrease/increase in fair value of RMB712,000-RMB12,678,000/ RMB689,000-RMB12,273,000 2022: 20% increase/decrease in DLOM would result in decrease/increase in fair value of RMB180,000-RMB8,401,000/ RMB177,000-RMB7,982,000 2023.06: 20% increase/decrease in DLOM would result in decrease/increase in fair value of RMB286,000-RMB12,492,000/ RMB279,000-RMB11,747,000				
		Volatility (“VOL”)	2020: N/A 2021: 44.28%-76.77% 2022: 47.71%-73.28% 2023.06: 44.04%-67.4%	Increase in unobservable input will decrease the fair value	2020: N/A 2021: 10%-20% increase/decrease in VOL would result in decrease/increase in fair value of RMB558,000-RMB12,603,000/ RMB560,000-RMB12,763,000 2022: 10%-20% increase/decrease in VOL would result in decrease/increase in fair value of RMB55,000- RMB11,954,000/ RMB62,000-RMB12,972,000 2023.06: 10%-20% increase/decrease in VOL would result in decrease/increase in fair value of RMB121,000-RMB13,080,000/ RMB105,000-RMB14,552,000				

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Parameters	Effect on fair value for increase of inputs	Sensitivity of fair value to the input	Fair value					
						As at 31 December			As at		
						2020	2021	2022	30 June		
	RMB'000	RMB'000	RMB'000	RMB'000							
Financial assets at FVTPL – preferred shares Company B	Market multiples with an adjustment of DLOM	Enterprise value to its earnings before interest, taxes, depreciations and amortisation (“EV/EBITDA”)	2020: N/A	Increase in unobservable input will increase the fair value	2020: N/A 2021: 10% increase/decrease in EV/EBITDA would result in increase/decrease in fair value by RMB2,131,000/RMB2,193,000 2022: N/A 2023.06: N/A	N/A	61,230	44,715	38,730		
			2021: 26.04x								
			2022: N/A 2023.06: N/A								
		EV/S	2020: N/A	Increase in unobservable input will increase the fair value	2020: N/A 2021: N/A 2022: 10% increase/decrease in EV/S would result in increase/decrease in fair value by RMB1,863,000/RMB1,851,000 2023.06:10% increase/decrease in EV/S would result in increase/decrease in fair value by RMB1,443,000/RMB1,445,000	2020: N/A 2021: N/A 2022: 10%	N/A	61,230	44,715	38,730	
			2021: N/A								
			2022: 6.93x 2023.06: 6.01x								
		DLOM	2020: N/A	Increase in unobservable input will decrease the fair value	2020: N/A 2021: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB3,070,000/RMB2,950,000 2022: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB1,581,000/RMB1,590,000 2023.06: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB1,191,000/RMB1,190,000	2020: N/A 2021: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB3,070,000/RMB2,950,000 2022: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB1,581,000/RMB1,590,000 2023.06: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB1,191,000/RMB1,190,000	2020: N/A 2021: 20%	N/A	61,230	44,715	38,730
			2021: 33.48%								
			2022: 25.92% 2023.06: 26.57%								
VOL	2020: N/A	Increase in unobservable input will decrease the fair value	2020: N/A 2021: 20% increase/decrease in VOL would result in decrease/increase in fair value by RMB2,955,000/RMB2,972,000 2022: 20% increase/decrease in VOL would result in decrease/increase in fair value by RMB155,000/RMB502,000 2023.06: 20% increase/decrease in VOL would result in decrease/increase in fair value by RMB203,000/RMB142,000	2020: N/A 2021: 20% increase/decrease in VOL would result in decrease/increase in fair value by RMB2,955,000/RMB2,972,000 2022: 20% increase/decrease in VOL would result in decrease/increase in fair value by RMB155,000/RMB502,000 2023.06: 20% increase/decrease in VOL would result in decrease/increase in fair value by RMB203,000/RMB142,000	2020: N/A 2021: 20% increase/decrease in VOL would result in decrease/increase in fair value by RMB2,955,000/RMB2,972,000 2022: 20% increase/decrease in VOL would result in decrease/increase in fair value by RMB155,000/RMB502,000 2023.06: 20% increase/decrease in VOL would result in decrease/increase in fair value by RMB203,000/RMB142,000	N/A	N/A	10,216	9,023		
	2021: 67.11%										
	2022: 67.93% 2023.06: 70.96%										
Financial assets at FVTPL – preferred shares Company C	Market multiples with an adjustment of DLOM	EV/EBITDA	2020: N/A	Increase in unobservable input will increase the fair value	2020: N/A 2021: N/A 2022: 10% increase/decrease in EV/EBITDA would result in increase/decrease in fair value by RMB704,000/RMB688,000 2023.06: 10% increase/decrease in EV/EBITDA would result in increase/decrease in fair value by RMB544,000/RMB534,000	N/A	N/A	10,216	9,023		
			2021: N/A								
		DLOM	2020: N/A	Increase in unobservable input will decrease the fair value	2020: N/A 2021: N/A 2022: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB291,000/RMB294,000 2023.06: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB247,000/RMB249,000	2020: N/A 2021: N/A 2022: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB291,000/RMB294,000 2023.06: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB247,000/RMB249,000	2020: N/A 2021: N/A 2022: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB291,000/RMB294,000 2023.06: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB247,000/RMB249,000	N/A	N/A	10,216	9,023
			2021: N/A								
			2022: 18.23% 2023.06: 19.73%								

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Parameters	Effect on fair value for increase of inputs	Sensitivity of fair value to the input	Fair value			
						As at 31 December			As at
						2020	2021	2022	30 June
						RMB'000	RMB'000	RMB'000	RMB'000
		VOL	2020: N/A 2021: N/A 2022: 49.25% 2023.06: 52.83%	Increase in unobservable input will decrease the fair value	2020: N/A 2021: N/A 2022: 20% increase/decrease in VOL would result in decrease/increase in fair value by RMB76,000/RMB63,000 2023.06: 20% increase/decrease in VOL would result in decrease/increase in fair value by RMB31,000/RMB21,000				
Financial assets measured at FVTPL - unlisted equity securities	Market multiples with an adjustment of DLOM	EV/S	2020: N/A 2021: 9.48x 2022: 7.03x 2023.06: 7.08x	Increase in unobservable input will increase the fair value	2020: N/A 2021: 10% increase/decrease in EV/S would result in increase/decrease in fair value by RMB897,000/RMB897,000 2022: 10% increase/decrease in EV/S would result in increase/decrease in fair value by RMB497,000/RMB496,000 2023.06: 10% increase/decrease in EV/S would result in increase/decrease in fair value by RMB555,000/RMB555,000	N/A	8,935	4,751	5,179
		DLOM	2020: N/A 2021: 20.75% 2022: 19.17% 2023.06: 19.68%	Increase in unobservable input will decrease the fair value	2020: N/A 2021: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB468,000/RMB468,000 2022: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB225,000/RMB226,000 2023.06: 20% increase/decrease in DLOM would result in decrease/increase in fair value by RMB254,000/RMB254,000				
		VOL	2020: N/A 2021: 56% 2022: 51.91% 2023.06: 52.7%	Increase in unobservable input will decrease the fair value	2020: N/A 2021: 10% increase/decrease in VOL would result in decrease/increase in fair value by RMB238,000/RMB240,000 2022: 10% increase/decrease in VOL would result in decrease/increase in fair value by RMB117,000/RMB116,000 2023.06: 10% increase/decrease in VOL would result in decrease/increase in fair value by RMB129,000/RMB130,000				

The aforementioned valuation techniques are group in accordance with their classification and their valuation techniques.

There is no change in valuation techniques for valuations for the Relevant Periods, except for the change of the use of unobservable inputs for the preferred shares in Company B as disclosed above. There were two additions in year ended 31 December 2022 which are Company C and one of the companies in Group Companies A.

For the valuation of the preferred shares in Company B, one of the unobservable inputs is changed due to market multiple previously used is not appropriate to show the fair value of the preferred shares in Company B as at 31 December 2022 and 30 June 2023.

8. REVENUE**(a) Disaggregation of revenue**

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

	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue from contracts with customers within the scope of HKFRS 15					
Subscription Solutions	1,047,951	973,813	890,223	439,197	422,266
Merchant Solutions (note (i))	513,991	299,348	268,261	129,426	144,194
Others	14,042	10,842	8,818	5,548	1,985
	<u>1,575,984</u>	<u>1,284,003</u>	<u>1,167,302</u>	<u>574,171</u>	<u>568,445</u>

The Youzan Technology Group derives revenue from the transfer of goods and services over time and at a point in time in the following geographical region:

	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Primary geographical markets					
– PRC except Hong Kong	1,575,984	1,282,155	1,165,738	573,166	567,209
– Japan	–	1,281	790	359	890
– Canada	–	567	774	646	346
	<u>1,575,984</u>	<u>1,284,003</u>	<u>1,167,302</u>	<u>574,171</u>	<u>568,445</u>
Revenue from external customers					
	<u>1,575,984</u>	<u>1,284,003</u>	<u>1,167,302</u>	<u>574,171</u>	<u>568,445</u>
Timing of revenue recognition					
Products and services transferred at a point in time	305,995	282,657	269,432	116,631	120,725
Products and services transferred over time	1,269,989	1,001,346	897,870	457,540	447,720
	<u>1,269,989</u>	<u>1,001,346</u>	<u>897,870</u>	<u>457,540</u>	<u>447,720</u>
Total	<u>1,575,984</u>	<u>1,284,003</u>	<u>1,167,302</u>	<u>574,171</u>	<u>568,445</u>

Note:

- (i) Merchant Solutions include transaction fee income of approximately RMB188,778,000, RMB21,603,000, Nil, Nil and Nil for the years ended 31 December 2020, 31 December 2021, 31 December 2022 and for the six months ended 30 June 2022 and 30 June 2023 respectively. The Youzan Technology Group ceased its transaction service in February 2021 and no transaction fee income was generated afterwards.

(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 year/period end and the expected timing of recognising revenue as follows:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Within 1 year	611,236	683,492	620,136	585,885
More than 1 year but not more than 2 years	53,740	53,811	49,127	46,695
More than 2 years	<u>2,631</u>	<u>1,635</u>	<u>224</u>	<u>1,136</u>
	<u>667,607</u>	<u>738,938</u>	<u>669,487</u>	<u>633,716</u>

9. INVESTMENT AND OTHER INCOME

	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest income on:					
Bank deposits	2,358	12,947	9,420	1,767	8,782
Loan to others	109	-	-	-	-
Loans to fellow subsidiaries	170	569	-	-	-
Financial assets at FVTPL	<u>6,204</u>	<u>4,406</u>	<u>1,423</u>	<u>1,262</u>	<u>-</u>
Total interest income	8,841	17,922	10,843	3,029	8,782
Government grants (#)	11,925	6,337	7,090	7,052	4,858
VAT super-credit	14,472	7,637	2,489	1,411	1,686
Others	<u>6,311</u>	<u>11,482</u>	<u>15,643</u>	<u>8,182</u>	<u>6,714</u>
	<u>41,549</u>	<u>43,378</u>	<u>36,065</u>	<u>19,674</u>	<u>22,040</u>

During the Relevant Periods, the Youzan Technology Group recognised government grants as follow:

	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Blockchain industry park subsidies	500	–	–	–	–
Capital investment subsidies	2,100	2,726	–	–	–
COVID-19 related subsidies	1,401	3	–	–	–
Entity-specific financial support	3,674	1,858	6,801	6,763	4,858
High and New Technology Enterprise subsidies	500	1,750	200	200	–
Research and development project subsidies	3,750	–	89	89	–
	<u>11,925</u>	<u>6,337</u>	<u>7,090</u>	<u>7,052</u>	<u>4,858</u>

There were no unfulfilled conditions and other contingent attached of the receipts of all above government grants.

10. OTHER GAINS AND LOSSES, NET

	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Allowance for trade receivables, net (note 25)	(1,262)	(3,488)	(3,678)	(1,628)	(5,944)
(Allowance)/reversal of allowance for other receivables, net (note 26)	–	–	(3,065)	(653)	651
Impairment loss of property, plant and equipment (note 18)	–	(22,110)	–	–	–
Impairment loss of right-of-use assets (note 19)	–	(80,393)	–	–	–
Impairment loss of goodwill (note 21)	(1,047)	–	–	–	–
Net gain on early termination of leases	222	82	32,328	10,169	–
Net foreign exchange (losses)/gains	(7,301)	(2,706)	5,830	346	(1,866)
Gain on derecognition of other payables	–	–	6,997	–	14,432
Property, plant and equipment written off	(2)	–	–	–	–
Property, plant and equipment written off for termination of leases	–	–	(19,002)	(15,611)	–
Net gain on disposals of property, plant and equipment	156	538	2,963	610	297
Gain on disposal of a subsidiary (note 46(d))	–	–	4,603	–	–
Written off of trade receivables	(345)	(643)	–	–	–
Loss on redemption of financial assets at FVTPL (note 7(b))	–	–	(5,384)	–	–
Others	–	(200)	(198)	564	434
	<u>(9,579)</u>	<u>(108,920)</u>	<u>21,394</u>	<u>(6,203)</u>	<u>8,004</u>

11. FINANCE COSTS

	Years ended 31 December			Six months ended 30 June	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (unaudited)	2023 RMB'000
Interest expenses on lease liabilities (note 19)	19,236	21,668	15,160	10,290	4,342
Interest on other loans	8,361	-	-	-	-
Interest on borrowings	-	-	9,924	359	9,251
Interest on loans from the Company (note 41)	<u>16,634</u>	<u>-</u>	<u>29,005</u>	<u>10,549</u>	<u>20,930</u>
	<u>44,231</u>	<u>21,668</u>	<u>54,089</u>	<u>21,198</u>	<u>34,523</u>

12. SEGMENT INFORMATION

The Youzan Technology Group has carried on a single business in a single geographical location, which is the provision of cloud-based commerce services by offering a wide variety of cloud-based commerce services to merchants through Subscription Solutions and Merchant Solutions in the PRC, and all the assets are substantially located in the PRC. Accordingly, there is only one single business reportable segment which is regularly reviewed by the chief operating decision maker.

The Youzan Technology Group's reportable segment is a strategic business unit that offers different products. It is centrally managed with the required technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 4 to the Historical Financial Information.

13. INCOME TAX (CREDIT)/EXPENSE

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

	Years ended 31 December			Six months ended 30 June	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (unaudited)	2023 RMB'000
Current tax – the PRC					
- Provision for the year/period	6	-	-	-	-
- Under-provision in prior years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168</u>
	<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168</u>
Deferred tax (note 42)	<u>(16,642)</u>	<u>128,633</u>	<u>(5,775)</u>	<u>(948)</u>	<u>(2,808)</u>
	<u>(16,636)</u>	<u>128,633</u>	<u>(5,775)</u>	<u>(948)</u>	<u>(2,640)</u>

PRC Enterprise Income Tax has been provided at a rate of 25% for the Relevant Periods.

No provision for Hong Kong Profits Tax is required since the Youzan Technology Group has no assessable profit during the Relevant Periods.

Pursuant to the rules and regulations of Cayman Islands, Youzan Technology is not subject to any income tax in these jurisdictions.

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

One of the Youzan Technology 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 was entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2018 and from 1 January 2021 after the renewal 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 applicable tax rate for this subsidiary for the Relevant Period is 15%.

The reconciliation between the income tax (credit)/expense and the product of loss before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

	Years ended 31 December			Six months ended 30 June	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (unaudited)	2023 RMB'000
Loss before tax	<u>(353,848)</u>	<u>(995,375)</u>	<u>(642,656)</u>	<u>(551,895)</u>	<u>(42,922)</u>
Tax at the PRC Enterprise Income Tax rate of 25%	(88,462)	(248,844)	(160,664)	(137,974)	(10,731)
Tax effect of expenses that are not deductible	14,848	40,650	20,091	7,073	5,487
Tax effect of income that are not taxable	(125)	(2,222)	(1,715)	(196)	(647)
Tax effect of super deduction of qualified research and development expenditure	(26,518)	(32,063)	(32,697)	(10,363)	(11,062)
Tax effect of temporary differences not recognised	(13,882)	1,838	(356)	6,588	(2,720)
Tax effect of unused tax losses not recognised	70,497	164,684	118,568	86,884	16,853
Tax effect of utilisation of tax losses not previously recognised	(71)	-	-	-	-
Tax losses previously recognised and reversed	-	128,433	-	-	-
Under-provision in prior years	-	-	-	-	168
Effect of different tax rates of subsidiaries	<u>27,077</u>	<u>76,157</u>	<u>50,998</u>	<u>47,040</u>	<u>12</u>
Income tax (credit)/expense	<u>(16,636)</u>	<u>128,633</u>	<u>(5,775)</u>	<u>(948)</u>	<u>(2,640)</u>

14. LOSS FOR THE RELEVANT PERIODS

The Youzan Technology Group's loss for the Relevant Periods are stated after charging/(crediting) the following:

	Years ended 31 December			Six months ended 30 June	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (unaudited)	2023 RMB'000
Depreciation of property, plant and equipment (note 18)	14,903	18,167	10,344	6,307	3,131
Impairment of property, plant and equipment (note 18)	–	22,110	–	–	–
Property, plant and equipment written off	2	–	–	–	–
Property, plant and equipment written off for termination of leases (note 10)	–	–	19,002	15,611	–
Net gain on disposals of property, plant and equipment (note 10)	(156)	(538)	(2,963)	(610)	(297)
Depreciation of right-of-use assets (note 19)	39,000	47,064	22,718	17,531	4,018
Impairment loss on right-of-use assets (note 19)	–	80,393	–	–	–
Amortisation of intangible assets (note 20)	128	211	191	94	96
Impairment loss on goodwill (note 21)	1,047	–	–	–	–
Loss on redemption of financial assets at FVTPL	–	–	5,384	–	–
Amortisation of capitalised contract costs (note 27)	212,842	243,288	215,699	118,312	97,554
Allowance/(reversal of allowance) for inventories (include in cost of sales)	82	290	(372)	–	–
Cost of inventories sold	–	8,105	3,972	1,154	1,166
Allowance for trade receivables, net (note 25)	1,262	3,488	3,678	1,628	5,944
Written off of trade receivables (note 10)	345	643	–	–	–
Allowance/(reversal of allowance) for other receivables, net (note 26)	–	–	3,065	653	(651)
Gain on derecognition of other payables	–	–	(6,997)	–	(14,432)
Net gain on early termination of leases (note 10)	(222)	(82)	(32,328)	(10,169)	–
Penalty of early termination of leases (included in administrative expenses)	–	–	7,788	4,345	–
Gain on disposal of a subsidiary (notes 10 and 46(d))	–	–	(4,603)	–	–
Research and development expenditure (included in other operating expenses and equity-settled share-based payments) [#]	408,040	547,444	282,231	188,014	96,799

[#] Research and development expenditures include the relevant portion of staff cost, depreciation of right-of-use assets, technology services expenses and equity-settled share-based payments.

15. EMPLOYEE BENEFITS EXPENSES

	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Employee benefits expense (including Youzan Technology's directors' emoluments):					
Salaries, bonuses and allowances	976,321	1,281,725	935,781	603,256	347,253
Termination compensation	–	–	86,682	65,190	–
Equity-settled share-based payment for termination compensation	–	–	14,423	–	–
Equity-settled share-based payments	45,215	30,217	52,115	39,517	5,106
Retirement benefit scheme contributions	38,481	89,706	68,224	45,544	17,842
	<u>1,060,017</u>	<u>1,401,648</u>	<u>1,157,225</u>	<u>753,507</u>	<u>370,201</u>

Five highest paid individuals

The five highest paid individuals in the Youzan Technology Group for the Relevant Periods included two, four, three, four and five directors of Youzan Technology for the years ended 31 December 2020, 31 December 2021, 31 December 2022 and six months ended 30 June 2022 (unaudited) and 30 June 2023 respectively, whose emoluments are reflected in the analysis presented in note 16(a). The emoluments of the remaining three, one, one and nil individuals for the years ended 31 December 2020, 31 December 2021, 31 December 2022 and six months ended 30 June 2022 (unaudited) and 30 June 2023 respectively, are set out below:

	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Basic salaries and allowances	4,134	1,826	3,127	–	–
Equity-settled share-based payments from ultimate holding company	4,390	15,607	18,326	12,128	–
Retirement benefit scheme contributions	82	33	40	–	–
	<u>8,606</u>	<u>17,466</u>	<u>21,494</u>	<u>12,128</u>	<u>–</u>

The emoluments fell with the following band:

	Number of individuals				
	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
				(unaudited)	
HK\$2,500,001 to HK\$3,000,000	-	-	-	-	-
HK\$3,000,001 to HK\$3,500,000	-	-	1	-	-
HK\$3,500,001 to HK\$4,000,000	-	-	-	-	-
HK\$4,000,001 to HK\$4,500,000	1	-	-	-	-
HK\$4,500,001 to HK\$5,000,000	-	-	-	-	-
HK\$5,000,001 to HK\$5,500,000	1	-	-	-	-
HK\$5,500,001 to HK\$6,000,000	-	-	-	-	-
HK\$6,000,001 to HK\$6,500,000	-	-	-	-	-
HK\$6,500,001 to HK\$7,000,000	-	-	-	-	-
HK\$7,000,001 to HK\$7,500,000	-	-	-	-	-
HK\$7,500,001 to HK\$8,000,000	-	-	-	-	-
HK\$8,000,001 to HK\$8,500,000	-	-	-	-	-
HK\$8,500,001 to HK\$9,000,000	-	-	-	-	-
HK\$9,000,001 to HK\$9,500,000	-	-	-	-	-
HK\$9,500,001 to HK\$10,000,000	1	-	-	-	-
HK\$10,000,001 to HK\$10,500,000	-	-	-	-	-
HK\$10,500,001 to HK\$11,000,000	-	-	-	-	-
HK\$11,000,001 to HK\$11,500,000	-	-	-	-	-
HK\$11,500,001 to HK\$12,000,000	-	-	-	-	-
HK\$12,000,001 to HK\$12,500,000	-	-	-	1	-
HK\$12,500,001 to HK\$14,000,000	-	-	-	-	-
HK\$14,000,001 to HK\$14,500,000	-	-	-	-	-
HK\$14,500,001 to HK\$16,000,000	-	-	-	-	-
HK\$16,000,001 to HK\$16,500,000	-	-	-	-	-
HK\$16,500,001 to HK\$17,000,000	-	-	-	-	-
HK\$17,000,001 to HK\$17,500,000	-	1	-	-	-
HK\$17,500,001 to HK\$18,000,000	-	-	1	-	-
	<u>3</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>-</u>

During the Relevant Periods, no emoluments were paid by the Youzan Technology Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Youzan Technology Group or as compensation for loss of office.

16. BENEFITS AND INTERESTS OF YOUZAN TECHNOLOGY'S DIRECTORS

(a) Directors' emoluments

	Emoluments paid or receivables in respect of a person's services as a director whether of Youzan Technology or its subsidiary undertaking					Total RMB'000
	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	(Note (i)) Estimated money value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	
Directors						
Zhu Ning	-	371	140	-	23	534
Cui Yusong	-	372	162	-	23	557
Yu Tao	-	371	125	-	23	519
Ying Hangyan	-	372	132	-	23	527
Huan Fang (note (vii))	-	-	-	-	-	-
David Su Tuong Sing (note (ii))	-	-	-	-	-	-
Huang Liming (note (iv))	-	-	-	-	-	-
Huang Rongrong (note (v))	-	912	371	-	23	1,306
Guan Guisen (note (iii))	-	-	-	-	-	-
Li Zhiguo (note (vi))	-	-	-	-	-	-
Total for year ended 31 December 2020	-	2,398	930	-	115	3,443
Directors						
Zhu Ning	-	380	50	-	33	463
Cui Yusong	-	381	50	-	33	464
Yu Tao	-	380	50	-	33	463
Ying Hangyan	-	381	50	-	33	464
Huan Fang (note (vii))	-	381	50	2,529	33	2,993
Total for year ended 31 December 2021	-	1,903	250	2,529	165	4,847
Directors						
Zhu Ning	-	272	125	37,030	35	37,462
Cui Yusong	-	272	119	111	35	537
Yu Tao	-	272	103	110	35	520
Ying Hangyan	-	272	113	110	35	530
Huan Fang (note (vii))	-	307	423	1,055	40	1,825
Total for year ended 31 December 2022	-	1,395	883	38,416	180	40,874
Directors						
Zhu Ning	-	191	62	36,920	18	37,191
Cui Yusong	-	191	60	-	18	269
Yu Tao	-	191	51	-	18	260
Ying Hangyan	-	191	56	-	18	265
Huan Fang (note (vii))	-	191	63	703	18	975
Total for six months ended 30 June 2022 (unaudited)	-	955	292	37,623	90	38,960
Directors						
Zhu Ning	-	191	87	58	17	353
Cui Yusong	-	191	87	58	17	353
Yu Tao	-	191	87	58	17	353
Ying Hangyan	-	191	87	58	17	353
Huan Fang (note (vii))	-	191	87	161	17	456
Total for six months ended 30 June 2023	-	955	435	393	85	1,868

Notes:

- (i) Estimated money values of other benefits include equity-settled share-based payments.
- (ii) David Su Tuong Sing was appointed as director on 7 October 2014 and resigned on 30 December 2020.
- (iii) Guan Guisen was appointed as director on 18 April 2018 and resigned on 30 December 2020.
- (iv) Huang Liming was appointed as director on 16 May 2018 and resigned on 30 December 2020.
- (v) Huang Rongrong was appointed as director on 11 August 2014 and resigned on 30 December 2020.
- (vi) Li Zhiguo was appointed as director on 11 August 2014 and resigned on 30 December 2020.
- (vii) Huan Fang was appointed as director on 30 December 2020.

In addition to the directors' emoluments disclosed above, Cui Yusong, Guan Guisen, Huan Fang, Ying Hangyan, Yu Tao and Zhu Ning receive emoluments from the Company, part of which is in respect of their services to the Company and its subsidiaries. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Company and for services rendered to the subsidiaries. The emoluments of these Youzan Technology's directors received from the Company for the Relevant Periods are set out below:

	Fees, salaries, bonus and allowances RMB'000	Equity-settled share-based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Cui Yusong	2,690	1,728	14	4,432
Guan Guisen	1,996	–	14	2,010
Ying Hangyan	2,233	1,728	14	3,975
Yu Tao	2,195	1,728	14	3,937
Zhu Ning	2,903	8,073	14	10,990
Total for year ended 31 December 2020	<u>12,017</u>	<u>13,257</u>	<u>70</u>	<u>25,344</u>
Cui Yusong	2,322	790	15	3,127
Huan Fang	2,322	–	–	2,322
Ying Hangyan	1,834	790	15	2,639
Yu Tao	2,148	790	15	2,953
Zhu Ning	2,554	3,706	15	6,275
Total for year ended 31 December 2021	<u>11,180</u>	<u>6,076</u>	<u>60</u>	<u>17,316</u>
Cui Yusong	2,574	405	15	2,994
Huan Fang	2,617	–	–	2,617
Ying Hangyan	1,990	405	15	2,410
Yu Tao	2,285	405	15	2,705
Zhu Ning	2,877	1,906	15	4,798
Total for year ended 31 December 2022	<u>12,343</u>	<u>3,121</u>	<u>60</u>	<u>15,524</u>
Cui Yusong	1,386	272	8	1,666
Huan Fang	1,407	–	–	1,407
Ying Hangyan	1,077	272	8	1,357
Yu Tao	1,235	272	8	1,515
Zhu Ning	1,546	1,280	8	2,834
Total for six months ended 30 June 2022 (unaudited)	<u>6,651</u>	<u>2,096</u>	<u>32</u>	<u>8,779</u>
Cui Yusong	1,242	124	8	1,374
Huan Fang	1,250	–	8	1,258
Ying Hangyan	971	124	8	1,103
Yu Tao	1,145	124	8	1,277
Zhu Ning	1,371	586	8	1,965
Total for six months ended 30 June 2023	<u>5,979</u>	<u>958</u>	<u>40</u>	<u>6,977</u>

None of the directors waived any emoluments during the Relevant Periods.

(b) Directors' material interests in transactions, arrangements or contracts

Excepted for the disclosure in note 50(a), no significant transactions, arrangements and contracts in relation to the Youzan Technology Group's business to which Youzan Technology was a party and in which a director of Youzan Technology and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year/period or at any time during the Relevant Periods.

(c) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate and connected entities**(i) The information about loans, quasi-loans and other dealings entered into by Youzan Technology or subsidiary undertaking of Youzan Technology in favour of directors is as follows:**

Name of director	Note	Total amount payable RMB'000	Outstanding amount at the beginning of the year RMB'000	Outstanding amount at the end of the year RMB'000	Maximum outstanding amount during the year RMB'000	Term	Interest rate	Security
As at 31 December 2020								
Loans:								
Mr. Huan Fang	(i)	2,650	2,650	2,650	2,650	Repayable on 24 December 2026	0% per annum in first 5 years and 2.5% per annum in the remaining years	No

Note:

- (i) Mr. Huan Fang was appointed as director on 30 December 2020.

(ii) The information about loans, quasi-loans and other dealings entered into by Youzan Technology or subsidiary undertaking of Youzan Technology in favour of certain connected entities of Mr. Zhu Ning, a director of Youzan Technology, is as follows:

Name of the borrower	Nature of connection	Total amount payable RMB'000	Outstanding amount at the beginning of the year RMB'000	Outstanding amount at the end of the year RMB'000	Maximum outstanding amount during the year RMB'000	Term	Interest rate	Security
As at 31 December 2020								
Loans and interest:								
Related Company E	Note (i)	-	800	-	1,300	Repayable on or before 18 November 2020	Nil	No
Entity H		-	3,036	-	3,145	Guaranteed by the substantial shareholder of the related company and was repayable on 19 April 2020. On 3 July 2020, the repayment date was extended to 31 October 2020.	4.34% per annum on outstanding loan	No
Quasi-loans or credit transactions:								
Related Company E	Note (i)	452	634	452	1,950	Repayable on demand	Nil	No
As at 31 December 2021								
Loans:								
Mr. Huan Fang		2,650	2,650	2,650	2,650	Repayable on 24 December 2026	0% per annum in first 5 years and 2.5% per annum in the remaining years	No
Quasi-loans or credit transactions:								
Related Company E	(i)	800	452	800	1,129	Repayable on demand	Nil	No
As at 31 December 2022								
Loans:								
Mr. Huan Fang		-	2,650	-	2,650	Repayable on 24 December 2026	0% per annum in first 5 years and 2.5% per annum in the remaining years	No
Quasi-loans or credit transactions:								
Related Company E	(i)	1,208	800	1,208	2,718	Repayable on demand	Nil	No
Related Company F	(ii)	79	-	79	203	Repayable on demand	Nil	No

Name of the borrower	Nature of connection	Total amount payable RMB'000	Outstanding amount at the beginning of the period RMB'000	Outstanding amount at the end of the period RMB'000	Maximum outstanding amount during the period RMB'000	Term	Interest rate	Security
As at 30 June 2023								
Quasi-loans or credit transactions:								
Related Company E	(i)	1,239	1,208	1,239	1,735	Repayable on demand	Nil	No
Related Company F	(ii)	123	79	123	189	Repayable on demand	Nil	No

Notes:

- (i) 99% owned by Mr. Zhu Ning and Mr. Zhu Ning being the common director.
- (ii) Mr. Zhu Ning being the common director.

