China Youzan Limited
中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board of the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the "Directors") of China Youzan Limited (the "Company", together with its subsidiaries, the "Group" or "We") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

EXTRACTS OF INDEPENDENT AUDITOR'S REPORT

The following is an extract from the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2018 which has included an emphasis of matter paragraph for material uncertainty in relation to going concern, but without modification of opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of HK$839,444,000 and recorded an operating cash outflow of HK$1,298,149,000 during the reporting period. As further explained in note 2 to the consolidated financial statements, these conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

FINANCIAL HIGHLIGHTS

Financial Highlights of 2018

For the year ended 31 December

Results of the Group	**2018** *HK$'000*	2017 *HK$'000*	Changes *%*
Revenue	**684,459**	207,856	229.3%
Gross profit	**230,978**	26,102	784.9%
Gross profit margin (%)	**33.7%**	12.6%	21.1%
Loss before tax	**(893,204)**	(135,548)	(559.0%)
Loss for the year	**(839,444)**	(135,094)	(521.4%)
Loss per share – Basic (cents per share)	**(4.50)**	(1.67)	(169.5%)
Finacial position			
Total assets	**7,610,631**	1,392,495	446.5%
Net assets	**4,423,015**	1,232,539	258.9%

During the year ended 31 December 2018 (the "Reporting Period"), the Group's revenue was approximately HK$684,459,000 (2017: approximately HK$207,856,000), a 229.3% increase as compared to last year. The increase in revenue was mainly attributable to the expansion of the existing third-party payment service business and the inclusion of the revenue from merchant service as a new business segment upon the completion of the acquisition of the 51.0% equity interest in Qima Holdings Ltd., and its subsidiaries ("Youzan Group") on 18 April 2018. The Group recorded a gross profit of approximately HK$230,978,000 (2017: approximately HK$26,102,000), representing an increase of 784.9% as compared with last year. The increase in gross profit was mainly attributable to the inclusion of the revenue from merchant service as a new business segment as well as the growth in the third-party payment service segment upon the completion of the acquisition of the 51.0% of Youzan Group on 18 April 2018. During the Reporting Period, the gross profit margin of the Group increased from 12.6% of last year to 33.7% of this year. The increase in gross profit margin was mainly contributable to the newly added merchant service segment.

During the Reporting Period, the Group recorded a loss for the year amounted to approximately HK$839,444,000 (2017: loss of approximately HK$135,094,000). The increase in loss was mainly due to the increase in selling and distribution expenses, administrative expenses, amortisation of intangible assets and other operating expenses since the acquisition of Youzan Group, as well as the grant of Awarded Shares under the Share Award Scheme. Of the above losses, approximately HK$56,597,000 (2017: Nil) was from goodwill impairment.

AUDITED CONSOLIDATED RESULTS

The board of directors (the "Board") of the Company are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 together with the comparative figures for the corresponding period in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	2018 *HK$'000*	2017 *HK$'000* (Restated)
Revenue	*5*	**684,459**	207,856
Cost of sales		**(453,481)**	(181,754)
Gross profit		**230,978**	26,102
Investment and other income	*6*	**21,605**	1,531
Other gains and losses, net	*7*	**(48,579)**	44,851
Selling and distribution expenses		**(212,405)**	(23,812)
Administrative expenses		**(221,951)**	(116,801)
Equity-settled share-based payments		**(283,368)**	(21,843)
Amortisation of intangible assets		**(158,619)**	(1,935)
Other operating expenses		**(220,820)**	(41,887)
Loss from operations		**(893,159)**	(133,794)
Share of losses of associates, net		**(45)**	(1,754)
Loss before tax		**(893,204)**	(135,548)
Income tax credit	*8*	**53,760**	454
Loss for the year	*9*	**(839,444)**	(135,094)
Attributable to:			
Owners of the Company		**(503,325)**	(112,192)
Non-controlling interests		**(336,119)**	(22,902)
		(839,444)	(135,094)
		HK cent	*HK cent*
Loss per share	*10*		
Basic *(cents per share)*		**(4.50)**	(1.67)
Diluted *(cents per share)*		**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Loss for the year	**(839,444)**	(135,094)
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Fair value changes of equity instruments at fair value through other comprehensive income (FVTOCI)	**(54,768)**	–
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(390,806)**	60,003
Exchange differences reclassified to profit or loss on disposals of foreign operations	**–**	21
Other comprehensive income for the year, net of tax	**(445,574)**	60,024
Total comprehensive income for the year	**(1,285,018)**	(75,070)
Attributable to:		
Owners of the Company	**(870,081)**	(52,168)
Non-controlling interests	**(414,937)**	(22,902)
	(1,285,018)	(75,070)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment		**42,772**	12,754
Long term deposits		**13,034**	2,823
Goodwill	*12*	**2,455,742**	698,554
Intangible assets	*13*	**2,078,406**	2,706
Investments in associates		**4,574**	15,099
Available-for-sale financial assets		**–**	108,227
Capitalised contract costs		**23,904**	–
Deferred tax assets		**107,620**	–
Financial assets at FVTOCI		**145,455**	–
Earnest money paid for potential investments	*14*	**–**	73,246
		4,871,507	913,409
Current assets			
Inventories		**2,206**	2,710
Trade receivables	*15*	**15**	26,762
Prepayments, deposits and other receivables		**464,776**	133,952
Capitalised contract costs		**79,706**	–
Amount due from a non-controlling shareholder of subsidiaries		**290**	290
Financial assets at fair value through profit or loss (FVTPL)		**34,792**	9,658
Indemnification assets		**230,191**	–
Restricted bank balances	*16*	**490,313**	1,102
Balances with central bank		**981,207**	–
Bank and cash balances		**455,628**	304,612
		2,739,124	479,086
Current liabilities			
Settlement obligations		**2,000,965**	119,876
Trade payables	*17*	**7,003**	4,982
Accruals and other payables		**261,355**	32,569
Amount due to a director		**51**	3
Contract liabilities		**294,875**	–
Current tax liabilities		**2,500**	2,526
Withholding tax payables		**230,191**	–
		2,796,940	159,956
Net current (liabilities)/assets		**(57,816)**	319,130
Total assets less current liabilities		**4,813,691**	1,232,539

	Note	2018 HK$'000	2017 HK$'000 (Restated)
Non-current liabilities			
Contract liabilities		**63,675**	–
Deferred tax liabilities		**327,001**	–
		390,676	–
NET ASSETS		**4,423,015**	1,232,539
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	*18*	**134,425**	69,790
Reserves		**3,651,936**	1,170,390
		3,786,361	1,240,180
Non-controlling interests		**636,654**	(7,641)
TOTAL EQUITY		**4,423,015**	1,232,539

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital	**Share premium account**	**Share option reserve**	**Shares held for Share Award Scheme**	**Share Award Scheme reserve**	**Warrant reserve**	**Other reserves** *(Note 19)*	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	60,993	1,180,297	103,438	–	–	1,000	(25,228)	(477,696)	842,804	15,525	858,329
Total comprehensive income for the year	–	–	–	–	–	–	60,003	(112,192)	(52,189)	(22,902)	(75,091)
Disposal of a subsidiary	–	–	–	–	–	–	21	–	21	(264)	(243)
Issuance of placing shares	7,886	382,471	–	–	–	–	–	–	390,357	–	390,357
Issuance of Contingent Shares	695	31,249	–	–	–	–	–	–	31,944	–	31,944
Exercise of share options	216	7,562	(2,378)	–	–	–	–	–	5,400	–	5,400
Equity-settled share-based payments	–	–	21,843	–	–	–	–	–	21,843	–	21,843
Release upon lapse of share options	–	–	(4,558)	–	–	–	–	4,558	–	–	–
Changes in equity for the year	8,797	421,282	14,907	–	–	–	60,024	(107,634)	397,376	(23,166)	374,210
At 31 December 2017	69,790	1,601,579	118,345	–	–	1,000	34,796	(585,330)	1,240,180	(7,641)	1,232,539
At 1 January 2018	69,790	1,601,579	118,345	–	–	1,000	34,796	(585,330)	1,240,180	(7,641)	1,232,539
Adjustments on initial application of – HKFRS 9 *(note 3)*	–	–	–	–	–	–	25,672	–	25,672	–	25,672
Restated balance at 1 January 2018	69,790	1,601,579	118,345	–	–	1,000	60,468	(585,330)	1,265,852	(7,641)	1,258,211
Total comprehensive income for the year	–	–	–	–	–	–	(366,756)	(503,325)	(870,081)	(414,937)	(1,285,018)
Acquisition of interest in a subsidiary without change of control *(note 20(b))*	–	–	–	–	–	–	(66,338)	–	(66,338)	144,977	78,639
Issuance of placing shares	3,860	183,832	–	–	–	–	–	–	187,692	–	187,692
Issuance of Consideration Shares *(note 20(a))*	55,160	2,923,508	–	–	–	–	–	–	2,978,668	–	2,978,668
Acquisition of subsidiaries *(note 20(a))*	–	–	–	–	–	–	–	–	–	914,255	914,255
Issuance of warrant shares	100	7,119	–	–	–	(19)	–	–	7,200	–	7,200
Allotment of Awarded Shares to Trustee	5,515	336,429	–	(341,944)	–	–	–	–	–	–	–
Equity-settled share-based payments	–	–	1,614	–	281,754	–	–	–	283,368	–	283,368
Release upon lapse of share options	–	–	(14,870)	–	–	–	–	14,870	–	–	–
Fully-vested Awarded Shares transfer to awardees	–	–	–	132,949	(132,949)	–	–	–	–	–	–
Changes in equity for the year	64,635	3,450,888	(13,256)	(208,995)	148,805	(19)	(433,094)	(488,455)	2,520,509	644,295	3,164,804
At 31 December 2018	134,425	5,052,467	105,089	(208,995)	148,805	981	(372,626)	(1,073,785)	3,786,361	636,654	4,423,015

