
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in China Youzan Limited (the “Company”), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 circular misleading.



China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

**(1) CONTINUING CONNECTED TRANSACTION – LOAN AGREEMENT;
(2) PROPOSED ADOPTION OF NEW SHARE OPTION SCHEME;
AND
(3) NOTICE OF SGM**

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages IBC-1 to IBC-2 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-18 of this circular.

A notice convening the SGM to be held at 24/F., Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong at 10:00 a.m. on Wednesday, 12 June 2019 is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is also enclosed. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to Computershare Hong Kong Investor Services Limited, the share registrar of the Company in Hong Kong, at 17M/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no less than 48 hours before the time schedule for holding the SGM (i.e. no later than 10:00 a.m. on Monday, 10 June 2019). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM (or any adjournment thereof) in person if you so wish. This circular will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and on the Company’s website at www.chinayouzan.com.

21 May 2019

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

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

“Board”	the board of Directors
“Business Day(s)”	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are open for the transaction of normal business
“Company”	China Youzan Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the GEM
“Connected Person”	has the same meaning ascribed to it in the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“Eligible Participant(s)”	has the meaning ascribed to it in Appendix I to this circular
“Exercise Price”	means the price per Share, at which a Grantee may subscribe for the Shares on the exercise of an Option
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“Grantee”	means any Eligible Participant who accepts the offer of the grant of an Option in accordance with the provisions of the New Share Option Scheme
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board, comprising Dr. Fong Chi Wah, Mr. Gu Jiawang, Mr. Xu Yanqing and Mr. Deng Tao, each an independent non-executive Director
“Independent Financial Adviser”	Advent Corporate Finance Limited, a corporation licensed to carry out Type 6 regulated activity under the SFO which has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the Loan Agreement and the transactions contemplated thereunder; and (ii) the proposed annual caps in respect of the transactions contemplated under the Loan Agreement
“Independent Third Parties”	person(s) or company(s) who/which is/are not connected with the directors, chief executive or substantial shareholders (as defined under the GEM Listing Rules) of the Company and its subsidiaries or any of their respective associates
“Independent Shareholders”	the Shareholders other than Whitecrow Investment Ltd. and its associates and those Shareholders who have material interest in the Loan Agreement
“Latest Practicable Date”	17 May 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Loan Agreement”	the loan agreement entered into between the Company and Youzan on 27 April 2019
“Loan Effective Date”	the date when the Loan Agreement shall take effect immediately after the satisfaction of the conditions precedent thereunder
“New Share Option Scheme”	means the share option scheme proposed to be adopted by the Company at the SGM, a summary of the principal terms of which is set out in Appendix I to this circular

DEFINITIONS

“Option”	means an option to subscribe for Shares that may be granted pursuant to the New Share Option Scheme
“Option Period”	means in respect of any particular Option, the period commencing immediately after the Business Day on which the Option is deemed to be offered to grant and accepted in accordance with the New Share Option Scheme and expiring on a date to be determined and notified by the Board to such Grantee within the period during which the Option may be exercisable provided that such period shall not exceed the period of ten (10) years from the date of grant of the Option
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Previous Loan Agreement”	the loan agreement entered into between the Company and Youzan on 8 April 2017 (as supplemented by a supplemental agreement dated 29 November 2017)
“Previous Share Option Scheme”	means the previous share option scheme adopted by the Company pursuant to an ordinary resolution of the Shareholders passed on 3 May 2012 and expired on 2 May 2017
“Prime Rate”	Hone Kong dollar prime rate as quoted by the Hongkong and Shanghai Banking Corporation Limited
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	a special general meeting of the Company to be convened on 12 June 2019 at 10:00 a.m. to approve (i) the Loan Agreement and the transactions contemplated thereunder; (ii) the proposed annual caps in respect of the transactions contemplated under the Loan Agreement; and (iii) proposed adoption of the New Share Option Scheme

DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Youzan”	Qima Holdings Ltd., a company incorporated in the Cayman Islands with limited liability
“Youzan Group”	Youzan and its subsidiaries
“%”	per cent

LETTER FROM THE BOARD



China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

Executive Directors:

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

Independent non-executive Directors:

Fong Chi Wah
Gu Jiawang
Xu Yanqing
Deng Tao

Registered office:

Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

Principal place of business

and head office in Hong Kong:
Unit 2708, 27/F
The Center
99 Queen's Road Central
Hong Kong

21 May 2019

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION – LOAN AGREEMENT;
AND
(2) PROPOSED ADOPTION OF NEW SHARE OPTION SCHEME**

INTRODUCTION

Reference is also made to the Company's announcement dated 29 April 2019 in which it was mentioned that the Loan Agreement and its proposed annual caps are subject to Independent Shareholders' approval pursuant to the requirements under Chapter 20 of the GEM Listing Rules.