17. DIVIDENDS

No dividend has been paid or proposed during the Relevant Periods.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost				
At 1 January 2020	37,914	27,020	1,157	66,091
Additions	16,260	7,173	–	23,433
Disposals	–	(852)	–	(852)
Written off	–	(16)	–	(16)
At 31 December 2020 and 1 January 2021	<u>54,174</u>	<u>33,325</u>	<u>1,157</u>	<u>88,656</u>
Additions	11,744	12,682	707	25,133
Disposals	–	(643)	–	(643)
Exchange differences	–	(2)	–	(2)
At 31 December 2021 and 1 January 2022	<u>65,918</u>	<u>45,362</u>	<u>1,864</u>	<u>113,144</u>
Additions	1,337	1,626	–	2,963
Disposals of a subsidiary	(1,389)	(1,538)	–	(2,927)
Written off	(27,767)	(5)	–	(27,772)
Disposals	–	(12,165)	–	(12,165)
At 31 December 2022 and 1 January 2023	<u>38,099</u>	<u>33,280</u>	<u>1,864</u>	<u>73,243</u>
Additions	423	33	–	456
Disposals	–	(2,336)	–	(2,336)
Exchange difference	–	8	–	8
At 30 June 2023	<u>38,522</u>	<u>30,985</u>	<u>1,864</u>	<u>71,371</u>

	Leasehold improvements RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Accumulated depreciation and impairment				
At 1 January 2020	4,422	13,105	690	18,217
Charge for the year	7,246	7,381	276	14,903
Disposals	–	(780)	–	(780)
Written off	–	(14)	–	(14)
At 31 December 2020 and 1 January 2021	<u>11,668</u>	<u>19,692</u>	<u>966</u>	<u>32,326</u>
Charge for the year	9,363	8,447	357	18,167
Impairment losses	15,825	6,285	–	22,110
Disposals	–	(599)	–	(599)
At 31 December 2021 and 1 January 2022	<u>36,856</u>	<u>33,825</u>	<u>1,323</u>	<u>72,004</u>
Charge for the year	5,488	4,617	239	10,344
Disposals of a subsidiary	(474)	(1,039)	–	(1,513)
Written off	(8,770)	–	–	(8,770)
Disposals	–	(12,021)	–	(12,021)
At 31 December 2022 and 1 January 2023	<u>33,100</u>	<u>25,382</u>	<u>1,562</u>	<u>60,044</u>
Charge for the period	857	2,155	119	3,131
Disposals	–	(2,076)	–	(2,076)
Exchange difference	–	5	–	5
At 30 June 2023	<u>33,957</u>	<u>25,466</u>	<u>1,681</u>	<u>61,104</u>
Carrying amount				
At 31 December 2020	<u>42,506</u>	<u>13,633</u>	<u>191</u>	<u>56,330</u>
At 31 December 2021	<u>29,062</u>	<u>11,537</u>	<u>541</u>	<u>41,140</u>
At 31 December 2022	<u>4,999</u>	<u>7,898</u>	<u>302</u>	<u>13,199</u>
At 30 June 2023	<u>4,565</u>	<u>5,519</u>	<u>183</u>	<u>10,267</u>

In year ended 31 December 2021, Youzan Technology Group has recorded significant loss due to the challenging market competition in the e-commerce platform industry and the continuing impact brought by the unexpected prolonged COVID-19 pandemic. Therefore, the business performance did not achieve the expected results.

Impairment losses of RMB22,110,000 and RMB80,393,000 (note 19) were recognised in plant and equipment and right-of-use assets respectively for the year ended 31 December 2021. The recoverable amount based on the value-in-use. The pre-tax rates used to discount the forecast cash flows is 19.16%.

Certain lessors of the leased office premises and staff quarters had not provided the Youzan Technology Group with valid title certificates or relevant authorisation documents evidencing their rights to lease the property to the Youzan Technology Group. As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, the carrying amounts of leasehold improvements related to these premises was amounted to RMB9,557,000, RMB15,378,000, Nil and Nil respectively.

19. RIGHT-OF-USE ASSETS

	Leased properties RMB'000
At 1 January 2020	197,272
Additions	84,490
Depreciation	(39,000)
Early termination of leases	<u>(3,912)</u>
At 31 December 2020 and 1 January 2021	238,850
Inception of leases	38,695
Early termination of leases	(504)
Depreciation	(47,064)
Impairment losses	<u>(80,393)</u>
At 31 December 2021 and 1 January 2022	149,584
Depreciation	(22,718)
Early termination and modification of leases	<u>(118,718)</u>
At 31 December 2022 and 1 January 2023	8,148
Additions	3,807
Depreciation	<u>(4,018)</u>
At 30 June 2023	<u><u>7,937</u></u>

	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Depreciation expenses on right-of-use assets	39,000	47,064	22,718	17,531	4,018
Interest expense on lease liabilities (included in finance costs)	19,236	21,668	15,160	10,290	4,342
Net gain on early termination of leases	222	82	32,328	10,169	-
Penalty of early termination of leases (included in administrative expenses)	-	-	7,788	4,345	-
Expenses relating to short-term lease	<u>13,052</u>	<u>11,973</u>	<u>798</u>	<u>422</u>	<u>339</u>

Details of total cash outflow for leases is set out in note 46(f).

During the Relevant Periods, the Youzan Technology Group leases various offices for its operations. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of non-cancellable period, the Youzan Technology Group applies the definition of a contract and determines the period for which the contract is enforceable.

Lease contracts are entered into for fixed term of 1 year to 10 years. No extension options and termination options are included in the lease contracts except for two leases. The Youzan Technology Group assesses at lease commencement date that the Youzan Technology Group will exercise the extension options and consider will extend the lease term on one of the leases, the related extension periods are included in the measurement of lease liabilities.

Certain lessors of the leased office premises and staff quarters had not provided the Youzan Technology Group with valid title certificates or relevant authorisation documents evidencing their rights to lease the property to the Youzan Technology Group. As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, the carrying amounts of right-of-use assets related to these premises were amounted to RMB61,841,000, RMB57,576,000, RMB2,985,000 and RMB2,706,000 respectively.

20. INTANGIBLE ASSETS

	Computer Software RMB'000	Trademark RMB'000	Total RMB'000
Cost			
At 1 January 2020	492	604	1,096
Additions	–	622	622
At 31 December 2020, 1 January 2021	492	1,226	1,718
Additions	–	465	465
At 31 December 2021, 1 January 2022, 31 December 2022, 1 January 2023 and 30 June 2023	492	1,691	2,183
Accumulated amortisation			
At 1 January 2020	298	223	521
Charge for the year	21	107	128
At 31 December 2020 and 1 January 2021	319	330	649
Charge for the year	106	105	211
At 31 December 2021 and 1 January 2022	425	435	860
Charge for the year	67	124	191
At 31 December 2022 and 1 January 2023	492	559	1,051
Charge for the period	–	96	96
At 30 June 2023	492	655	1,147
Carrying amount			
At 31 December 2020	173	896	1,069
At 31 December 2021	67	1,256	1,323
At 31 December 2022	–	1,132	1,132
At 30 June 2023	–	1,036	1,036

The average remaining amortisation period of computer software for the Relevant Periods are 2 years and 1 year as at 31 December 2020 and 2021 respectively.

The average remaining amortisation period of Trademark for the Relevant Periods are 8 years, 7 years, 6 years and 5.5 years as at 31 December 2020, 2021, 2022 and 30 June 2023 respectively.

21. GOODWILL

	<i>RMB'000</i>
Cost	
At 1 January 2020	–
Arising on acquisition of a subsidiary (<i>note 46(a)</i>)	1,029
Exchange difference	<u>3</u>
At 31 December 2020 and 1 January 2021	1,032
Exchange difference	<u>–</u>
At 31 December 2021 and 1 January 2022	1,032
Exchange difference	<u>–</u>
At 31 December 2022 and 1 January 2023	1,032
Exchange difference	<u>–</u>
At 30 June 2023	<u>1,032</u>
Accumulated impairment losses	
At 1 January 2020	–
Impairment loss recognised during the year	1,047
Exchange difference	<u>(15)</u>
At 31 December 2020 and 1 January 2021	1,032
Exchange difference	<u>–</u>
At 31 December 2021 and 1 January 2022	1,032
Exchange difference	<u>–</u>
At 31 December 2022 and 1 January 2023	1,032
Exchange difference	<u>–</u>
At 30 June 2023	<u>1,032</u>
Carrying amount	
At 31 December 2020	<u><u>–</u></u>
At 31 December 2021	<u><u>–</u></u>
At 31 December 2022	<u><u>–</u></u>
At 30 June 2023	<u><u>–</u></u>

22. FINANCIAL ASSETS AT FVTPL

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Included in non-current assets:				
Investments in unlisted equity securities in				
PRC	–	8,935	4,751	5,179
Investments in unlisted preferred shares in PRC	–	363,740	280,891	283,645
	–	372,675	285,642	288,824

The preferred shares have redemption preference and liquidation preference over ordinary equity shares and are classified as debt investments. Accordingly, the carrying amounts of the investments in preferred shares are mandatorily measured at fair value through profit or loss in accordance with HKFRS 9.

Financial assets at FVTPL are denominated in the following currencies:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
US\$	–	22,734	15,007	14,104
RMB	–	349,941	270,635	274,720
	–	372,675	285,642	288,824

23. EARNEST MONEY PAID FOR POTENTIAL INVESTMENTS

On 24 December 2020, Hangzhou Youzan signed an agreement for potential investment to acquire 15% new preferred shares of Shanghai Burgeon at a consideration of RMB212 million. RMB50 million earnest money was paid on 28 December 2020.

On 19 January 2021, Hangzhou Youzan entered into investment agreement and shareholders' agreement with Shanghai Burgeon and its existing shareholders to confirm the acquisition. RMB50 million earnest money has become part of the consideration and the remaining balance of RMB162 million was settled by Hangzhou Youzan on 22 January 2021 and the Youzan Technology Group classified as financial assets at FVTPL.

The consideration of RMB212 million is determined by negotiation with Shanghai Burgeon after Youzan Technology's due diligence and internal assessment on Shanghai Burgeon's operation and financial information. The Youzan Technology Group's internal assessment has assessed the value of entire equity interest of Shanghai Burgeon to be at least RMB1,550 million.

24. INVENTORIES

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Finished goods	676	921	1,246	1,197

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, an allowance was made for estimated irrecoverable inventories for approximately RMB82,000, RMB372,000, Nil and Nil respectively.

25. TRADE RECEIVABLES

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Trade receivables	3,083	9,042	21,548	26,393
Allowance for doubtful debts	(1,262)	(4,750)	(8,428)	(14,401)
	<u>1,821</u>	<u>4,292</u>	<u>13,120</u>	<u>11,992</u>

The Youzan Technology Group normally does not grant any credit term to customers during the Relevant Periods unless some special cases. For those special cases, the Youzan Technology Group will grant a credit period less than 120 days.

All the trade receivables for the Relevant Periods are denominated in RMB.

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

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
0 to 120 days	<u>1,821</u>	<u>4,292</u>	<u>13,120</u>	<u>11,992</u>

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, an allowance was made for estimated irrecoverable trade receivables of approximately RMB1,262,000, RMB4,750,000, RMB8,428,000 and RMB14,401,000 respectively.

Reconciliation of allowance for trade receivables:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	–	1,262	4,750	8,428
Allowance for the year/period	1,262	4,126	11,425	10,478
Reversal of allowance for the year/period	–	(638)	(7,747)	(4,534)
Exchange difference	–	–	–	29
	<u>–</u>	<u>–</u>	<u>–</u>	<u>29</u>
At 31 December/30 June	<u>1,262</u>	<u>4,750</u>	<u>8,428</u>	<u>14,401</u>

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments in relation to advertising services	269,836	24,302	7,960	–
Other prepayments	21,452	36,974	28,031	16,607
Deposits	9,991	12,766	9,786	4,504
Other loans receivables (<i>note</i>)	10,610	–	–	–
Other receivables restricted for settling settlement obligations	178,534	–	–	–
Other receivables	<u>20,061</u>	<u>40,090</u>	<u>45,335</u>	<u>48,591</u>
	<u>510,484</u>	<u>114,132</u>	<u>91,112</u>	<u>69,702</u>
Analysed as:				
Non-current assets	3,199	5,617	361	286
Current assets	<u>507,285</u>	<u>108,515</u>	<u>90,751</u>	<u>69,416</u>
	<u>510,484</u>	<u>114,132</u>	<u>91,112</u>	<u>69,702</u>

Note: As at 31 December 2020, a loan to a subsidiary of an investee company amounting to RMB10,610,000 were guaranteed by a third party and repayable on or before 22 May 2021. The loan is interest free and denominated in RMB. On 7 April 2021, the loan was further extended to 6 April 2022. The Youzan Technology Group had assessed the ECL as at 31 December 2020 and no allowance was recognised. The loan was fully repaid on 30 December 2021.

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, an allowance was made for estimated irrecoverable deposits and other receivables of approximately Nil, Nil, RMB3,065,000 and RMB2,414,000 respectively.

Reconciliation of allowance for prepayments, deposits and other receivables:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
At 1 January	-	-	-	3,065
Allowance for the year/period	-	-	3,065	-
Reversal of allowance for the year/period	-	-	-	(651)
At 31 December/30 June	-	-	3,065	2,414

The carrying amounts of the Youzan Technology Group's prepayments, deposits and other receivables are denominated in the following currencies:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
RMB	507,647	112,403	87,016	65,609
Japanese Yen ("JPY")	2,837	1,511	3,687	3,427
Canadian dollar ("CAD")	-	212	181	356
US\$	-	6	228	310
	510,484	114,132	91,112	69,702

27. CAPITALISED CONTRACT COSTS

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Incremental costs of obtaining contracts				
capitalised – Subscription Solutions	181,712	186,208	156,399	136,730
Fulfilment costs of customisation services	–	12,318	3,627	4,582
Fulfilment costs of third party payment services	<u>6,816</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>188,528</u>	<u>198,526</u>	<u>160,026</u>	<u>141,312</u>
Analysed as:				
Non-current assets	24,464	33,550	34,503	24,020
Current assets	<u>164,064</u>	<u>164,976</u>	<u>125,523</u>	<u>117,292</u>
	<u>188,528</u>	<u>198,526</u>	<u>160,026</u>	<u>141,312</u>
Amortisation recognised as selling expenses related to Subscription Solutions during the year/period	<u>212,842</u>	<u>243,288</u>	<u>215,699</u>	<u>97,554</u>

28. LOAN TO A DIRECTOR, LOAN TO AN EMPLOYEE AND LOANS TO FELLOW SUBSIDIARIES

Party	Terms of loan	Note	Principal	Accrued	Principal	Accrued	Principal	Accrued	Principal	Accrued
			balance at 31 December 2020	interest as at 31 December 2020	balance at 31 December 2021	interest as at 31 December 2021	balance at 31 December 2022	interest as at 31 December 2022	balance at 30 June 2023	interest as at 30 June 2023
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current										
A director - Huan Fang	Unsecured, repayable on 24 December 2026, bearing interest of 0% per annum in first 5 years and 2.5% per annum in the remaining years.	(i)	2,650	-	2,650	-	-	-	-	-
An employee	Unsecured, repayable on 10 June 2025, and interest free	(ii)	-	-	500	-	-	-	-	-
Total non-current loans			2,650	-	3,150	-	-	-	-	-
Current										
Loans to fellow subsidiaries										
Fellow Subsidiary G	Guaranteed by the Company, 4.35% per annum repayable on or before 14 July 2021	(iii)	4,600	146	-	-	-	-	-	-
	Guaranteed by the Company, 4.35% per annum repayable on or before 21 October 2021	(iii)	6,500	24	-	-	-	-	-	-
Fellow Subsidiary H	Unsecured, interest free and repayable on or before 31 July 2021	(iv)	5,000	-	-	-	-	-	-	-
Total current loans			16,100	170	-	-	-	-	-	-
Total loans			18,750	170	3,150	-	-	-	-	-

Notes:

- (i) Mr. Huan Fang was appointed as director on 30 December 2020 and the loan was settled on 20 October 2022.
- (ii) The loan was settled on 19 October 2022.
- (iii) The fellow subsidiary is wholly owned by the Company. The loans were settled on 10 June 2021 and 24 June 2021 respectively.
- (iv) The fellow subsidiary is wholly owned by the Company. The loans were settled on 4 March 2021.
- (v) During the year ended 31 December 2021, the Youzan Technology Group provided additional loans to Fellow Subsidiary G amounting to RMB22,500,000. The loans are guaranteed by the Company, interest bearing at 4.35% per annum and repayable on or before 21 October 2021. The amounts were fully settled on 24 June 2021.

ECL of the above loans have been assessed by the directors of Youzan Technology Group and considered minimal. All loans are denominated in RMB and non-trade in nature.

29. AMOUNTS DUE FROM RELATED COMPANIES AND FELLOW
SUBSIDIARIES

(a) Amounts due from related companies are as follows:

Party	Note	As at 31 December			As at
		2020	2021	2022	30 June
		RMB'000	RMB'000	RMB'000	2023
					RMB'000
Related Company E	a	452	800	1,208	1,239
Related Company F	b	–	–	79	123
		<u>452</u>	<u>800</u>	<u>1,287</u>	<u>1,362</u>
		Maximum	Maximum	Maximum	Maximum
		amount	amount	amount	amount
		during the	during the	during the	during the six
		year ended	year ended	year ended	months ended
		31 December	31 December	31 December	30 June 2023
		2020	2021	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000
Related Company E		1,950	1,129	2,718	1,735
Related Company F		–	–	203	189
		<u>–</u>	<u>–</u>	<u>203</u>	<u>189</u>

Note:

- (a) The amount was unsecured, interest free, repayable on demand and trade in nature.
- (b) The amount was unsecured, interest free, repayable on demand and non-trade in nature.

No allowances were made for estimated irrecoverable amount due from related company during the Relevant Periods. The amounts were denominated in RMB.

(b) Amounts due from fellow subsidiaries are as follows:

Party	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Fellow Subsidiary G	36,472	17,545	10,120	–
Fellow Subsidiary I	110	67	544	860
Fellow Subsidiary J	–	1	1	–
Fellow Subsidiary K	–	6	–	–
Fellow Subsidiary L	–	316	–	325
	<u>36,582</u>	<u>17,935</u>	<u>10,665</u>	<u>1,185</u>

Party	Maximum amount during the year ended 31 December 2020 RMB'000	Maximum amount during the year ended 31 December 2021 RMB'000	Maximum amount during the year ended 31 December 2022 RMB'000	Maximum amount during the six months ended 30 June 2023 RMB'000
Fellow Subsidiary G	36,472	74,413	18,182	11,843
Fellow Subsidiary I	110	1,972	544	906
Fellow Subsidiary J	-	298	1	1
Fellow Subsidiary K	-	7	7	-
Fellow Subsidiary L	-	4,350	316	325

Note:

The fellow subsidiaries are wholly owned by the Company.

Except the amounts due from fellow subsidiaries J and K, others are trade in nature.

All the above amounts are unsecured, interest free and repayable on demand.

No allowances were made for estimated irrecoverable amount during the Relevant Periods. The amounts were denominated in RMB.

(c) Amount due from a non-controlling shareholder of a subsidiary is as follows:

Name	Balance at 31 December 2021 RMB'000	Balance at 1 January 2021 RMB'000	Maximum amount outstanding during the year RMB'000
Non-controlling shareholder A	1,012	-	1,012

The amount was unsecured, interest free and repayable on demand.

No allowance was made for estimated irrecoverable amount due from a non-controlling shareholder of a subsidiary. The amount was non-trade in nature.

30. TIME DEPOSITS

The amounts as at 30 June 2023 will mature on 4 January 2024 and denominated in RMB. The time deposits can be withdrawn by the Group at any time without incurring any surcharge.

The effective interest rate of time deposits is at 3.65% per annum.

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.

31. RESTRICTED BANK BALANCES AND BANK AND CASH BALANCES**(i) Restricted bank balances**

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
For settlement of amounts payable to employees*	24,474	844	847	848
Frozen by a PRC bank for business registration update of a subsidiary*	-	-	642	393
Others	-	-	2,520	3,958
	<u>24,474</u>	<u>844</u>	<u>4,009</u>	<u>5,199</u>

* The amounts are cash and cash equivalent.

All restricted bank balances were denominated in RMB.

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.

(ii) Bank and cash balances

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, bank balances of RMB99,864,000, Nil, Nil and Nil respectively were exclusively designated for the purpose of settling the Youzan Technology Group's payable to merchants as set out in note 40.

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, no bank balances were exclusively designated for the purpose of settling payable to employees as set out in note 33.

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

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
RMB	652,139	200,987	605,214	491,974
US\$	<u>554,981</u>	<u>88,438</u>	<u>70,903</u>	<u>726</u>
	<u>1,207,120</u>	<u>289,425</u>	<u>676,117</u>	<u>492,700</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.

32. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
0 to 90 days	<u>-</u>	<u>-</u>	<u>234</u>	<u>197</u>

The carrying amounts of the Youzan Technology Group's trade payables are denominated in RMB.

33. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Deposits received	142,251	140,803	130,628	116,745
Receipt in advance – advertising services related (note (i))	19,639	3,700	3,316	–
Receipt in advance – others (note (ii))	39,880	6,790	8,064	1,490
Accrued salaries	197,997	182,632	132,485	93,210
Accrued expenses	81,434	69,585	37,074	35,748
Amounts payable to employees	24,514	1,474	1,200	971
Consideration payable for acquisition of financial assets at FVTPL (note (iii))	–	10,195	–	–
Other payables	<u>77,243</u>	<u>110,898</u>	<u>67,345</u>	<u>68,050</u>
	<u>582,958</u>	<u>526,077</u>	<u>380,112</u>	<u>316,214</u>

The carrying amounts of the Youzan Technology Group's accruals and other payables are denominated in the following currencies:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
RMB	576,765	506,099	377,865	314,985
US\$	5,984	19,396	2,057	1,001
JPY	209	499	190	210
CAD	<u>–</u>	<u>83</u>	<u>–</u>	<u>18</u>
	<u>582,958</u>	<u>526,077</u>	<u>380,112</u>	<u>316,214</u>

Notes:

- (i) The amount represented advertising credits received in advance from social media.
- (ii) The amount represented transaction fee, top-up amount for advertisements and promotion fee received in advance from merchants.
- (iii) The amount was fully paid on 23 February 2022.

34. AMOUNTS DUE TO FELLOW SUBSIDIARIES

As at 31 December 2020, the amounts due to fellow subsidiaries are unsecured, interest free, repayable on demand and non-trade in nature.

As at 30 June 2023, the amount due to a fellow subsidiary is unsecured, interest free, repayable on demand and trade in nature.

35. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts are unsecured, interest free, repayable on demand and non-trade in nature.

36. AMOUNT DUE TO THE COMPANY

The amount is unsecured, interest free, repayable on demand and non-trade in nature.

37. CONTRACT LIABILITIES

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Billings in advance of performance obligation				
– Subscription solutions	<u>667,607</u>	<u>738,938</u>	<u>669,487</u>	<u>633,716</u>

Contract liabilities mainly arise from non-refundable advance payments in relation to Subscription solutions made by paying merchants while the underlying services are yet to be provided.

Movements in contract liabilities:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Balance at beginning of year/period	454,273	667,607	738,938	669,487
Increase in contract liabilities as a result of billing in advance of provision of Subscription solutions	1,261,285	1,045,144	820,772	386,495
Decrease in contract liabilities as a result of recognising revenue during the year/period	<u>(1,047,951)</u>	<u>(973,813)</u>	<u>(890,223)</u>	<u>(422,266)</u>
Balance at end of year/period	<u>667,607</u>	<u>738,938</u>	<u>669,487</u>	<u>633,716</u>

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, the amount of billings in advance of performance received that is expected to be recognised as income after more than one year are RMB56,371,000, RMB55,446,000, RMB49,351,000 and RMB47,831,000 respectively.

38. LEASE LIABILITIES

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 December		As at 30 June		As at 31 December		As at 30 June	
	2020	2021	2022	2023	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	31,704	62,729	23,359	22,091	17,777	42,567	14,878	14,270
In the second to fifth years, inclusive	176,935	194,496	76,773	84,331	111,765	146,100	58,945	69,467
After five years	122,716	79,848	14,350	–	110,646	75,293	14,082	–
	331,355	337,073	114,482	106,422	240,188	263,960	87,905	83,737
Less: Future finance charges	(91,167)	(73,113)	(26,577)	(22,685)	N/A	N/A	N/A	N/A
Present value of lease obligations	<u>240,188</u>	<u>263,960</u>	<u>87,905</u>	<u>83,737</u>				
Less: Amount due for settlement within 12 months (shown under current liabilities)					(17,777)	(42,567)	(14,878)	(14,270)
Amount due for settlement after 12 months					<u>222,411</u>	<u>221,393</u>	<u>73,027</u>	<u>69,467</u>

The Youzan Technology Group's lease liabilities are denominated in RMB.

39. BORROWINGS

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Bank loan – principal (note (a), (b))	–	–	480,000	460,000
Bank loan – interest payable (note (a), (b))	–	–	565	449
Loan from a non-controlling interest shareholder (note (c))	–	–	421	199
	<u>–</u>	<u>–</u>	<u>480,986</u>	<u>460,648</u>
Other loan from Baidu (note 41(iii))	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Analysed as:				
Current liabilities	–	–	480,986	199
Non-current liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>460,449</u>
	<u>–</u>	<u>–</u>	<u>480,986</u>	<u>460,648</u>

Notes:

- (a) The carrying amount of bank loan as at 31 December 2022 was matured on 19 June 2023, interest bearing at 3.9% per annum, denominated in RMB and secured by assets of a related company 杭州起碼科技有限公司 which is 99% owned by the Company and Youzan Technology's director Mr. Zhu and 1% owned by the Company and Youzan Technology's director Mr. Cui. Mr. Zhu is also the common director of Youzan Technology and 杭州起碼科技有限公司. On 30 November 2022, both Mr. Zhu and Mr. Cui disposed of their shareholding in 杭州起碼科技有限公司 to another 2 third parties and Mr. Zhu resigned directorship in 杭州起碼科技有限公司 on the same day. The total secured amount is RMB500 million. The loan was fully settled on 30 May 2023.
- (b) The carrying amount of bank loan as at 30 June 2023 will mature on 29 May 2025, denominated in RMB and secured by assets of a related company 杭州起碼科技有限公司. The total secured amount is RMB500 million.

Interest rate is charged at 3.9% per annum.

- (c) The loan is unsecured, interest-free and repayable on 1 June 2023. The loan is denominated in CAD.

40. PAYABLE TO MERCHANTS

Payable to merchants balances represent funds collected from the payment service providers which had been received from the consumers for purchasing goods or services from paying merchants.

As set out in note 8(a)(i), the Youzan Technology Group ceased its transaction service in February 2021 and no further new payable to merchants balances have been generated since then.

41. LOANS FROM THE COMPANY

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
<u>General loans from the Company (note (i))</u>				
As at 1 January	303,804	-	-	-
Loan proceeds during the year/period	35,688	-	-	-
Interest expenses for the year/period (note 11)	14,932	-	-	-
Repayment during the year/period	(344,891)	-	-	-
Exchange difference	(9,533)	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 31 December/30 June	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
<u>General loans from the Company (note (ii))</u>				
As at 1 January	-	-	-	574,692
Loan proceeds during the year/period	-	-	517,896	-
Interest expenses for the year/period	-	-	29,005	20,930
Exchange difference	-	-	27,791	30,129
	<u>-</u>	<u>-</u>	<u>574,692</u>	<u>625,751</u>
As at 31 December/30 June	<u>-</u>	<u>-</u>	<u>574,692</u>	<u>625,751</u>
<u>Other loan from the Company (note (iii))</u>				
As at 1 January	312,846	-	-	-
Interest expenses for the year/period (note 11)	1,702	-	-	-
Capitalised as share capital and share premium during the year/period (note 43(ii))	(306,728)	-	-	-
Exchange difference	(7,820)	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
As at 31 December/30 June	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The above loans from the Company were connected transactions.

Notes:

- (i) General loans were denominated in US\$, unsecured, interest bearing at 2% per annum above the Hong Kong dollar prime rate as quoted by the Hongkong and Shanghai Banking Corporation Limited, repayable on or before 31 December 2021. All the general loans were non-trade in nature and had been repaid during the year ended 31 December 2020.

The interest rate of general loans at 31 December 2020 was 7% per annum. The directors estimate the fair value of the general loans and consider the above are fairly stated.

- (ii) General loans were determined in US\$, unsecured, interest bearing at 2% per annum above the Hong Kong dollar price rate as quoted by the Hongkong and Shanghai Banking Corporation Limited, repayable on or before 31 December 2024. All the general loans were non-trade in nature.

The interest rates of general loans as at 31 December 2022 were ranging from 7% to 7.63% per annum. The interest rates of general loans as at 30 June 2023 were ranging from 7.63% to 7.75% per annum. The directors estimate the fair value of the Youzan Group's general loans and considered the above are fairly stated.

- (iii) On 7 August 2019, the Company and two Baidu Inc.'s wholly owned subsidiaries (namely, Baidu SPV and Baidu Online) entered into subscription agreement with Youzan Technology for (a) issue, sell and allot of 26,606,296 Youzan Technology's shares ("**Youzan Qima Shares**") to the Company by cash consideration of US\$45 million; (b) issue, sell and allot of 17,737,531 Youzan Technology's shares ("**Baidu Qima Shares**") to Baidu SPV by cash consideration of US\$177; and (c) issue of warrants ("**Qima Warrants**") by Youzan Technology to Baidu Online which entitle its holder the right to subscribe for 17,737,531 new shares of Youzan Technology ("**Qima Warrant Shares**") for an aggregate exercise price of US\$29,999,823. It is also required that a deposit in RMB equivalent of the aggregate exercise price of US\$29,999,823 to be paid by Baidu Online to Youzan Technology upon issuance of the Qima Warrants. The Qima Warrants are exercisable up to 30 June 2020.

In the event that the Qima Warrants are wholly exercised by its holder, Youzan Technology shall be entitled to forfeit all the Baidu Qima Shares at nil consideration. In the event that the Qima Warrants expires before it is exercised, any and all Youzan Qima Shares and Baidu Qima Shares shall be repurchased by Youzan Technology at its original issuing price upon the expiration of the Qima Warrants.

The rationale for the arrangement described above is to facilitate Baidu Online's obtaining of the necessary approvals ("**Approvals**") from competent authorities in the PRC for investing in Youzan Technology no later than 30 June 2020. Details of the above subscription agreement can be found in the Company's announcement dated 7 August 2019.