1. GENERAL INFORMATION

The Company was incorporated in Bermuda with limited liability. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The address of its principal place of business is Unit 2708, 27/F, The Center, 99 Queen's Road Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company changed its English name from "China Innovationpay Group Limited" to "China Youzan Limited", and the Chinese name was changed from "中國創新支付集團有限公司" to "中國有贊有限公司". These changes have been effective since 21 May 2018. The Certificate of Incorporation on Change of Name and the Certificate of Secondary Name were both issued by the Registrar of Companies in Bermuda on 21 May 2018. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 1 June 2018 confirming the registration of the Company's new English and Chinese names in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The Company is an investment holding company.

2. BASIS OF PREPARATION

These consolidated financial statements have 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. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

During the reporting period, the Group incurred a net loss of HK$839,444,000 and recorded an operating cash outflow of HK$1,298,149,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management has prepared cash flow projections which cover a period of twelve months from the end of reporting period. The directors of the Company have reviewed the Group's cash flow projections and consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

(i) HKFRS 9 Financial Instruments; and

(ii) HKFRS 15 Revenue from Contracts with Customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies.

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at FVTOCI or FVTPL, and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

(b) Measurement

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debts instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as separate line item in the statement of profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(c) Impairment

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Set out below is the impact of the adoption of HKFRS 9 on the Group.

The following table and the accompanying notes below explain the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	*Note*	**Classification under HKAS 39**	**Classification under HKFRS 9**	**Carrying amount under HKAS 39** *HK$'000*	**Carrying amount under HKFRS 9** *HK$'000*
Unlisted equity investments	*(i)*	Available-for-sale	FVTOCI	108,227	133,899
Loans and other receivables	*(ii)*	Loans and receivables	Amortised cost	350,316	350,316
Equity securities held for trading	*(iii)*	FVTPL	FVTPL	9,658	9,658

The impact of these changes on the Group's equity is as follows:

	Note	**Effect on FVTOCI reserve** *HK$'000*
Opening balance – HKAS 39		–
Remeasurement adjustment on unlisted equity investments reclassified from available-for-sale financial assets carried at cost less impairment to FVTOCI	*(i)*	25,672
Opening balance – HKFRS 9		25,672

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application.

Note:

(i) These equity investments represent investments that the Group intends to hold for the long term for strategic purposes. The Group elected to present in OCI changes in the fair value of these investments because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. Under HKAS 39, these investments were classified as available-for-sale financial assets and measured at cost less impairment. On adoption of HKFRS 9, financial assets with a carrying amount of approximately HK$108,227,000 (fair value of approximately HK$133,899,000) were reclassified from available-for-sale financial assets to financial assets at FVTOCI and fair value gains of approximately HK$25,672,000 were recognised on 1 January 2018 in the FVTOCI reserve in equity. Unlike HKAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

(ii) Loans and other receivables that were classified as loans and receivables under HKAS 39 are now classified at amortised cost. No additional allowance for impairment was recognised in opening accumulated losses at 1 January 2018 on transition to HKFRS 9.

(iii) Equity securities held for trading are required to be held as FVTPL as under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

For assets in scope of the HKFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that no additional impairment allowance was resulted from the application of HKFRS 9 impairment model requirement at 1 January 2018.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

The Group's operations for the year ended 31 December 2017 were sales of goods and provision of third-party payment processing services in form of transaction fees. The adoption of HKFRS 15 has no significant financial impact on how the Group recognises revenue from sales of goods and transaction fees both before and after the adoption.

The Group acquired Youzan Group on 18 April 2018 and operations were expanded into SaaS, value-added services, advertising services and distribution services since then.

Before applying HKFRS 3 Business Combinations to the acquired Youzan Group, the Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018 to the financial statements of Youzan Group. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate). Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018.

Set out below is the impact of the adoption of HKFRS 15 on the Group.

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Note	**Amounts reported in accordance with HKFRS 15**	**Estimated impact of adoption of HKFRS 15**	**Hypothetical amounts under HKASs 18 and 11**
		HK$'000	*HK$'000*	*HK$'000*
As at 31 December 2018				
Consolidated statement of financial position (extract)				
Capitalised contract costs	*(i)*	103,610	103,610	–
Contract liabilities	*(ii)*	358,550	358,550	–
Deferred revenue	*(ii)*	–	(358,550)	358,550
Accumulated losses		1,073,785	(109,257)	1,183,042

	Note	**Amounts reported in accordance with HKFRS 15**	**Estimated impact of adoption of HKFRS 15**	**Hypothetical amounts under HKASs 18 and 11**
		HK$'000	*HK$'000*	*HK$'000*
For the year ended 31 December 2018				
Consolidated statement of profit or loss (extract)				
Selling and distribution expenses	*(i)*	212,405	(60,554)	272,959

Note:

(i) Commissions paid to SaaS distributors were formerly expensed as incurred but HKFRS 15 requires such incremental cost of obtaining contract to be capitalised and amortised to profit and loss when revenue from SaaS is recognised.

(ii) Deferred revenue of SaaS is reclassified as contract liabilities to be consistent with the terminology under HKFRS 15.

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16 Leases	1 January 2019
HK(IFRIC) 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to HKFRSs 2015 – 2017 Cycle	1 January 2019
Amendments to HKAS 28 Long-term Interest in Associates and Joint Ventures	1 January 2019

The 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 the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

The Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to approximately HK$369,146,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

4. SEGMENT INFORMATION

The Group has four (2017: three) operating segments as follows:

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

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The Group's other reportable segment includes certain inactive operations. None of the segments meets any of the quantitative thresholds for determining reportable segment. The information of the other operating segments is included in the 'others' column.

Segment profits or losses do not include equity-settled share-based payments and impairment of goodwill. Segment assets do not include investments in associates, indemnification assets, goodwill, financial assets at FVTOCI (2017: available-for-sale financial assets), deposits for investments and other corporate assets. Segment non-current assets do not include financial instruments, deferred tax assets and goodwill.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Information about operating segment profit or loss, assets and liabilities:

	General trading *HK$'000*	Third-party payment services *HK$'000*	Onecomm *HK$'000*	Merchant service *HK$'000*	Others *HK$'000*	Total *HK$'000*
Year ended 31 December 2018						
Revenue from external customers	**27,439**	**153,588**	**16**	**503,416**	**–**	**684,459**
Intersegment revenue	**–**	**55,048**	**–**	**–**	**–**	**55,048**
Segment loss	**(34,298)**	**(23,054)**	**(789)**	**(457,452)**	**(18)**	**(515,611)**
Interest income	**22**	**2,142**	**1**	**5,007**	**–**	**7,172**
Depreciation and amortisation	**(1,491)**	**(4,472)**	**(105)**	**(164,919)**	**–**	**(170,987)**
Shares of profits/(losses) of associates	**–**	**(3,654)**	**–**	**3,609**	**–**	**(45)**
Other material items of non-cash items:						
– Impairment of prepayment, deposits and other receivables	**(446)**	**(428)**	**–**	**–**	**–**	**(874)**
– Reversal of allowance for other receivables	**–**	**17,852**	**587**	**–**	**–**	**18,439**
– Allowance for trade receivables	**(9,977)**	**(21)**	**–**	**–**	**–**	**(9,998)**
– Allowance for inventories	**(3,137)**	**–**	**–**	**–**	**–**	**(3,137)**
– Impairment of investments in associates	**–**	**(13,657)**	**–**	**–**	**–**	**(13,657)**
Income tax credit	**–**	**–**	**–**	**53,760**	**–**	**53,760**
Additions to segment non-current assets	**4,073**	**8,708**	**–**	**21,038**	**–**	**33,819**
As at 31 December 2018						
Segment assets	**52,452**	**1,886,130**	**1,669**	**2,585,395**	**–**	**4,525,646**
Investments in associates	**–**	**375**	**–**	**4,199**	**–**	**4,574**