LETTER FROM THE BOARD

Further, the Company also proposed to put forward the proposed adoption of the New Share Option Scheme in the SGM for the Shareholder's consideration.

The purpose of this circular is to provide the Shareholders with, among other matters, (i) further information on the Loan Agreement; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in connection with the Loan Agreement; (iii) a letter of advice from the Independent Financial Adviser to both the Independent Board Committee and the Independent Shareholders in connection with the Loan Agreement and the proposed annual caps in respect of the transactions contemplated under the Loan Agreement; (iv) the details of the proposed adoption of the New Share Option Scheme (v) the notice convening the SGM; and (vi) other information as required under the GEM Listing Rules.

I. LOAN AGREEMENT

On 8 April 2017, the Company entered into the Previous Loan Agreement with Youzan, pursuant to which the Company has conditionally agreed to grant to Youzan an unsecured loan facility up to HK\$200,000,000 (inclusive of the principal loan amount and interest) and subject to the terms and conditions set out therein. On 29 November 2017, the Company entered into a supplemental agreement with Youzan to supplement the Previous Loan Agreement.

On 27 April 2019, the Company entered into the Loan Agreement with Youzan, pursuant to which the Company has conditionally agreed to grant to Youzan an unsecured loan facility up to HK\$900,000,000 (inclusive of the principal loan amount and interest) which supersedes the Previous Loan Agreement and subject to the terms and conditions set out therein.

Major terms

The principal terms of the Loan Agreement are as follows:

Date	27 April 2019
Lender	The Company
Borrower	Youzan
Loan amount	Not exceeding HK\$900,000,000 at any time, inclusive of the principal loan amount and interest
Terms	From the Loan Effective Date until 31 December 2021

LETTER FROM THE BOARD

Interest rate	Youzan shall pay interest on any outstanding principal of the loan at the interest rate of 2% per annum above the Prime Rate from time to time, which shall be calculated and charged on a monthly basis. Such interest rate was arrived after arms' length negotiation with reference to the interest rate under the Previous Loan Agreement.
Repayment terms	Youzan shall fully repay any outstanding principal and any accrued but unpaid interest and any other monies due under the Loan Agreement on the expiry of the term of the Loan Agreement.
Conditions precedent	The commencement of the Loan Agreement is conditional upon fulfillment of (i) the obtaining of the approval from the Independent Shareholders by the Company in relation to the transactions contemplated under the Loan Agreement in accordance with the GEM Listing Rules; and (ii) the approval from the board of directors of Youzan in relation to the Loan Agreement and the transactions contemplated thereunder.
Other terms	The Company has sole discretion to refuse to advance any part of the loan if the Company is not satisfied with the use of the loan specified in the executed notice of drawdown by Youzan.

Reasons for and benefits of entering into the Loan Agreement

The Group mainly focuses on offering online and offline merchants suites of comprehensive solutions comprising third-party payments and variety of SaaS (Software as a Service) products and comprehensive service through its e-commerce platform, like marketing and customer engagement tools to facilitate the process of transactions between merchants and their customers.