The arrangement under the subscription agreement, taken as a whole, is equivalent to Youzan Technology's issuance of its own equity instruments to the subscriber together with a puttable instrument that gives the subscriber the right to sell Youzan Technology's own equity instruments back to Youzan Technology at a fixed price equivalent to the original subscription price of those equity instruments. Under such circumstances, Hong Kong Accounting Standard 32 – Financial Instruments: Presentation would require a liability to be recognised initially at the present value of the redemption amount as Youzan Technology has contractual obligation to purchase its own equity in a later date. Accordingly, the cash consideration of US\$45 million provided by the Company and deposit in RMB equivalent of US\$29,999,823 provided by Baidu Online are accounted for as loan from the Company and other loan respectively, because they are refundable to the Company and Baidu Online if Baidu Online cannot obtain the necessary Approvals. The loan was non-trade in nature.

The fair value of the loans were estimated at (a) RMB311,972,000 for Youzan Qima Shares and (b) RMB195,200,000 for Baidu Qima Shares (note 43) on initial recognition and measured subsequently at amortised cost.

On 27 May 2020, the Approvals were obtained and Qima Warrants were exercised in full by Baidu's affiliate. Other loan from the Company was recognised as Youzan Technology's share capital and share premium. Details are set forth in the Company's announcement dated 27 May 2020.

42. DEFERRED TAX

	Tax losses	Lease liabilities	Right-of-use assets	Capitalised contract costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	167,491	31,241	(29,591)	(18,157)	150,984
Credit/(charge) to profit or loss for the year (note 13)	<u>28,214</u>	<u>4,787</u>	<u>(6,237)</u>	<u>(10,122)</u>	<u>16,642</u>
At 31 December 2020 and 1 January 2021	195,705	36,028	(35,828)	(28,279)	167,626
Written off of deferred tax assets	-	(17,157)	-	-	(17,157)
Credit/(charge) to profit or loss for the year (note 13)	<u>(126,933)</u>	<u>3,566</u>	<u>13,391</u>	<u>(1,500)</u>	<u>(111,476)</u>
At 31 December 2021 and 1 January 2022	68,772	22,437	(22,437)	(29,779)	38,993
Written off of deferred tax assets	-	(11,964)	-	-	(11,964)
Credit/(charge) to profit or loss for the year (note 13)	<u>-</u>	<u>(9,251)</u>	<u>21,215</u>	<u>5,775</u>	<u>17,739</u>
At 31 December 2022 and 1 January 2023	68,772	1,222	(1,222)	(24,004)	44,768
Written off of deferred tax assets	-	(11,370)	-	-	(11,370)
Credit to profit or loss for the period (note 13)	<u>-</u>	<u>11,339</u>	<u>31</u>	<u>2,808</u>	<u>14,178</u>
At 30 June 2023	<u>68,772</u>	<u>1,191</u>	<u>(1,191)</u>	<u>(21,196)</u>	<u>47,576</u>

The following is the analysis of the deferred tax balances for consolidated statement of financial position purpose:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
Deferred tax assets	231,733	91,209	69,994	69,963
Deferred tax liabilities	<u>(64,107)</u>	<u>(52,216)</u>	<u>(25,226)</u>	<u>(22,387)</u>
	<u>167,626</u>	<u>38,993</u>	<u>44,768</u>	<u>47,576</u>

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, deferred tax assets of RMB195,705,000, RMB68,772,000, RMB68,772,000 and RMB68,772,000 respectively, were recognised in respect of unused tax losses of RMB1,304,699,000, RMB450,480,000, RMB450,480,000 and RMB450,480,000 respectively, arising from a major subsidiary (Hangzhou Youzan) of the Youzan Technology Group.

These tax losses at end of each reporting period are expected to expire in 2024 to 2029 for 31 December 2020, 2025 to 2030 for 31 December 2021, 2026 to 2031 for 31 December 2022 and 2027 to 2032 for 30 June 2023.

No deferred tax asset has been recognised in respect of tax losses of other subsidiaries amounted to RMB73,582,000, RMB2,568,288,000, RMB2,747,426,000 and RMB2,997,565,000 for the years/period ended 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023 respectively. Unused tax losses due to the unpredictability of future profit streams.

43. SHARE CAPITAL

Note	As at 31 December 2020			As at 31 December 2021			As at 31 December 2022			As at 30 June 2023		
	Number of shares '000	Amount US\$'000	Amount RMB'000	Number of shares '000	Amount US\$'000	Amount RMB'000	Number of shares '000	Amount US\$'000	Amount RMB'000	Number of shares '000	Amount US\$'000	Amount RMB'000
Authorised:												
Ordinary shares of US\$0.00001	5,000,000	50		5,000,000	50		5,000,000	50		5,000,000	50	
Ordinary, issued and fully paid:												
At 1 January	1,433,783	14	88	1,513,127	15	94	1,513,127	15	94	1,688,647	17	105
Issuance of shares												
on 27 May 2020 (i)	17,738	-	1	-	-	-	-	-	-	-	-	-
Issuance of shares on 27 May 2020 (ii)	26,606	-	2	-	-	-	-	-	-	-	-	-
Issuance of shares on 16 September 2020 (iii)	35,000	1	3	-	-	-	-	-	-	-	-	-
Issuance of shares on 21 June 2022 (iv)	-	-	-	-	-	-	175,520	2	11	-	-	-
At 31 December/30 June	1,513,127	15	94	1,513,127	15	94	1,688,647	17	105	1,688,647	17	105

Notes:

For year ended 31 December 2020

- (i) The shares issuance were related to the subscription of Youzan Technology's shares by Baidu SPV and Baidu Online. The net proceeds was RMB214,375,000. Details are set out in note 41(iii).
- (ii) The shares issuance were related to the subscription of Youzan Technology's shares by the Company. Details are set out in note 41(iii).

- (iii) On 16 September 2020, Youzan Technology entered into a Share Subscription Agreement with the Company to allot and issue 35,000,061 new shares of Youzan Technology at US\$4.5714 per share. The subscription was completed on 16 September 2020 and net proceeds was approximate US\$160,000,000 (approximate RMB1,085,138,000).

For year ended 31 December 2022

- (iv) On 27 April 2022, the board of directors of Youzan Technology passed a resolution and entered a share award agreement with Whitecrow Investment Limited, which is a wholly-owned company by Mr. Zhu Ning (the director of the Company and Youzan Technology) and a shareholder of Youzan Technology. Pursuant to the agreement, Youzan Technology granted, allotted and issued 84,432,360 new shares of Youzan Technology to incentivise Mr. Zhu Ning to remain with Youzan Technology and continue to promote its future business development. The awarded shares were vested immediately. The share-based payment expenses of RMB36,920,000 were recognised in the consolidated financial statements for the year ended 31 December 2022.

To ensure that the above share awards did not dilute the existing equity interest held by the Company in Youzan Technology, Youzan Technology entered into an anti-dilution agreement with the Company. Pursuant to the agreement, Youzan Technology agreed to issue and allot 91,087,205 new shares of Youzan Technology to the Company.

These transactions were approved by the shareholders of the Company at the annual general meeting held on 21 June 2022.

For further details, refer to the announcement of the Company published on 27 April 2022 and the poll result on 21 June 2022.

The Group currently does not have any specific policies and processes for managing capital. But the Group reviews the capital structure frequently and will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts, redemption of existing debts or selling assets to reduce debts if necessary to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

44. RESERVES

(a) The Youzan Technology Group

The amounts of the Youzan Technology Group's reserves and movements therein are presented in the consolidated statements of profit or loss and other comprehensive income and consolidated statements of changes in equity.

(b) Nature and purpose of reserves**(i) Share premium account**

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share. Share premium account is distributable pursuant to section 34(2) of the Companies Act of the Cayman Islands, subject to (i) Youzan Technology being able to satisfy the solvency test set out in the aforesaid section (namely, immediately following the date on which the distribution or dividend is proposed to be paid, the company is able to pay its debts as they fall due in the ordinary course of business), and (ii) any provisions in Youzan Technology's memorandum and articles of association.

(ii) Contribution from the Company

The amounts represented share options and share awards granted by Company to the Youzan Technology Group's employees.

(iii) Capital reserve

The capital reserve mainly represents (i) the Youzan Technology Group's equity-settled share-based payment arrangements incurred in year ended 31 December 2015 and 2016; (ii) the excess of the fair value of the Youzan Technology Group's loan and other loan related to Baidu SPV.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with accounting policies set out in note 4(d)(iii) to the Historical Financial Information.

(v) Financial assets at FVTOCI reserve

The financial assets at FVTOCI reserve comprises the cumulative net change in the fair value of financial assets at FVTOCI held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 4(k) to the Historical Financial Information.

(vi) Treasury shares reserves

Youzan Technology has stock incentive plan and details of which are set out in note 45(d) to the Historical Financial Information. This reserve arise when Youzan Technology issue shares under its stock incentive plan to a special vehicle which held shares of Youzan Technology in accordance with the provision of the stock incentive plan.

(vii) Share-based payment reserves

The amounts represented share-based payment granted by Youzan Technology to the director on 21 June 2022 which details set out in note 44(c).

(c) Reserves movement of Youzan Technology

	Share capital RMB'000	Share premium RMB'000	Share-based payment reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Treasury Share reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2020	88	2,888,485	-	17,805	(12,186)	(7)	(2,406,245)	487,940
Total comprehensive income for the year	-	-	-	-	(57,004)	-	(35,296)	(92,300)
Issuance of shares								
- to Baidu SPV (note 43(i))	1	214,374	-	-	-	-	-	214,375
- to the Company (note 43(ii))	2	306,726	-	-	-	-	-	306,728
- to the Company (note 43(iii))	3	1,085,135	-	-	-	-	-	1,085,138
Changes in equity for the year	6	1,606,235	-	-	(57,004)	-	(35,296)	1,513,941
At 31 December 2020	94	4,494,720	-	17,805	(69,190)	(7)	(2,441,541)	2,001,881
At 1 January 2021	94	4,494,720	-	17,805	(69,190)	(7)	(2,441,541)	2,001,881
Total comprehensive income for the year	-	-	-	-	(23,582)	-	(1,974,687)	(1,998,269)
Changes in equity for the year	-	-	-	-	(23,582)	-	(1,974,687)	(1,998,269)
At 31 December 2021	94	4,494,720	-	17,805	(92,772)	(7)	(4,416,228)	3,612
At 1 January 2022	94	4,494,720	-	17,805	(92,772)	(7)	(4,416,228)	3,612
Total comprehensive income for the year	-	-	-	-	(11,503)	-	(604,052)	(615,555)
Issuance of shares (note 43(iv))	11	-	36,920	-	-	-	-	36,931
Changes in equity for the year	11	-	36,920	-	(11,503)	-	(604,052)	(578,624)
At 31 December 2022	105	4,494,720	36,920	17,805	(104,275)	(7)	(5,020,280)	(575,012)
At 1 January 2023	105	4,494,720	36,920	17,805	(104,275)	(7)	(5,020,280)	(575,012)
Total comprehensive income for the period	-	-	-	-	(30,103)	-	(19,894)	(49,997)
Changes in equity for the period	-	-	-	-	(30,103)	-	(19,894)	(49,997)
At 30 June 2023	105	4,494,720	36,920	17,805	(134,378)	(7)	(5,040,174)	(625,009)
Unaudited								
At 1 January 2022	94	4,494,720	-	17,805	(92,772)	(7)	(4,416,228)	3,612
Total comprehensive income for the period	-	-	-	-	(14,548)	-	(438,311)	(452,859)
Issuance of shares (note 43(iv))	11	-	36,920	-	-	-	-	36,931
Changes in equity for the period	11	-	36,920	-	(14,548)	-	(438,311)	(415,928)
At 30 June 2022	105	4,494,720	36,920	17,805	(107,320)	(7)	(4,854,539)	(412,316)

45. EQUITY-SETTLED SHARE-BASED PAYMENTS**(a) Share Option Scheme 2019 of the Company**

Followings are the details of the options granted to the employees of the Youzan Technology Group and the option scheme adopted by Company:

Summary of terms

Details	Share Option Scheme 2019 of the Company
1. Purposes	To enable to grant options to the eligible participants as incentives or rewards for their contribution to the Group.
2. Eligible participants	Eligible participants include (i) any employee or proposed employee, manager or officer (whether full or part time) of the Company or any of its subsidiaries; (ii) any director (including executive or non-executive and whether independent or not) of the Company or any of its subsidiaries; (iii) any advisors, consultants, contractors, distributors, suppliers, agents, customers, business partners, joint venture, promoters and service providers of any member of the Group.
3. Maximum number of shares	The maximum number of shares of the Company which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the scheme and any other incentive or option scheme(s) of the Company must not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. No options may be granted under this scheme if any grant of option will result in such 30% limit being exceeded.
	The total number of shares which may be allotted and issued upon the exercise of all options to be granted under this scheme and any other incentive or option scheme(s) of the Company must not in aggregate exceed 10% of the shares in issue as at the date of approval of this scheme.

Details	Share Option Scheme 2019 of the Company
4. Maximum entitlement of each participant	The maximum number of shares issuable under share options to each eligible participant within any 12-month period, shall not exceed 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to the Company shareholders' approval in a general meeting.
5. Option period	The exercise period of the share options granted is determinable by the directors of the Company, and commences after a certain vesting period and ends on a date which is not later than ten years from the offer date of the share options.
6. Exercise price	The exercise price of the share options is determinable by the board of directors of the Company and must be at least higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a Business Day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the Company's share. A nominal consideration of HK\$1 is payable on the grant of a share option.
7. Remaining life of the scheme	The scheme became effective on 12 June 2019 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Other terms

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a connected person, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5,000,000, within any 12-month period, are subject to the Company shareholders' approval in advance in a general meeting.

Share options do not confer rights on the holder to dividends or to vote at the Company shareholders' meetings.

Details of the specific categories of options granted to the Youzan Technology Group's employees are as following:

A. Granted in 2019

Vesting schedule for Share Option Scheme 2019 of the Company

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

At 31 December 2020

Date of grant	Exercise period	Exercise price	Number of share options				At 31 December 2020
			At 1 January 2020	Granted during the year	Lapsed during the year	Exercised during the year	
Senior management and employees of the Youzan Technology Group							
1 October 2019	1 July 2020 to 30 June 2024	HK\$0.75	38,750,000	-	(250,000)	(17,596,000)	20,904,000
	1 July 2021 to 30 June 2024	HK\$0.75	38,750,000	-	(1,000,000)	-	37,750,000
	1 July 2022 to 30 June 2024	HK\$0.75	38,750,000	-	(1,000,000)	-	37,750,000
	1 July 2023 to 30 June 2024	HK\$0.75	38,750,000	-	(1,000,000)	-	37,750,000
Total			<u>155,000,000</u>	<u>-</u>	<u>(3,250,000)</u>	<u>(17,596,000)</u>	<u>134,154,000</u>

At 31 December 2021

Date of grant	Exercise period	Exercise price	Number of share options						
			At 1 January 2021	Granted during the year	Lapsed during the year	Exercised during the year	Employees transferred from a fellow subsidiary during the year	Employees transferred to a fellow subsidiary during the year	At 31 December 2021
Senior management and employees of the Youzan Technology Group									
1 October 2019	1 July 2020 to 30 June 2024	HK\$0.75	20,904,000	-	-	(5,100,000)	6,252,000	(3,752,000)	18,304,000
	1 July 2021 to 30 June 2024	HK\$0.75	37,750,000	-	(250,000)	-	8,500,000	(8,500,000)	37,500,000
	1 July 2022 to 30 June 2024	HK\$0.75	37,750,000	-	(1,250,000)	-	8,500,000	(8,500,000)	36,500,000
	1 July 2023 to 30 June 2024	HK\$0.75	37,750,000	-	(1,250,000)	-	8,500,000	(8,500,000)	36,500,000
Total			<u>134,154,000</u>	<u>-</u>	<u>(2,750,000)</u>	<u>(5,100,000)</u>	<u>31,752,000</u>	<u>(29,252,000)</u>	<u>128,804,000</u>

At 31 December 2022

Date of grant	Exercise period	Exercise price	At 1 January 2022	Number of share option			At 31 December 2022
				Granted during the year	Lapsed during the year	Exercised during the year	
Senior management and employees of the Youzan Technology Group							
1 October 2019	1 July 2020 to 30 June 2024	HK\$0.75	18,304,000	-	(500,000)	-	17,804,000
	1 July 2021 to 30 June 2024	HK\$0.75	37,500,000	-	(1,000,000)	-	36,500,000
	1 July 2022 to 30 June 2024	HK\$0.75	36,500,000	-	(11,500,000)	-	25,000,000
	1 July 2023 to 30 June 2024	HK\$0.75	36,500,000	-	(11,500,000)	-	25,000,000
Total			128,804,000	-	(24,500,000)	-	104,304,000

At 30 June 2023

Date of grant	Exercise period	Exercise price	At 1 January 2023	Number of share option		At 30 June 2023
				Granted during the period	Lapsed during the period	
Senior management and employees of the Youzan Technology Group						
1 October 2019	1 July 2020 to 30 June 2024	HK\$0.75	17,804,000	-	(3,000,000)	14,804,000
	1 July 2021 to 30 June 2024	HK\$0.75	36,500,000	-	(12,300,000)	24,200,000
	1 July 2022 to 30 June 2024	HK\$0.75	25,000,000	-	-	25,000,000
	1 July 2023 to 30 June 2024	HK\$0.75	25,000,000	-	-	25,000,000
Total			104,304,000	-	(15,300,000)	89,004,000

For Share Option Scheme 2019 of the Company, the options will expire if the options remain unexercised up to 30 June 2024. Options are forfeited if the employee leaves the Group.

	Total Number of share options	Weighted average exercise price HK\$
At 31 December 2020		
Outstanding at the beginning of the year	155,000,000	0.75
Exercised during the year	(17,596,000)	N/A
Lapsed during the year	<u>(3,250,000)</u>	N/A
Outstanding at the end of the year	<u>134,154,000</u>	0.75
Exercisable at the end of the year	<u>20,904,000</u>	0.75

At 31 December 2021	Total Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the year	134,154,000	0.75
Employees transferred to/from a fellow subsidiary during the year, net	2,500,000	0.75
Lapsed during the year	(2,750,000)	N/A
Exercised during the year	<u>(5,100,000)</u>	N/A
Outstanding at the end of the year	<u>128,804,000</u>	0.75
Exercisable at the end of the year	<u>55,804,000</u>	0.75
	Total Number of share options	Weighted average exercise price HK\$
At 31 December 2022		
Outstanding at the beginning of the year	128,804,000	0.75
Lapsed during the year	<u>(24,500,000)</u>	N/A
Outstanding at the end of the year	<u>104,304,000</u>	0.75
Exercisable at the end of the year	<u>79,304,000</u>	0.75

At 30 June 2023	Total Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the period	104,304,000	0.75
Lapsed during the period	<u>(15,300,000)</u>	N/A
Outstanding at the end of the period	<u>89,004,000</u>	0.75
Exercisable at the end of the period	<u>89,004,000</u>	0.75

The options outstanding related to the Youzan Technology Group's employees at the end of the reporting end have a weighted average remaining contractual life for Share Option Scheme 2019 as at 31 December 2020 is 3.5 years, as at 31 December 2021 is 2.5 years, as at 31 December 2022 is 1.5 year and as at 30 June 2023 is 0.5 year. The exercise price is HK\$0.75

In 2019, 155,000,000 options were granted to the Youzan Technology Group's employees on 1 October 2019 under Share Option Scheme 2019. The estimated fair value of those options granted on that date is HK\$36,052,000.

The fair value of share options granted was calculated using Binomial Option Pricing Model. The inputs into the model are as follows:

	Share Option Scheme 2019
Share price of the Company on grant date	HK\$0.48 – HK\$0.50
Exercise price	HK\$0.75
Expected volatility	71.91% – 71.97%
Expected life	4.7 years
Risk-free rate	1.348% to 1.452%
Expected dividend yield	<u>0%</u>

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 years.

B. Granted in 2023**At 30 June 2023**

Date of grant	Exercise period	Exercise price	At 1 January 2023	Granted during the period	At 30 June 2023
Senior management and employees of the Youzan Technology Group					
20 January 2023	20 January 2024 to 20 January 2028	0.385	–	10,450,000	10,450,000

At 30 June 2023	Total Number of share options	Weighted average exercise price HK\$
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Outstanding at the beginning of the period	–	N/A
Granted during the period	<u>10,450,000</u>	0.385
Outstanding at the end of the period	<u>10,450,000</u>	0.385
Exercisable at the end of the period	<u>–</u>	N/A

The options outstanding related to the Youzan Technology Group's employees at the end of the period have a weighted average remaining contractual life as at 30 June 2023 is 4.5 years. The exercise price is HK\$0.385.

During the six months ended 30 June 2023, 10,450,000 options were granted to the Youzan Technology Group's employees on 20 January 2023 under Share Option Scheme 2019. The estimated fair value of those options granted on that date is HK\$1,451,000.

The fair value of share options granted was calculated using Binomial Option Pricing Model. The inputs into the model are as follows:

	Share Option Scheme 2019
Share price of the Company on grant date	HK\$0.27
Exercise price	HK\$0.385
Expected volatility	86.93%
Expected life	5 years
Risk-free rate	2.932%
Expected dividend yield	<u>0%</u>

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 years.

(b) Share Option Scheme 2023 of the Company

On 29 June 2023, the shareholders of the Company resolved to terminate the Share Option Scheme 2019 of the Company and to adopt a new share option scheme (“**Share Option Scheme 2023 of the Company**”) conditionally. Termination of the Share Option Scheme 2019 of the Company shall not affect the validity of the outstanding options which shall continue to be enforceable according to the original terms. The Share Option Scheme 2023 of the Company has no trustees and will be subject to the administration of the directors of the Company. A summary of the principal terms of the Share Option Scheme 2023 of the Company is set out in the circular of the Company dated 30 May 2023.

During the six months ended 30 June 2023, no share options granted under Share Option Scheme 2023 of the Company.

(c) Share Award Scheme of the Company

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 Company's board of directors (the “**Board**”).

The Board can make award of the Company's shares to selected participants, but must not make any further award of unvested shares which would result in the number of the Company's shares awarded by the Board under the Share Award Scheme representing 10% or more of the issued shares of the Company from time to time without approval from shareholders of Company. The maximum number of the Company's 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 of the Company.

No award shall be made by the Board and no instructions to acquire Company's shares shall be given by the Board to the trustee under the Share Award Scheme (the "Trustee") where any the Company's director is in possession of unpublished price-sensitive information in relation to the Group or where dealings by the Company's 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 the Company's shares to the Trustee from time to time under general mandates granted or to be granted by the Company's shareholders at general meetings of the Company from time to time (unless such issue and allotment of shares has otherwise been approved by the Company's 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 the Company's shares to the Trustee under general mandates granted or to be granted by the Company's shareholders at general meetings of the Company from time to time (unless such issue and allotment of the Company's shares has otherwise been approved by the Company's 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 Company's shares through on-market transactions at the prevailing market price. The Trustee must hold the Company's 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 Company's 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 of the Company's shares held under the Trust (including, but not limited to, the awarded shares, the returned shares, any bonus shares and scrip shares).

First Awards of the Company

During the year ended 31 December 2018, a total of 522,350,400 awarded shares (“**First Awards**”) were granted to the Youzan Technology Group’s employees 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 shares of the Company 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 of the Company

On 24 January 2019, the the Company’s Board announced the granting of another lot of 292,059,200 awarded shares (“**Second Awards**”) to the Youzan Technology Group’s employees, none was granted to the directors of the Company. The Company received all approvals and allotted Second Awards to the 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 22,536,800 awarded shares to 51 grantees of the Youzan Technology Group using lapsed shares of First Awards and Second Awards held by the Trustee. The fair value of the Second Awards granted was calculated based on the market price of the Company’s shares at the measurement date that all relevant approvals in connection with the GEM Listing Rules requirements and acceptance from the selected 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 accelerate the vesting schedules of 80 grantees under the Second Awards such that 154,897,600 awarded shares being immediately and full vested.

Third Awards of the Company

On 21 August 2019, the Board passed a resolution to grant 7,462,400 awarded shares (“**Third Awards**”) to the Youzan Technology Group’s employees by using the lapsed shares of First Awards and Second Awards held by Trustee, 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 shares 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.

Sixth Awards of the Company

On 22 February 2022, the Board passed a resolution for allotting and issuing 350,846,480 new awarded shares (“**Sixth Awards**”) to Trustee. On 1 December 2022, the Company granted 170,348,640 awarded shares to employees of the Youzan Technology Group. The fair value of the Sixth 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 Sixth Awards granted was HK\$0.184 per awarded share.

The Sixth Awards have 4 vesting periods: 160,752,240 share awards were vested during the year, 9,596,400 awarded shares will be vested on 31 March 2023, 30 June 2023 and 30 September 2023.

Seventh Awards of the Company

On 15 January 2023, the Board passed a resolution to grant 5,240,824 Awarded Shares (“**Seventh Awards**”) to certain Selected Participants related to Youzan Technology’s Group by using the issued but not yet granted Awarded Shares held by the Trustee. The fair value of the Seventh 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 Seventh Awards granted was HK\$0.27 per Awarded Share.

Seventh Awards granted to employees are divided into 2 lots: 2,108,824 Awarded Shares will fully vest on 14 January 2024. Another 3,132,000 Awarded Shares are divided into 3 tranches. The first tranche representing 50% of the awards shall vest when the employees completing 1 year of continuous service to the Group from the date of grant. The second and third tranches each represent 25% of the awards and shall vest in the second and third anniversary from the date of grant, respectively.

Eighth Awards of the Company

On 1 April 2023, the Board passed a resolution to grant 29,862,000 Awarded Shares (“**Eighth Awards**”) to certain Selected Participants related to Youzan Technology’s Group related by using the issued but not yet granted Awarded Shares held by the Trustee. The fair value of the Eighth 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 Eighth Awards granted was HK\$0.208 per Awarded Share.

Eighth Awards granted to Selected Participants are divided into 3 lots:

- (1) 2,519,000 Awarded Shares will fully vest on 31 March 2024;
- (2) Another 12,131,000 Awarded Shares are divided into 4 tranches. The first and second tranche each represent 20% of the awards shall vest when the Selected Participant completing 1 year of continuous service to the Group from the date of grant. The third and fourth tranche each represent 30% of the awards shall vest in the third and fourth anniversary from the date of grant, respectively;
- (3) The remaining 15,212,000 Awarded Shares are divided into 4 tranches. The first tranche representing 25% of the awards shall vest when the Selected Participant completing 1 year of continuous service to the Group from the date of grant. The second, third and fourth tranche each represent 25% of the awards shall vest in the second, third and fourth anniversary from the date of grant, respectively.

Movements in the number of awarded shares held by the Trustee for the employees of Youzan Technology Group during the Relevant Periods are as follows:

	Number of awarded shares As at 31 December			Number of awarded shares As at 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
At the beginning of the year/ period	265,104,600	153,512,800	105,434,600	105,434,600	169,672,420
Granted by the Company	-	-	170,348,640	-	-
Vested and transferred	(111,591,800)	(48,078,200)	(106,110,820)	(13,772,000)	(91,948,120)
Lapsed	(20,990,400)	(5,474,700)	(4,781,600)	(11,609,000)	(4,764,600)
Returned shares	20,990,400	5,474,700	4,781,600	11,609,000	4,764,600
At end of the year/period	<u>153,512,800</u>	<u>105,434,600</u>	<u>169,672,420</u>	<u>91,662,600</u>	<u>77,724,300</u>
Vested but not transferred as at the end of the year/ period	<u>3,377,000</u>	<u>11,462,000</u>	<u>96,838,720</u>	<u>17,075,500</u>	<u>10,694,500</u>

On 29 June 2023, the shareholders of the Company resolved to amend the terms of the Share Award Scheme of the Company, among other matters, (i) introduce rules under the Share Award Scheme for the award of new shares of the Company, include Employee Participants, Related Entity Participants and Service Providers as Eligible Participants for an award, (ii) introduce the Scheme Mandate Limit for the award of new shares and, (iii) bring the Share Award Scheme in alignment with Chapter 23 of the GEM Listing Rules.

(d) Youzan Technology – Share Award Plan A

Refer to the Company's announcements dated 26 February 2021, 1 April 2021 and 6 May 2021, Youzan Technology has adopted the Youzan Technology Share Award Plan A for the purposes of simplifying the structure of the then existing share award plan adopted by Youzan Technology on 2 August 2019 and to make grants to reward directors, management members and employees of the Youzan Technology Group for their historical contributions to the success of the business of the Youzan Technology Group. Under the terms of the Youzan Technology Share Award Plan A, the share awards to be granted under the Youzan Technology Share Award Plan A will be satisfied by the existing 106,428,391 Youzan Technology shares held by Qima Teamwork Inc.

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, shares of Youzan Technology held by Qima Teamwork Inc. are not yet transferred to Trustee A and no share award has been granted under the Share Award Plan A.

(e) Grant of Youzan Technology Shares and anti-dilution issue to the Company

On 27 April 2022, the board of directors of Youzan Technology passed a resolution and entered a share award agreement with Whitecrow Investment Limited, which is a wholly-owned company by Mr. Zhu Ning (the director of the Company) and a non-controlling shareholder of Youzan Technology. Pursuant to the agreement, Youzan Technology granted, allotted and issued 84,432,360 new shares of Youzan Technology to incentivise Mr. Zhu Ning to remain with Youzan Technology and continue to promote its future business development. The fair value of the granted share award was determined by discounted cash flow method and the fair value of the granted share award was amounting to RMB36,920,000. The awarded shares were vested immediately. The share-based payment expenses of RMB36,920,000 were recognised in the consolidated financial statements for the year ended 31 December 2022.

To ensure that the above share awards did not dilute the existing equity interest held by the Company in Youzan Technology, Youzan Technology entered into an anti-dilution agreement with the Company. Pursuant to the agreement, Youzan Technology agreed to issue and allot 91,087,205 new shares of Youzan Technology to the Company.

These transactions were approved by the shareholders of the Company at the annual general meeting held on 21 June 2022. The Company's equity interest in Youzan Technology remains unchanged at 51.9%.

For further details, refer to the announcement of the Company published on 27 April 2022 and the poll result on 21 June 2022.

46. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**(a) Acquisition of a subsidiary**

On 1 January 2020, the Youzan Technology Group had further acquired 42.63% equity interest in Youzan Japan, a company incorporated in Japan with cash consideration of JPY97,000,000 (approximate RMB6,215,000). Upon completion, the Youzan Technology Group owned Youzan Japan 52.63% equity interests and obtained the control of Youzan Japan. Youzan Japan is principally engaged in providing operation services for merchants and integrated new retail solutions for beauty industries in Japan. The acquisition is for the purpose of diversifying the Youzan Technology Group's revenue base overseas.