	General trading *HK$'000*	Third-party payment services *HK$'000*	Onecomm *HK$'000*	Others *HK$'000*	Total *HK$'000*
Year ended 31 December 2017					
Revenue from external customers	64,676	137,099	6,081	–	207,856
Segment (loss)/profit	(15,677)	(118,102)	(22,483)	164	(156,098)
Interest income	350	530	6	–	886
Intersegment interest income/(expense)	1,284	–	(1,284)	–	–
Depreciation and amortisation	(600)	(4,242)	(1,718)	(2)	(6,562)
Shares of losses of associates	–	(1,754)	–	–	(1,754)
Other material items of non-cash items:					
– Impairment of prepayment, deposits and other receivables	–	(20,752)	(10,678)	–	(31,430)
– Allowance for trade receivables	(4,894)	(12)	(166)	–	(5,072)
– Impairment of intangible assets	–	–	(2,869)	–	(2,869)
– Allowance for inventories	–	–	(2,516)	–	(2,516)
– Impairment of amounts due from associates	–	(3,469)	–	–	(3,469)
– Impairment of investments in associates	–	(21,286)	–	–	(21,286)
Income tax (expense)/credit	–	(3)	457	–	454
Additions to segment non-current assets	19	3,587	–	–	3,606
As at 31 December 2017					
Segment assets	48,022	218,110	1,958	18	268,108
Investments in associates	–	15,099	–	–	15,099

Reconciliations of segment revenue, profit or loss and assets:

	2018	2017
	HK$'000	*HK$'000*
Revenue		
Total revenue of reportable segments	**739,507**	207,856
Elimination of intersegment revenue	**(55,048)**	–
Consolidated revenue	**684,459**	207,856
Profit or loss		
Total loss of reportable segments	**(515,611)**	(156,098)
Gain on fair value change of contingent consideration payables	**–**	44,558
Equity-settled share-based payments	**(283,368)**	(21,843)
Unallocated amounts:		
Corporate income and expenses, net	**(37,628)**	(26,771)
Amortisation of financial guarantee contract	**–**	24,606
Impairment of goodwill	**(56,597)**	–
Consolidated loss before income tax	**(893,204)**	(135,548)
Assets		
Total assets of reportable segments	**4,525,646**	268,108
Unallocated amounts:		
Goodwill	**2,455,742**	698,554
Available-for-sale financial assets	**–**	108,227
Deferred tax assets	**107,620**	–
Financial assets at FVTOCI	**145,455**	–
Earnest money paid for potential investments	**–**	73,246
Indemnification assets	**230,191**	–
Other corporate assets	**145,977**	244,360
Consolidated total assets	**7,610,631**	1,392,495

Geographical information:

No separate analysis of segment information by geographical information is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is the PRC.

Revenue from major customers:

An analysis of revenue from major customers which account for 10 percent or more of the Group's revenue is as follows:

	2018	2017
	HK$'000	*HK$'000*
Third-party payment services segment		
Largest customer	**–**	32,988
Second largest customer	**–**	15,250
General trading segment		
Largest customer	**25,728**	44,019
Second largest customer	**–**	13,759

5. REVENUE

(a) Disaggregation of revenue

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Revenue from contracts with customers within the scope of HKFRS 15		
SaaS	**282,033**	–
Value-added services	**23,898**	–
Advertising services		
– Gross method	**32,161**	–
– Net method	**4,532**	–
Distribution services		
– Net method	**26,456**	–
Transaction fees	**276,342**	134,776
Sales of goods	**33,452**	65,742
Others	**5,585**	7,338
	684,459	207,856
Revenue from other sources	**–**	–
	684,459	207,856

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

For the year ended 31 December	General trading		Third party payment services		Onecomm		Merchant service		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Primary geographical markets										
– PRC except Hong Kong	**27,439**	64,676	**208,636**	137,099	**16**	6,081	**503,416**	–	**739,507**	207,856
Segment revenue	**27,439**	64,676	**208,636**	137,099	**16**	6,081	**503,416**	–	**739,507**	207,856
Intersegment revenue										
– PRC except Hong Kong	**–**	–	**(55,048)**	–	**–**	–	**–**	–	**(55,048)**	-
Revenue from external customers	**27,439**	64,676	**153,588**	137,099	**16**	6,081	**503,416**	–	**684,459**	207,856
Timing of revenue recognition										
Products transferred at a point in time	**27,393**	64,676	**5,365**	1,443	**–**	1,542	**58,148**	–	**90,906**	67,661
Products and services transferred over time	**46**	–	**148,223**	135,656	**16**	4,539	**445,268**	–	**593,553**	140,195
Total	**27,439**	64,676	**153,588**	137,099	**16**	6,081	**503,416**	–	**684,459**	207,856

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

(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 31 December 2018 and the expected timing of recognising revenue as follows:

	SaaS
	HK$'000
Within 1 year	294,875
More than 1 year but not more than 2 years	46,378
More than 2 years	17,297
	358,550

6. INVESTMENT AND OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Interest income on bank deposits	**8,358**	1,465
Investment return on wealth management products	**8,655**	–
Government grants	**1,627**	–
Others	**2,965**	66
	21,605	1,531

7. OTHER GAINS AND LOSSES, NET

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Amortisation of financial guarantee contract	**–**	24,606
Fair value gains on PRC money market fund	**602**	50
Gain on derecognition of contingent consideration payables	**–**	44,558
Gain on disposal of a subsidiary, net	**–**	313
Impairment losses on investments in associates	**(13,657)**	(21,286)
Impairment losses on amount due from an associate	**–**	(3,469)
Impairment losses on amount due from a non-controlling shareholder	**–**	(752)
Impairment losses on goodwill *(note 12)*	**(56,597)**	–
Net foreign exchange gains	**2,634**	831
Reversal of allowance for other receivables	**18,439**	–
	(48,579)	44,851

8. INCOME TAX CREDIT

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

	2018	2017
	HK$'000	*HK$'000*
Current tax – the PRC		
Provision for the year	**16**	–
Under-provision in prior years	**–**	3
	16	3
Deferred tax	**(53,776)**	(457)
	(53,760)	(454)

No provision for PRC Enterprise Income Tax and Hong Kong Profits Tax is required since the Group has no assessable profit for the year ended 31 December 2017 and 2018.

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

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

	2018	2017
	HK$'000	*HK$'000*
Loss before tax	**(893,204)**	(135,548)
Tax at the PRC Enterprise Income Tax rate of 25% (2017: 25%)	**(223,301)**	(33,887)
Tax effect of expenses that are not deductible	**117,966**	30,169
Tax effect of income that are not taxable	**(5,317)**	(18,052)
Tax effect of temporary differences not recognised	**(17)**	(457)
Tax effect of unused tax losses not recognised	**53,702**	20,203
Tax effect of utilisation of tax losses not previously recognised	**(2,725)**	(355)
Under-provision in prior years	**–**	3
Effect of different tax rates of subsidiaries	**5,932**	1,922
Income tax credit	**(53,760)**	(454)

9. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2018	2017
	HK$'000	*HK$'000*
Amortisation of intangible assets *(note 13)*	**158,619**	1,935
Amortisation of capitalised contract costs	**73,760**	–
Acquisition-related cost (included in administrative expenses)	**4,524**	–
Auditor's remuneration	**2,480**	1,500
Allowance for inventories (included in other operating expenses)	**3,137**	2,516
Allowance for trade receivables *(note 15)*	**9,998**	5,072
(Reversal of allowance)/allowance for prepayments, deposits and other receivables, net	**(17,565)**	31,430
Cost of inventories sold	**32,736**	61,177
Depreciation of property, plant and equipment	**12,375**	4,629
Impairment of goodwill *(note 12)*	**56,597**	–
Impairment of intangible assets *(note 13)*	**–**	2,869
Impairment of investments in associates	**13,657**	21,286
Loss on disposals of property, plant and equipment	**–**	36
Gain on disposal of a subsidiary, net	**–**	(313)
Operating lease charges	**43,498**	13,757
Property, plant and equipment written off	**2,040**	–
Research and development expenditure (included in other operating expenses)	**204,667**	5,113
Equity-settled share-based payments		
– Share Option Scheme	**1,614**	21,843
– Share Award Scheme	**281,754**	–

10. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK$503,325,000 (2017: approximately HK$112,192,000) and the weighted average number of ordinary shares of approximately 11,189,740,000 (2017: approximately 6,720,598,000) in issue during the year.