LETTER FROM THE BOARD

Youzan is an investment holding company which indirectly holds the entire issued share capital of Hangzhou Youzan Technology Co., Ltd., which is principally engaged in the e-commerce applications related business in the PRC. Youzan is a non wholly-owned subsidiary of the Company which is owned as to 51.48% by the Company. To the best knowledge of the Directors having made reasonable enquiry, as at the Latest Practicable Date, the remaining 48.52% interest in Youzan is held by: (i) Whitecrow Investment Limited, whose ultimate shareholder is Mr. Zhu Ning, as to approximately 11.09%; (ii) V5. Cui Investment Ltd., whose ultimate shareholder is Mr. Cui Yusong, as to approximately 1.86%; (iii) Youzan Teamwork Inc., which is held by Mr. Zhu Ning, Mr. Huang Rongrong (a director of Youzan), Mr. Yu Tao and Ms. Ying Hangyan as to 40%, 40%, 10% and 10% respectively, as to approximately 4.76%; (iv) Xincheng Investment Limited, whose ultimate shareholder is Li Zhiguo (a director of Youzan) as to approximately 2.45%; (v) Rory Huang Investment Ltd., which is held by Mr. Huang Rongrong, as to 0.38%; (vi) Qima Teamwork Inc., which is held by Mr. Zhu Ning, as to approximately 5.57%; (vii) Aves Capital, LLC which is wholly owned by Mr. Xiong Minghua (an Independent Third Party), as to approximately 1.55%; (viii) Hillhouse KDWD Holdings Limited whose beneficial owner is Hillhouse Fund II, L.P. as to approximately 5.39%; (ix) E&A Amigne Investments Limited, which is wholly owned by Vipshop Holdings Limited (a company listed on the New York Stock Exchange), as to approximately 2.59%; (x) Ralston Global Holdings Limited, which is wholly owned by Ms. Wen Qun (an Independent Third Party), as to approximately 0.60%; (xi) Hangzhou San Ren Yan Xing Investment Partnership whose beneficial owner is Mr. Cao Guoxiong (an Independent Third Party) as to approximately 0.60%; (xii) Franchise Fund Limited, a discretarily-managed fund managed by Franchise Capital Limited, as to approximately 1.75%; (xiii) Happy Zan Holdings Limited which is ultimately controlled by Mr. Wang Haining (an Independent Third Party) as to approximately 0.50%; (xiv) Tembusu HZ II Limited whose beneficial owner is Matrix Chuangda (Hangzhou) Venture Investment Limited Partnership (經緯創達(杭州)創業投資合夥企業(有限合夥)) as to approximately 6.42%; (xv) Matrix Partners China III, L.P. whose beneficial owner is Matrix China Management III, L.P. as to approximately 2.71%; and (xvi) Matrix Partners China III-A, L.P. whose beneficial owner is Matrix China Management III, L.P. as to approximately 0.30%.

As disclosed in the Company's announcement dated 2 April 2019, the Company recently raised the net proceeds of approximately HK\$910 million from the issue of the new Shares of the Company. It is intended that the Company will use part of such proceeds in the sum of approximately HK\$792 million to the business development of Youzan Group.

To facilitate Youzan's business expansion, which includes product development, marketing and the promotion of advertising services, the Company expects that a HK\$900 million annual cap for the Loan Agreement is appropriate, after considering (i) the aforementioned HK\$792 million proceeds raised from the issue of new Shares (the "**Subscription**") and (ii) the US\$25 million (equivalent to approximately HK\$195 million) advanced to Youzan under the Previous Loan Agreement, of which US\$15 million (equivalent to approximately HK\$117 million) was raised from the Subscription.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors whose views have been set out in this circular after taking into consideration the advice for the Independent Financial Adviser) are of the view that the Loan Agreement has been entered into after arm's length negotiations on normal commercial terms and the terms thereof are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Proposed annual cap amounts for the Loan Agreement

The maximum amount of the loan provided by the Company to Youzan under the Previous Loan Agreement from 1 January 2019 to the Latest Practicable Date is US\$25 million (equivalent to approximately HK\$195 million).

The proposed annual caps in respect of the transactions contemplated under the Loan Agreement for each of the three years ended 31 December 2021 is HK\$900 million, HK\$900 million and HK\$900 million respectively.

The abovementioned annual caps are determined with reference to, among others, the current business plan of Youzan Group.

Internal Control Measures

The Company has established the following internal control measures in relation to the Loan Agreement:

- (i) Designated personnel from finance department will perform regular check to review and assess whether the loan is provided in accordance with the terms and conditions of the Loan Agreement;
- (ii) The audit committee will review the report prepared by the management of the Company based on the continuing connected transactions conducted at least twice a year; and
- (iii) The independent non-executive Directors and external auditors will review and report on the continuing connected transactions pursuant to Rule 20.53 and 20.54 of the GEM Listing Rules.

LETTER FROM THE BOARD

The GEM Listing Rules Implication

Youzan is a non wholly-owned subsidiary of the Company which is owned as to 51.48% by the Company. Whitecrow Investment Ltd. (together with its associates) is a substantial shareholder of the Company and it holds more than 10% in Youzan as at the Latest Practicable Date. Therefore, Youzan is a connected subsidiary and connected person of the Company under Rule 20.07(5) of the GEM Listing Rules.