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

	<i>RMB'000</i>
Net assets acquired:	
Trade receivables	127
Prepayment, deposits and other receivables	1,314
Amount due from a shareholder	4,886
Bank and cash balances	10,328
Trade payables	(1,822)
Accruals and other payables	(934)
Borrowings	(2,136)
Current tax liabilities	<u>(586)</u>
	11,177
Non-controlling interests	(5,295)
Goodwill (<i>note 21</i>)	<u>1,029</u>
	<u><u>6,911</u></u>
Satisfied by:	
Carrying amount of pre-existing interest (<i>note 7(b)</i>)	696
Cash consideration previously paid as deposit	<u>6,215</u>
	<u><u>6,911</u></u>
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	<u><u>10,328</u></u>

The fair value of trade receivables, prepayment, deposits and other receivables and amount due from a shareholder acquired is approximately RMB127,000, RMB1,314,000 and RMB4,886,000 respectively. All of the contractual cash flows are expected to be collected in full.

The goodwill arising on the acquisition of Youzan Japan is attributable to the expected synergies of the combination.

Youzan Japan contributed approximately RMB97,000 to Youzan Technology's revenue for the year ended 31 December 2020 for the period between the date of acquisition and the end of 31 December 2020. Youzan Japan incurred approximately RMB4,227,000 to the Youzan Technology Group's loss for the year ended 31 December 2020 for the period between the date of acquisition and 31 December 2020.

(b) Other loan from the Company

On 27 May 2020, Baidu Online obtained Approvals, the other loan from the Company was reclassified and recognised as Company's share capital and share premium. Details are set out in note 41(iii).

(c) Further acquisition of a subsidiary without change of control

On 16 April 2021, QMI and an existing non-controlling interest shareholder of Youzan Japan entered second capital injection agreement with Youzan Japan in relation to acquire additional enlarged shares of Youzan Japan by consideration RMB7,895,000 and RMB1,389,000 respectively. Upon the completion, QMI's equity interest in Youzan Japan increased from 52.63% to 66.65%.

(d) Disposal of a subsidiary

The Youzan Technology Group's subsidiary entered into the sales and purchase agreement with a related company to sell its 100% equity interest of Hangzhou Youzan Dining Co., Ltd. at nil consideration. The disposal was completed on 29 July 2022 resulting in a gain on disposal of approximately RMB4,603,000.

Net liabilities disposal:

	<i>RMB'000</i>
Property, plant and equipment	1,414
Prepayments, deposits and other receivables	1,122
Bank and cash balances	188
Accruals and other payables	(1,213)
Amount due to the Youzan Technology Group	<u>(6,114)</u>
Net liabilities disposed of	<u><u>(4,603)</u></u>
Net cash outflow arising on disposal:	
Cash consideration received	–
Cash and cash equivalents disposed of	<u>(188)</u>
	<u><u>(188)</u></u>

(e) Reconciliation of liabilities arising from financing activities

The table below details changes in the Youzan Technology Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Youzan Technology Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2020 RMB'000	Cash flows RMB'000	Inception of leases RMB'000	Interest expenses (note 11) RMB'000	Early termination of lease and rent concession RMB'000	Non-cash transactions - recognise as capital RMB'000	Exchange difference RMB'000	31 December 2020 RMB'000
Amounts due to fellow subsidiaries under financing activities	4,325	144	-	-	-	-	-	4,469
Loans from the Company (note 41)	616,650	(309,203)	-	16,634	-	(306,728)	(17,353)	-
Other loan	201,337	(204,485)	-	8,361	-	-	(5,213)	-
Lease liabilities	208,274	(65,773)	84,490	19,236	(6,039)	-	-	240,188
	<u>1,030,586</u>	<u>(579,317)</u>	<u>84,490</u>	<u>44,231</u>	<u>(6,039)</u>	<u>(306,728)</u>	<u>(22,566)</u>	<u>244,657</u>

	1 January 2021 RMB'000	Cash flows RMB'000	Inception of leases RMB'000	Interest expenses (note 11) RMB'000	Early termination of leases RMB'000	31 December 2021 RMB'000
Amounts due to fellow subsidiaries under financing activities	4,469	(4,469)	-	-	-	-
Amount due to the Company	-	1,043	-	-	-	1,043
Lease liabilities	240,188	(36,005)	38,695	21,668	(586)	263,960
	<u>244,657</u>	<u>(39,431)</u>	<u>38,695</u>	<u>21,668</u>	<u>(586)</u>	<u>265,003</u>

	1 January 2022 RMB'000	Cash flows RMB'000	Interest expenses (note 11) RMB'000	Early termination of lease and modification RMB'000	Exchange difference RMB'000	31 December 2022 RMB'000
Amount due to the Company	1,043	86	-	-	-	1,129
Loans from the Company (note 41)	-	517,896	29,005	-	27,791	574,692
Borrowings	-	471,062	9,924	-	-	480,986
Lease liabilities	263,960	(40,170)	15,160	(151,045)	-	87,905
	<u>265,003</u>	<u>948,874</u>	<u>54,089</u>	<u>(151,045)</u>	<u>27,791</u>	<u>1,144,712</u>

	1 January 2022 RMB'000	Cash flows RMB'000 (Unaudited)	Interest expenses (note 11) RMB'000 (Unaudited)	Early termination of lease and modification of lease RMB'000 (Unaudited)	Exchange difference RMB'000 (Unaudited)	30 June 2022 RMB'000 (Unaudited)
Amount due to the Company	1,043	54	-	-	-	1,097
Loans from the Company (note 41)	-	379,634	10,549	-	16,151	406,334
Borrowings	-	480,000	359	-	-	480,359
Lease liabilities	263,960	(29,215)	10,290	(79,650)	-	165,385
	<u>265,003</u>	<u>830,473</u>	<u>21,198</u>	<u>(79,650)</u>	<u>16,151</u>	<u>1,053,175</u>

	1 January 2023 RMB'000	Cash flows RMB'000	Interest expenses (note 11) RMB'000	Rent Concession RMB'000	Exchange difference RMB'000	30 June 2023 RMB'000
Amount due to the Company	1,129	58	-	-	-	1,187
Loans from the Company (note 41)	574,692	-	20,930	-	30,129	625,751
Borrowings	480,986	(29,628)	9,251	-	39	460,648
Lease liabilities	87,905	(7,278)	4,342	(1,232)	-	83,737
	<u>1,144,712</u>	<u>(36,848)</u>	<u>34,523</u>	<u>(1,232)</u>	<u>30,168</u>	<u>1,171,323</u>

(f) Total cash outflow for leases

Amounts included in the consolidated statements of cash flows for leases comprise the following:

	Years ended 31 December			Six months ended 30 June	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (unaudited)	2023 RMB'000
Within operating cash flows	32,307	41,944	17,950	4,342	10,290
Within investing cash flows	-	-	-	-	-
Within financing cash flows	47,802	15,174	25,010	24,873	660
	<u>80,109</u>	<u>57,118</u>	<u>42,960</u>	<u>29,215</u>	<u>10,950</u>

These amounts relate to the following:

	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Lease rental paid	<u>80,109</u>	<u>57,118</u>	<u>42,960</u>	<u>29,215</u>	<u>10,950</u>

47. CONTINGENT LIABILITIES

At 30 June 2023, Youzan Technology Group has the following unresolved legal disputes:

- Hangzhou Youzan received a court summon in relation to trademark infringement dispute for which the plaintiff claimed for total economic loss and legal cost of RMB1.5 million from Hangzhou Youzan and 2 other defendants. Youzan Technology Group's management and internal legal counsel assessed the likelihood of Hangzhou Youzan need to pay any compensation as low. The directors of the Company 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 liability; and
- Other small unresolved legal disputes totalling RMB0.16 million of compensations.

Save as disclosed above, the Youzan Technology Group had no other contingent liabilities as at 30 June 2023.

48. OPERATING LEASE ARRANGEMENTS

The Youzan Technology Group as lessee

The Youzan Technology Group regularly entered into short-term leases for office and staff quarters. As at 31 December 2020, 31 December 2021 and 31 December 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 19.

At 31 December 2020, the Group entered into a lease for an office that are not yet commenced with non-cancellable period for 3 years with an extension option and total future undiscounted cash flow over the non-cancellable period amounted to RMB17,497,000. At 31 December 2021, 31 December 2022 and 30 June 2023, the Youzan Technology Group had not entered into any lease which are not yet commenced.

49. COMMITMENTS

Commitments contracted for at the end of the Relevant Periods but not yet incurred are as follows:

	As at 31 December			As at
	2020	2021	2022	30 June
	RMB'000	RMB'000	RMB'000	2023
Property, plant and equipment	3,278	1,061	-	-
Entities investment	6,787	6,787	4,537	4,537

50. RELATED PARTY TRANSACTIONS

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

	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Advertising service fee received from a related company (exclude VAT)	2,915	566	10	10	-
Revenue from a related party	6,031	4,901	5,372	2,691	1,546
Revenue from an associate	516	-	-	-	-
Administrative expenses paid to a non-controlling shareholder of a subsidiary	(1,684)	(1,928)	(1,022)	(688)	(372)
Commission paid to an associate	(2,293)	(4,401)	(2,926)	(1,503)	(822)
Technology service fee received from a fellow subsidiary	377	2,340	-	-	-
Technology service fee paid to a related company	(1,188)	-	-	-	-
Transaction service fee paid to a fellow subsidiary	(36,496)	(7,044)	-	-	-
Revenue received from a fellow subsidiary	187	1,757	667	289	298
Interest income from loans to fellow subsidiaries for the year/period	170	569	-	-	-

	Years ended 31 December			Six months ended 30 June	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Loans from the Company during the year/period					
– General loans borrowed during the year/period	35,688	–	517,896	379,634	–
– Repayment of general loan during the year/period	(344,891)	–	–	–	–
– Other loan recognised as share capital and premium during the year/period (notes 41(ii) & 43(ii))	(306,728)	–	–	–	–
– Interest expense for the year/period (note 11)	(16,634)	–	(29,005)	(10,549)	(20,930)
Loans from non-controlling shareholders					
– Principal borrowed during the year/period	–	–	1,420	–	848
– Repayment during the year/period	–	–	–	–	(1,110)
Loan to a related company during the year/period					
– Principal borrowed during the year/period	(500)	–	–	–	–
– Repayment during the year/period	1,300	–	–	–	–
Loans to fellow subsidiaries during the year/period					
– Principal borrowed during the year/period (note 28)	(16,100)	(22,500)	–	–	–
– Repayment during the year/period	–	38,600	–	–	–
– Interest income for the year/period	170	569	–	–	–
Equity-settled share-based payments from the Company	<u>(45,215)</u>	<u>(30,217)</u>	<u>(29,618)</u>	<u>(2,597)</u>	<u>(5,106)</u>

- (b) On 15 May 2019, a fellow subsidiary signed a guarantee agreement to provide financial guarantee of RMB28 million to Tianjin Youzan and Hangzhou Youzan Dining from 15 May 2019 to 15 May 2021 for obtaining provision of advertising services. On the same day, Hangzhou Youzan signed a guarantee agreement with this fellow subsidiary for counter-guarantee for above advertising expenses. On 5 January 2021, the guarantee provided by the fellow subsidiary and the counter-guarantee by Hangzhou Youzan were released.

- (c) The remuneration of directors and other members of senior management during the Relevant Periods are as follows:

	Salaries, bonus and allowances <i>RMB'000</i>	Equity-settled share-based payments from the Company <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Guan Yu (<i>note (i)</i>)	506	2,037	4	2,547
Guo Yahong (<i>note (ii)</i>)	198	2,317	11	2,526
Huan Fang (<i>note (iii)</i>)	550	6,165	23	6,738
Zhou Kai (<i>note (iv)</i>)	557	1,432	3	1,992
Other directors as disclosed in note 16(a)	<u>12,017</u>	<u>13,257</u>	<u>70</u>	<u>25,344</u>
Total for year ended 31 December 2020	<u>13,828</u>	<u>25,208</u>	<u>111</u>	<u>39,147</u>

	Salaries, bonus and allowances <i>RMB'000</i>	Equity-settled share-based payments from the Company <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Guan Yu (<i>note (i)</i>)	388	235	53	676
Zhou Kai (<i>note (iv)</i>)	383	669	39	1,091
Other directors as disclosed in note 16(a)	<u>11,180</u>	<u>6,076</u>	<u>60</u>	<u>17,316</u>
Total for year ended 31 December 2021	<u>11,951</u>	<u>6,980</u>	<u>152</u>	<u>19,083</u>

	Salaries, bonus and allowances <i>RMB'000</i>	Equity-settled share-based payments from the Company <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Guan Yu (<i>note (i)</i>)	481	791	54	1,326
Zhou Kai (<i>note (iv)</i>)	476	345	43	864
Other directors as disclosed in note 16(a)	<u>12,343</u>	<u>3,121</u>	<u>60</u>	<u>15,524</u>
Total for year ended 31 December 2022	<u>13,300</u>	<u>4,257</u>	<u>157</u>	<u>17,714</u>

	Salaries, bonus and allowances RMB'000	Equity-settled share-based payments from the Company RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Guan Yu (<i>note (i)</i>)	240	232	27	499
Zhou Kai (<i>note (iv)</i>)	240	232	22	494
Other directors as disclosed in note 16(a)	<u>6,651</u>	<u>2,096</u>	<u>32</u>	<u>8,779</u>
Total for six months ended 30 June 2022 (unaudited)	<u>7,131</u>	<u>2,560</u>	<u>81</u>	<u>9,772</u>

	Salaries, bonus and allowances RMB'000	Equity-settled share-based payments from the Company RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Guan Yu (<i>note (i)</i>)	32	–	5	37
Zhou Kai (<i>note (iv)</i>)	810	106	20	936
Other directors as disclosed in note 16(a)	<u>5,979</u>	<u>1,119</u>	<u>40</u>	<u>7,138</u>
Total for six months ended 30 June 2023	<u>6,821</u>	<u>1,225</u>	<u>65</u>	<u>8,111</u>

Notes:

The amounts disclosed above represent remuneration paid or payable to the directors and other members of senior management of the Youzan Technology as key management personnel of the Youzan Technology Group's entities.

- (i) Guan Yu was designated as Chief Marketing Officer on 1 July 2016 and ceased to be a key management personnel on 1 February 2023.
- (ii) Guo Yahong was designated as Chief Talent Officer on 28 February 2018 and ceased to be a key management personnel on 31 May 2020.
- (iii) Huan Fang was designated as Chief Operating Officer on 21 September 2018 and appointed as director of the Company on 30 December 2020.
- (iv) Zhou Kai was designated as Senior Vice President on 23 November 2015.

51. EVENTS AFTER THE REPORTING PERIOD

- (a) On 1 July 2023, the Company granted 3,071,000 share awards under the Company's Share Award Scheme to the Youzan Technology Group's employees. The fair value of the abovesaid share award was HK\$0.14 per share award.
- (b) In 5 July 2023, Hangzhou Youzan further borrowed RMB20 million from bank. The loan is under the same agreement of existing loans and with same term.
- (c) As set out in the circular of the Company dated 30 November 2023, a total of 106,428,391 existing shares ("**Awards**") of Youzan Technology are proposed to be granted to 401 grantees under the Youzan Technology Share Award Plan A. Upon completion of the proposed acquisition ("**Acquisition**") of approximately 48.1% interest in Youzan Technology by the Company, the Awards would then be exchanged into 1,906,330,379 shares of the Company ("**Exchanged Shares**") for the purpose of satisfying the Awards granted and each Award shall then entitle the grantees to subscribe for corresponding number of Exchanged Shares in proportion to the grantee's entitlement to each existing share of Youzan Technology. The completion of the Acquisition is not conditional upon the completion of the Proposed Share Award Grant. In the event that the completion of Acquisition does not take place, the Proposed Share Award Grant will not proceed.

Save as disclosed above, the Youzan Technology Group had no other material event after the end of reporting period as at 30 June 2023.

52. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Youzan Technology Group in respect of any period subsequent to 30 June 2023 and up to the date of this report.

Set out below is the management discussion and analysis of the Youzan Technology Group (i) for the year ended 31 December 2020; (ii) for the year ended 31 December 2021; (iii) for the year ended 31 December 2022; and (iv) for the six months ended 30 June 2023. The following financial information is based on the financial information of the Youzan Technology Group as set out in Appendix II to this Circular.

FINANCIAL REVIEW

Revenue

During the three years ended 31 December 2022 and the six months ended 30 June 2023, Youzan Technology primarily generated revenue from sales of its subscription solutions and merchant solutions to merchants. The following table sets forth a breakdown of revenue by major products and services in absolute amounts and as a percentage of total revenue for the periods indicated:

Revenue	2020		Year ended 31 December				Six months ended 30 June			
	Amount	%	2021		2022		2022		2023	
			Amount	%	Amount	%	Amount	%	Amount	%
	(RMB'000, except percentages)									
Subscription solutions	1,047,951	66.50	973,813	75.85	890,223	76.26	439,197	76.49%	422,266	74.28%
Merchant solutions	513,991	32.61	299,348	23.31	268,261	22.98	129,426	22.54%	144,194	25.37%
Others ⁽¹⁾	14,042	0.89	10,842	0.84	8,818	0.76	5,548	0.97%	1,985	0.35%
Total	<u>1,575,984</u>	<u>100.0</u>	<u>1,284,003</u>	<u>100.0</u>	<u>1,167,302</u>	<u>100.0</u>	<u>574,171</u>	<u>100.00%</u>	<u>568,445</u>	<u>100.00%</u>

Note:

- Others mainly include revenue generated from (i) provision of catering services, (ii) sales of branded products, and (iii) provision of management services.

Subscription Solutions

Revenue of 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 the SaaS products. The revenue generated from the subscription solutions gradually decreased from approximately RMB1,048.0 million in the year 2020 to approximately RMB973.8 million in the year 2021 mainly due to decrease in cloud service fee and further to approximately RMB890.2 million in the year 2022 primarily due to decrease in cloud service fee and subscription fees for SaaS products.

For the six months ended 30 June 2023, the revenue generated from the subscription solutions decreased to approximately RMB422.3 million from approximately RMB439.2 million for the same period in 2022 mainly due to the decrease in the number of paying merchants.

Merchant Solutions

In addition to subscription solutions, Youzan Technology 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, as well as Youzan Worry-free Shopping (formerly known as “Youzan Guarantee”) and Youzan Promotion. Transaction service fee and service fees for Youzan Distribution and Youzan Worry-free Shopping are determined with reference to the GMV generated by merchants through solutions.

The revenue generated from the merchant solutions decreased from approximately RMB514.0 million in the year 2020 to approximately RMB299.3 million in the year 2021 primarily due to decrease in revenue generated from transaction services as one of the subsidiary of Youzan Technology Group ceased its transaction service in February 2021 and further to approximately RMB268.3 million in the year 2022, primarily due to the cease of its transaction service in February 2021.

For the six months ended 30 June 2023, the revenue generated from the merchant solutions increased to approximately RMB144.2 million from approximately RMB129.4 million for the same period in 2022 mainly due to the increase in the revenue from the private domain service.

Others

Revenue from other businesses decreased from approximately RMB14.0 million for the year ended 31 December 2020 to approximately RMB10.8 million for the year ended 31 December 2021 and further decreased to approximately RMB8.8 million for the year ended 31 December 2022, mainly due to the decrease in the revenue from providing catering services which were ceased since May 2021.

For the six months ended 30 June 2023, the revenue from other businesses decreased to approximately RMB2.0 million from approximately RMB5.5 million for the same period in 2022 mainly due to a decrease in service fee from Hangzhou Aiguang Network Information Service Co., Ltd. and a decrease in revenue from sales of branded products.

Cost of Sales

Cost of sales primarily consists of (i) transaction cost, which represents the payment service fees charged by WeChat, Alipay and other online payment service providers charged with reference to the GMV generated by Youzan Technology’s merchants through its solutions. Transaction cost is related to the transaction service rendered during the three years ended 31 December 2022, (ii) staff costs, which represent the salaries of employees involved in software maintenance and operation services as well as after-sales services, (iii) server and SMS costs, which represent the costs incurred for purchasing the cloud server and CDN services from third-

party providers, as well as SMS costs charged by telecom companies in connection with subscription solutions, (iv) technology services expenses, which represents software customisation service cost, (v) contracted operation services costs, which represent operation services outsourcing cost, (vi) cost of sales of goods, which represents the cost related to sales of hardware and other merchandise, (vii) depreciation of right-of-use-assets related to leased office premises, (viii) taxes and surcharges, (ix) insurance premium cost, and (x) other miscellaneous costs.

Youzan Technology Group's cost of sales was approximately RMB529.2 million, RMB398.4 million, RMB319.8 million for the year ended 31 December 2020, 2021 and 2022 respectively. The decrease in cost of sales for the year ended 31 December 2020 of approximately RMB529.2 million to the year ended 31 December 2021 of approximately RMB398.4 million, representing a year-on-year decrease of approximately 24.7%, which was mainly because the transaction costs decreased due to Youzan Technology Group ceased its transaction service in February 2021. Meanwhile the decrease of cost of sales was partially offset by the following factors: (i) staff costs increased due to the increase in staff numbers, (ii) insurance premium costs increased since Youzan Technology Group started to purchase freight insurance from insurance institutions and provide to merchants who registered with Youzan Worry-free Shopping from December 2020, and (iii) technology services expenses increased primarily attributable to the business expansion of customised services.

In 2022, Youzan Technology Group's cost of sales was approximately RMB319.8 million (2021: approximately RMB398.4 million), representing a year-on-year decrease of approximately 19.7%, which was mainly because (i) the transaction costs decreased since Youzan Technology Group ceased its transaction service in February 2021, (ii) staff costs decreased due to the decrease in headcount as a result of the optimization of organization structure, (iii) server and SMS costs decreased due to precise costs control measures.

For the six months ended 30 June 2023, Youzan Technology Group's cost of sales was approximately RMB134.4 million (same period in 2022: approximately RMB175.8 million), representing a decrease of approximately 23.5%, which was mainly due to precise costs control measures and partially offset by the increase in the contracted operation services costs which was in line with the revenue growth from private domain operation service.

Gross Profit

The gross profit decreased from approximately RMB1,046.8 million in the year 2020 to approximately RMB885.6 million in the year 2021 mainly due to decrease in the revenue of cloud service fees as well as 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 Worry-free Shopping from December 2020 and further to approximately RMB847.5 million in the year 2022 primarily due to the decrease in the revenue of cloud service fees.

For the six months ended 30 June 2023, Youzan Technology Group's gross profit was approximately RMB434.1 million (same period in 2022: approximately RMB398.3 million), representing an increase of approximately 9.0%, which was mainly due to the decrease in cost of sales.

For the three years ended 31 December, 2020, 2021, 2022 and the six months ended 30 June 2023, Youzan Technology Group's gross margin was approximately 66.4%, 69.0%, 72.6% and 76.4%, respectively.

Selling Expenses

Selling expenses primarily consist of (i) staff costs of our sales and marketing personnel, (ii) amortisation of capitalised contract costs, which represents commission incurred to the channel partners for promotion of SaaS products, (iii) promotion and advertising expenses, (iv) travelling and entertainment expenses in relation to selling and marketing activities or incurred by selling and marketing personnel, (v) depreciation on right-of-use assets related to leased office premises, and (vi) other miscellaneous expenses. Selling expenses were RMB779.3 million, RMB956.4 million and RMB820.8 million for the year ended 2020, 2021 and 2022, respectively, which accounted for 49.4%, 74.5%, 70.3% of revenue in 2020, 2021 and 2022, respectively.

During the three years ended 31 December 2020 to 2022, the two largest components of selling expenses were (i) staff costs of sales and marketing personnel, and (ii) amortisation of capitalised contract costs. Selling expenses increased from RMB779.3 million for the year ended 31 December 2020 to RMB956.4 million for the year ended 31 December 2021, primarily due to (i) the increase in staff costs for sales and marketing personnel as the number of sales and marketing personnel grew, (ii) the increase in commission paid to channel partners due to the increase in contractual transaction amount of SaaS products contributed by the merchants who were introduced by channel partners. Selling expenses decreased from RMB956.4 million for the year ended 31 December 2021 to RMB820.8 million for the year ended 31 December 2022, mainly due to the cutdown on promotion and advertising expenses, and the decrease in sales staff costs as well as the channel commission expenses.

For the six months ended 30 June 2023, Youzan Technology Group's selling expense was approximately RMB327.3 million (same period in 2022: approximately RMB471.4 million), representing a decrease of approximately 30.6%, which was mainly due to the decrease in sales personnel which led to the decrease in sales staff costs and the decrease in channel commission expenses.

Administrative Expenses

Administrative expenses primarily consists of (i) staff costs for administrative personnel, (ii) travelling and entertainment expenses in relation to administrative function or incurred by administrative personnel, (iii) office expenses, (iv) depreciation of property, plant and equipment,

(v) depreciation of right-of-use assets related to our leased office premises, (vi) legal and professional fees, and (vii) other miscellaneous expenses. Administrative expenses were approximately RMB168.1 million, RMB261.9 million and RMB242.0 million for the year ended 2020, 2021 and 2022, respectively, which accounted for approximately 10.7%, 20.4%, 20.7% of revenue in 2020, 2021 and 2022, respectively. During the 2020 to 2022, the largest component of administrative expenses were staff costs for administrative personnel.

Administrative expenses increased from RMB168.1 million for the year ended 31 December 2020 to RMB261.9 million for the year ended 31 December 2021, primarily due to the increase in management and functional 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 Group. Administrative expenses decreased from RMB261.9 million for the year ended 31 December 2021 to RMB242.0 million for the year ended 31 December 2022, mainly due to the decrease in administrative staff costs as a result of the optimization of the organizational structure and lower legal and professional fees, which was partially offset by the one-off severance packages of approximately RMB86.7 million for the year ended 31 December 2022.

For the six months ended 30 June 2023, Youzan Technology Group's administrative expense was approximately RMB45.4 million (same period in 2022: approximately RMB161.8 million), representing a decrease of approximately 71.9%, which was mainly due to the one-off severance packages of approximately RMB68,103,000 during the six months ended 30 June 2022 and the decrease in administrative staff costs due to the decrease in administrative personnel as a result of the optimization of the organizational structure.

Other Operating Expenses

Other operating expenses primarily consists of (i) staff costs for our research and development personnel, (ii) depreciation of right-of-use assets related to our leased office premises for research and development purpose, and (iii) other expenses. Other operating expenses were approximately RMB394.3 million, RMB568.9 million and RMB290.6 million for the year ended 2020, 2021 and 2022, respectively, which accounted for approximately 25.0%, 44.3%, 24.9% of revenue in 2020, 2021 and 2022, respectively.

Other operating expenses increased from RMB394.3 million for the year ended 31 December 2020 to RMB568.9 million for the year ended 31 December 2021, mainly due to the increase in research and development expenditure in staff costs for new retail business by launching new products such as WowShop, Youzan CRM, Youzan WeCom Assistant and Youzan Salespeople Assistant in 2021. Other operating expenses decreased from RMB568.9 million for the year ended 31 December 2021 to RMB290.6 million for the year ended 31 December 2022, mainly due to the

reduction in research and development expenses as a result of the rational arrangement of research and development investment and the optimization of the organizational structure to reduce the research and development staff costs.

For the six months ended 30 June 2023, Youzan Technology Group's other operating expense was approximately RMB97.1 million (same period in 2022: approximately RMB197.2 million), representing a decrease of approximately 50.8%, which was mainly due to the decrease in research and development expenses as a result of the reduction in research and development staff costs.

Loss from operations

The loss from operations was RMB308.3 million, RMB997.5 million and RMB515.2 million for the year ended 31 December 2020, 2021 and 2022, respectively. The loss from operations was mainly due to our revenue being offset by the significant amounts of selling expenses, administrative expenses and other operating expenses. The loss from operations increased from RMB308.3 million for the year ended 31 December 2020 to RMB997.5 million for the year ended 31 December 2021, representing a year-on-year increase of approximately 223.5%, which was mainly because the significant increase in selling expenses, administrative expenses and research and development expenditure due to the input expansion.

The loss from operations decreased from RMB997.5 million for the year ended 31 December 2021 to RMB515.2 million for the year ended 31 December 2022, representing a year-on-year decrease of 48.4%, which was mainly because the decrease in selling expenses, administrative expenses and research and development expenditure due to the optimization of the organizational structure.

For the six months ended 30 June 2023, the loss from operations was approximately RMB10.9 million (same period in 2022: approximately RMB458.2 million), representing a decrease of approximately 97.6%, which was mainly because of the decrease in cost of sales, selling expenses, administrative expenses and other operating expenses.

Finance Costs

Finance costs consist of (i) interest expenses on lease liabilities in connection with our leased office premises; (ii) interest on other loans; (iii) interest on borrowings; and (iv) interest on loans from the Company.

For the year ended 31 December 2021, Youzan Technology Group recorded finance costs of approximately RMB21.7 million, representing a decrease of approximately 51.0% comparing to 2020. The decrease in finance costs was mainly contributed by the decrease in other loans and loans from ultimate holding company.

For the year ended 31 December 2022, Youzan Technology Group recorded finance costs of approximately RMB54.1 million, representing an increase of approximately 149.3% as compared to 2021. The increase in finance costs was mainly due to interests arising from bank borrowings and interest on loans from ultimate holding company and partially offset by the decrease in interest expenses on lease liabilities.

For the six months ended 30 June 2023, Youzan Technology Group recorded finance costs of approximately RMB34.5 million (same period in 2022: approximately RMB21.2 million), representing an increase of approximately 62.7%, which was mainly due to the increase in interests on bank borrowings and loans from the Company and partially offset by the decrease in interest expenses of lease liabilities in relation to leases of office premises.

Net loss

Net loss was RMB337.2 million, RMB1,124.0 million and RMB636.9 million for the year ended 31 December 2020, 2021 and 2022. The net loss increased from RMB337.2 million for the year ended 31 December 2020 to RMB1,124.0 million for the year ended 31 December 2021, representing a year-on-year increase of approximately 233.3%, which was mainly because of the increase in loss from operations.

Net loss decreased from RMB1,124.0 million for the year ended 31 December 2021 to RMB636.9 million for the year ended 31 December 2022, representing a year-on-year decrease of approximately 43.3%, which was mainly because of the decrease in loss from operations.

For the six months ended 30 June 2023, net loss decreased to approximately RMB40.3 million (same period in 2022: approximately RMB550.9 million), representing a decrease of approximately 92.7%, which was mainly because of the decrease in loss from operations.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and cash equivalents and current ratio

As of 31 December, 2020, 2021, 2022 and 30 June 2023, cash and cash equivalents of Youzan Technology Group amounted to approximately RMB1,324.5 million, RMB312.7 million, RMB684.7 million and RMB597.9 million, respectively. As of 31 December 2020, 2021, 2022 and 30 June 2023, the current ratios of Youzan Technology Group were approximately 1.37 times, 0.49 times, 0.62 times and 0.87 times, respectively.

Net current assets/liabilities

Youzan Technology Group recorded net current assets of approximately RMB557.1 million as at 31 December 2020 while it recorded net current liabilities of approximately RMB642.2 million and RMB567.5 million as at 31 December 2021 and 2022, respectively.

As of 30 June 2023, Youzan Technology Group recorded net current liabilities of approximately RMB118.1 million.