(b) Diluted loss per share

As exercise of the Group's outstanding share options and warrants for the years ended 31 December 2017 and 2018 would be anti-dilutive, no diluted loss per share was presented for the years ended 31 December 2017 and 2018.

11. DIVIDEND

No dividends have been paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period. (2017: Nil).

12. GOODWILL

	General trading ("CGU 1") *HK$'000*	Third party payment services ("CGU 2") *HK$'000*	Onecomm ("CGU 3") *HK$'000*	Merchant service ("CGU 4") *HK$'000*	Total *HK$'000*
Cost					
At 1 January 2017	191,452	854,961	11,771	–	1,058,184
Exchange differences	14,474	60,359	890	–	75,723
At 31 December 2017 and 1 January 2018	205,926	915,320	12,661	–	1,133,907
Acquisition of subsidiaries *(note 20(a))*	–	–	–	2,027,097	2,027,097
Exchange differences	(10,650)	(44,411)	(655)	(180,112)	(235,828)
At 31 December 2018	195,276	870,909	12,006	1,846,985	2,925,176
Accumulated impairment losses					
At 1 January 2017	191,452	201,529	11,771	–	404,752
Exchange differences	14,474	15,237	890	–	30,601
At 31 December 2017 and 1 January 2018	205,926	216,766	12,661	–	435,353
Impairment loss recognised in the current year	–	56,597	–	–	56,597
Exchange differences	(10,650)	(11,211)	(655)	–	(22,516)
At 31 December 2018	195,276	262,152	12,006	–	469,434
Carrying amount					
At 31 December 2018	–	608,757	–	1,846,985	2,455,742
At 31 December 2017	–	698,554	–	–	698,554

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination.

The recoverable amounts of the CGUs have been determined on the basis of their value in use using discounted cash flow method. The key assumptions for the discounted cash flow method include those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are determined on industry growth rate in foreseeable period advised by industry specialist, the Group's development plan and on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development.

At the interim reporting date, management assessed whether there was any indication that the carrying amounts of CGU 2 and CGU 4 may be impaired. Revenues from certain customer group of CGU 2 in second quarter of year 2018 had not met previous forecasts principally due to the impact of a policy change by the People's Bank of China prohibiting direct settlement with banks. Management revised the revenue forecast downward and determined the CGU 2 value in use to be approximately HK$684,167,000, and the pre-tax discount rate used to calculate the value in use was 21.6%. As a result, an impairment loss of approximately HK$56,597,000 was recognised for CGU 2 in accordance with HKAS 36 "Impairment of Assets". The impairment loss was fully charged against the goodwill attributable to CGU 2. However, the performance of CGU 2 in the second half of the financial year started to recover and the value in use of CGU 2 estimated at end of reporting period exceeded the carrying amount of CGU 2. No impairment amount of the goodwill provided for CGU 2 in the interim reporting period was reversed by end of the reporting period as such reversal is not permitted by HK(IFRIC) Interpretation 10.

At the end of reporting period, Directors have estimated the recoverable amounts of CGU 2 and CGU 4 as follows:

For CGU 2, the Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years (2017: four years) with the residual period using the terminal growth rate of 3% (2017: 3%). This terminal growth rate does not exceed the average long-term growth rate for the relevant markets.

For CGU 4, the Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the terminal growth rate of 3% (2017:Nil). This terminal growth rate does not exceed the average long term growth rate of the relevant markets.

At 31 December 2018, the pre-tax rates used to discount the forecast cash flows in each CGU of the Group are as follows:

	2018	2017
CGU 2	**20.50%**	21.60%
CGU 4	**21.70%**	N/A

13. INTANGIBLE ASSETS

	Technology know-how HK$'000	Computer software (internally generated) HK$'000	Trademarks HK$'000	E-commerce applications HK$'000	Distribution network HK$'000	Total HK$'000
Cost						
At 1 January 2017	6,925	5,012	–	–	–	11,937
Exchange differences	523	379	–	–	–	902
At 31 December 2017 and 1 January 2018	7,448	5,391	–	–	–	12,839
Acquisition of subsidiaries *(note 20(a))*	–	44	1,176,339	1,040,926	231,279	2,448,588
Exchange differences	(386)	(284)	(104,545)	(92,489)	(20,550)	(218,254)
At 31 December 2018	7,062	5,151	1,071,794	948,437	210,729	2,243,173
Accumulated amortisation and impairment loss						
At 1 January 2017	2,770	2,013	–	–	–	4,783
Charge for the year	1,435	500	–	–	–	1,935
Impairment loss	2,869	–	–	–	–	2,869
Exchange differences	374	172	–	–	–	546
At 31 December 2017 and 1 January 2018	7,448	2,685	–	–	–	10,133
Charge for the year	–	549	–	101,892	56,178	158,619
Impairment loss	–	–	–	–	–	–
Exchange differences	(386)	(155)	–	(2,220)	(1,224)	(3,985)
At 31 December 2018	7,062	3,079	–	99,672	54,954	164,767
Carrying amount						
At 31 December 2018	–	2,072	1,071,794	848,765	155,775	2,078,406
At 31 December 2017	–	2,706	–	–	–	2,706

The average remaining amortisation period of computer software, E-commerce applications and distribution network are 4 years (2017: 5 years), 6 years (2017: Nil) and 2 years (2017: Nil) respectively. The trademarks are used in the merchant service to enhance products' perceived value and corporate image. The trademarks have legal life of ten years but is renewable every ten years at little cost and is well established. The Group intends to renew the trademark continuously and evidence supports its ability to do so. The trademarks are regarded and assessed to have indefinite useful lives as there is no foreseeable limit to the period over which these assets are expected to generate cash flows for the Group.

For the year ended 31 December 2017, technical know-how used in the segment of Onecomm was fully impaired as Onecomm was adjusting its business focus and it was expected that no revenue would be generated in foreseeable future.

14. EARNEST MONEY PAID FOR POTENTIAL INVESTMENTS

During the period from July 2016 to October 2017, the Group has cumulatively paid RMB61 million (equivalent to approximately HK$74,563,000) earnest money to Youzan Group in connection with the then contemplated acquisition of Youzan Group. The acquisition of Youzan Group was completed on 18 April 2018 and the earnest money was then fully refunded to the Group afterwards. The amount was denominated in RMB.

15. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**18,129**	35,638
Allowance for doubtful debts	**(18,114)**	(8,876)
	15	26,762

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 25 to 90 (2017: 25 to 90 days) days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The ageing analysis of trade receivables based on the invoice date, and net of allowance, is as follows:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**15**	25,073
91 to 180 days	**–**	1,666
181 to 365 days	**–**	23
	15	26,762

As at 31 December 2018, an allowance was made for estimated irrecoverable trade receivables for approximately HK$18,114,000 (2017: approximately HK$8,876,000).

Reconciliation of allowance for trade receivables:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**8,876**	3,356
Allowance for the year	**9,998**	5,072
Reversal of allowance for the year	**–**	–
Exchange differences	**(760)**	448
At 31 December	**18,114**	8,876

16. RESTRICTED BANK BALANCES

As at 31 December 2018, the Group had bank balances of approximately HK$6,783,000 (2017: approximately HK$1,102,000) frozen by a PRC District People's Procuratorate to facilitate legal investigation not related to the Group.

As at 31 December 2018, the Group had bank balances of approximately HK$483,530,000 (2017: Nil) restricted for fulfillment of settlements obligations.

The restricted bank balances were denominated in RMB.

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

17. TRADE PAYABLES

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	2018	2017
	HK$'000	*HK$'000*
0 to 90 days	**3,036**	2,546
91 to 180 days	**2,314**	–
181 to 365 days	**–**	18
Over 365 days	**1,653**	2,418
	7,003	4,982

The carrying amounts of the Group's trade payables are denominated in RMB as at 31 December 2017 and 2018.