In respect of the proposed annual caps under the Loan Agreement, as one or more applicable percentage ratio(s) (as defined in Rule 19.07 of the GEM Listing Rules) (other than the profits ratio) with respect to the transactions contemplated under the Loan Agreement is more than 25% and the annual caps in respect of the transactions contemplated under the Loan Agreement are expected to be more than HK\$10,000,000, the transactions contemplated under each of the Loan Agreement will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Save for Mr. Zhu Ning (the ultimate shareholder of Whitecrow Investment Ltd.), Mr. Cui Yusong (who is interested in approximately 1.86% in Youzan through V5. Cui Investment Ltd.), Mr. Yu Tao (who holds 10% interest in Youzan Teamwork Inc. which in turn holds 4.76% interest in Youzan) and Ms. Ying Hangyan (who holds 10% interest in Youzan Teamwork Inc. which in turn holds 4.76% interest in Youzan), none of the Directors have a material interest in the transactions contemplated under the Loan Agreement and the annual caps in relation thereto and therefore, save for Mr. Zhu Ning, Mr. Cui Yusong, Mr. Yu Tao and Ms. Ying Hangyan, none of the Directors have abstained from voting on the board resolution approving the Loan Agreement.

II. PROPOSED ADOPTION OF NEW SHARE OPTION SCHEME

The Previous Share Option Scheme was adopted by the Company pursuant to an ordinary resolution of the Shareholders passed on 3 May 2012 and expired on 2 May 2017. As at the Latest Practicable Date, there were options to subscribe for 162,000,000 Shares under the Previous Share Option Scheme remained outstanding.

LETTER FROM THE BOARD

Details of such outstanding options as at the Latest Practicable Date were as follows:

Date of grant	Grantees	Exercise period	Exercise price	Number of outstanding options
11 June 2015	Cao Chunmeng	1 February 2016 to 10 June 2020	HK\$1.25	40,000,000
11 June 2015	Yan Xiaotian	1 February 2016 to 10 June 2020	HK\$1.25	25,000,000
11 June 2015	Zhang Benqing	1 February 2016 to 10 June 2020	HK\$1.25	23,000,000
11 June 2015	Guan Guangzhi	1 February 2016 to 10 June 2020	HK\$1.25	3,500,000
11 June 2015	Xing Feng	1 February 2016 to 10 June 2020	HK\$1.25	22,000,000
11 June 2015	Jiang Lei	1 February 2016 to 10 June 2020	HK\$1.25	22,000,000
11 June 2015	Han Xia	1 February 2016 to 10 June 2020	HK\$1.25	1,000,000
11 June 2015	Xie Boying	1 February 2016 to 10 June 2020	HK\$1.25	1,200,000
11 June 2015	Lam Shuk Ling	1 February 2016 to 10 June 2020	HK\$1.25	5,000,000
11 June 2015	Fung Kwok Leung	1 February 2016 to 10 June 2020	HK\$1.25	3,000,000
11 June 2015	Fung Ho Yin	1 February 2016 to 10 June 2020	HK\$1.25	2,000,000
11 June 2015	Fong Chi Wah	1 February 2016 to 10 June 2020	HK\$1.25	3,000,000
11 June 2015	Gu Jiawang	1 February 2016 to 10 June 2020	HK\$1.25	3,000,000
11 June 2015	Sun Jiangning	1 February 2016 to 10 June 2020	HK\$1.25	6,000,000
11 June 2015	Shang Zhiqiang	1 February 2016 to 10 June 2020	HK\$1.25	1,000,000
11 June 2015	Wu Xuhong	1 February 2016 to 10 June 2020	HK\$1.25	1,000,000
11 June 2015	Chen Xiaoxiao	1 February 2016 to 10 June 2020	HK\$1.25	100,000
11 June 2015	Yan Yun	1 February 2016 to 10 June 2020	HK\$1.25	200,000
			Total	<u>162,000,000</u>

LETTER FROM THE BOARD

The Company does not maintain any other share option scheme as at the Latest Practicable Date. In view of such, the Directors consider that it is appropriate to adopt the New Share Option Scheme. The purpose of the New Share Option Scheme is to enable the Company to grant Options to the Eligible Participants as incentive or rewards for their contributions to the Group. The principal terms of the New Share Option Scheme are set out in Appendix I to this circular.