Borrowings and Gearing ratio

As of 31 December, 2020, 2021 and 2022, the total borrowings of Youzan Technology Group were nil, nil and RMB1,055,678,000, respectively. As of 31 December 2022, the borrowing consists of the bank loan (including principal and interest payable) (which amounted approximately RMB480,565,000), loan from a non-controlling interest shareholder which amounted RMB421,000, and loan from the Company which amounted RMB574,692,000.

Youzan Technology Group has subsequently fully repaid the outstanding bank borrowings on 30 May 2023. On the same date, a new bank loan of RMB460 million principal amount, with interest rate of 3.9% per annum and maturity date on 29 May 2025 was raised for daily operations and short-term liquidity needs.

As such, the total borrowings of Youzan Technology Group was RMB1,086,399,000 as of 30 June 2023, which consists of the bank loan (including principal and interest payable) (which amounted to approximately RMB460,449,000), loan from a non-controlling interest shareholder which amounted to RMB199,000, and loan from the Company which amounted to RMB625,751,000.

The gearing ratio of Youzan Technology Group, being its net debts (such being total borrowings less cash and cash equivalents) divided by its total equity, was approximately -161.1%, 114.6%, -42.3% and -51.9% as at 31 December 2020, 2021, 2022 and 30 June 2023, respectively.

Charges of Assets

Youzan Technology Group had no charge on group assets for the three years ended 31 December 2022 and the six months ended 30 June 2023.

Contingent Liabilities

As of 30 June 2023, we did not have any material contingent liabilities that would expect to materially and adversely affect our financial condition or results of operations, save as disclosed in note 47 of the accountant's report of Youzan Technology Group as set out in Appendix II to this Circular.

Capital Commitments

Save as disclosed above and disclosed in the accountant's report of Youzan Technology Group as set out in Appendix II to this Circular, Youzan Technology Group had no significant capital commitments for the three years ended 31 December 2022 and the six months ended 30 June 2023.

Employees

As of 31 December, 2020, 2021 and 2022, Youzan Technology Group had 3,407, 4,361 and 1,921 employees, respectively. The total employee benefit expenses of Youzan Technology Group for the each of three years ended 31 December 2022 were RMB1,060,017,000, RMB1,401,648,000 and RMB1,157,225,000, respectively.

As of 30 June 2023, Youzan Technology Group had 1,898 employees. The total employee benefit expenses of Youzan Technology Group for the six months ended 30 June 2023 was RMB370,201,000.

In addition to basic salaries and retirement scheme, staff benefits include performance bonus, share options and share awards etc. Youzan Technology Group recognized the importance of staff training and thus regularly provides internal and external training for its staff to enhance their skills and product knowledge.

Foreign Currency Exposure

As of 31 December 2020, 2021, 2022 and 30 June 2023, Youzan Technology Group had no significant assets or liabilities denominated in currency other than respective functional currencies.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL**Youzan Japan**

On 1 January 2020, Youzan Technology Group had further acquired 42.63% equity interest in 株式会社 Youzan Japan Kabushiki Kaisha (Formerly known as 株式会社IBS) (“**Youzan Japan**”), a company incorporated in Japan with cash consideration of JPY97,000,000 (approximate RMB6,215,000). Upon completion, Qima Investment Limited (a wholly owned subsidiary of Youzan Technology Group) (“**QMI**”) owned Youzan Japan 52.63% equity interests and obtained the control of Youzan Japan. Youzan Japan is principally engaged in providing operation services for merchants and integrated new retail solutions for beauty industries in Japan. The acquisition is for the purpose of diversifying the Youzan Technology Group's revenue base overseas.

On 16 April 2021, QMI and an existing non-controlling interest shareholder of Youzan Japan entered second capital injection agreement with Youzan Japan in relation to acquire additional enlarged shares of Youzan Japan by consideration RMB7,895,000 and RMB1,389,000 respectively. Upon the completion, QMI's equity interest in Youzan Japan increased from 52.63% to 66.65%.

Hangzhou Youzan Dining Co., Ltd.

In 2022, Youzan Technology Group's subsidiary entered into the sales and purchase agreement with a related company to sell its 100% equity interest of Hangzhou Youzan Dining Co., Ltd. at nil consideration. The disposal was completed on 29 July 2022 resulting in a gain on disposal of approximately RMB4,603,000.

Shanghai Burgeon Software Technology Co., Ltd.

On 24 December 2020, Hangzhou Youzan entered into an agreement to acquire 15% new preferred shares in Shanghai Burgeon Software Technology Co., Ltd. ("**Shanghai Burgeon**") at a consideration of RMB212 million. RMB50 million earnest money was paid on 28 December 2020.

On 19 January 2021, Hangzhou Youzan entered into investment agreement and shareholders' agreement with Shanghai Burgeon and its existing shareholders to confirm the acquisition. RMB50 million earnest money has become part of the consideration and the remaining balance of RMB162 million was settled by Hangzhou Youzan on 22 January 2021 and Youzan Technology Group classified the investment as financial assets at FVTPL. The principal business of Shanghai Burgeon are software services and development.

As at 31 December 2022, the Directors assessed the fair value of this investment to be approximately RMB152,806,000 which represents approximately 11.4% of the total assets of Youzan Technology Group (31 December 2021: RMB219,618,000 which represents 16.8% of the total assets of Youzan Technology Group), with RMB66,812,000 loss recognized in "Fair value change in financial assets at FVTPL" for the year ended 31 December 2022 (2021: RMB7,851,000 gain).

The investment amount of Shanghai Burgeon is the result of commercial arm's length negotiations between the relevant parties, based on pre-investment valuations. Youzan Technology Group believes that the terms of the investments are fair and reasonable and in the interests of the shareholders as a whole. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the counterparties to the investments and their respective ultimate beneficial owners are third parties independent from Youzan Technology Group and its connected persons.

The reasons for the above investment are to invest in companies with principal businesses related to Youzan Technology Group's core business with a view to create synergies with Youzan Technology Group's core business and improve Youzan Technology's services and products to its customers.

Saved as disclosed above, Youzan Technology Group did not have any material acquisition or disposal or significant investment held for the three years ended 31 December 2022. Youzan Technology Group did not have any future plans for material investments or capital assets.

Material Change

The Directors confirmed that save for according to the unpublished unaudited management accounts and internal statistics of Youzan Technology Group, (a) Youzan Technology Group recorded an increase in prepayments, deposits and other receivables to approximately RMB139,571,000 as at 30 September 2023 from approximately RMB69,416,000 as at 30 June 2023; (b) Youzan Technology Group recorded a decrease in bank and cash balances to approximately RMB384,644,000 as at 30 September 2023 from approximately RMB496,687,000 as at 30 June 2023; (c) Youzan Technology Group recorded an increase in time deposits to RMB200,000,000 as at 30 September 2023 from RMB100,000,000 as at 30 June 2023; (d) Youzan Technology Group recorded an increase in current assets to approximately RMB885,914,000 as at 30 September 2023 from RMB804,330,000 as at 30 June 2023; (e) Youzan Technology Group recorded an increase in accruals and other payables to approximately RMB435,879,000 as at 30 September 2023 from approximately RMB316,214,000 as at 30 June 2023; (f) Youzan Technology Group recorded an increase in current liabilities of approximately RMB1,026,902,000 as at 30 September 2023 from approximately RMB922,401,000 as at 30 June 2023; (g) Youzan Technology Group recorded an increase in net current liabilities to approximately RMB140,988,000 as at 30 September 2023 from approximately RMB118,071,000 as at 30 June 2022; and (h) the average GMV of a single merchant increased to approximately RMB393,000 for the three months ended 30 September 2023 from the three months ended 30 June 2023: approximately RMB348,000), representing an increase of approximately 12.9% period-on-period, there has been no material change in the financial or trading position or outlook of Youzan Technology Group since 30 June 2023, being the date to which the latest audited combined financial statements of Youzan Technology Group were made up as presented in the accountants' report of Youzan Technology Group in Appendix II to this Circular, and up to and including the Latest Practicable Date.

**A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE
ENLARGED GROUP**

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group (the “**Unaudited Pro Forma Financial Information**”) has been prepared to illustrate the effect of the proposed acquisition of the approximately 48.1% of the issued share capital of Youzan Technology Inc. (“**Youzan Technology**”, together with its subsidiaries, the “**Youzan Technology Group**”) (the “**Acquisition**”), assuming it had been completed as at 30 June 2023, might have affected the financial position of the Group.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited consolidated statement of financial position of the Company as at 30 June 2023 as extracted from the interim report of the Company for the six months ended 30 June 2023 after making certain pro forma adjustments resulting from the Acquisition.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition actually occurred on 30 June 2023. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Group’s future financial position.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix I of the Circular, the financial information of Youzan Technology Group as set out in Appendix II of the Circular and other financial information included elsewhere in the Circular.

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group	Pro Forma Adjustments			Adjusted Balance
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	
Non-current assets					
Property, plant and equipment	14,133	-	-	-	14,133
Right-of-use assets	10,914	-	-	-	10,914
Long term deposits	285	-	-	-	285
Goodwill	341,326	-	-	-	341,326
Intangible assets	733,382	-	-	-	733,382
Capitalised contract costs	24,020	-	-	-	24,020
Deferred tax assets	70,682	-	-	-	70,682
Financial assets at fair value through profit or loss	288,824	-	-	-	288,824
Financial assets at fair value through other comprehensive income	74,200	-	-	-	74,200
	<u>1,557,766</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,557,766</u>
Current assets					
Inventories	1,198	-	-	-	1,198
Trade receivables	11,992	-	-	-	11,992
Factoring loan receivables	47,391	-	-	-	47,391
Prepayment, deposits, and other receivables	257,596	-	-	-	257,596
Capitalised contract costs	124,390	-	-	-	124,390
Amounts due from related companies	1,363	-	-	-	1,363
Restricted bank balances	6,313	-	-	-	6,313
Time deposits	223,500	-	-	-	223,500
Balances with central bank	3,045,717	-	-	-	3,045,717
Bank balances and cash	615,558	-	-	-	615,558
	<u>4,335,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,335,018</u>

APPENDIX IV

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group	Pro Forma Adjustments			Adjusted Balance
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	
Current liabilities					
Trade payables	2,586	-	-	-	2,586
Accruals and other payables	343,982	-	7,746	-	351,728
Amount due to non-controlling shareholders of subsidiaries	73	-	-	-	73
Contract liabilities	585,885	-	-	-	585,885
Borrowings	199	-	-	-	199
Lease liabilities	15,974	-	-	-	15,974
Settlement obligations	3,194,120	-	-	-	3,194,120
Current tax liabilities	205	-	-	-	205
	<u>4,143,024</u>	<u>-</u>	<u>7,746</u>	<u>-</u>	<u>4,150,770</u>
Net current assets	<u>191,994</u>	<u>-</u>	<u>(7,746)</u>	<u>-</u>	<u>184,248</u>
Total assets less current liabilities	<u>1,749,760</u>	<u>-</u>	<u>(7,746)</u>	<u>-</u>	<u>1,742,014</u>
Non-current liabilities					
Contract liabilities	47,831	-	-	-	47,831
Borrowings	460,449	-	-	-	460,449
Lease liabilities	69,748	-	-	-	69,748
Deferred tax liabilities	133,015	-	-	-	133,015
	<u>711,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>711,043</u>
Net assets	<u>1,038,717</u>	<u>-</u>	<u>(7,746)</u>	<u>-</u>	<u>1,030,971</u>

APPENDIX IV

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group				Adjusted
	Pro Forma Adjustments				Balance
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>		
Capital and reserves					
Share capital	154,484	18,861	-	11	173,356
Share premium account	6,420,355	1,867,250	-	1,100	8,288,705
Share option reserve	46,807	-	-	-	46,807
Shares held for Share Award Scheme	(13,710)	-	-	-	(13,710)
Share Award Scheme reserve	34,305	-	-	-	34,305
Other reserves	(692,442)	(2,289,536)	-	-	(2,981,978)
Accumulated losses	<u>(4,493,403)</u>	<u>-</u>	<u>(7,746)</u>	<u>(1,111)</u>	<u>(4,502,260)</u>
Equity attributable to shareholders of the Company	1,456,396	(403,425)	(7,746)	-	1,045,225
Non-controlling interests	<u>(417,679)</u>	<u>403,425</u>	<u>-</u>	<u>-</u>	<u>(14,254)</u>
Total equity	<u>1,038,717</u>	<u>-</u>	<u>(7,746)</u>	<u>-</u>	<u>1,030,971</u>

Notes:

- The unaudited consolidated statement of financial position of the Group as at 30 June 2023 is extracted from the Company's published interim report for the six months ended 30 June 2023.
- The adjustment is made to reflect the effect of completion of the Acquisition on the assumed Completion Date of 30 June 2023. When the proportion of the equity held by non-controlling interests changes, the Company shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary in accordance with HKFRS 10 (Revised) "Consolidated Financial Statements". The Company shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the Company.

The adjustment represents:

- the consideration for the Acquisition to be satisfied by allotting and issuing 14,549,999,989 new Shares of the Company (the "Consideration Shares") in aggregate with the closing price of HK\$0.14 per Consideration Share at the assumed Completion Date of 30 June 2023.
- the derecognition of the carrying value of the respective non-controlling interest of Youzan Technology Group as at 30 June 2023; and

- (iii) the sum of (i) and (ii) above to be recognised and charged in equity since Youzan Technology is a subsidiary of the Company before and after the Acquisition.

RMB

Fair value of Consideration Shares (HK\$2,036,999,998)	1,886,111,110
Add: Carrying value of 48.1% non-controlling interest of Youzan Technology Group as at 30 June 2023	<u>403,425,000</u>

Amount to be recognised and charged in the equity attributable to the shareholders of the Company upon completion of the Acquisition	<u><u>2,289,536,110</u></u>
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106,428,391 shares of Youzan Technology previously held by Qima Teamwork Inc., a special vehicle that holds the shares of Youzan Technology under the Youzan Technology Share Award Plan A, representing the Awards proposed to be granted to 401 Grantees (“**Proposed Share Award Grant**”). These 106,428,391 shares of Youzan Technology would then be exchanged into 1,906,330,379 shares of the Company upon the Completion of the Acquisition for the purpose of satisfying the Awards granted. Completion of the Acquisition shall take place regardless of whether the Proposed Share Award Grant is completed. The financial effect of possible share-based payments related to the Proposed Share Award Grant is not reflected in the pro forma adjustment above, as it is not directly attributable to the Acquisition.

- The adjustment is made to reflect the estimated transaction expenses, such as legal, professional valuation and other professional fees of approximately RMB7,746,000 (HK\$8,369,000) incurred directly attributable to the Acquisition and to be settled by cash.
- The adjustment is made to reflect the expense of the Fee Shares (representing the remuneration payable to Oriental Patron for its financial advisory services to the Company in connection with the Acquisition and the transactions contemplated thereunder). The amount is measured based on the value of the professional service received by the Company of approximately RMB1,111,000 (HK\$1,200,000). It is charged to accumulated losses, and the same amount is credited to share capital and share premium.
- According to Public Notice [2015] No. 7 of the State Administration of Taxation Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties (“**Public Notice No.7**”) by Non-Tax Resident Enterprises, the indirect equity transfer of Hangzhou Youzan Technology Co., Ltd. (“**Hangzhou Youzan**”) shall be re-characterised as a direct transfer and subject to PRC Enterprise Income Tax (“**CIT**”).

According to the Sales and Purchase Agreement entered between the Company and Sellers on 23 May 2023, each of the Sellers shall be independently and severally responsible for their obligations to report and pay their respective CIT to the relevant tax authorities in accordance with applicable taxation laws and regulations. The Company should act as the CIT withholding agent and report the indirect equity transfer to the tax authority within 30 days after the relevant equity transfer agreement is concluded. Should the Sellers report the indirect equity transfer and settle the CIT fully to the relevant PRC tax authorities within 7 days after the relevant equity transfer agreement being concluded and relevant equity shares being transferred, the withholding responsibility of the Company can be reasonably relieved accordingly.

The estimated CIT amount of approximately RMB172,790,000 are based on 10% of estimated capital gain (“**Estimated Capital Gain**”) on indirect equity transfer of Hangzhou Youzan. Estimated Capital Gain is the difference of total value of Consideration Shares at Issue Price received by Sellers and their respective investment costs of the relevant Sale Shares.

If the Sellers do not fulfil their obligations under the Sales and Purchase Agreement to report and pay the CIT, the Company could be liable to settle the CIT under Public Notice No.7. As a result, the Group has a contingent liability of the CIT not reported and paid by the Sellers.

6. For the purpose of this Unaudited Pro Forma Financial Information, the translation of USD to RMB and RMB to HKD was made at a rate of US\$1 to RMB7.25 and RMB1 to HK\$1.08 respectively.
7. Apart from the effect of the Acquisition, no other adjustment has been made to this Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and Youzan Technology Group entered into subsequent to 30 June 2023.

**B. ACCOUNTANT’S REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION**

The following is the text of a report, prepared for the sole purpose of inclusion in this Circular, from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.



The Board of Directors
China Youzan Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Youzan Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the pro forma statement of assets and liabilities as at 30 June 2023 and the related notes (the “**Unaudited Pro Forma Financial Information**”) as set out on pages IV-1 to IV-6 of the investment circular issued by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on page IV-1 to IV-6.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition (the “**Acquisition**”) of approximately 48.10% interest in Youzan Technology Inc. (“**Youzan Technology**”) on the Group’s financial position as at 30 June 2023 as if the transaction had been taken place at 30 June 2023. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s unaudited condensed consolidated financial statements as included in the interim report for the six months ended 30 June 2023, on which a review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2023 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

RSM Hong Kong

Certified Public Accountants

30 November 2023
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay, Hong Kong



Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7th Floor, One Taikoo Place
979 King's Road, Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Company Licence No.: C-030171

30 November 2023

The Board of Directors
CHINA YOUZAN LIMITED
Unit 2708, The Centre,
99 Queen's Road Central,
Hong Kong

Dear Sirs,

In accordance with the instructions from China Youzan Limited (the “**Company**”, “**Client**” or “**China Youzan**”), we have undertaken a valuation exercise which requires Jones Lang LaSalle Corporate Appraisal and Advisory Limited to express an independent opinion on the market value (the “**Market Value**”) of 48.1% of the entire issued share capital of the Youzan Technology Inc. (the “**Subject**” or “**Youzan Technology Shares**”) as at each of 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 (the “**Valuation Date(s)**” or “**Assessment Date(s)**”).

We are given to understand that the Company has made an announcement (the “**Announcement**”) that the Company has entered into the Sale and Purchase Agreement with each of the Sellers (Whitecrow Investment, V5.Cui Investment, Rory Huang, Youzan Teamwork, Qima Teamwork, Xincheng Investment, Baidu Hong Kong, Aves Capital, HKDWD Holdings, Ralston Global, Hangzhou San Ren Yan Xing, Franchise Fund, Happy Zan, Tembusu HZ, Matrix Partners China III, Matrix Partners China III-A, GCYZ Holdings, GCQM Holdings, and together as the “**Sellers**”), pursuant to which the Company has conditionally agreed to acquire, and each of the Sellers has conditionally agreed to sell the Subject, representing approximately 48.1% of the entire issued share capital of Youzan Technology.

These valuations (the “**Valuations**”) are prepared for the inclusion in its public disclosure by the Company.

Our Valuations were carried out with consideration of the requirements under the International Valuation Standards (“**IVS**”) and the International Financial Reporting Standard 13 – Fair Value Measurement (“**IFRS 13**”) issued by the International Accounting Standards Board. The Valuations were carried out on a market value basis which is defined in the IVS as “estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

INTRODUCTION**China Youzan**

China Youzan is a listed company on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with stock code 8083. China Youzan and its subsidiaries (“**China Youzan Group**”) mainly focuses on offering online and offline merchants suites of comprehensive solutions comprising third party payments and variety of SaaS (Software as a Service) products and comprehensive service through its e-commerce platform, like marketing and customer engagement tools to facilitate the process of transactions between merchants and their customers.

The operations of the China Youzan Group may be classified into two main groups of business operations. The first group of business operations consists of the business operations carried out by Youzan Technology, of which China Youzan holds approximately 51.9% of the total issued shares of Youzan Technology as at the Valuation Dates and as the date of this Report. Youzan Technology focuses on the provision of online and offline e-commerce platform with a variety of cloud-based commerce services in the PRC carried out through the Youzan Technology Group (the “**SaaS Business**”). The second group of business operations is generally referred to as the “**Payment & Other Business**” (the “**Payment & Other Business**”).

Youzan Technology

Youzan Technology Inc., formerly known as Qima Holdings Ltd. (the “**Target Company**” or “**Youzan Technology**”, and together with its subsidiaries, the “**Youzan Technology Group**” or “**Target Group**”), is an investment holding company. The Youzan Technology Group is principally engaged in providing a variety of cloud-based commerce services to merchants through its subscription solutions and merchant solutions. Subscription solutions mainly comprise SaaS products designed for merchants of various industries including Youzan WeiMall (有贊微商城), Youzan Retail (有贊零售), Youzan Chain (有贊連鎖), Youzan Beauty (有贊美業), and Youzan Education (有贊教育). Merchant solutions mainly comprise value-added services offered to merchants to address their online and/or offline operational needs. Through its subscription solutions and merchant solutions, the Youzan Technology Group enables merchants to establish online presence, digitalise critical business operations, integrate online/offline activities, take ownership of and manage their online customer traffic, boost customer acquisition and repeat purchases, as well as enhance operating efficiency.

BASIS OF OPINION

We have conducted our valuations with reference to the International Valuation Standards issued by the International Valuation Standards Council. The procedures employed include a review of legal status and economic conditions of the Subject and an assessment of key assumptions, estimates, and representations made by the Company. All matters essential to the proper understanding of the Valuations are disclosed in this Report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition and performance of the Youzan Technology Group;
- Market-driven investment returns of companies engaged in similar lines of business;
- Financial and business risk of the business;
- Consideration and analysis on the micro and macro economy affecting the business of Youzan Technology Group; and
- Assessment of the liquidity of the business of Youzan Technology Group.

We have planned and performed our Valuations in order to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinions on the Subject.

We would like to draw your attention that the shares in the Company (“**China Youzan Shares**”) are publicly traded securities. China Youzan Shares are subject to the fluctuations of the capital market. Those market uncertainties and contingencies are difficult to predict and are beyond our control. Consequently, our view expressed in this Report is not necessarily indicative of the price at which China Youzan Shares might actually trade in any public market as at the date of this Report or at any future date, or the amount which might be realised upon a sale of China Youzan Shares or Youzan Technology Shares to a third party. In addition, the Market Value as at any future date would be expected to fluctuate with changes in prevailing market conditions, the financial conditions and prospects of Youzan Technology and other factors which generally influence the economic value of Youzan Technology. As a result, there can be no assurance that the actual price of China Youzan Shares or Youzan Technology Shares will be higher or lower than that implied by the Market Value.

PRINCIPAL ASSUMPTIONS

In determining the market value of the equity interest of the Subject, we make the following assumptions:

- Under going concern, in order to realize the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For the purposes of this Report, we have assumed and China Youzan has confirmed to us that additional facilities and systems, if and when necessary, are sufficient for future expansion and will be grown at the same speed with the market;
- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Group;
- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements between Youzan Technology and any other party will be honored;
- We have assumed the accuracy of the financial and operational information provided to us by the Company and relied to a considerable extent on such information in arriving at our view; and
- We have assumed that there are no hidden or unexpected conditions (such as natural disaster, war, government intervention, major change in management and etc.) associated with the subject valued that might adversely affect the reported value. Further, we are not aware of any material changes to the Subject between the Valuation Dates and the Report Date.

VALUATION METHODOLOGY

To select the most appropriate approach, we have considered the purpose of the Valuations, the basis of value, as well as the availability and reliability of information provided to us to perform the valuations. We have also considered the relative advantages and disadvantages of each approach to the nature and circumstances of this Subject. In our opinion, the cost approach is inappropriate for valuing the Subject, as it does not directly incorporate information about the economic benefits contributed by the Subject. The income approach is inappropriate as this approach require detailed operational information and long-term financial projection of the Subject and income approach requires lots of assumptions and unobservable inputs.

In view of the above, we have adopted the market approach for the Valuations. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

There are three common methods under market approach, namely, prior transaction method, guideline public company method and guideline transaction method. The prior transaction method refers mostly to the recent transaction price of the calculation subject. The guideline public company method requires identifying suitably comparable companies and selection of appropriate trading multiples. The guideline transaction method takes reference to recent transactions of comparable companies between unrelated parties and the multiple of transaction price to the Subject's financial metrics.

In this Report, the Market Value of the Subject was developed through the guideline transaction method under the Market Approach. This method requires identification of recent transactions of assets similar to the Subject. As China Youzan Shares is publicly traded and Youzan Technology accounts for the majority of the revenue of China Youzan (more than 75% for the year of 2022), it is considered that the quoted market price of China Youzan Shares to be a recent transaction price of a similar asset to Youzan Technology Shares. Furthermore, a cross check was performed by using the guideline public company method under the Market Approach. This requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple. The prior transaction method is not adopted due to lack of recent market transactions of the Subject.

VALUATION USING THE GUIDELINE TRANSACTION METHOD

IFRS 13 requires the use of valuation technique which requires maximizing the use of relevant observable inputs and minimize the use of unobservable inputs. The quoted market price of China Youzan Shares is considered as the most relevant observable input to the Valuations. China Youzan consists of Youzan Technology and Payment & Other Business; and as at the Valuation Dates, China Youzan holds 51.9% of all issued shares in Youzan Technology. As such, the Market Value of 51.9% of all the issued shares in Youzan Technology can be calculated by deducting the value of Payment & Other Business from the market capitalization of China Youzan, which is the product of the last quoted market price of shares of China Youzan as at the Valuation Dates multiplied by the total number of shares of China Youzan in issue. For the assessment of Payment & Other Business, please refer to "Appendix – Assessment of Payment & Other Business".

ADDITIONAL CONSIDERATION

Discount for Lack of Marketability (“DLOM”)

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. The DLOM is applicable to the Subject as it is a privately held company.

We have assessed the DLOM of this interest using a put option method. The concept is that when comparing a public share and a private share, the holder of a public share has the ability to sell the shares (i.e. a put option) to the stock market right away. As the time to a liquidity event becomes shorter, the degree of the DLOM becomes smaller.

We have adopted the Black Scholes Option Pricing Model with the following parameters to estimate the DLOM.

Parameter	Input (31st January 2023)	Input (31st March 2023)	Input (31st July 2023)	Input (31st August 2023)	Source	Remark
Spot Price (%)	100	100	100	100	Not Applicable	Assumed
Exercise Price (%)	100	100	100	100	Not Applicable	Assumed
Risk Free Rate (%)	1.89	2.11	1.79	1.91	China Central Depository & Clearing Co., Ltd.	China Government Bond Yield Curve
Maturity Period (year)	0.5	0.5	0.5	0.5	Not Applicable	The input of maturity period represents “how long does a holder need to transact the shares to another”. The transaction time is dependent mainly on the time for the potential buyer’s due diligence process. Given that the Subject is under a public company, the Subject has the systems and procedures to produce timely the documents required for a typical due diligence work. As such, we assumed that a maturity period of 0.5-year for this case. The longer (shorter) the maturity period, the higher (lower) will be the Implied DLOM, assuming everything else remains constant.
Volatility (%)	56.60	54.87	58.80	56.97	Bloomberg L.P.	Based on historical volatility of comparable companies as indicated on page V-9.
Implied DLOM (%)	15.32	14.78	15.95	15.42		Calculated

The following table shows the calculations of the Market Value of the Youzan Technology Shares:

Amounts in RMB'000 unless otherwise stated

Parameter	Input (31st January 2023)	Input (31st March 2023)	Input (31st July 2023)	Input (31st August 2023)
Last quoted market price of China Youzan Shares as at the Valuation Date (HKD per share)	0.260	0.199	0.161	0.134
Total number of shares of China Youzan in issue	18,421,642,000	18,421,642,000	18,421,642,000	18,421,642,000
Market Capitalisation of China Youzan (HKD'000)	4,789,627	3,665,907	2,965,884	2,468,500
Exchange rate of RMB/HKD as of the Valuation Date	RMB1 = HKD1.1603	RMB1 = HKD1.1421	RMB1 = HKD1.0909	RMB1 = HKD1.0806
Market Capitalisation of China Youzan (RMB'000)	4,127,921	3,209,795	2,718,727	2,284,379
Value of Payment & Other Business (Please refer to 'Assessment of Payment & Other Business') (RMB'000)	1,251,478	1,279,509	1,224,382	1,208,651
Market Value of 51.9% of Youzan Technology (before DLOM) (RMB'000)	2,876,443	1,930,286	1,494,346	1,075,728
Market Value of 100% of Youzan Technology (before DLOM) (RMB'000)	5,542,279	3,719,241	2,879,278	2,072,693
Market Value of 48.1% of Youzan Technology (before DLOM) (RMB'000)	2,665,836	1,788,955	1,384,933	996,965
DLOM (%)	15.32	14.78	15.95	15.42
Market Value of 48.1% of Youzan Technology (after DLOM) (RMB'000)	2,257,431	1,524,506	1,163,992	843,268

Notes:

- The total may not correspond with the sum of the individual figures due to rounding

CROSS-CHECK USING THE GUIDELINE PUBLIC COMPANY METHOD

We have considered the following commonly used benchmark multiples when we performed the cross-check on the Market Value using the guideline public company method:

- Price to earnings multiple (“**P/E**”) is not adopted as the differences in balance sheet positions cannot be fully incorporated into a P/E analysis. In particular, the Youzan Technology Group did not generate any profit in the past 12 months. Therefore, the P/E multiple is not adopted under this perspective.
- Price to book multiple (“**P/B**”) is not adopted as P/B multiple is common for asset intensive industries which is not the case for the Youzan Technology Group.
- It is considered that the suitable multiple in this Report is Enterprise Value to Sales multiple (“**EV/S**”), as EV/S can incorporate the differences in balance sheet positions between the Youzan Technology Group and the comparable companies. In this Report, EV/S is calculated as enterprise value as at the respective Valuation Date divided by the Sales over the last twelve months from the respective Valuation Date, reflecting the Youzan Technology Group’s latest financial performance.

In determining the price multiple, a list of comparable companies was identified. The selection criteria include the following:

- Companies are searchable in Bloomberg;
- Companies derive their revenues from the same industry of the Youzan Technology Group, i.e., Software as a Service for commerce or e-commerce. The search was performed in Bloomberg using the key word “commerce”. Companies which are not classified as “Application Software”¹ companies under the Bloomberg Industry Classification Standard and derive less than 50% of their revenues from e-commerce are excluded. These companies are operating on similar technology and business model as the Youzan Technology Group and are considered as relevant even though they may not serve in the same geographical location. We conducted a search within the “application software” sector, which yielded about 1800 companies. Next, we added “commerce” as an additional key word criterion and identified about 80 companies. Then, we reviewed these 80 companies and found that only 7 companies (namely Shopify Inc, Weimob Inc, BigCommerce Holdings Inc, Hangzhou Raycloud Technology Co Ltd, 91APP INC, Commerce One Holdings Inc., and VTEX) generated more than 50% of their revenue from e-commerce on a subscription basis;
- Companies did not generate any profit in the past 12 months. 91APP INC and Commerce One Holdings Inc. were filtered out due to their positive earnings;

- Companies with market capitalization between RMB1 billion and RMB10 billion as at the Valuation Dates were selected. Shopify Inc and Weimob Inc were filtered out due to their market capitalizations; and
- Sufficient and applicable data, including the EV/S Ratios as at the Valuation Dates, of the companies are available.