18. SHARE CAPITAL

	Note	2018 Number of shares '000	2018 Amount HK$'000	2017 Number of shares '000	2017 Amount HK$'000
Authorised:					
Ordinary shares of HK$0.01 each		**20,000,000**	**200,000**	20,000,000	200,000
Ordinary, issued and fully paid:					
At 1 January		**6,978,955**	**69,790**	6,099,310	60,993
Share issued under placing	*(a), (b)*	**386,000**	**3,860**	788,600	7,886
Share issued for Consideration Sale Shares	*20(a)*	**5,516,053**	**55,160**	–	–
Share issued for warrant shares		**10,000**	**100**	–	–
Allotment of Awarded Shares to Trustee		**551,522**	**5,515**	–	–
Share issued for contingent consideration		**–**	**–**	69,445	695
Share issued under Share Option Scheme		**–**	**–**	21,600	216
At 31 December		**13,442,530**	**134,425**	6,978,955	69,790

Note:

(a) The Company entered into a placing agreement under General Mandate ("GM") with Oriental Patron Asia Limited (the "Placing Agent") on 17 March 2017 followed by a supplemental agreement dated 27 March 2017, pursuant to which the Company has conditionally agreed to place, through the Placing Agent, up to 900,000,000 GM Placing Shares. The placing was completed on 26 April 2017, a total 788,600,000 GM Placing Shares were issued at a price of HK$0.5 per share and the net proceeds from placing was approximately HK$390,357,000.

(b) The Company entered into placing agreements under Specific Mandate ("SM") with the Placing Agent on 17 March 2017 followed by a supplemental agreement dated 27 March 2017, pursuant to which the Company has conditionally agreed to place, through the Placing Agent, up to 460,000,000 SM Placing Shares. The placing was completed on 16 April 2018, a total of 386,000,000 SM Placing Shares were issued at a price of HK$0.5 per share and the net proceeds from the placing was approximately HK$187,692,000.

The Group's objectives when managing capital are 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.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. During current reporting period, the Group refines the definition of debt-to-adjusted capital ratio so as to simplify the calculation process.

Net debt, as newly defined, includes interest-bearing bank loans, other borrowings, accruals and other payables, less cash and cash equivalents. Adjusted capital comprises all components of the Group's equity excluding non-controlling interests. The Group's policy is to maintain a low debt-to-adjusted capital ratio and this policy is unchanged. This policy will be reviewed on an annual basis.

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Interest-bearing bank loans and other borrowings	**–**	–
Accruals and other payables	**261,355**	32,569
Less: Cash and cash equivalents	**(490,420)**	(314,270)
Net debts/(Excess cash and cash equivalents)	**(229,065)**	(281,701)
Total equity excluding non-controlling interests	**3,786,361**	1,240,180
Debt-to-adjusted capital ratio	**N/A**	N/A

The externally imposed capital requirements for the Group is to have a public float of at least 25% of the Company's shares in order to maintain its listing on the Stock Exchange. Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public.

19. OTHER RESERVES

	Capital reserve HK$'000	Statutory reserve HK$'000	Exchange reserve HK$'000	Financial assets at FVTOCI reserve HK$'000	Total HK$'000
At 1 January 2017	(1,117)	9,898	(34,009)	–	(25,228)
Total comprehensive income for the year	–	–	60,003	–	60,003
Disposal of a subsidiary	–	–	21	–	21
Issuance of placing shares	–	–	–	–	–
Issuance of Contingent Consideration Shares	–	–	–	–	–
Exercise of share options	–	–	–	–	–
Equity-settled share-based payments	–	–	–	–	–
Release upon lapse of share options	–	–	–	–	–
Changes in equity for the year	–	–	60,024	–	60,024
At 31 December 2017	(1,117)	9,898	26,015	–	34,796
At 1 January 2018	(1,117)	9,898	26,015	–	34,796
Adjustments on initial application of – HKFRS 9 *(note 3)*	–	–	–	25,672	25,672
Restated balance at 1 January 2018	(1,117)	9,898	26,015	25,672	60,468
Total comprehensive income for the year	–	–	(309,673)	(57,083)	(366,756)
Acquisition of interest in a subsidiary without change of control *(note 20(b))*	(66,338)	–	–	–	(66,338)
Issuance of placing shares	–	–	–	–	–
Issuance of Consideration Shares *(note 20(a))*	–	–	–	–	–
Acquisition of subsidiaries *(note 20(a))*	–	–	–	–	–
Issuance of warrant shares	–	–	–	–	–
Allotment of Awarded Shares to Trustee	–	–	–	–	–
Equity-settled share-based payments	–	–	–	–	–
Release upon lapse of share option	–	–	–	–	–
Fully-vested Awarded Shares transfer to awardees	–	–	–	–	–
Changes in equity for the year	(66,338)	–	(309,673)	(57,083)	(433,094)
At 31 December 2018	(67,455)	9,898	(283,658)	(31,411)	(372,626)

20. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of subsidiaries

On 18 April 2018, the Group acquired 51% equity interest of Youzan Group which satisfied by the Company by the way of allotment and issue of 5,516,052,632 shares of the Company ("Consideration Shares") to the sellers in proportion to their shareholdings in Youzan Group at the market price of HK$0.54 per Consideration Share, totalling approximately HK$2,978,668,000 at the date of completion. Youzan Group is principally engaged in the provision of SaaS and related businesses in the PRC. The acquisition is for the purpose of diversifying the Group's revenue base.

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

	HK$'000
Net assets acquired:	
Property, plant and equipment	12,737
Long term deposits	125
Intangible assets *(note 13)*	2,448,588
Investment in associates	2,295
Deferred tax assets	76,084
Financial assets at FVTOCI	9,028
Inventories	632
Trade receivables	78
Prepayment, deposits and other receivables	68,100
Capitalised contract costs	48,702
Bank and cash balances	1,215,762
Settlement obligations	(1,279,112)
Trade payables	(3)
Accruals and other payables	(150,891)
Contract liabilities	(211,705)
Deferred tax liabilities	(374,594)
	1,865,826
Non-controlling interests	(914,255)
Goodwill *(note 12)*	2,027,097
	2,978,668
Satisfied by:	
Consideration Shares	2,978,668
Net cash inflow arising on acquisition:	
Cash consideration paid	–
Cash and cash equivalents acquired	1,215,762
	1,215,762

The fair values of trade receivables, prepayment, deposits and other receivables, capitalised contract costs are HK$78,000, HK$68,100,000 and HK$48,702,000 respectively. All of the contractual cash flows are expected to be collected in full.

The goodwill arising on the acquisition of Youzan Group is attributable to the expected synergies of the combination.

Youzan Group contributed approximately HK$503,416,000 and approximately HK$685,446,000 to the Group's revenue and loss for the year respectively between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2018, the Group's revenue for the year and loss for the year would have been approximately HK$830,461,000 and approximately HK$991,297,000 respectively. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is intended to be a projection of future results.

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

On 16 July 2018, the Company and an investor entered into the Subscription Agreement with Qima Holdings Ltd., a non-wholly owned subsidiary of the Company, in relation to the subscription of approximately 21 million new shares and approximately 7 million new shares of Qima Holdings Ltd., respectively, in the respective cash consideration of approximately US$30 million (approximately HK$236 million) and approximately US$10 million (approximately HK$79 million). Upon completion on 23 July 2018, the Company's equity interest in Youzan Group was increased to 51.48% from 51%.

21. CONTINGENT LIABILITIES

Pursuant to Article 3, Article 37 and Article 39 of the Corporate Income Tax Law of the People's Republic of China (the "Corporate Income Tax Law"), Article 9 of the Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprise (State Administration of Taxation Announcement [2017] No. 37, the "No. 37 Announcement"), and Article 62 and Article 69 of the Law of the People's Republic of China on the Administration of Tax Collection (the "Tax Collection Law"), the Company's acquisition of 51% equity interest in Youzan Group (note 20(a)) during the year ended 31 December 2018 had led to an indirect acquisition of Hangzhou Youzan. Such arrangement shall be re-characterised as a direct transfer by the PRC tax authorities and the capital gain derived will be subject to Corporate Income Tax ("CIT"). The Group is obliged to act as CIT withholding agent and report the indirect equity transfer (and settle the CIT, if applicable) to the tax authority and the Company may be subject to a fine of not less than 50% but not more than 300% of the amount of CIT that should have been withheld or collected.