The Board considers that the New Share Option Scheme will facilitate the retention and the recruitment of high-calibre staff of the Group and it is the interests of the Group as a whole for the directors, executives, officers or employees and the support from professionals, consultants, agents, advisers, service providers, business associates and partners to be given incentives to participate in the growth of the Group in the form of share options to subscribe for Shares. Furthermore, the Board considers that the Eligible Participants will share common interests and objectives with the Group upon their exercise of the Options, which is beneficial to the development of the Group.

The adoption of the New Share Option Scheme is conditional upon:

- (1) the passing of the necessary resolution(s) of the Shareholders to approve and adopt the provisions of the New Share Option Scheme; and
- (2) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares falling to be issued pursuant to the exercise of the Options under the New Share Option Scheme.

The maximum number of Shares which may be allotted and issued upon exercise of all outstanding Options granted under the New Share Option Scheme and any other share option scheme(s) of the Company may represent up to 10% of the Shares in issue on the date of approval of the New Share Option Scheme by the Shareholders at the SGM (the “**Scheme Mandate Limit**”), which maximum number may however be refreshed as detailed in paragraph (3) of Appendix I to this circular.

The New Share Option Scheme does not contain any specific requirements for the minimum period which an Option must be held before exercise or for performance targets applicable to the Options. The Directors have retained the flexibility to impose such conditions as and when they consider appropriate.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the issued share capital of the Company is 15,465,807,617 Shares. Assuming that prior to the SGM, no Shares are issued or repurchased by the Company, the Scheme Mandate Limit will be 1,546,580,761 Shares, representing 10% of the Shares in issue as at the date of the passing of the ordinary resolution. There are Options to subscribe for up to 1,546,580,761 Shares available to be granted by the Directors under the New Share Option Scheme. No Director is a trustee of the New Share Option Scheme or has a direct or indirect interest in such trustee. As at the Latest Practicable Date, having made all reasonable enquiries, the Company was not aware of any Shareholder who is required under the GEM Listing Rules to abstain from voting on the resolution to be proposed at the SGM to approve the adoption of the New Share Option Scheme.

The Directors have considered and agreed that the New Share Option Scheme would enable the Company to offer such employees and personnel Options to acquire equity interest in the Company as a reward and additional incentive for their contribution to the long term success of the business of the Company.

The Directors consider that it is not appropriate to state the value of all the Options that can be granted under the New Share Option Scheme as if they had been granted on the Latest Practicable Date prior to the approval of the New Share Option Scheme given that the variables which are critical for the calculation of the value of such Options cannot be determined. These variables include the subscription price payable for Shares upon the exercise of subscription rights attaching to the Options, whether or not Options will be granted under the New Share Option Scheme and the timing of the granting of such Options, the period during which the subscription rights may be exercised, the discretion of the Board to impose any performance target that has to be achieved before the subscription rights attaching to the Options can be exercised and any other conditions that the Board may impose with respect to the Options and whether or not such Options, if granted, will be exercised. The subscription price payable for the Shares depends on the price of the Shares as quoted on the Stock Exchange, which in turn depends on when the Board is to grant Options under the New Share Option Scheme. With a scheme life of ten years, the Board is of the view that it is too premature to state whether or not Options will be granted under the New Share Option Scheme and, if so, the number of Options that may be granted. It is also difficult to ascertain with accuracy the subscription price of the Shares given the volatility to which the price of the Shares may be subject during the ten year life span of the New Share Option Scheme. In the premises, the Directors are of the view that the value of the Options depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions. Accordingly, the Directors believe that any calculation of the value of the Options will not be meaningful and may be misleading to the Shareholders in the circumstances.

LETTER FROM THE BOARD

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of any Options to be granted under the New Share Option Scheme.

Copy of the rules of the New Share Option Scheme will be available for inspection at the Company's principal place of business in Hong Kong at Unit 2708, 27/F., The Center, 99 Queen's Road Central, Hong Kong from 9:00 a.m. to 5:00 p.m. on any weekday (Saturdays and public holidays excepted) for the period from the date of this circular until the date of the SGM.