Notes:

1. It is considered that “Application Software” is the most applicable industry classification for Youzan Technology. It is also noted that China Youzan is currently classified as “Application Software”

As sourced from Bloomberg, the key financial information and market multiples of the comparable companies, excluding China Youzan, satisfying the above criteria are exhaustively listed in below tables:

Ticker	Company	Exchange	Description	Market Capitalization (RMB billion)				EV/S Ratio			
				31st January 2023	31st March 2023	31st July 2023	31st August 2023	31st January 2023	31st March 2023	31st July 2023	31st August 2023
BIGC US Equity	BigCommerce Holdings Inc	NASDAQ	BigCommerce Holdings, Inc. operates as a software company. The Company offers SaaS platform for cross-channel commerce and cloud-based e-commerce solution that scales with business growth. BigCommerce Holdings serves customers worldwide.	6.10	4.55	5.88	5.82	3.40	2.54 ⁴	2.94 ⁴	2.91 ⁴
688365 CH Equity	Hangzhou Raycloud Technology Co Ltd	Shenzhen Stock Exchange	Hangzhou Raycloud Technology Co.,Ltd develops and sells software products. The Company develops and markets electronic commerce software, express software, data analysis software, and other products. Hangzhou Raycloud Technology markets its products throughout China.	3.87	8.82	5.58	5.46	7.53	17.26 ³	11.06 ³	10.80 ³
VTEX US Equity	VTEX	New York Stock Exchange	VTEX operates as a global commerce and marketplace solution provider. The Company offers software-as-a-service digital commerce platform which enables customers to execute their commerce strategy, including building online stores, integrating and managing orders across channels, and creating marketplaces to sell products from third-party vendors. VTEX serves customers worldwide.	5.86	4.99	7.46	8.24	4.04	3.11 ⁴	4.62 ⁴	5.21 ⁴
Average								4.99 ²	N/A	N/A	N/A

Ticker	Company Name	Trailing Twelve Month Revenue (RMB billion)				Trailing Twelve Month Net Profit (RMB billion)				Net Asset Value (RMB billion)			
		31st January 2023	31st March 2023	31st July 2023	31st August 2023	31st January 2023	31st March 2023	31st July 2023	31st August 2023	31st January 2023	31st March 2023	31st July 2023	31st August 2023
BIGC US Equity	BigCommerce Holdings Inc	2.04	2.08	2.13	2.14	(1.02)	(0.91)	(0.76)	(0.76)	0.33	0.25	0.20	0.20
688365 CH Equity	Hangzhou Raycloud Technology Co Ltd	0.49	0.48	0.48	0.48	(0.18)	(0.15)	(0.13)	(0.13)	0.87	1.02	1.00	1.00
VTEX US Equity	VTEX	1.15	1.21	1.27	1.28	(0.38)	(0.30)	(0.19)	(0.19)	2.00	1.96	1.89	1.89

Notes:

1. It is noted that the selected comparable companies are listed in the US or China stock exchanges which are considered to be the most active for technology companies. As there are only a very limited list of comparable companies which are in the same industry, with similar business model and similar size as the Target Company, it is considered that the list of comparable companies is the most relevant notwithstanding their differences in listing locations being in the US or China and geographical coverages.

It is also considered that, for a technology company, its business model and size have more impact on the value of the company than its listing location and geographic coverages. Therefore, we concluded that it is not necessary to and have not made any adjustments to the EV/S multiples of the comparable companies.

2. For the Valuation as of 31st January 2023, Youzan Technology has only 3 comparable companies. Due to the limited number of comparable companies, we have considered that the median value may not be relevant. Hence, we considered that the average is more relevant in this case and adopted the average as the reference point for the valuation multiple.
3. There were abnormal market movements in the market price of Hangzhou Raycloud Technology Co Ltd. (688365.CH) during February and March 2023 (with a range from RMB9.65 to RMB24.80 during the period), as announced several times by this company during the period. Therefore, this company is considered as outlier in the valuation exercise as of 31st March 2023, 31st July 2023 and 31st August 2023.
4. For the Valuations as of 31st March 2023, 31st July 2023 and 31st August 2023, since there are only 2 comparable companies, a range for the cross-check purpose is formed using the multiples from each of them.
5. The financial information of the comparable companies was extracted on 6 November 2023. The EV/S multiples were directly generated from Bloomberg which calculates the multiples as the enterprise value divided by the sales over the trailing twelve months.
6. Furthermore, it is noted that 4 comparable companies had been selected in the circular published by the Company on 2nd January 2018, namely Alibaba Group Holding Ltd., JD.com, Inc., Baozun Inc. and Jumei International Holding Ltd. Alibaba Group Holding Ltd., JD.com, Inc. and Jumei International Holding Ltd. were considered not similar to Youzan Technology as they primarily operate as e-commerce marketplaces. Baozun Inc. was also considered not similar as it is involved in product sales, and warehousing and fulfilment. On the other hand, more e-commerce companies have emerged between 2018 and the Valuation Dates. As such, a revised set of comparable companies was considered to be appropriate.

APPENDIX V

**VALUATION REPORT ON
THE YOUZAN TECHNOLOGY GROUP**

Under the cross-check, the calculations of the Market Value of the Youzan Technology Shares are shown as follows:

Amounts in RMB'000 unless otherwise stated

Parameter	Input (31st January 2023) ^{3,5}	Input (31st March 2023) ^{4,5}		Input (31st July 2023) ^{4,5}		Input (31st August 2023) ^{4,5}	
	Average	Low	High	Low	High	Low	High
EV/S Multiple of the Comparable Companies	4.99x	2.54x	3.11x	2.94x	4.62x	2.91x	5.21x
Unaudited Revenue from contracts with customers within the scope of HKFRS 15 (Trailing 12 months sales) ^{1,2} (RMB'000)	1,162,464	1,160,182		1,164,318		1,161,749	
Enterprise Value of the Youzan Technology Group as at the Valuation Date (RMB'000)	5,802,903	2,946,862	3,608,166	3,427,246	5,383,994	3,377,474	6,054,537
Add: Unaudited Financial assets at fair value through profit or loss of the Youzan Technology Group as at the Valuation Date ¹ (RMB'000)	285,652	285,652		288,824		288,824	
Add: Unaudited Amount due from related companies of the Youzan Technology Group as at the Valuation Date ¹ (RMB'000)	142	189		1,558		1,097	
Add: Unaudited Amount due from fellow subsidiaries of the Youzan Technology Group as at Valuation Date ¹ (RMB'000)	4,722	26,133		7,916		22,622	
Add: Unaudited Time deposits of the Youzan Technology Group as at the Valuation Date ¹ (RMB'000)	0	100,000		100,000		200,000	
Add: Unaudited Amount due from non-controlling shareholders of a subsidiary of the Youzan Technology Group as at the Valuation Date ¹ (RMB'000)	47	0		0		0	
Add: Unaudited Restricted bank balances of the Youzan Technology Group as at the Valuation Date ¹ (RMB'000)	3,669	4,233		5,242		4,952	
Add: Unaudited Bank and Cash balances of the Youzan Technology Group as at the Valuation Date ¹ (RMB'000)	555,476	492,641		457,596		357,826	
Less: Unaudited Amounts due to non-controlling shareholders of subsidiaries of the Youzan Technology Group as at Valuation Date ¹ (RMB'000)	0	0		73		262	
Less: Unaudited Amounts due to the Company of the Youzan Technology Group as at the Valuation Date ¹ (RMB'000)	1,105	453		1,170		1,170	
Less: Unaudited Bank borrowings of the Youzan Technology Group as at the Valuation Date ¹ (RMB'000)	482,318	481,377		480,699		480,500	

Parameter	Input (31st	Input		Input (31st July 2023) ^{4,5}		Input (31st August 2023) ^{4,5}	
	January 2023) ^{3,5} Average	(31st March 2023) ^{4,5} Low	High	Low	High	Low	High
Less: Unaudited Loans from the Company of the Youzan Technology Group as at the Valuation Date ¹ (RMB'000)	566,166	582,601		620,682		636,322	
Less: Unaudited Lease Liabilities of the Youzan Technology Group as at the Valuation Date ¹ (RMB'000)	86,806	79,665		74,788		75,099	
Market Value of all shareholding interest in the Youzan Technology Group (before DLOM) (RMB'000)	5,516,215	2,711,604	3,372,908	3,110,970	5,067,718	3,059,442	5,736,505
DLOM (%)	15.32	14.78		15.95		15.42	
Market Value of all shareholding interest in the Youzan Technology Group (after DLOM) (RMB'000)	4,671,133	2,310,766	2,874,313	2,614,672	4,259,257	2,587,783	4,852,135
Market Value of 48.1% in the Youzan Technology Group (after DLOM) (RMB'000)	2,246,815	1,111,478	1,382,545	1,257,657	2,048,703	1,244,723	2,333,877
Deviation with the result from Guideline Transaction Method (positive means Guideline Transaction Method is lower than Guideline Public Company Method)	(0.47%)	(27.03%)	(9.31%)	8.05%	76.01%	47.61%	176.77%

Notes:

- The unaudited financial figures of the Target Company listed in the above table are prepared by directors of the Youzan Technology Group based on unaudited management accounts of Youzan Technology and its subsidiaries. The unaudited management accounts are prepared in accordance with Hong Kong Financial Reporting Standards and the accounting policies adopted by China Youzan as set out in China Youzan annual report for the year ended 31 December 2022.
- The unaudited revenue used in the valuations are the revenue recognized by the Youzan Technology Group in accordance with HKFRS 15 "Revenue from Contracts with Customers". The accounting policy of the Youzan Technology Group is consistent with the accounting policy of the Group incorporated in the Company's latest annual report.
- For the Valuation as of 31st January 2023, Youzan Technology had only 3 comparable companies. Due to the limited number of comparable companies, we have considered that the median value may not be relevant. Hence, we considered that the average is more relevant in this case and adopted the average as the reference point for the valuation multiple.
- For the Valuations as of 31st March 2023, 31st July 2023 and 31st August 2023, since there are only 2 comparable companies, a range for the cross-check purpose is formed using the multiples from each of them.
- The total may not correspond with the sum of the individual figures due to rounding.

VALUATION COMMENT

The conclusion in this Report is based on accepted procedures and practices that rely substantially on the use of assumptions which have been set out in this Report and the consideration, some of which may not be readily quantifiable. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to

significant business, economic and competitive uncertainties, and contingencies, many of which are beyond the control of the Target Group, the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuously prudent management of the Target Group that is reasonable and necessary to maintain the character and integrity of the assets valued.

This Report is issued subject to our Limiting Conditions as attached.

OPINION OF VALUE

The Market Value of the 48.1% Youzan Technology Shares is calculated at RMB2,257,000,000, RMB1,525,000,000, RMB1,164,000,000 and RMB843,268,000 as at 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 respectively (approximately HKD2,619,000,000 with the exchange rate of RMB1 to HKD1.1603 as of 31 January 2023, HKD1,741,000,000 with the exchange rate of RMB1 to HKD1.1421 as of 31 March 2023, HKD1,270,000,000 with the exchange rate of RMB1 to HKD1.0909 as of 31 July 2023 and HKD911,235,000 with the exchange rate of RMB1 to HKD1.0806 as of 31 August 2023) using the guideline transaction method.

Yours faithfully,

For and on behalf of

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Simon M.K. Chan

Executive Director

Note: Mr. Simon M.K. Chan is a fellow (FCPA) of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS). He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

APPENDIX – ASSESSMENT OF PAYMENT & OTHER BUSINESS

As discussed earlier, assessments on the value of the Payment & Other Business (the “**POB**”) are necessary as an input in the valuations for Youzan Technology Shares. The following paragraphs summarize the methodology and key inputs in the assessments.

THE PAYMENT & OTHER BUSINESS

The POB consists of the following three segments: (i) third party payment services segment which provides third party payment services and related consultancy services; (ii) the Onecomm segment which provides third party payment system solutions and the sales of integrated smart point of sales devices; and (iii) the general trading segment. The Company holds a 100% interest in the subsidiaries carrying on the Payment & Other Business.

THE METHODOLOGY

The value of all shareholding interest in the Payment & Other Business was developed through the guideline public company method. The guideline transaction method is not adopted due to lack of recent market transactions with similar nature as the Payment & Other Business. The guideline public company method requires the research of comparable companies’ benchmark multiples and selection of an appropriate multiple. We have considered the following commonly used benchmark multiples:

- Price to earnings multiple (“**P/E**”) is not adopted as the differences in balance sheet positions cannot be fully incorporated into a P/E analysis. In particular, the Payment & Other Business did not generate consistent profit over the past years. Therefore, the P/E multiple is not adopted under this perspective.
- Price to book multiple (“**P/B**”) is not adopted as P/B multiple is common for asset intensive industries which is not the case for the Payment & Other Business.
- It is considered that the suitable multiple in this report is Enterprise Value to Sales multiple (“**EV/S**”), as EV/S can incorporate the differences in balance sheet positions between the Payment & Other Business and the comparable companies. In this report, EV/S is calculated as enterprise value as at the respective Assessment Date divided by the Sales over the last twelve months from the respective Assessment Date, reflecting the Payment & Other Business’s latest financial performance.

KEY INPUTS

Market Multiples

In determining the price multiple, a list of comparable companies was identified. The selection criteria include the following:

1. Companies are searchable in Bloomberg;
2. Companies derive their revenues from the same industry of the Payment & Other Business, i.e., third party payment service. The search was performed in Bloomberg using the key word “payment service”. Companies which derive less than 50% of their revenues from third party payment services are excluded;
3. Companies are publicly listed in the stock exchanges of Shanghai, Shenzhen and Hong Kong; and
4. Sufficient and applicable data, including the EV/S Ratios as at the Assessment Dates, of the companies are available.

As sourced from Bloomberg, the key financial information and market multiples of the comparable companies satisfying the above criteria are listed exhaustively in below tables:

Ticker	Company Name	Exchange	Description	Market Capitalization (RMB billion)				EV/S Ratio				
				31st January 2023	31st March 2023	31st July 2023	31st August 2023	31st January 2023	31st March 2023	31st July 2023	31st August 2023	
8325 HK Equity	China Smartpay Group Holdings Ltd	Hong Kong Stock Exchange	China Smartpay Group Holdings Limited is an integrated financial and payment services provider. The Company specializes in smart payment and internet finance.	0.12	0.10	0.08 ⁴	0.08 ⁴	0.94	0.89	0.81 ⁴	0.81 ⁴	
9923 HK Equity	Yeahka Limited	Hong Kong Stock Exchange	Yeahka Limited provides payment and business services to merchants and consumers. Yeahka Limited offers one-stop payment services, app-based payment services, and other services. Yeahka provides services in China.	10.01	9.11	7.56	6.31	2.65	2.43	1.92	1.59	
300773 CH Equity	Lakala Payment Co., Ltd.	Shenzhen Stock Exchange	Lakala Payment Co., Ltd. operates as a third party payment company. The Company offers kala mini household type swipe card reader, kala shield personal computer reader, and phone card reader. Lakala Payment provides services in China.	13.43	15.02	14.32	14.57	1.42	1.45	1.61	1.65	
								Average ²	1.67	1.59	1.45	1.35

Ticker	Company Name	Trailing Twelve Month Revenue (RMB billion)				Trailing Twelve Month Net Profit (RMB billion)				Net Asset Value (RMB billion)			
		31st	31st	31st	31st	31st	31st	31st	31st	31st	31st	31st	31st
		January 2023	March 2023	July 2023	August 2023	January 2023	March 2023	July 2023	August 2023	January 2023	March 2023	July 2023	August 2023
8325 HK Equity	China Smartpay Group Holdings Ltd	0.36	0.36	0.36	0.36	(0.02)	(0.02)	(0.02)	(0.02)	0.12	0.12	0.12	0.12
9923 HK Equity	Yeahka Limited	3.42	3.63	3.84	3.84	0.15	0.13	0.11	0.11	2.68	2.71	2.71	2.71
300773 CH Equity	Lakala Payment Co., Ltd.	5.39	5.33	5.34	5.34	(1.44)	(1.43)	(1.26)	(1.26)	3.35	3.61	3.83	3.83

Notes:

1. It is considered that the stock exchanges in China (Hong Kong, Shenzhen and Shanghai) are the most active for Chinese payment service companies. It is also considered that the company's industry and its business model affect the value of the company more than its listing location being in Hong Kong, Shenzhen or Shanghai. Further, it is considered that the multiple of the only Shenzhen listed comparable company does not deviate from the other comparable companies. Therefore, no adjustment is considered necessary to any of the comparable companies.
2. The Target Company has only 3 comparable companies. Due to the limited number of comparable companies, we have considered that the median value may not be relevant. Hence, we considered that the average is more relevant in this case and adopted the average as the reference point for the valuation multiple.
3. The financial information of the comparable companies was extracted on 6 November 2023, and the latest available financial information was adopted for the calculation of the EV/S multiple.
4. China Smartpay Group Holdings Ltd (8325.HK) was suspended since 3 July 2023 due to a delay in the publication of 2023 annual result. Therefore, we have adopted the EV/S multiple as of 30 June 2023, the date before suspension.

Discount for Lack of Marketability (“DLOM”)

The DLOM is applicable to the Payment & Other Business as it is a privately held company. We have adopted the Black Scholes Option Pricing Model with the following parameters to estimate the DLOM.

Parameter	Input (31st January 2023)	Input (31st March 2023)	Input (31st July 2023)	Input (31st August 2023)	Source	Remark
Spot Price (%)	100	100	100	100	Not Applicable	Assumed
Exercise Price (%)	100	100	100	100	Not Applicable	Assumed
Risk Free Rate (%)	1.89	2.11	1.79	1.91	China Central Depository & Clearing Co., Ltd.	China Government Bond Yield Curve
Maturity Period (year)	0.5	0.5	0.5	0.5	Not Applicable	Given that the POB is a group of business operations under a public company, it has the systems and procedures to produce timely the documents required for a typical due diligence work. As such, we assumed that a maturity period of 0.5-year for this case.
Volatility (%)	72.74	70.89	70.54	68.34	Bloomberg L.P.	Based on historical volatility of the comparable companies indicated on page V-15.
Implied DLOM (%)	19.73	19.16	19.17	18.53		Calculated

Control Premium

Control premium is an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest a business enterprise that reflects the power of a control. Both factors recognize that control owners have rights that minority owners do not and that the difference in those rights and, perhaps more importantly, how those rights are exercisable and to what economic benefits, cause a differential in the per-share value of a control ownership block versus a minority ownership block.

Shares of listed companies are traded on a minority basis such that each individual minority shareholders do not own the same power of control as the controlling shareholders. As the assessment subject is the 100% equity interest in the POB, a control premium is necessary in the assessment.

We have made reference to the Control Premium Study 4Q22 (for the Assessment Date of 31 January 2023), 1Q23 (for the Assessment Date of 31 March 2023) and 2Q23 (for the Assessment Dates of 31 July 2023 and 31 August 2023) published by FactSet Mergerstat, LLC, which is a leading information provider publishing global merger and acquisition information, for an estimation of the control premium. The study has examined over one hundred transactions in which 50.01 percent or more of a company was acquired and the median control premium observed were 22.60% (4Q22), 24.50% (1Q23) and 17.80% (2Q23). Therefore, a control premium of 22.60%, 24.50% and 17.80% are adopted in arriving at the value of the equity interest in the Payment & Other Business as at the respective Assessment Date.

CALCULATION OF THE VALUE OF POB

Under the guideline public company method, the value depends on the market multiples of the comparable companies derived from Bloomberg as at the Assessment Dates. We have also taken into account the DLOM and control premium.

The calculations of the value of all shareholding interest in the Payment & Other Business as at the Assessment Dates are as follows:

Amounts in RMB'000 unless otherwise stated

Parameter	Input (31st January 2023) ⁴	Input (31st March 2023) ⁴	Input (31st July 2023) ⁴	Input (31st August 2023) ⁴
Average EV/S multiple of the Comparable Companies (times)	1.67x	1.59x	1.45x	1.35x
Unaudited Revenue from contracts with customers for the Payment & Other Business within the scope of HKFRS 15 (Trailing 12 months sales) ^{1,2} (RMB'000)	325,795	329,492	330,729	327,437
Enterprise Value of the Payment & Other Business as at the Assessment Date (RMB'000)	544,260	523,453	478,486	443,028
Add: Unaudited Financial assets at fair value through other comprehensive income of the Payment & Other Business as at the Assessment Date ¹ (RMB'000)	70,993	70,993	74,200	74,200

Parameter	Input (31st January 2023) ⁴	Input (31st March 2023) ⁴	Input (31st July 2023) ⁴	Input (31st August 2023) ⁴
Add: Unaudited Amount due from a non-controlling shareholder of subsidiaries of the Payment & Other Business as at the Assessment Date ¹ (RMB'000)	260	260	0	0
Add: Unaudited Amount due from Youzan Technology Inc. of the Payment & Other Business as at the Assessment Date ¹ (RMB'000)	1,105	453	1,170	1,170
Add: Unaudited Loans to Youzan Technology Inc. before provision of impairment loss of the Payment & Other Business as at the Assessment Date ^{1,3} (RMB'000)	566,166	582,601	620,682	636,322
Add: Unaudited Time deposits of the Payment & Other Business as at the Assessment Date ¹ (RMB'000)	53,725	90,883	100,000	108,000
Add: Unaudited Restricted bank balances of the Payment & Other Business as at the Assessment Date ¹ (RMB'000)	2,605	1,580	1,111	1,111
Add: Unaudited Balances with central bank of the Payment & Other Business as at the Assessment Date ¹ (RMB'000)	3,061,505	3,175,005	2,833,200	2,773,164
Add: Unaudited Bank and cash balances of the Payment & Other Business as at the Assessment Date ¹ (RMB'000)	143,985	155,997	118,244	143,378
Less: Unaudited Amounts due to Youzan Technology Group of the Payment & Other Business as at the Assessment Date ¹ (RMB'000)	4,722	26,133	7,916	22,622
Less: Unaudited Lease liabilities of the Payment & Other Business as at the Assessment Date ¹ (RMB'000)	6,008	4,820	1,934	1,930

Parameter	Input (31st January 2023) ⁴	Input (31st March 2023) ⁴	Input (31st July 2023) ⁴	Input (31st August 2023) ⁴
Less: Unaudited Settlement obligations of the Payment & Other Business as at the Assessment Date ¹ (RMB'000)	3,162,159	3,298,898	2,931,446	2,896,450
Subtotal before DLOM and Control Premium (RMB'000)	1,271,718	1,271,374	1,285,797	1,259,371
DLOM (%)	19.73	19.16	19.17	18.53
Control Premium (%)	22.60	24.50	17.80	17.80
Value of all shareholding interest in the Payment & Other Business (RMB'000)	1,251,478	1,279,509	1,224,382	1,208,651

Notes:

- The unaudited financial figures of the Payment & Other Business listed in the above table are prepared by directors of the Payment & Other Business. It is based on unaudited management accounts of the subsidiaries that carry on the "Payment & Other Business". The unaudited management accounts are prepared in accordance with Hong Kong Financial Reporting Standards and the accounting policies adopted by China Youzan as set out in its annual report for the year ended 31 December 2022. The unaudited revenue presented above is before elimination of intercompany transactions with Youzan Technology and its subsidiaries.
- The unaudited revenue used in the assessments are the revenue recognized by the Payment & Other Business in accordance with HKFRS 15 "Revenue from Contracts with Customers". The accounting policy of the Payment & Other Business is consistent with the accounting policy of the Group incorporated in the Company's latest annual report.
- The provision of impairment loss on loans to Youzan Technology Inc. amounted to RMB352,715,000, RMB359,077,000, RMB378,891,000 and RMB380,662,000 were made in the company level accounts of POB as at 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 respectively. Such impairment loss on the intercompany transaction is reversed in the assessments of the POB.
- The total may not correspond with the sum of the individual figures due to rounding.

LIMITING CONDITIONS

1. In the preparation of this Report, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Client / Target Company and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our Report was used as part of the analysis of the Client / Target Company in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the Subject rests solely with the Client.
2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.
3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.
4. The board of directors and the management of Client / Target Company have reviewed this Report and agreed and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.
5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.
6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.
7. The use of and/or the validity of the Report is subject to the terms of the Agreement and the full settlement of the fees and all the expenses.
8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the Subject.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Client / Target Company because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.
10. This Report has been prepared solely for internal use purpose. The Report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.
11. This Report is confidential to the Client and the calculation of values expressed herein is valid only for the purpose stated in the Agreement as at the Valuation Date. In accordance with our standard practice, we must state that this Report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.
12. Where a distinct and definite representation has been made to us by parties interested in the Subject, we are entitled to rely on that representation without further investigation into the veracity of the representation.
13. The Client / Target Company agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.
15. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Client / Target Company and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.
16. This Report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the Report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Client / Target Company and other sources. Actual transactions involving the Subject might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the knowledge and motivation of the buyers and sellers at that time. The transaction amount does not need to be close to the result as estimated in this report.
17. The board of directors, management, staff, and representatives of the Client / Target Company have confirmed to us that they are independent to JLL in this Valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independence in our work, the Client / Target Company and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.



The Board of Directors
China Youzan Limited
Unit 1511, 15/F, Shui On Centre,
No. 6-8 Harbour Road,
Wan Chai, Hong Kong

30 November 2023

Dear Sirs,

We refer to the valuation report (the “**Valuation Report**”) prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “**Independent Valuer**”) as set out in Appendix V of this circular (the “**Circular**”), of which this letter forms part. We are required to report on the Valuation Report in relation to the valuation of approximately 48.10% equity interest of Youzan Technology as at 31 January 2023, 31 March 2023, 31 July 2023 and 31 August 2023 (the “**Valuation**”) under Rule 11.1(b) of the Takeovers Code. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

We have relied on the information and facts supplied, and the opinion expressed by the Company and the Independent Valuer, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not carried out any independent verification of the information supplied to us.

Pursuant to the Corporate Finance Adviser Code of Conduct, we have reviewed the Valuation Report and the supporting documents relating to the Valuation and discussed with the Independent Valuer regarding the Valuation, including, in particular, the valuation approach, as well as key bases and assumptions adopted in the Valuation. With regard to the qualifications and experience of the Independent Valuer, based on the review work conducted by us, which includes reviewing the supporting documents on the qualifications, experience and expertise of the Independent Valuer and discussing the same with the Independent Valuer, we are satisfied that the Independent Valuer is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation competently.

On the basis of the foregoing, we concur with the Independent Valuer that the valuation approach, the bases and assumptions adopted in the Valuation and the Valuation itself have been made/prepared by the Independent Valuer with due care, consideration and objectivity, and on a reasonable basis. We are also satisfied that the Independent Valuer possesses the qualifications and experience to compile the Valuation Report.

Yours faithfully,
for and on behalf of
ORIENTAL PATRON ASIA LIMITED

Jeffrey Chan
Director

COMFORT LETTER ISSUED BY ORIENTAL PATRON



30 November 2023

The Board of Directors
CHINA YOUZAN LIMITED
Unit 1511, 15/F, Shui On Centre
No. 6-8 Harbour Road
Wan Chai, Hong Kong

Dear Sirs,

We refer to the circular dated 30 November 2023 (the “**Circular**”) issued by China Youzan Limited (“**China Youzan**”, together with its subsidiaries, the “**China Youzan Group**”). Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless otherwise specified.

We refer to (i) unaudited revenue from contracts with customers of Youzan Technology Inc. and its subsidiaries (collectively referred to as the “**Youzan Technology Group**”) for the period from 1 February 2022 to 31 January 2023; (ii) the unaudited account balances of Youzan Technology Group as at 31 January 2023, including (a) financial assets at fair value through profit or loss; (b) amount due from a related company; (c) amount due from fellow subsidiaries; (d) amounts due from non-controlling shareholders of a subsidiary; (e) restricted bank balances; (f) bank and cash balances; (g) amount due to the Company; (h) bank borrowings; (i) loans from the Company; and (j) lease liabilities; (iii) unaudited revenue from contracts with customers (gross amount before elimination of intercompany transactions with the Youzan Technology Group) (derived from China Youzan Group, excluding Youzan Technology Group (collectively referred to as the “**Payment & Other Business**”), for the period from 1 February 2022 to 31 January 2023; and (iv) the unaudited account balances of the Payment & Other Business as at 31 January 2023, including (a) financial assets at fair value through other comprehensive income; (b) amount due from a non-controlling shareholder of subsidiaries; (c) amounts due to Youzan Technology Inc.; (d) loans to Youzan Technology Inc.; (e) time deposits; (f) restricted bank balances; (g) balances with central bank; (h) bank and cash balances; (i) amounts due to Youzan Technology Group; (j) lease liabilities; and (k) settlement obligations set forth in Appendix V (together, the “**31 January Unaudited Financial Figures**”).

We refer to (i) unaudited revenue from contracts with customers of Youzan Technology Group for the period from 1 April 2022 to 31 March 2023; (ii) the unaudited account balances of Youzan Technology Group as at 31 March 2023, including (a) financial assets at fair value through profit or loss; (b) amount due from a related company; (c) amount due from fellow subsidiaries; (d) time deposits; (e) restricted bank balances; (f) bank and cash balances; (g) amount due to the Company; (h) bank borrowings; (i) loans from the Company; (j) lease liabilities; (iii) unaudited revenue from contracts with customers (gross amount before elimination of intercompany transactions with the Youzan Technology Group) (derived from the Payment & Other Business), for the period from 1 April 2022 to 31 March 2023; and (iv) the unaudited account balances of the Payment & Other Business as at 31 March 2023, including (a) financial assets at fair value through other comprehensive income; (b) amount due from a non-controlling shareholder of subsidiaries; (c) amounts due from Youzan Technology Inc.; (d) loans to Youzan Technology; (e) time deposits; (f) restricted bank balances; (g) balances with central bank; (h) bank and cash balances; (i) amounts due to Youzan Technology Group; (j) lease liabilities; and (k) settlement obligations set forth in Appendix V (together, the “**31 March Unaudited Financial Figures**”)

We refer to (i) unaudited revenue from contracts with customers of Youzan Technology Group for the period from 1 August 2022 to 31 July 2023; (ii) the unaudited account balances of Youzan Technology Group as at 31 July 2023, including (a) financial assets at fair value through profit or loss; (b) amount due from related companies; (c) amount due from fellow subsidiaries; (d) time deposits; (e) restricted bank balances; (f) bank and cash balances; (g) amount due to the Company; (h) bank borrowings; (i) loans from the Company; (j) lease liabilities; and (k) amount due to a non-controlling shareholder of subsidiaries; (iii) unaudited revenue from contracts with customers (gross amount before elimination of intercompany transactions with the Youzan Technology Group) (derived from the Payment & Other Business), for the period from 1 August 2022 to 31 July 2023; and (iv) the unaudited account balances of the Payment & Other Business as at 31 July 2023, including (a) financial assets at fair value through other comprehensive income; (b) amounts due to Youzan Technology Inc.; (c) loans to Youzan Technology Inc.; (d) time deposits; (e) restricted bank balances; (f) balances with central bank; (g) bank and cash balances; (h) amounts due to Youzan Technology Group; (i) lease liabilities; and (j) settlement obligations set forth in Appendix V (together, the “**31 July Unaudited Financial Figures**”).