The Company has already adequately provided for the withholding tax payables and the sellers agreed to report to the relevant authorities and pay the relevant taxes related to their disposal of 51% equity interest in Youzan Group subject to the Company not being able to perform its withholding obligations under the relevant tax laws and regulations. The sellers further agreed that if any of them does not comply with the relevant tax laws and regulations which lead to the Company being requested to pay such CIT, relevant interests and/or penalties ("Taxes and Penalties") as a tax withholding agent, such seller shall be responsible to the Company for such Taxes and Penalties up to three times of the CIT.

Save as disclosed above, the Group had no material contingent liabilities as at 31 December 2018 and 2017.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation. The new classification of the accounting items are considered to provide a more appropriate presentation of the state of affairs of the Group.

23. EVENT AFTER REPORTING PERIOD

On 19 November 2018, the Board announced the awarding of 314,376,000 Awarded Shares and subsequently reduced to 304,247,200 Awarded Shares ("Second Awards") on 24 January 2019. On 1 February 2019, the Company received all approvals and allotted 304,247,200 Awarded Shares to the Trustee on the same day. The fair value of Awarded Shares for the Second Awards is HK$0.55 per share. Details of the Second Awards can be found in the Company's announcements dated 19 November 2018, 24 January 2019, 25 January 2019 and 1 February 2019.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Directors' Interest in Shares

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

	Long Position in Shares			
Directors	**Interest in shares**	**Interest in underlying shares**	**Total interest in shares**	**% Shareholding**
Mr. Guan Guisen *(Note 1)*	711,592,000	–	711,592,000	5.18%
Mr. Cao Chunmeng	67,420,000	36,000,000 *(Note 2)*	103,420,000	0.75%
Mr. Yan Xiaotian	21,640,000	25,000,000 *(Note 2)*	46,640,000	0.34%
Dr. Fong Chi Wah	1,000,000	3,000,000 *(Note 2)*	4,000,000	0.03%
Mr. Gu Jiawang	1,000,000	3,000,000 *(Note 2)*	4,000,000	0.03%
Mr. Zhu Ning	1,440,601,703 *(Note 3)* 363,170,101 *(Note 4)*	–	1,803,771,804	13.12%

	Long Position in Shares			
Directors	**Interest in shares**	**Interest in underlying shares**	**Total interest in shares**	**% Shareholding**
Mr. Yu Tao	363,170,101 *(Note 4)*	–	363,170,101	2.64%
Mr. Cui Yusong	241,885,127 *(Note 5)*	–	241,885,127	1.76%
Ms. Ying Hangyan	363,170,101 *(Note 4)*	–	363,170,101	2.64%

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

Note 2: The Company granted the share options under New Share Option Scheme on 11 June 2015.The share options is valid until 10 June 2020 and has an exercise price of HK$1.25.

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

Note 4: The shares are held by Youzan Teamwork Inc. ("Youzan Teamwork"). Youzan Teamwork is a company incorporated in the British Virgin Islands with limited liability and is owned as to 40% by Mr. Zhu Ning, 10% by Mr. Yu Tao and 10% by Ms. Ying Hangyan.

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

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

Interest Discloseable Under the SFO and Substantial Shareholders

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

	Long Position in Shares			
Name of Shareholders	**Interest in shares**	**Interest in underlying shares**	**Total interest in shares**	**% Shareholding**
Mr. Guan Guisen	711,592,000 *(Note 1)*	–	711,592,000	5.18%
Mr. Zhu Ning	1,440,601,703 *(Note 2)* 363,170,101 *(Note 3)*	–	1,803,771,804	13.12%

Note 1: The shares are held by Mighty Advantage Enterprises Limited ("Mighty Advantage"). Mighty Advantage is a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Guan Guisen.

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

Note 3: The shares are held by Youzan Teamwork Inc. ("Youzan Teamwork"). Youzan Teamwork is a company incorporated in the British Virgin Islands with limited liability and is owned as to 40% by Mr. Zhu Ning.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31 December 2018, the Company was not a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and Supervisors or their spouses or children under the age of 18 had any right to subscribe the securities of the Company, or had exercised any such right.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2018.

SCOPE OF WORK OF RSM HONG KONG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income presented in the preliminary announcement and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditors, RSM Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Hong Kong on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

China Youzan Limited (formerly known as "China Innovationpay Group Limited") ("China Youzan", the "Company", together with its subsidiaries, the "Group") is a renowned investment holding company committed to providing innovative and technological advancement in technology services, payment service for merchants as well as online and offline e-commerce solutions which also known as SaaS (Software as a Service). Our Group consists of the Company, Shenzhen Innovationpay Co., Limited and its subsidiaries, Country Praise Enterprises Limited ("CPE") and its subsidiaries (collectively the "CPE Group") and Qima Holdings Ltd. and its subsidiaries (collectively the "Youzan Group").

The Company was listed on the GEM of The Stock Exchange (stock code: 8083) in 2000. At present, the Group mainly operates its business across the People's Republic of China (the "PRC"), employing nearly 2,206 employees. As at 31 December 2018, the Group's operation consists of four operating segments, which are (i) merchant service – provision of e-commence platform with a variety of SaaS products and comprehensive services in the PRC through Youzan, which owns Youzan WeiMall, Youzan Retail, Youzan Beauty and other SaaS products; (ii) third-party payment service; (iii) Onecomm – provision of third-party payment system solution and sales of integrated smart point of sales devices; and (iv) general trading.

With the expansion and in-depth development of its business, the Group began to focus on the merchant service segment and third-party payment service segment since 2018.

(A) Merchant Service segment

The merchant service is to help each and every merchant who values products and services to privatize customer assets, expand the internet customer base, and boost operating efficiency, help merchants achieve all around success. At the same time, it also satisfies merchants' needs on customer operation and precision marketing and provides all-rounded coverage on merchants' business scenarios to increase potential customers and reduce existing customer loss. The merchant service mainly consists of e-commerce SaaS, store SaaS, distribution service, advertising service, value-added service and cloud service.

- E-commerce SaaS: The e-commerce SaaS provides merchants with a one-stop solution in building up online stores for both traditional merchants and internet merchants. Registered merchants are accessible to more than 1,000 functions to manage their online stores. The e-commerce SaaS mainly consists of "Youzan WeiMall".

- Store SaaS: The store SaaS provides merchants with one-stop solutions in improving the operation efficiency of their physical stores. At present, the store SaaS is on its initial stage of commercialization. The store SaaS mainly consists of "Youzan Retail", "Youzan Chain", "Youzan Beauty" and "Youzan Catering".

- Distribution Service: The distribution service and SaaS service are highly mutually beneficial and win-win and it aims to set up a commercial system that links merchants on different points of the distribution chain.

- Advertising Service: The advertising service helps merchants to enlarge their brand influence and improve their operation efficiency by offering various online marketing and advertising channels. Merchants can make strong connection with their consumers through direct and indirect marketing and promoting activities integrated in our products and therefore privatize the consumers' membership as long-term profit generating assets by way of consumers' repeat purchase.

- Value-added Service: The value-added service improves the transaction conversion rate and capital turnover efficiency of merchants by providing such services as transaction endorsement and quick payment collection for Youzan merchants to enhance the trust between consumers and merchants, for the purpose of improving the customer base and operational efficiency of merchants.

- PaaS Cloud Service: Youzan Cloud aims to create ecological products with more value for merchants by aggregating third-party development resources to help merchants realizing business customization in terms of business process, page templates, visual components, business logic, and interface messages based on the existing standardized SaaS products.

(B) Third-party payment Service segment

The third-party payment service aims at helping merchants to manage their assets and complete their online and offline transactions by providing various payment channels. Companies under the Group possess the Certificate for Approval for Payment Business and the Certificate for Approval for Financial Service issued by the People's Bank of China, which entitle them to operate the third-party payment business, physical prepaid cards business, virtual prepaid cards business and financial business in Mainland China. The third-party payment service mainly consists of the internet payment service, integrated payment service, cross-border Renminbi payment service and prepaid card service.

- Internet Payment Service: The internet payment service provides a speedy B2C and B2B mobile and internet payment gateway service to our merchants. All Chinese popular payment paths, such as WeChat Pay, ApplePay, AliPay and China Unionpay, have been built into the Group's payment gateway in providing our internet payment service.

- Integrated Payment Service: Integrated payment service can provide merchants with all-rounded support such as membership management and omni-channel, self-marketing services.