III. SGM

Any Shareholder with a material interest in the resolutions shall not vote for the relevant resolutions. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, (i) Whitecrow Investment Ltd. held 1,440,601,703 Shares; (ii) V5. Cui Investment Ltd. held 241,885,127 Shares; (iii) Youzan Teamwork Inc. held 363,170,101 Shares; (iv) Xincheng Investment Limited, which holds 2.45% interest in Youzan, held 370,607,335 Shares; and (v) Rory Huang Investment Ltd., which holds 0.38% in Youzan, held 407,543,167 Shares, are required to abstain from voting on the relevant resolutions in relation to the Loan Agreement and the annual caps in relation thereto at the SGM; and (ii) no Shareholders are required to abstain from voting on the resolution in relation to the proposed adoption of the New Share Option Scheme.

A notice of convening the SGM to be held at 24/F., Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong at 10:00 a.m. on Wednesday, 12 June 2019 is set out on page SGM-1 to SGM-3 of this circular. Ordinary resolutions will be proposed at the SGM to consider and if thought fit, approving the resolution(s) in respect of, among others, (i) the Loan Agreement and the transactions contemplated thereunder; (ii) the proposed annual caps in respect of the transactions contemplated under the Loan Agreement and (iii) the proposed adoption of the New Share Option Scheme.

The Company has established the Independent Board Committee comprising Dr. Fong Chi Wah, Mr. Xu Yanqing, Mr. Gu Jiawang and Mr. Deng Tao, each an independent non-executive Director, to advise the Independent Shareholders in relation to the Loan Agreement and the proposed annual caps thereto, and to make recommendation to the Independent Shareholders on their voting on the proposed resolutions. Advent Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

LETTER FROM THE BOARD

Whether or not you intend to attend the SGM in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited, the share registrar of the Company in Hong Kong, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no less than 48 hours before the time schedule for holding the SGM (i.e. no later than 10:00 a.m. on Monday, 10 June 2019). Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

IV. RECOMMENDATION

Your attention is drawn to the letter of the Independent Board Committee set out on pages IBC-1 to IBC-2 of this circular. Your attention is also drawn to the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement set out on pages IFA-1 to IFA-18 of this circular.

The Board (other than the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" to this circular) considers that the Loan Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (other than the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" to this circular) recommend the Independent Shareholders to vote in favour of the resolutions to be proposed as set out in the notice of the SGM.

The Board also considers that the proposed adoption of the New Share Option Scheme is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions regarding the proposed adoption of the New Share Option Scheme to be proposed as set out in the notice of the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
China Youzan Limited
Guan Guisen
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

CONTINUING CONNECTED TRANSACTION – LOAN AGREEMENT

21 May 2019

To the Shareholders

Dear Sir or Madam,

We refer to the circular issued by the Company to the Shareholders dated 21 May 2019 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you as to whether the Loan Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Advent Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect thereof. We wish to draw your attention to the “Letter from the Board” and the “Letter from the Independent Financial Adviser” set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser set out in its letter of advice, we consider that the terms of the Loan Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We also consider that the terms of the Loan Agreement are on normal commercial terms and that they were entered into in the ordinary and usual course of business of the Company. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Loan Agreement to be proposed as set out in the notice of the SGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Dr. Fong Chi Wah	Mr. Xu Yanqing	Mr. Gu Jiawang	Mr. Deng Tao
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Advent Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which have been prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement.

ADVENT
宏 智 融 資

21 May 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs and Madams,

CONTINUING CONNECTED TRANSACTIONS LOAN AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company dated 21 May 2019 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcements of the Company dated 8 April 2017, 29 November 2017 and 26 January 2018 and the circular of the Company dated 2 January 2018 in relation to, among others, the Previous Loan Agreement (collectively “**Announcements and Circular of the Previous Loan Agreement**”). As disclosed in the announcement of the Company dated 2 April 2019 and according to the Letter from the Board, the Company recently raised the net proceeds of approximately HK\$910 million from the issue of new Shares, it is intended that the Company will use part of such proceeds in the sum of approximately HK\$792 million to the business development of Youzan Group. As such, on 27 April 2019, the Company and Youzan entered into the Loan Agreement, pursuant to which the Company has conditionally agreed to grant to Youzan an unsecured loan facility up to HK\$900 million (inclusive of the principal loan amount and interest) which supersedes the Previous Loan Agreement and subject to the terms and conditions set out therein.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Youzan is a non wholly-owned subsidiary of the Company which is owned as to 51.48% by the Company. Whitecrow Investment Ltd. (together with its associates) is a substantial shareholder of the Company and it holds more than 10% interest in Youzan as at the Latest Practicable Date. Therefore, Youzan is a connected subsidiary and connected person of the Company under Rule 20.07(5) of the GEM Listing Rules.