We refer to (i) unaudited revenue from contracts with customers of Youzan Technology Group for the period from 1 September 2022 to 31 August 2023; (ii) the unaudited account balances of Youzan Technology Group as at 31 August 2023, including (a) financial assets at fair value through profit or loss; (b) amount due from related companies; (c) amount due from fellow subsidiaries; (d) time deposits; (e) restricted bank balances; (f) bank and cash balances; (g) amount due to the Company; (h) bank borrowings; (i) loans from the Company; (j) lease liabilities; and (k) amount due to a non-controlling shareholder of subsidiaries; (iii) unaudited revenue from contracts with customers (gross amount before elimination of intercompany transactions with the Youzan Technology Group) (derived from the Payment & Other Business), for the period from 1 September 2022 to 31 August 2023; and (iv) the unaudited account balances of the Payment & Other Business as at 31 August 2023, including (a) financial assets at fair value through other comprehensive income; (b) amounts due from Youzan Technology Inc.; (c) loans to Youzan Technology Inc.; (d) time deposits; (e) restricted bank balances; (f) balances with central bank; (g) bank and cash balances; (h) amounts due to Youzan Technology Group; (i) lease liabilities; and (j) settlement obligations set forth in Appendix V (together, the “**31 August Unaudited Financial Figures**”).

Details of the 31 January Unaudited Financial Figures, 31 March Unaudited Financial Figures, the 31 July Unaudited Financial Figures and 31 August Unaudited Financial Figures (together, the “**Unaudited Financial Figures**”) are also set out in the appendices of the letters issued by RSM Hong Kong. The Unaudited Financial Figures is regarded as a profit forecast under the Takeovers Code and therefore, is required to be reported on pursuant to Rule 10 of the Takeovers Code.

The Unaudited Financial Figures has been prepared by the Directors based on (i) Youzan Technology Group’s unaudited management accounts; and (ii) the Group’s (excluding Youzan Technology Group) unaudited management accounts, both of which have not been confirmed, reviewed or audited by the Company’s auditors or audit committee, and may be different from the figures to be disclosed in the audited or unaudited consolidated financial statements to be published by the Company on an annual or semi-annual or quarterly basis as applicable.

The letter is issued in compliance with the requirement under Note 1(c) to Rules 10.1 and 10.2 of the Takeovers Code. We have discussed with you the bases upon which the Unaudited Financial Figures was prepared. We have also considered the letters on the Unaudited Financial Figures dated 30 November 2023 issued by RSM Hong Kong, the auditors of the Company, to you, which stated that, so far as the accounting policies and calculations are concerned, the Unaudited Financial Figures has been properly compiled in accordance with the bases adopted by the Directors as set out in the appendices of the letters issued by RSM Hong Kong, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2022.

Based on the above, we are satisfied that the Unaudited Financial Figures, for which the Directors are solely responsible, has been made with due care and consideration.

Yours faithfully,
For and on behalf of
ORIENTAL PATRON ASIA LIMITED
Jeffrey Chan
Director

COMFORT LETTER ISSUED BY RSM HONG KONG



The Board of Directors
CHINA YOUZAN LIMITED (the “Company”)
Unit 1511, 15/F, Shui On Centre
No. 6-8 Harbour Road,
Wan Chai, Hong Kong

INDEPENDENT ASSURANCE REPORT ON THE UNAUDITED FINANCIAL FIGURES

Dear Sirs,

We have been engaged to perform a reasonable assurance engagement on the principal accounting policies adopted and the calculations used in the preparation of the following unaudited financial figures (“**Unaudited Financial Figures**”) as set forth in Appendix of this report:

- (i) the unaudited revenue from contracts with customers of Youzan Technology Inc. and its subsidiaries (collectively referred to as the “**Youzan Technology Group**”) for the period from 1 February 2022 to 31 January 2023;
- (ii) the unaudited account balances of Youzan Technology Group as at 31 January 2023, including (a) financial assets at fair value through profit or loss; (b) amount due from a related company; (c) amounts due from fellow subsidiaries; (d) amounts due from non-controlling shareholders of a subsidiary; (e) restricted bank balances; (f) bank and cash balances; (g) amount due to the Company; (h) bank borrowings; (i) loans from the Company; and (j) lease liabilities;
- (iii) the unaudited revenue from contracts with customers (gross amount before elimination of intercompany transactions with Youzan Technology and its subsidiaries) derived from China Youzan Limited and its subsidiaries, excluding Youzan Technology Group (collectively referred to as the “**Payment & Other Business**”), for the period from 1 February 2022 to 31 January 2023; and

- (iv) unaudited account balances of the Payment & Other Business as at 31 January 2023 including (a) financial assets at fair value through other comprehensive income; (b) amount due from a non-controlling shareholder of subsidiaries; (c) amounts due to Youzan Technology Inc.; (d) loans to Youzan Technology Inc.; (e) time deposits; (f) restricted bank balances; (g) balances with central bank; (h) bank and cash balances; (i) amounts due to Youzan Technology Group; (j) lease liabilities; and (k) settlement obligations.

We understand that the Unaudited Financial Figures are required to be reported under Rule 10 of the Code on Takeovers and Mergers issued by Securities and Futures Commission (the “SFC”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

Directors’ Responsibilities for the Unaudited Financial Figures

The directors of the Company are solely responsible for the preparation of the Unaudited Financial Figures as set out in Appendix of this report.

The unaudited revenue from contracts with customers for the period from 1 February 2022 to 31 January 2023, together with the unaudited account balances as at 31 January 2023 of Youzan Technology Group and Payment & Other Business have been compiled by the Directors based on their unaudited management accounts as of and for the year ended 31 January 2023. Details of the aforementioned Unaudited Financial Figures are set out in the Appendix of this report.

The Unaudited Financial Figures were prepared on a basis consistent with the accounting policies adopted by the Company and its subsidiaries (collectively referred to as the “Group”) as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022. This responsibility includes designing, implementing and maintaining internal controls relevant to the selection and application of appropriate accounting policies and the accurate calculations in the preparation of the Unaudited Financial Figures that is free from material misstatement; applying appropriate accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibilities

It is our responsibility, as required by Rule 10 of the Code on Takeovers and Mergers issued by the SFC, to report on whether, so far as the accounting policies and calculations are concerned, the Unaudited Financial Figures have been compiled in accordance with the bases adopted by the Directors as set out under the paragraph headed “Directors’ Responsibilities for the Unaudited Financial Figures” of this report above and has also been properly compiled on a basis consistent, in all material respects, with the accounting policies adopted by the Group, as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” (“**HKSAE 3000 (Revised)**”) issued by the HKICPA.

Our work consisted primarily of procedures such as: (a) obtaining an understanding of the basis of preparation and the principal accounting policies adopted for compiling the Unaudited Financial Figures through inquiries primarily of persons responsible for financial and accounting matters, (b) obtaining an understanding of and evaluating the internal controls relevant to the selection and application of appropriate accounting policies and the accurate calculations in the preparation of Unaudited Financial Figures, (c) comparing the principal accounting policies adopted in the preparation of the Unaudited Financial Figures with those adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022, (d) checking the arithmetical calculations and compilation of the Unaudited Financial Figures, and (e) such other procedures that we considered necessary in the circumstances in accordance with HKSAE 3000 (Revised). Our work would not enable us to, and we do not, provide any assurance on the design or operational effectiveness of internal control relating to preparation of the Unaudited Financial Figures.

Our reasonable assurance engagement does not constitute an audit or review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA. Accordingly, we do not express an audit or review opinion on the Unaudited Financial Figures.

Conclusion

In our opinion, based on the foregoing and the work that we have performed, so far as the accounting policies and calculations are concerned, the Unaudited Financial Figures have been properly compiled in accordance with the bases adopted by the Directors as set out under the paragraph headed “Directors’ Responsibilities for the Unaudited Financial Figures” of this report above and has also been prepared on a basis consistent, in all material respects, with the accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

Purpose and Restriction on Use and Distribution

We draw attention to the fact that the Unaudited Financial Figures in the Appendix of this report was prepared by the Directors to assist the valuer in the preparation of the market value of 48.1% of the entire issued share capital of Youzan Technology Inc. as of 31 January 2023. As a result, the Unaudited Financial Figures may not be suitable for other purposes. Our opinion is not modified in respect of this matter.

RSM Hong Kong

Certified Public Accountants

30 November 2023
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay, Hong Kong

APPENDIX

UNAUDITED FINANCIAL FIGURES

The Youzan Technology Group

The following unaudited financial figures are prepared by the directors of the Company based on unaudited management accounts of the entities comprising Youzan Technology Inc. and its subsidiaries (collectively referred to as “**Youzan Technology Group**”) as of and for the year ended 31 January 2023. The unaudited management accounts are prepared in accordance the accounting policies adopted by China Youzan Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”), which are consistent with the accounting policies set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

	<i>RMB'000</i>
	Unaudited
For the period from 1 February 2022 to 31 January 2023 (12 months)	
<i>Revenue from contracts with customers within the scope of HKFRS 15</i>	1,162,464
As at 31 January 2023	
<i>Financial assets at fair value through profit or loss</i>	285,652
<i>Amount due from a related company</i>	142
<i>Amounts due from fellow subsidiaries</i>	4,722
<i>Amounts due from non-controlling shareholders of a subsidiary</i>	47
<i>Restricted bank balances</i>	3,669
<i>Bank and cash balances</i>	555,476
<i>Amount due to the Company</i>	(1,105)
<i>Bank borrowings</i>	(482,318)
<i>Loans from the Company</i>	(566,166)
<i>Lease liabilities</i>	(86,806)

The Payment & Other Business

The following unaudited financial figures are prepared by the directors of the Company based on unaudited management accounts of the entities comprising the Group, but excluding Youzan Technology Group, as of and for the year ended 31 January 2023. The unaudited management accounts are prepared in accordance with the accounting policies adopted by the Group, which are consistent with the accounting policies set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

	<i>RMB'000</i>
	Unaudited
For the period from 1 February 2022 to 31 January 2023 (12 months)	
<i>Revenue from contracts with customers within the scope of HKFRS 15 (Gross amount before elimination of intercompany transactions with Youzan Technology and its subsidiaries)</i>	325,795
As at 31 January 2023	
<i>Financial assets at fair value through other comprehensive income</i>	70,993
<i>Amount due from a non-controlling shareholder of subsidiaries</i>	260
<i>Amounts due to Youzan Technology Inc.</i>	1,105
<i>Loans to Youzan Technology Inc. before provision of impairment loss</i>	566,166
<i>Provision of allowance of loans to Youzan Technology Inc.</i>	(352,715)
<i>Time deposits</i>	53,725
<i>Restricted bank balances</i>	2,605
<i>Balances with central bank</i>	3,061,505
<i>Bank and cash balances</i>	143,985
<i>Amounts due to Youzan Technology Group</i>	(4,722)
<i>Lease liabilities</i>	(6,008)
<i>Settlement obligations</i>	(3,162,159)

COMFORT LETTER ISSUED BY RSM HONG KONG



The Board of Directors
CHINA YOUZAN LIMITED (the “Company”)
Unit 1511, 15/F, Shui On Centre
No. 6-8 Harbour Road,
Wan Chai, Hong Kong

INDEPENDENT ASSURANCE REPORT ON THE UNAUDITED FINANCIAL FIGURES

Dear Sirs,

We have been engaged to perform a reasonable assurance engagement on the principal accounting policies adopted and the calculations used in the preparation of the following unaudited financial figures (“**Unaudited Financial Figures**”) as set forth in Appendix of this report:

- (i) the unaudited revenue from contracts with customers of Youzan Technology Inc. and its subsidiaries (collectively referred to as the “**Youzan Technology Group**”) for the period from 1 April 2022 to 31 March 2023;
- (ii) the unaudited account balances of Youzan Technology Group as at 31 March 2023, including (a) financial assets at fair value through profit or loss; (b) amount due from a related company; (c) amounts due from fellow subsidiaries; (d) time deposits; (e) restricted bank balances; (f) bank and cash balances; (g) amount due to the Company; (h) bank borrowings; (i) loans from the Company; and (j) lease liabilities;
- (iii) the unaudited revenue from contracts with customers (gross amount before elimination of intercompany transactions with Youzan Technology and its subsidiaries) derived from China Youzan Limited and its subsidiaries, excluding Youzan Technology Group (collectively referred to as the “**Payment & Other Business**”), for the period from 1 April 2022 to 31 March 2023; and

- (iv) unaudited account balances of the Payment & Other Business as at 31 March 2023 including (a) financial assets at fair value through other comprehensive income; (b) amount due from a non-controlling shareholder of subsidiaries; (c) amounts due from Youzan Technology Inc.; (d) loans to Youzan Technology Inc.; (e) time deposits; (f) restricted bank balances; (g) balances with central bank; (h) bank and cash balances; (i) amounts due to Youzan Technology Group; (j) lease liabilities; and (k) settlement obligations.

We understand that the Unaudited Financial Figures are required to be reported under Rule 10 of the Code on Takeovers and Mergers issued by Securities and Futures Commission (the “SFC”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

Directors’ Responsibilities for the Unaudited Financial Figures

The directors of the Company are solely responsible for the preparation of the Unaudited Financial Figures as set out in Appendix of this report.

The unaudited revenue from contracts with customers for the period from 1 April 2022 to 31 March 2023, together with the unaudited account balances as at 31 March 2023 of Youzan Technology Group and Payment & Other Business have been compiled by the Directors based on their unaudited management accounts as of and for the year ended 31 March 2023. Details of the aforementioned Unaudited Financial Figures are set out in the Appendix of this report.

The Unaudited Financial Figures were prepared on a basis consistent with the accounting policies adopted by the Company and its subsidiaries (collectively referred to as the “Group”) as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022. This responsibility includes designing, implementing and maintaining internal controls relevant to the selection and application of appropriate accounting policies and the accurate calculations in the preparation of the Unaudited Financial Figures that is free from material misstatement; applying appropriate accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibilities

It is our responsibility, as required by Rule 10 of the Code on Takeovers and Mergers issued by the SFC, to report on whether, so far as the accounting policies and calculations are concerned, the Unaudited Financial Figures have been compiled in accordance with the bases adopted by the Directors as set out under the paragraph headed “Directors’ Responsibilities for the Unaudited Financial Figures” of this report above and has also been properly compiled on a basis consistent, in all material respects, with the accounting policies adopted by the Group, as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” (“**HKSAE 3000 (Revised)**”) issued by the HKICPA.

Our work consisted primarily of procedures such as: (a) obtaining an understanding of the basis of preparation and the principal accounting policies adopted for compiling the Unaudited Financial Figures through inquiries primarily of persons responsible for financial and accounting matters, (b) obtaining an understanding of and evaluating the internal controls relevant to the selection and application of appropriate accounting policies and the accurate calculations in the preparation of Unaudited Financial Figures, (c) comparing the principal accounting policies adopted in the preparation of the Unaudited Financial Figures with those adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022, (d) checking the arithmetical calculations and compilation of the Unaudited Financial Figures, and (e) such other procedures that we considered necessary in the circumstances in accordance with HKSAE 3000 (Revised). Our work would not enable us to, and we do not, provide any assurance on the design or operational effectiveness of internal control relating to preparation of the Unaudited Financial Figures.

Our reasonable assurance engagement does not constitute an audit or review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA. Accordingly, we do not express an audit or review opinion on the Unaudited Financial Figures.

Conclusion

In our opinion, based on the foregoing and the work that we have performed, so far as the accounting policies and calculations are concerned, the Unaudited Financial Figures have been properly compiled in accordance with the bases adopted by the Directors as set out under the paragraph headed “Directors’ Responsibilities for the Unaudited Financial Figures” of this report above and has also been prepared on a basis consistent, in all material respects, with the accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

Purpose and Restriction on Use and Distribution

We draw attention to the fact that the Unaudited Financial Figures in the Appendix of this report was prepared by the Directors to assist the valuer in the preparation of the market value of 48.1% of the entire issued share capital of Youzan Technology Inc. as of 31 March 2023. As a result, the Unaudited Financial Figures may not be suitable for other purposes. Our opinion is not modified in respect of this matter.

RSM Hong Kong

Certified Public Accountants

30 November 2023
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay, Hong Kong

APPENDIX

UNAUDITED FINANCIAL FIGURES

The Youzan Technology Group

The following unaudited financial figures are prepared by the directors of the Company based on unaudited management accounts of the entities comprising Youzan Technology Inc. and its subsidiaries (collectively referred to as “**Youzan Technology Group**”) as of and for the year ended 31 March 2023. The unaudited management accounts are prepared in accordance the accounting policies adopted by China Youzan Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”), which are consistent with the accounting policies set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

	<i>RMB'000</i>
	Unaudited
For the period from 1 April 2022 to 31 March 2023 (12 months)	
<i>Revenue from contracts with customers within the scope of HKFRS 15</i>	1,160,182
As at 31 March 2023	
<i>Financial assets at fair value through profit or loss</i>	285,652
<i>Amount due from a related company</i>	189
<i>Amounts due from fellow subsidiaries</i>	26,133
<i>Time deposits</i>	100,000
<i>Restricted bank balances</i>	4,233
<i>Bank and cash balances</i>	492,641
<i>Amount due to the Company</i>	(453)
<i>Bank borrowings</i>	(481,377)
<i>Loans from the Company</i>	(582,601)
<i>Lease liabilities</i>	(79,665)

The Payment & Other Business

The following unaudited financial figures are prepared by the directors of the Company based on unaudited management accounts of the entities comprising the Group, but excluding Youzan Technology Group, as of and for the year ended 31 March 2023. The unaudited management accounts are prepared in accordance with the accounting policies adopted by the Group, which are consistent with the accounting policies set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

	<i>RMB'000</i> Unaudited
For the period from 1 April 2022 to 31 March 2023 (12 months)	
<i>Revenue from contracts with customers within the scope of HKFRS 15 (Gross amount before elimination of intercompany transactions with Youzan Technology and its subsidiaries)</i>	329,492
As at 31 March 2023	
<i>Financial assets at fair value through other comprehensive income</i>	70,993
<i>Amount due from a non-controlling shareholder of subsidiaries</i>	260
<i>Amounts due from Youzan Technology Inc.</i>	453
<i>Loans to Youzan Technology Inc. before provision of impairment loss</i>	582,601
<i>Provision of allowance of loans to Youzan Technology Inc.</i>	(359,077)
<i>Time deposits</i>	90,883
<i>Restricted bank balances</i>	1,580
<i>Balances with central bank</i>	3,175,005
<i>Bank and cash balances</i>	155,997
<i>Amounts due to Youzan Technology Group</i>	(26,133)
<i>Lease liabilities</i>	(4,820)
<i>Settlement obligations</i>	(3,298,898)

COMFORT LETTER ISSUED BY RSM HONG KONG



The Board of Directors
CHINA YOUZAN LIMITED (the “Company”)
Unit 1511, 15/F, Shui On Centre
No. 6-8 Harbour Road,
Wan Chai, Hong Kong

INDEPENDENT ASSURANCE REPORT ON THE UNAUDITED FINANCIAL FIGURES

Dear Sirs,

We have been engaged to perform a reasonable assurance engagement on the principal accounting policies adopted and the calculations used in the preparation of the following unaudited financial figures (“**Unaudited Financial Figures**”) as set forth in Appendix of this report:

- (i) the unaudited revenue from contracts with customers of Youzan Technology Inc. and its subsidiaries (collectively referred to as the “**Youzan Technology Group**”) for the period from 1 August 2022 to 31 July 2023;
- (ii) the unaudited account balances of Youzan Technology Group as at 31 July 2023, including (a) financial assets at fair value through profit or loss; (b) amount due from related companies; (c) amounts due from fellow subsidiaries; (d) time deposits; (e) restricted bank balances; (f) bank and cash balances; (g) amount due to the Company; (h) bank borrowings; (i) loans from the Company; and (j) lease liabilities; and (k) amount due to a non-controlling shareholder of subsidiaries;
- (iii) the unaudited revenue from contracts with customers (gross amount before elimination of intercompany transactions with Youzan Technology and its subsidiaries) derived from China Youzan Limited and its subsidiaries, excluding Youzan Technology Group (collectively referred to as the “**Payment & Other Business**”), for the period from 1 August 2022 to 31 July 2023; and

- (iv) unaudited account balances of the Payment & Other Business as at 31 July 2023 including (a) financial assets at fair value through other comprehensive income; (b) amount due from Youzan Technology Inc.; (c) loans to Youzan Technology Inc.; (d) time deposits; (e) restricted bank balances; (f) balances with central bank; (g) bank and cash balances; (h) amounts due to Youzan Technology Group; (i) lease liabilities; and (j) settlement obligations.

We understand that the Unaudited Financial Figures are required to be reported under Rule 10 of the Code on Takeovers and Mergers issued by Securities and Futures Commission (the “SFC”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

Directors’ Responsibilities for the Unaudited Financial Figures

The directors of the Company are solely responsible for the preparation of the Unaudited Financial Figures as set out in Appendix of this report.

The unaudited revenue from contracts with customers for the period from 1 August 2022 to 31 July 2023, together with the unaudited account balances as at 31 July 2023 of Youzan Technology Group and Payment & Other Business have been compiled by the Directors based on their unaudited management accounts as of and for the year ended 31 July 2023. Details of the aforementioned Unaudited Financial Figures are set out in the Appendix of this report.

The Unaudited Financial Figures were prepared on a basis consistent with the accounting policies adopted by the Company and its subsidiaries (collectively referred to as the “Group”) as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022. This responsibility includes designing, implementing and maintaining internal controls relevant to the selection and application of appropriate accounting policies and the accurate calculations in the preparation of the Unaudited Financial Figures that is free from material misstatement; applying appropriate accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibilities

It is our responsibility, as required by Rule 10 of the Code on Takeovers and Mergers issued by the SFC, to report on whether, so far as the accounting policies and calculations are concerned, the Unaudited Financial Figures have been compiled in accordance with the bases adopted by the Directors as set out under the paragraph headed “Directors’ Responsibilities for the Unaudited Financial Figures” of this report above and has also been properly compiled on a basis consistent, in all material respects, with the accounting policies adopted by the Group, as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” (“**HKSAE 3000 (Revised)**”) issued by the HKICPA.

Our work consisted primarily of procedures such as: (a) obtaining an understanding of the basis of preparation and the principal accounting policies adopted for compiling the Unaudited Financial Figures through inquiries primarily of persons responsible for financial and accounting matters, (b) obtaining an understanding of and evaluating the internal controls relevant to the selection and application of appropriate accounting policies and the accurate calculations in the preparation of Unaudited Financial Figures, (c) comparing the principal accounting policies adopted in the preparation of the Unaudited Financial Figures with those adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022, (d) checking the arithmetical calculations and compilation of the Unaudited Financial Figures, and (e) such other procedures that we considered necessary in the circumstances in accordance with HKSAE 3000 (Revised). Our work would not enable us to, and we do not, provide any assurance on the design or operational effectiveness of internal control relating to preparation of the Unaudited Financial Figures.

Our reasonable assurance engagement does not constitute an audit or review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA. Accordingly, we do not express an audit or review opinion on the Unaudited Financial Figures.

Conclusion

In our opinion, based on the foregoing and the work that we have performed, so far as the accounting policies and calculations are concerned, the Unaudited Financial Figures have been properly compiled in accordance with the bases adopted by the Directors as set out under the paragraph headed “Directors’ Responsibilities for the Unaudited Financial Figures” of this report above and has also been prepared on a basis consistent, in all material respects, with the accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

Purpose and Restriction on Use and Distribution

We draw attention to the fact that the Unaudited Financial Figures in the Appendix of this report was prepared by the Directors to assist the valuer in the preparation of the estimated value of 48.1% of the issued share capital of Youzan Technology Inc. as of 31 July 2023. As a result, the Unaudited Financial Figures may not be suitable for other purposes. Our opinion is not modified in respect of this matter.

RSM Hong Kong

Certified Public Accountants

30 November 2023
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay, Hong Kong

APPENDIX

UNAUDITED FINANCIAL FIGURES

The Youzan Technology Group

The following unaudited financial figures are prepared by the directors of the Company based on unaudited management accounts of the entities comprising Youzan Technology Inc. and its subsidiaries (collectively referred to as “**Youzan Technology Group**”) as of and for the year ended 31 July 2023. The unaudited management accounts are prepared in accordance the accounting policies adopted by China Youzan Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”), which are consistent with the accounting policies set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

	<i>RMB'000</i>
	Unaudited
For the period from 1 August 2022 to 31 July 2023 (12 months)	
<i>Revenue from contracts with customers within the scope of HKFRS 15</i>	1,164,318
As at 31 July 2023	
<i>Financial assets at fair value through profit or loss</i>	288,824
<i>Amounts due from related companies</i>	1,558
<i>Amounts due from fellow subsidiaries</i>	7,916
<i>Time deposits</i>	100,000
<i>Restricted bank balances</i>	5,242
<i>Bank and cash balances</i>	457,596
<i>Amount due to a non-controlling shareholder of subsidiaries</i>	(73)
<i>Amount due to the Company</i>	(1,170)
<i>Bank borrowings</i>	(480,699)
<i>Loans from the Company</i>	(620,682)
<i>Lease liabilities</i>	(74,788)

The Payment & Other Business

The following unaudited financial figures are prepared by the directors of the Company based on unaudited management accounts of the entities comprising the Group, but excluding Youzan Technology Group, as of and for the year ended 31 July 2023. The unaudited management accounts are prepared in accordance with the accounting policies adopted by the Group, which are consistent with the accounting policies set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

	<i>RMB'000</i> Unaudited
For the period from 1 August 2022 to 31 July 2023 (12 months)	
<i>Revenue from contracts with customers within the scope of HKFRS 15 (Gross amount before elimination of intercompany transaction with Youzan Technology and its subsidiary)</i>	330,729
As at 31 July 2023	
<i>Financial assets at fair value through other comprehensive income</i>	74,200
<i>Amount due from Youzan Technology Inc.</i>	1,170
<i>Loans to Youzan Technology Inc. before provision of impairment loss</i>	620,682
<i>Provision of allowance of loans to Youzan Technology Inc.</i>	(378,891)
<i>Time deposits</i>	100,000
<i>Restricted bank balances</i>	1,111
<i>Balances with central bank</i>	2,833,200
<i>Bank and cash balances</i>	118,244
<i>Amounts due to Youzan Technology Group</i>	(7,916)
<i>Lease liabilities</i>	(1,934)
<i>Settlement obligations</i>	(2,931,446)

COMFORT LETTER ISSUED BY RSM HONG KONG



The Board of Directors
CHINA YOUZAN LIMITED (the “Company”)
Unit 1511, 15/F, Shui On Centre
No. 6-8 Harbour Road,
Wan Chai, Hong Kong

INDEPENDENT ASSURANCE REPORT ON THE UNAUDITED FINANCIAL FIGURES

Dear Sirs,

We have been engaged to perform a reasonable assurance engagement on the principal accounting policies adopted and the calculations used in the preparation of the following unaudited financial figures (“**Unaudited Financial Figures**”) as set forth in Appendix of this report:

- (i) the unaudited revenue from contracts with customers of Youzan Technology Inc. and its subsidiaries (collectively referred to as the “**Youzan Technology Group**”) for the period from 1 September 2022 to 31 August 2023;
- (ii) the unaudited account balances of Youzan Technology Group as at 31 August 2023, including (a) financial assets at fair value through profit or loss; (b) amount due from related companies; (c) amounts due from fellow subsidiaries; (d) time deposits; (e) restricted bank balances; (f) bank and cash balances; (g) amount due to the Company; (h) bank borrowings; (i) loans from the Company; and (j) lease liabilities; and (k) amount due to a non-controlling shareholder of subsidiaries;
- (iii) the unaudited revenue from contracts with customers (gross amount before elimination of intercompany transactions with Youzan Technology and its subsidiaries) derived from China Youzan Limited and its subsidiaries, excluding Youzan Technology Group (collectively referred to as the “**Payment & Other Business**”), for the period from 1 September 2022 to 31 August 2023; and

- (iv) unaudited account balances of the Payment & Other Business as at 31 August 2023 including (a) financial assets at fair value through other comprehensive income; (b) amount due from Youzan Technology Inc.; (c) loans to Youzan Technology Inc.; (d) time deposits; (e) restricted bank balances; (f) balances with central bank; (g) bank and cash balances; (h) amounts due to Youzan Technology Group; (i) lease liabilities; and (j) settlement obligations.

We understand that the Unaudited Financial Figures are required to be reported under Rule 10 of the Code on Takeovers and Mergers issued by Securities and Futures Commission (the “SFC”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

Directors’ Responsibilities for the Unaudited Financial Figures

The directors of the Company are solely responsible for the preparation of the Unaudited Financial Figures as set out in Appendix of this report.

The unaudited revenue from contracts with customers for the period from 1 September 2022 to 31 August 2023, together with the unaudited account balances as at 31 August 2023 of Youzan Technology Group and Payment & Other Business have been compiled by the Directors based on their unaudited management accounts as of and for the year ended 31 August 2023. Details of the aforementioned Unaudited Financial Figures are set out in the Appendix of this report.

The Unaudited Financial Figures were prepared on a basis consistent with the accounting policies adopted by the Company and its subsidiaries (collectively referred to as the “Group”) as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022. This responsibility includes designing, implementing and maintaining internal controls relevant to the selection and application of appropriate accounting policies and the accurate calculations in the preparation of the Unaudited Financial Figures that is free from material misstatement; applying appropriate accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibilities

It is our responsibility, as required by Rule 10 of the Code on Takeovers and Mergers issued by the SFC, to report on whether, so far as the accounting policies and calculations are concerned, the Unaudited Financial Figures have been compiled in accordance with the bases adopted by the Directors as set out under the paragraph headed “Directors’ Responsibilities for the Unaudited Financial Figures” of this report above and has also been properly compiled on a basis consistent, in all material respects, with the accounting policies adopted by the Group, as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” (“**HKSAE 3000 (Revised)**”) issued by the HKICPA.

Our work consisted primarily of procedures such as: (a) obtaining an understanding of the basis of preparation and the principal accounting policies adopted for compiling the Unaudited Financial Figures through inquiries primarily of persons responsible for financial and accounting matters, (b) obtaining an understanding of and evaluating the internal controls relevant to the selection and application of appropriate accounting policies and the accurate calculations in the preparation of Unaudited Financial Figures, (c) comparing the principal accounting policies adopted in the preparation of the Unaudited Financial Figures with those adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022, (d) checking the arithmetical calculations and compilation of the Unaudited Financial Figures, and (e) such other procedures that we considered necessary in the circumstances in accordance with HKSAE 3000 (Revised). Our work would not enable us to, and we do not, provide any assurance on the design or operational effectiveness of internal control relating to preparation of the Unaudited Financial Figures.