- Cross-border Renminbi Payment Service: The cross-border Renminbi payment service provides merchants with payment services in doing their businesses of cross-border trading in goods/services.

- Prepaid Card Service: Virtual prepaid card service is the main contributor to the prepaid card service. Through the joint confirmed cooperation with the Group's distributors, the virtual prepaid card operating platform establishes an online and offline payment service by a virtual prepaid card product to support the needs under various payment handling conditions, help the distributors to develop and operate their own customers.

FINANCIAL REVIEW

During the Reporting Period, the Group's overall operating condition was good. The Group's revenue was approximately HK$684 million, representing an increase of about 229.3% as compared to 2017. The increase in revenue was mainly attributable to the expansion of the existing third-party payment service business and the inclusion for the revenue from merchant service as a new business segment since the completion of the acquisition of the 51.0% equity interest in Youzan Group on 18 April 2018.

On the basis of completing the acquisition of the 51.0% equity interest in Youzan Group on 18 April 2018, the principal operation of China Youzan includes the merchant service segment in addition to the original third-party payment service segment. During the year ended 31 December 2018, the revenue from the newly added merchant service segment was approximately HK$503 million, representing approximately 73.5% of the total revenue of the Group.

During the year ended 31 December 2018, the revenue from the third-party payment service segment was approximately HK$154 million, accounting for approximately 22.5% of the total revenue of the Group and representing an increase of approximately 12.4% as compared with 2017. The increase was primarily attributable to the expansion of the existing third-party payment service and the increase in business brought by the acquisition of the 51.0% equity interest in Youzan Group.

In 2018, the Group strategically downsized its Onecomm and general trading businesses. During the year ended 31 December 2018, the revenue from Onecomm was approximately HK$16,000, representing a decrease of approximately HK$6,065,000 or approximately 99.7% as compared with approximately HK$6,081,000 in 2017.

During the year ended 31 December 2018, the revenue from the general trading business was approximately HK$27 million, accounting for approximately 4.0% of the total revenue of the Group and representing a decrease of approximately HK$38 million or approximately 58.5% as compared with approximately HK$65 million in 2017.

During the year ended 31 December 2018, the Group recorded a 792.0% year-on-year increase in selling and distribution expenses to HK$212,405,000 (2017: HK$23,812,000). The increase was mainly driven by greater marketing spending on merchant services and third-party payment services and the strong growth in sales team.

During the year ended 31 December 2018, the Group recorded a 90.0% year-on-year increase in administrative expenses to approximately HK$221,951,000 (2017: approximately HK$116,801,000). The increase mainly reflected greater staff costs and office expenses as a result of expanded business volume.

During the year ended 31 December 2018, the Group recorded HK$220,820,000 (2017: HK$41,887,000) of other operating expenses, in which a 3902.9% year-on-year increase was recorded for research and development expenditure to HK$204,667,000 (2017: HK5,113,000). The increase was mainly driven by the increased investment in the research and development on merchant services SaaS products and PaaS cloud service products.

During the year ended 31 December 2018, the Group recorded a 1197.3% year-on-year increase in equity-settled share-based payment to approximately HK$283,368,000 (2017: approximately HK$21,843,000). The increase mainly reflected the adoption of Share Award Scheme.

The Group will continue to develop its existing business while remaining alert to market trends and demands to enable our merchant service and third-party payment service to have competitive advantages. Leveraging on sufficient resources and talent reserves, the Group will continue to integrate its business development with the market demand of merchants, and timely improve its existing products and technologies to keep up with industry trend.

Dividends

No dividends have been paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

Pledge of Assets

As at 31 December 2018, unlisted equity securities with carrying amount of approximately HK$126,390,000 (2017: approximately HK$108,227,000) were pledged as security for borrowings of the underlying investee company. The pledge was subsequently released on 29 January 2019.

Significant Investment, Acquisition and Events

1. Despatch of circular in relation to Major Transaction – Acquisition of 51% Equity Interest in Youzan Group

On 2 January 2018, the Company dispatched the circular in relation to the Major Transaction – Acquisition of 51% equity interest in Youzan Group.

On 26 January 2018, all of the proposed ordinary resolutions as set out in the notice of the SGM contained in the circular were duly passed at the SGM.

For details of the transaction and the poll results in respect of each of the resolutions, please refer to the Company announcement dated 2 January 2018 and 26 January 2018 respectively.

2. Completion of the Specific Mandate Placing

It is related to the Major Acquisition announcement of the Company dated 28 March 2017.

The conditions set out in the Specific Mandate Placing Agreement have been fulfilled and the Specific Mandate Placing was completed on 16 April 2018 in accordance with the terms and conditions of the Specific Mandate Placing Agreement. A total of 386,000,000 Specific Mandate Placing Shares have been successfully placed by the Placing Agent to not fewer than six Specific Mandate Placees at the Specific Mandate Placing Price of HK$0.5 per Specific Mandate Placing Share pursuant to the Specific Mandate Placing Agreement. The net proceeds from the Specific Mandate Placing received by the Company, after deducting all related costs, fees, expenses and commission, amount to approximately HK$187,479,500.

For details of the transaction please refer to the Company announcement dated 16 April 2018.

3. Completion of the acquisition of Youzan Group

The conditions set out in the Sale and Purchase Agreement had been fulfilled and the Acquisition was completed on 18 April 2018 in accordance with the terms and conditions of the Sale and Purchase Agreement.

Upon Completion, 5,516,052,632 Consideration Shares were issued to the Sellers in proportion to their shareholding in Youzan Group at the issue price of HK$0.38 (Closing price as at completion date: HK$0.54) per Consideration Share to satisfy the Consideration of HK$2,096,100,000.

For details of the transaction please refer to the Company announcement dated 18 April 2018.

4. Adoption of Share Award Scheme

On 31 May 2018 (after trading hours), the Board approved the adoption of the Share Award Scheme with immediate effect, pursuant to which all Eligible Persons will be entitled to participate. The purpose of the Scheme is to recognise the contributions by certain Eligible Persons and provide them with incentives in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group.

For details, please refer to the Company's announcement dated 31 May 2018.

5. Change of Company Name

The resolution for the change of Company name was approved by the Shareholders at the SGM held on 8 May 2018. The change of Company name became effective on 21 May 2018.

The English name of the Company has been changed from "China Innovationpay Group Limited" to "China Youzan Limited" and the Chinese name of the Company has been changed from "中國創新支付集團有限公司" to "中國有贊有限公司".

Change of Stock Short Names

The English stock short name of the Company has been changed from "INNOVATIONPAY" to "CHINA YOUZAN" and the Chinese stock short name has been changed from "中國創新支付" to "中國有贊" from 9:00 a.m. on 15 June 2018. The stock code of the Company remains unchanged as "8083".

Effect of the Change of Company Name

The change of Company name would not affect any rights of the Shareholders or the Group's daily business operations and its financial position.

Change of Company Logo

The logo of the Company has been changed from "" to "" effective from 1 June 2018.

Change of Company Website

The website of the Company has been changed from http://www.innovationpay.com.hk to http://www.chinayouzan.com effective from 1 June 2018.

6. Connected Transaction: Subscription of Shares in a Non-Wholly Owned Subsidiary

On 16 July 2018, the Company and Franchise Fund Limited entered into the Subscription Agreement with Qima Holdings Ltd. ("Qima Holdings"), a non-wholly owned subsidiary of the Company, in relation to the subscription of approximately 21,000,000 Qima Holdings Shares and approximately 7,000,000 Qima Holdings Shares respectively, in the respective consideration of approximately US$30 million and approximately US$10 million payable in cash upon the completion of the transaction.

Upon the completion of the transaction, the Company held approximately 51.48% of the total issued shares of Qima Holdings, which remained as a non-wholly owned subsidiary of the Company.

7. Change in Use of Proceeds

References are made to the Circular and Completion Announcement dated 2 January 2018 and 18 April 2018 respectively. The net proceeds from the SM Placing received by the Company, after deducting all related costs, fees, expenses and commission, amounted to approximately HK$187 million, of which HK$110 million will be used for business of Youzan Group through the Loan Agreement and approximately HK$77.5 million will be used for the third-party payment service business of the Group. Having considered the reasons mentioned in the section headed "Reasons for and benefits of the Subscription" set out in the announcement dated 16 July 2018, the Directors decided to reallocate all the net proceeds from the SM Placing to subscribe Qima Holdings Shares under the Subscription.

For details please refer to the Company announcement dated 16 July 2018.

8. Grant of Shares Under the Share Award Scheme and Issue of New Shares Under General Mandate

(i) Grant of Awarded Shares

On 7 September 2018, the Company granted 551,522,400 Awarded Shares, representing approximately 4.28% of the total issued Shares as at 7 September 2018, to 388 Selected Participants across ten different key business units of the Group, all of whom are not connected persons of the Company (the "Grantees"), in accordance with the Scheme Rules at nil consideration (the "Grant").

Selection criteria

The Grantees were selected by the Board after taking into account, among other matters, recommendations from their supervisors, years of services and their seniority, details of which are as follows:

- Recommendations from supervisors: Positive recommendations obtained indicating quality of the potential participants of the Scheme, potentials of becoming management and possession of experience in their respective professional fields.

- Years of services: Normally one year or above.

- Seniority: Team leader level or above.

In determining the selection of the Grantees and their respective number of Awarded Shares, the Board considered various aforementioned factors as a whole, instead of a standalone factor.

Vesting conditions

The Awards are subject to the acceptance of the Grantees and a minimum of two years of continuous services to the Company or any of its subsidiaries.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, all of the Grantees are not connected persons of the Company or its associates.

(ii) Issue of New Shares Under General Mandate Pursuant to the Share Award Scheme

The Board has approved the allotment and issue of 551,522,400 new Shares to the Trustee at HK$0.63 per Share, being the closing price of the Shares as at the date immediately preceding 7 September 2018, under the General Mandate in order to satisfy the Awards granted to the Grantees pursuant to the Scheme Rules as incentives for their contributions to the Group.

As approved by the Shareholders at the annual general meeting held on 4 May 2018, the Company can allot and issue up to a total of 2,576,201,565 Shares under the General Mandate. Accordingly, the new shares were allotted and issued by utilizing part of the General Mandate. After completion of issue and allotment of the new shares, the remaining balance of the General Mandate stood at 2,024,679,165 Shares.

Upon the allotment and issue of the new shares, Computershare Hong Kong Trustee Limited ("the Trustee") held the new shares on trust for the Grantees, which were transferred to the Grantees at no cost upon satisfaction of the abovementioned vesting conditions. Accordingly, no funds were raised from the issue of the new shares.

The new shares allotted and issued by the Company to the Trustee represent (i) approximately 4.28% of the total issued share capital of the Company as at 7 September 2018; and (ii) approximately 4.10% of the total issued share capital of the Company as enlarged by such allotment and issue. The new shares, when issued and allotted, shall rank pari passu among themselves and with the fully paid Shares in issue. Pursuant to the Scheme Rules, the Trustee shall not exercise any voting rights and powers in respect of any Shares held under the Trust.

Please refer to the Company's announcement dated 7 September 2018 for further information.

Financial Resources and Liquidity

As at 31 December 2018, the Company had cash and cash equivalents of approximately HK$490,420,000 (2017: HK$314,270,000).

As at 31 December 2018, the Company had no bank borrowings (2017: HK$ Nil).

As at 31 December 2018, the total current assets over the total current liabilities was 0.98 times (2017: 3 times).

Capital Commitments and Contingent liability

Capital commitments as at 31 December 2018 amounted to HK$18 million were mainly related to the purchase of property, plant and equipment. Details of contingent liability of the Group are set out in note 21 to this announcement.

Gearing ratio

The gearing ratio is measured by total debt as a percentage of total assets. As at 31 December 2018, the ratio of all debt to total assets was 0 (2017: 0).

Foreign Exchange Exposure

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

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

Intellectual Property

As at 31 December 2018, the Group had 261 trademarks (2017: 34) registered of which all trademarks have been approved. At the same time, the Group had 75 software copyrights (2017: 50) and 17 patents (2017: 6), 15 of which are in the review stage.

Employees

As at 31 December 2018, the Group has approximately 2,206 employees (2017: 239). Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus, employee share options and Share Award Scheme. The Directors believe that good quality of its employees is a company asset which affects growth and improves profitability. The Group recognizes the importance of staff training and thus regularly provides internal and external training for its staff to enhance their skills and knowledge.

Litigation

As at 31 December 2018, the Group has no material outstanding litigation.

Future Business Strategies

The e-commerce SaaS of China Youzan has been commercialized and is slowly entering into its maturing stage. To cope with its market development, we hope to serve a wider range of users, and expand from single merchant service to the entire industry ecosystem. This is a brand new challenge for our services, so China Youzan will embrace these challenges with the tenet of being efficient, open and win-win.

Currently, the development of consumption and retail industry is undergoing the stage of transformation from automation to informatization, and from Internet-based to intelligence-based. We will treasure the application of technology by merchants, and assist merchants to actively seeking technical support on the businesses side so as to reduce costs and increase efficiency. We will actively explore the value and support of combining the business, so as to constantly renew our business model. Looking back to 2018, the new consumption and retail market had changed from online and offline competition to hand-in-hand integration. This kind of hand-in-hand integration is resulted from: i) merchants' lack of competitive advantage of single-channel management; or ii) merchants' lack of relevant information, so that they can only operate their business by following the market trend. Many merchants go from online to offline and face a lot of problems in terms of offline business model and capability. However, offline merchants hope to be internet-oriented and form connections, and they also encounter many operational problems.

Product innovation, consumption upgrading, physical store growth and e-commerce development are still the main driving forces to maintain the vitality and growth of the consumption and retail market. In light of this, we hope to link up online stores and physical stores to enable traditional retail embracing Internet and online retail embracing physical stores, and at the same time achieve the comprehensive upgrading in business content, scope and customers of stores. An online connection will be established when customers shop at the merchant stores. It will expand the commodity varieties of merchants, and achieve synchronous sales at online stores and physical stores, so as to connect commodities, inventory, orders, members, stored-value and funds for unified management. Finally, we hope to unify merchants' stores, so that they can read and retreive real-time online data, with full improvement in the overall operating efficiency. Therefore, promoting e-commerce SaaS will become one of our future strategic priorities.

CORPORATE GOVERNANCE PRACTICES

The Board hereby presents the Corporate Governance Report in the Company's annual report for the year ended 31 December 2018.

The Company is committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. The Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code ("Code") in Appendix 15 to the GEM Listing Rules. The Company complied with the Code for the year ended 31 December 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Group adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Company's specific enquiry, each director had confirmed that during the year ended 31 December 2018, they had fully complied with the required standard of dealings and there was no event of non-compliance.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Board is committed to providing clear and full information about the Company's performance to shareholders through the publication of quarterly reports and annual reports. In addition to dispatching circulars, notices and financial reports to shareholders, additional information is also available to shareholders on the websites of the Stock Exchange and the Company, which is updated regularly. The annual general meeting provides a useful forum for shareholders to raise comments and exchange views with the Board. Shareholders are encouraged to attend annual general meetings for which the Company gives at least 21 business days' notice as stipulated in the Company bye-laws. The Chairman, Directors and external auditors are available to answer questions on the Company's businesses at the meeting. The Company values feedback from shareholders on its effort to promote transparencies and foster investor relationships.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the standards of good practice concerning the general management responsibilities of the Board of Directors as set out in Chapter 5 of the GEM Listing Rules throughout year ended 31 December 2018.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. The current Committee is chaired by Dr. Fong Chi Wah, and the other Audit Committee members are Mr. Gu Jiawang and Mr. Deng Tao. Under its terms of reference for audit committee passed under a directors' resolution dated 30 June 2005, is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements and to monitor compliance with statutory and listing requirements, to engage independent legal or other advisers as it determines is necessary and to perform any investigations. The Audit Committee members held four meetings in 2018.

AUDITORS

At the Company's last Annual General Meeting, RSM Hong Kong was re-appointed as auditor of the Company.

RSM Hong Kong retires, and, being eligible, offers themselves for re-appointment. A resolution for the re-appointment of RSM Hong Kong will be put at the forthcoming Annual General Meeting.

By Order of the Board
China Youzan Limited
Guan Guisen
Chairman

Hong Kong, 26 March 2019

As at the date of this announcement, the Board comprises seven executive Directors, Mr. Guan Guisen, Mr. Cao Chunmeng, Mr. Yan Xiaotian, Mr. Zhu Ning, Mr. Cui Yusong, Mr. Yu Tao and Ms. Ying Hangyan; and four independent non-executive Directors, Dr. Fong Chi Wah, Mr. Gu Jiawang, Mr. Xu Yanqing and Mr. Deng Tao.

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting and on the Company's website at www.chinayouzan.com.