Our reasonable assurance engagement does not constitute an audit or review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA. Accordingly, we do not express an audit or review opinion on the Unaudited Financial Figures.

Conclusion

In our opinion, based on the foregoing and the work that we have performed, so far as the accounting policies and calculations are concerned, the Unaudited Financial Figures have been properly compiled in accordance with the bases adopted by the Directors as set out under the paragraph headed “Directors’ Responsibilities for the Unaudited Financial Figures” of this report above and has also been prepared on a basis consistent, in all material respects, with the accounting policies adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

Purpose and Restriction on Use and Distribution

We draw attention to the fact that the Unaudited Financial Figures in the Appendix of this report was prepared by the Directors to assist the valuer in the preparation of the estimated value of 48.1% of the issued share capital of Youzan Technology Inc. as of 31 August 2023. As a result, the Unaudited Financial Figures may not be suitable for other purposes. Our opinion is not modified in respect of this matter.

RSM Hong Kong

Certified Public Accountants

30 November 2023
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay, Hong Kong

APPENDIX

UNAUDITED FINANCIAL FIGURES

The Youzan Technology Group

The following unaudited financial figures are prepared by the directors of the Company based on unaudited management accounts of the entities comprising Youzan Technology Inc. and its subsidiaries (collectively referred to as “**Youzan Technology Group**”) as of and for the year ended 31 August 2023. The unaudited management accounts are prepared in accordance the accounting policies adopted by China Youzan Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”), which are consistent with the accounting policies set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

	<i>RMB'000</i>
	Unaudited
For the period from 1 September 2022 to 31 August 2023 (12 months)	
<i>Revenue from contracts with customers within the scope of HKFRS 15</i>	1,161,749
As at 31 August 2023	
<i>Financial assets at fair value through profit or loss</i>	288,824
<i>Amounts due from related companies</i>	1,097
<i>Amounts due from fellow subsidiaries</i>	22,622
<i>Time deposits</i>	200,000
<i>Restricted bank balances</i>	4,952
<i>Bank and cash balances</i>	357,826
<i>Amounts due to non-controlling shareholders of subsidiaries</i>	(262)
<i>Amount due to the Company</i>	(1,170)
<i>Bank borrowings</i>	(480,500)
<i>Loans from the Company</i>	(636,322)
<i>Lease liabilities</i>	(75,099)

The Payment & Other Business

The following unaudited financial figures are prepared by the directors of the Company based on unaudited management accounts of the entities comprising the Group, but excluding Youzan Technology Group, as of and for the year ended 31 August 2023. The unaudited management accounts are prepared in accordance with the accounting policies adopted by the Group, which are consistent with the accounting policies set out in the audited consolidated financial statements of the Company for the year ended 31 December 2022.

	<i>RMB'000</i> Unaudited
For the period from 1 September 2022 to 31 August 2023 (12 months)	
<i>Revenue from contracts with customers within the scope of HKFRS 15 (Gross amount before elimination of intercompany transaction with Youzan Technology and its subsidiary)</i>	327,437
As at 31 August 2023	
<i>Financial assets at fair value through other comprehensive income</i>	74,200
<i>Amount due from Youzan Technology Inc.</i>	1,170
<i>Loans to Youzan Technology Inc. before provision of impairment loss</i>	636,322
<i>Provision of allowance of loans to Youzan Technology Inc.</i>	(380,662)
<i>Time deposits</i>	108,000
<i>Restricted bank balances</i>	1,111
<i>Balances with central bank</i>	2,773,164
<i>Bank and cash balances</i>	143,378
<i>Amounts due to Youzan Technology Group</i>	(22,622)
<i>Lease liabilities</i>	(1,930)
<i>Settlement obligations</i>	(2,896,450)

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 Circular (other than information relating to the Sellers) 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 any statement in this Circular or this Circular misleading.

This Circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Circular (other than information relating to the Sellers) and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this Circular (other than opinions expressed by the Sellers) have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omission of which would make any statements in this Circular misleading.

All the directors of the Sellers jointly and severally accept full responsibility for the accuracy of the information contained in this Circular (other than information relating to the Group) and confirms, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Circular (other than those expressed by the Group) have been arrived at after due and careful consideration, and there are no other facts not contained in this Circular the omission of which would make any statement in this Circular misleading.

2. MARKET PRICES

- (a) The table below sets out the closing prices of the Shares quoted on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date, respectively:

Date	Closing Price of per Share HK\$
30 November 2022	0.174
30 December 2022	0.196
31 January 2023	0.260
28 February 2023	0.212
31 March 2023	0.199
28 April 2023	0.182
22 May 2023 (being the Last Trading Day)	0.147

Date	Closing Price of per Share HK\$
31 May 2023	0.133
30 June 2023	0.140
31 July 2023	0.161
31 August 2023	0.134
29 September 2023	0.115
31 October 2023	0.110
27 November 2023 (the Latest Practicable Date)	0.114

- (b) The highest and the lowest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$0.3 on 13 January 2023 and HK\$0.105 on 4 October 2023, respectively.

3. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issue share capital of the Company were as follows:

Authorised share capital

Shares	HK\$
Ordinary shares of HK\$0.01 each	
<u>50,000,000,000</u> Shares of HK\$0.01 each	<u>500,000,000</u>

Issued and fully paid up (or to be issued and fully paid up) share capital

Shares	HK\$
Ordinary shares of HK\$0.01 each	
18,421,642,097 As at the Latest Practicable Date	184,216,420.97
14,556,666,655 Consideration Shares to be allotted and issued upon Completion and the Fee Shares	<u>145,566,666.55</u>
<u>32,978,308,752</u> Total	<u>329,783,087.52</u>

All the Shares in issue, the Consideration Shares and the Fee Shares to be issued will (when allotted and fully paid or credited as fully paid at the time of their allotment) rank *pari passu* in all respects with each other as regards dividends, voting rights and return of capital (but, for the avoidance of doubt, excluding any dividend which may be declared with a record date prior the date of allotment and issue of the Consideration Shares and Fee Shares). The holders of the Consideration Shares and Fee Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Consideration Shares and Fee Shares.

Since 31 December 2022 (being the end of the last financial year of the Company) and up to and including the Latest Practicable Date, save for the Consideration Shares and the Fee Shares proposed to be issued, the Company did not issue any Shares.

4. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) 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 (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange or (d) to be disclosed under the Takeovers Code, were as follows:

Long position in the Shares, underlying shares and debentures of the Company and its associated corporations

Name of Director	Capacity/Nature of interest	Long Position in Shares		Total interest in Shares	Approximate percentage of interest
		Number of Shares	Interest in underlying shares		
Mr. Zhu Ning	Interest in controlled corporations	1,440,601,703	100,000,000	1,932,771,804	10.49%
		(Note 1)	(Note 4)		
		363,170,101	1,000,000		
		(Note 2)	(Note 6)		
		28,000,000			
Mr. Cui Yusong	Beneficial owner	241,885,127	20,000,000	271,785,127	1.48%
		(Note 3)	(Note 5)		
	Interest in controlled corporations	8,900,000	1,000,000		
			(Note 6)		
Mr. Yu Tao	Beneficial owner	13,848,000	15,000,000	29,848,000	0.16%
			(Note 5)		
			1,000,000		
			(Note 6)		
Ms. Ying Hangyan	Beneficial owner	852,000	15,000,000	16,852,000	0.09%
			(Note 5)		
			1,000,000		
			(Note 6)		
Dr. Fong Chi Wah	Beneficial owner	1,000,000	-	1,000,000	0.01%
Mr. Li Shaojie	Beneficial owner	1,000,000	-	1,000,000	0.01%

Notes:

- The shares are held by Whitecrow Investment. Whitecrow Investment is a company incorporated in the British Virgin Islands with limited liability and is held as to 100% by Tricor Equity Trustee Limited as the trustee of a discretionary trust established by Mr. Zhu for the benefit of himself and certain of his family members.
- The shares are held by 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 Investment (and Mr. Zhu is the sole director of Youzan Teamwork).
- The shares are held by V5.Cui Investment. V5.Cui Investment is a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Cui.
- The Company granted the share options under the share option scheme of the Company adopted on 9 September 2019 (the “**Share Option Scheme 2019**”), and was approved at the special general meeting on 14 October 2019. The share options are valid until 30 June 2024 and has an exercise price of HK\$1.00.
- The Company granted the share options under the Share Option Scheme 2019 on 9 September 2019, and was approved at the special general meeting on 14 October 2019. The share options are valid until 30 June 2024 and has an exercise price of HK\$0.90.

6. The Company granted the share options under the Share Option Scheme on 20 January 2023. The share options are valid until 19 January 2028 and have an exercise price of HK\$0.385.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which 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) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules; or (iv) which were required to be disclosed under the Takeovers Code.

(b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, so far as the Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Long position in the Shares, underlying Shares and debentures of the Company

Name of Shareholder	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest
Whitecrow Investment (Note 1)	Beneficial owner	1,440,601,703	7.82%
Double Peace Limited	Interests of controlled corporation	1,440,601,703	7.82%
Tricor Equity Trustee Limited	Trustee	1,440,601,703	7.82%
Poyang Lake Investment Limited (Note 2)	Beneficial owner	1,036,766,038	5.63%
Tencent Holdings Limited (Note 2)	Interests of controlled corporation	1,036,766,038	5.63%

Notes:

1. 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.
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.

Save as disclosed above, as at the Latest Practicable Date, no person (other than the Directors or chief executives of the Company) had the interests or short positions in the Shares or underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 336 of the SFO.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing service contract with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) have been entered into or amended within six months before the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period; or (iv) is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. EXPERTS

The following are the qualifications of the experts who have given opinion or advice which is contained in this Circular:

Name	Qualification
Oriental Patron Asia Limited	A corporation licensed to carry on Type 1 (dealing in securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activity under the SFO
RSM Hong Kong	Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance, Certified Public Accountants

Name	Qualification
Altus Capital Limited	A corporation licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	An independent professional valuer

Each of the above experts has given and confirmed that it has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its letter(s), report, certificate, advice, opinion and/or references to its name (as the case may be) in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any interest, either directly or indirectly, in any assets which have been since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was involved in any litigation or arbitration claim of material importance and no litigation or arbitration or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS OF THE GROUP

Save as disclosed below, the Group has not entered into any contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the Group) during the two years immediately precedent the date of the Announcement and up to and including the Latest Practicable Date, which are or may be material:

- (a) the placing agreement entered into between the Company and Jefferies Hong Kong Limited as the placing agent dated 11 January 2022 in respect of the private placing of up to a maximum of 810,792,000 new Shares to be issued under such placing to any places at HK\$0.385 per placing Share; and
- (b) the Sale and Purchase Agreement.

9. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors had any business or interest apart from the Group's businesses which competes or may compete, either directly or indirectly, with the businesses of the Group or any other conflict of interest which would be required to be disclosed under Rule 11.04 of the GEM Listing Rules.

10. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS AND ARRANGEMENTS AFFECTING THE DIRECTORS

As at the Latest Practicable Date, save for the Sale and Purchase Agreement, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, other than the Sale and Purchase Agreement,

- (a) there was no agreement, arrangement or understanding (including any compensation agreement) existing between the Sellers or any person acting in concert with it and any Director, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Sale and Purchase Agreement and/or the Whitewash Waiver;

- (b) there was no agreement, arrangement or understanding (including any compensation agreement) existing between the Sellers or any person acting in concert with it and any Director regarding any benefit to any Director as compensation for loss of office or otherwise in connection with the Sale and Purchase Agreement and/or Whitewash Waiver;
- (c) there was no agreement, arrangement or understanding between any Director and any other person which is conditional on or dependent upon the outcome of, or otherwise connected with, the Sale and Purchase Agreement and/or Whitewash Waiver; and
- (d) none of the Directors was materially interested in any material contract entered into by the Sellers.

11. ADDITIONAL DISCLOSURE UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date, save as disclosed in the section headed “Effect of the issuance of the Consideration Shares and the Fee Shares on the shareholding structure of the Company” in the Letter from the Board in this Circular and in this Appendix VIII, the Sellers confirm that:

- (a) none of the directors of the Sellers was interested (within the meaning of Part XV of the SFO) in any Shares or convertible securities, warrants, options or derivatives in respect of the Shares;
- (b) there is no holding of voting rights in the Company or rights over any Shares which is owned, controlled or directed by the Sellers or any of its concert parties;
- (c) the Sellers and their respective concert parties do not hold any outstanding options, warrants, derivatives in respect of the Shares or any securities that are convertible into securities of the Company;
- (d) none of the Sellers or their respective concert parties has received any irrevocable commitment from any person to vote for or against the resolutions approving the Acquisition and/or the Whitewash Waiver to be proposed at the SGM;
- (e) save for the Sale and Purchase Agreement and a standstill agreement among certain Sellers in respect of acquisition of Shares of the Company, none of the Sellers or parties acting in concert with them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person;
- (f) save for the Sale Shares under the Sale and Purchase Agreement, none of the Sellers or its concert parties has paid or will pay any other consideration, compensation or benefit in whatever form to the Company or any of its concert parties in relation to the Acquisition;

- (g) there is no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between the Sellers or their respective concert parties on the one hand, and the Company and its concert parties on the other hand;
- (h) none of the Sellers or its concert parties has made or will make any acquisitions or disposals of voting rights in the Company which constitute disqualifying transactions (within the meaning of the Takeovers Code) in the period between the date of the Announcement and the Completion;
- (i) save for the Sale and Purchase Agreement and a standstill agreement among certain Sellers in respect of acquisition of Shares of the Company, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of any of the Sellers and its concert parties and which might be material to the transactions contemplated under the Acquisition or the Whitewash Waiver;
- (j) save for the Sale and Purchase Agreement, there are no agreements or arrangements to which the Sellers are parties which relate to the circumstances in which it may or may not invoke or seek to invoke a condition under the Acquisition or the Whitewash Waiver; and
- (k) save for the Proposed Transfer and the potential disposal of Shares by Qima Teamwork as described in the Letter from the Board in this Circular, there was no agreement, arrangement or understanding pursuant to which the Shares to be allotted to the Sellers pursuant to the Sale and Purchase Agreement would be transferred, charged or pledged to any other persons.

Dealings in securities

During the Relevant Period,

- (a) other than the Sale and Purchase Agreement and as set out below, none of the Sellers or its concert parties has dealt in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares, or, acquired or entered into any agreement to acquire any voting rights in the Company within six months immediately prior to the date of the Announcement;

Entity	Date of transaction	Type of transaction	Number of Shares involved	Transaction price (HK\$ per Share)	Highest transaction price (HK\$ per Share)	Lowest transaction price (HK\$ per Share)
Xincheng Investment	21 March 2023	Sell	20,000,000	0.215	0.215	0.215

- (b) none of the directors of the Sellers had dealt for value in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares;

- (c) there were no Shares or convertible securities, warrants, options and derivatives in respect of the Shares which the Sellers or parties acting in concert with them have borrowed or lent, save for any borrowed shares which have been either on-lent or sold;
- (d) the Company had not dealt for value in any shares or convertible securities, warrants, options and derivatives in respect of the shares of or equity interests in the Sellers;
- (e) none of the Directors had dealt for value in any shares or convertible securities, warrants, options and derivatives in respect of the shares of the Sellers or any Shares or convertible securities, warrants, options and derivatives in respect of the Shares; and
- (f) there were no Shares or convertible securities, warrants, options and derivatives in respect of the Shares which the Company or the Directors has/have borrowed or lent, save for any borrowed shares which have been either on-lent or sold.

Negative statement

As at the Latest Practicable Date, the Company confirms that:

- (a) there is no understanding, arrangement or agreement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) between (a) any of the Shareholders; and (b)(i) the Sellers or its concert parties; or (b)(ii) the Company, its subsidiaries or associated companies;
- (b) the Company did not own any shares or convertible securities, warrants, options and derivatives in respect of the shares of or equity interests of the Sellers;
- (c) save as disclosed in the section headed "Information of the Sellers" in the Letter from the Board in this Circular, none of the Directors had any interest (within the meaning of Part XV of the SFO) in any equity interests or convertible securities, warrants, options and derivatives in respect of the shares of or equity interests of the Sellers;
- (d) save as disclosed in the paragraph headed "4. Disclosure of Interests" in this Appendix and in the Letter from the Board, none of the Directors had any interest (within the meaning of Part XV of the SFO) in the Shares or convertible securities, warrants, options and derivatives in respect of the Shares;
- (e) no Shares, convertible securities, warrants, options and derivatives in respect of the Shares were owned or controlled by any subsidiary of the Company or by a pension fund of any member of the Group or by a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of "acting in concert" or who is an associate of the Company by virtue of class (2) of the definition of "associate" in the Takeovers Code but excluding any exempt principal traders and exempt fund managers;

- (f) save for the Share Purchase Agreement and a standstill agreement among certain Sellers in respect of acquisition of Shares of the Company, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert”, or who is an associate of the Company by virtue of classes (2), (3) or (4) of the definition of “associate” under the Takeovers Code;
- (g) no Shares or convertible securities, warrants, options and derivatives in respect of the Shares were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company; and
- (h) each of Mr. Zhu, Mr. Cui, Mr. Yu and Ms. Ying (each being a an executive Director with shareholdings in the Company) and Dr. Fong Chi Wah and Mr. Li Shaojie (each being an independent non-executive Director with shareholdings in the Company) are required to abstain from voting on the resolutions approving the Acquisition and the Whitewash Waiver at the SGM.

12. AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) in compliance with the GEM Listing Rules. The purpose of the Audit Committee is to assist the Board to conduct accounting, auditing, financial reporting, risk management and internal control matters of the Group and to comply with relevant laws and regulations and entrusted obligations, including but not limited to assist the Board to review and monitor (a) the completeness of financial reports of the Company, (b) the compliance with the laws and regulations by the Company, (c) the qualifications and independence of independent auditors of the Company, and (d) the performance of independent auditors and internal audit department of the Company.

The Audit Committee comprises three independent non-executive Directors, namely, Dr. Fong Chi Wah, Mr. Deng Tao and Mr. Li Shaojie. Dr. Fong Chi Wah is the chairman of the Audit Committee. Set out below are their biographical details:

Dr. Fong Chi Wah

Dr. Fong Chi Wah, aged 61, has served as an independent non-executive director of the Company since December 2003.

Dr. Fong has over 25 years of extensive experience in various sectors of the financial industry including direct investment, project and structured finance and capital markets, having worked for KPMG, the American International Group in Asia, and the ING Group in Beijing and Hong Kong. In his last position within the ING Group, he served as a Director of the Baring Capital (China) Management Limited that managed ING Beijing Investment Co., Ltd., a company listed on the Stock Exchange.

Dr. Fong has been the Chief Financial Officer of Citychamp Watch & Jewellery Group Limited, a company listed on the HKSE, since September 2004 and Company Secretary since February 2007. He has also served as Director of its subsidiary, Bendura Bank AG in Liechtenstein, since September 2016. Besides, he served as a Non-independent Non-executive Director of Cordlife Group Limited, a company listed on the Singapore Exchange from January 2019 to November 2021.

Dr. Fong holds a Bachelor's degree, majoring in Management Sciences (Economics) from the Lancaster University, United Kingdom. He also holds three Master's degrees including a Master of Business Administration from the Warwick University, United Kingdom, a Master's degree in Investment Management from the Hong Kong University of Science and Technology, and a Master's degree in practicing accounting from the Monash University, Australia. He has a Doctorate in Business Administration from the Hong Kong Polytechnic University and is a Juris Doctor from the Chinese University of Hong Kong. He is a CFA charter holder, a member of the Hong Kong Society of Financial Analysts, a fellow of the CPA (Australia), a fellow of the HKICPA, a member of the Institute of Certified Management Accountants, Australia, and a fellow of the Hong Kong Institute of Directors.

Dr. Fong attended executive courses in Harvard Business School, Said Business School of Oxford University, and Lee Kuan Yew School of Public Policy of National University of Singapore.

Mr. Deng Tao

Mr. Deng Tao, aged 68, has served as an independent non-executive director of the Company since May 2018. He obtained his bachelor degree at the Beijing Foreign Studies University and his executive master of business degree at the China Europe International Business School. Mr. Deng has more than 26 years of working experience in human resources management. He commenced his career of human resources by working in a Chinese joint venture company established by Hewlett-Packard Company in 1984 and served in that company for around 11 years. He then successively served in a number of human resources managerial positions in different multinational companies including but not limited to Maersk Line Limited, Allied Signal Inc., AstraZeneca Plc, Whirlpool Corporation and Google. Mr. Deng joined the Company on 8 May 2018.

Mr. Li Shaojie

Mr. Li Shaojie, aged 46, has served as an independent non-executive director of the Company since March 2022. He obtained his bachelor's degree at Henan University. Mr. Li founded and managed Henan Rich Flag Information Technology Co., Ltd. (河南銳之旗信息技術有限公司) in 2007 and is currently the chairman of Rich Flag Sci & Tech Group Co., Ltd. (銳旗科技集團有限公司). Mr. Li has about 20 years of ample experience in Internet brand marketing.

13. MISCELLANEOUS

- (a) Mr. Yu Tao, an executive Director, is the compliance officer of the Company. Mr. Yu Tao is a member of each of Chartered Professional Accountants of Canada and Certified General Accountants Association of Canada.
- (b) Ms. Han Xia and Mr. Cheng Ching Kit are the joint company secretaries. Mr. Cheng Ching Kit is an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.
- (c) The registered office of the Company is at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda.
- (d) The head office and principal place of business of the Company in Hong Kong is at Unit 1511, 15/F, Shui On Centre, No. 6-8 Harbour Road, Wan Chai, Hong Kong.
- (e) The principal share registrar and transfer office of the Company is at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda.
- (f) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (g) The registered office of the Sellers and the addresses of Mr. Zhu, Mr. Cui, Mr. Yu and Ms. Ying are set out below:
 - (i) *Whitecrow Investment Ltd.*: Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands;
 - (ii) *Rory Huang Investment Ltd.*: Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands;
 - (iii) *V5. Cui Investment Ltd.*: Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands;
 - (iv) *Youzan Teamwork Inc.*: Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands;
 - (v) *Qima Teamwork Inc.*: Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands;
 - (vi) *Xincheng Investment Limited*: Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola British Virgin Islands;

- (vii) *Aves Capital, LLC*: Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands;
- (viii) *Tembusu HZ II Limited*: Trinity Chambers, PO Box 4301, Road Town, Tortola, British Virgin Islands;
- (ix) *Matrix Partners China III, LP*: Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands;
- (x) *Matrix Partners China III-A, LP*: Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands;
- (xi) *HKDWD Holdings Limited*: Flemming House, Wickhams Cay, P.O. Box 662, Road Town, Tortola, British Virgin Islands;
- (xii) *Ralston Global Holdings Limited*: P.O. Box 957, Offshore Incorporations Centre, RoadTown, Tortola British Virgin Islands;
- (xiii) *Hangzhou San Ren Yan Xing Investment Partnership (LLP)*: Room 305, Building 2, No. 5, Genshan Zhisan Road, Shangcheng District, Hangzhou City, Zhejiang Province, the PRC;
- (xiv) *Franchise Fund LP*: PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands;
- (xv) *Happy Zan Holdings Limited*: Vistra (Cayman) Limited, P. O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands.;
- (xvi) *Baidu (Hong Kong) Limited*: Room 2609, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong;
- (xvii) *GCYZ Holdings Limited*: 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands;
- (xviii) *GCQM Holdings Limited*: 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands;
- (xix) *Mr. Zhu*: Room 601, Unit 2, Building 2 Xiaolu Jianggan District, Hangzhou City Zhejiang Province China;

- (xx) *Mr. Cui*: 5-2-701, Xixidieyuan South, 333 Zixia Street, Xihu District, Hangzhou City Zhejiang Province China;
- (xxi) *Mr. Yu*: Room 1107, Dingxiang Apartment Xihu District, Hangzhou City Zhejiang Province China; and
- (xxii) *Ms. Ying*: Unit 206, No.1 South Building 10, No. 32, Baiziwan Road, Chaoyang District, Beijing China.
- (h) The registered office of Oriental Patron is at Suites 2704-8, 27/F Two Exchange Square, 8 Connaught Place, Central, Hong Kong.
- (i) The registered office of the Independent Financial Adviser is at 21 Wing Wo Street, Central, Hong Kong.
- (j) This Circular and the accompanying proxy form have been prepared in both English and Chinese. In the case of any discrepancies, the English texts shall prevail over their respective Chinese texts.

14. DOCUMENTS ON DISPLAY

Copies of the following documents will be made available for inspection on the websites of the Company (<http://www.chinayouzan.com>), the Stock Exchange (www.hkexnews.hk) and the Securities and Futures Commission (www.sfc.hk) from the date of this Circular up to and including the date of the SGM:

- (a) the bye-laws of the Company;
- (b) the annual reports of the Company for each of the three financial years ended 31 December 2020, 2021 and 2022;
- (c) the interim reports of the Company for the six months ended 30 June 2022 and 30 June 2023;
- (d) the quarterly reports of the Company for the nine months ended 30 September 2022 and 30 September 2023;
- (e) the letter from the Board, the text of which is set out in the section headed “Letter from the Board” in this Circular;
- (f) the letter from the GEM LR Independent Board Committee, the text of which is set out in the section headed “Letter from the GEM LR Independent Board Committee” in this Circular;

- (g) the letter of advice from the Independent Financial Adviser, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” in this Circular;
- (h) the accountant’s report from RSM Hong Kong in respect of the financial information of the Youzan Technology Group, the text of which is set out in Appendix II to this Circular;
- (i) the report from RSM Hong Kong on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this Circular;
- (j) the valuation report from the Independent Valuer, the texts of which are set out in Appendix V to this Circular;
- (k) the comfort letters issued by Oriental Patron in respect of the Valuation Report as set out in Appendix VI to this Circular and in respect of the unaudited figures contained in the Valuation Report as set out in Appendix VII to this Circular;
- (l) the comfort letters issued by RSM Hong Kong in respect of the unaudited figures contained in the Valuation report as set out in Appendix VII to this Circular;
- (m) the written consents referred to in the section headed “Experts” in this Appendix;
- (n) each of the material contracts referred to in the section headed “Material Contracts of the Group” in this Appendix;
- (o) the standstill agreement referred to in paragraphs (e) and (i) under the section headed “11. ADDITIONAL DISCLOSURE UNDER THE TAKEOVERS CODE” and paragraph (f) under the section headed “11. ADDITIONAL DISCLOSURE UNDER THE TAKEOVERS CODE – Negative statement” in Appendix VIII to this Circular; and
- (p) this Circular.

NOTICE OF SGM



China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT a special general meeting (the “SGM”) of China Youzan Limited (the “Company”) will be held on Wednesday, 27 December 2023 at 10:00 a.m. at 40th Floor, Dah Sing Financial Centre, No. 248 Queen’s Road East, Wan Chai, Hong Kong for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions. Unless otherwise specified herein, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 30 November 2023 (the “Circular”).

ORDINARY RESOLUTIONS

1. (a) To approve, confirm and ratify the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition and the issue of the Consideration Shares in accordance with terms and conditions of the Sale and Purchase Agreement);
- (b) Subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting and not having withdrawn the approval for the listing of, and the permission to deal in the Consideration Shares, to approve the grant of the SPA Specific Mandate to the Directors for the allotment and issue of the Consideration Shares in accordance with the terms and conditions of the Sale and Purchase Agreement; and
- (c) To authorise any one or more Directors to do all such acts and execute all such other documents generally and unconditionally as he/she as may consider necessary, expedient or desirable in connection with or to give effect to paragraphs (a) to (b) of these resolutions, including, without limitation, the allotment and issue of the Consideration Shares in accordance with the terms and conditions of the Sale and Purchase Agreement and the SPA Specific Mandate.

NOTICE OF SGM

2. Conditional upon the ordinary resolution designated “1” set out above being duly passed, the grant of the Scheme Specific Mandate to the Directors for making the part of the Proposed Share Award Grant with 64,166,170 Shares in excess of the 2023 AGM Scheme Mandate Limit as set out in the Circular be and is hereby approved.

SPECIAL RESOLUTION

3. (a) To approve the grant of waiver of the obligation of the Sellers to make a general offer for all the Shares and other securities of the Company (other than those Shares and other securities owned or agreed to be acquired by the Sellers and parties acting in concert with them) as a result of the Completion in accordance with the Whitewash Waiver granted or to be granted by the Executive pursuant to Note 1 on dispensations to Rule 26 of the Takeovers Code; and
- (b) To authorize any one or more directors to, do all such acts and things and execute all relevant documents or deeds (and, if necessary, affix the company seal in accordance with the by-laws of the Company) as he/she may consider necessary, expedient or desirable in connection with, to give effect to, or to consummate any matter relating to or in connection with the Whitewash Waiver and/or the transactions contemplated thereunder

Yours faithfully,

For and on behalf of the board of Directors

China Youzan Limited

Zhu Ning

Chairman

Hong Kong, 30 November 2023

Notes:

1. As set out in the Circular, it is a condition to the Completion under the Sale and Purchase Agreement that the Company having obtained the requisite approval of the Independent Shareholders at the SGM in respect of (i) the Sale and Purchase Agreement and the Acquisition contemplated thereunder; (ii) the allotment and issuance of the Consideration Shares (including without limitation the SPA Specific Mandate) and (iii) the Whitewash Waiver, in accordance with the GEM Listing Rules and the Takeovers Code. Accordingly, it is a condition to the Completion under the Sale and Purchase Agreement that (i) the resolution (1) be approved by more than 50% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the SGM; and (2) the resolution (3) be approved by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the SGM.
2. A member entitled to attend and vote at the SGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his/her/its behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

NOTICE OF SGM

3. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he/she/it so wish.
4. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.
5. In the case of joint holders of shares, any one of such joint holders may vote at the SGM, either in person or by proxy, in respect of such share as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
6. If typhoon signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 7:00 a.m. on the date of the SGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at www.chinayouzan.com and on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page to notify shareholders of the Company of the date, time and place of the rescheduled meeting.

As at the date of this notice, the Board comprises four executive Directors, namely Mr. Zhu Ning, Mr. Cui Yusong, Mr. Yu Tao and Ms. Ying Hangyan and three independent non-executive Directors, namely Dr. Fong Chi Wah, Mr. Deng Tao and Mr. Li Shaojie.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in this notice and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this notice have been arrived at after due and careful consideration and there are no other facts not contained in this notice, the omissions of which would make any statement in this notice misleading.

This notice, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 notice 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 any statement herein or this notice misleading.

This notice will remain on the Stock Exchange's website at www.hkexnews.hk on the "Latest Listed Company Information" page for at least 7 days from the date of its publication and on the Company's website at www.chinayouzan.com.