In respect of the proposed annual caps under the Loan Agreement, as one or more applicable percentage ratio(s) (as defined in Rule 19.07 of the GEM Listing Rules) (other than the profits ratio) with respect to the transactions contemplated under the Loan Agreement is more than 25% and the annual caps in respect of the transactions contemplated under the Loan Agreement are expected to be more than HK\$10,000,000, the transactions contemplated under the Loan Agreement will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Any Shareholder with a material interest in the resolutions shall not vote for the relevant resolutions. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, (i) Whitecrow Investment Ltd. held 1,440,601,703 Shares; (ii) V5. Cui Investment Ltd. held 241,885,127 Shares; (iii) Youzan Teamwork Inc. held 363,170,101 Shares; (iv) Xincheng Investment Limited, which holds 2.45% interest in Youzan, held 370,607,335 Shares; and (v) Rory Huang Investment Ltd., which holds 0.38% interest in Youzan, held 407,543,167 Shares, are required to abstain from voting on the relevant resolutions in relation to the Loan Agreement and the annual caps in relation thereto at the SGM.

The Company has established the Independent Board Committee comprising Dr. Fong Chi Wah, Mr. Xu Yanqing, Mr. Gu Jiawang and Mr. Deng Tao, each an independent non-executive Director, to advise the Independent Shareholders in relation to the Loan Agreement and the proposed annual caps thereto, and to make recommendation to the Independent Shareholders on their voting on the proposed resolutions. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

As at the Latest Practicable Date, we, Advent Corporate Finance Limited, were not aware of any relationships or interests between us and (i) the Company; (ii) Whitecrow Investment Ltd.; (iii) Youzan Group and (iv) any other parties that could be reasonably regarded as a hindrance to our independence as defined under Rule 17.96 of the GEM Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Loan Agreement. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exist whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on (i) the information contained or referred to in the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”); (ii) the Announcements and Circular of the Previous Loan Agreement; (iii) the Circular and the Loan Agreement; (iv) certain published information of the Company; (v) the information provided by the Company; (vi) the opinions expressed by and the representations of the Directors and management of the Group; (vii) the opinions expressed by and the representations of the management of Youzan Group; and (viii) certain relevant public information, and have assumed that all such information and facts provided and any opinions and representations made to us are true, accurate and complete in all material aspects at the time they were made and as up to the date of the SGM. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in Circular and that all information or representations provided to us by the Directors and the management of the Group were reasonably made after due and careful enquiry and are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the SGM. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the completeness, truth or accuracy of the information and facts provided. We have not, however, conducted any investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied. The Company will notify the Shareholders of any material changes as soon as practicable, if any.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the Loan Agreement, we have taken into account the following principal factors and reasons:

1. Information on the Group

1.1. Business of the Group

The Company was incorporated in the Bermuda and its Shares was listed on GEM of the Stock Exchange in 2000. The Group mainly operates its business across the PRC and offers online and offline merchants suites of comprehensive solutions comprising third-party payments and variety of SaaS products and comprehensive service through its e-commerce platform, like marketing and customer engagement tools to facilitate the process of transactions between merchants and their customers. The Group's operation consists of four operating segments, namely (i) merchant service; (ii) third-party payment services; (iii) Onecomm; and (iv) general trading.

Following the completion of acquisition of Youzan in April 2018, the Group has evolved to provide comprehensive and all-round e-commerce platform, which mainly includes e-commerce "Software as a Service" ("SaaS"), store SaaS, distribution service, advertising service, value-added service and "Platform as a Service" ("PaaS") cloud service, and they constitute the Group's merchant service sector.

1.2. Financial Information of the Group

Set out below is certain financial information as extracted from the 2018 Annual Report for the two years ended 31 December 2018:

	For the year ended 31 December		
	2018	2017	Change
	HK\$'000	HK\$'000	(approximately)
	(audited)	(audited)	
Revenue	684,459	207,856	229.3%
Gross profit	230,978	26,102	784.9%
Gross profit margin	33.7%	12.6%	–
Loss for the year	<u>(839,444)</u>	<u>(135,094)</u>	<u>(521.4%)</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As depicted from the table above, the Group recorded revenue of approximately HK\$684.5 million for the year ended 31 December 2018 (the “FY2018”), representing a significant increase of approximately 229.3% as compared to that for the year ended 31 December 2017 (the “FY2017”). The Group recorded gross profit of approximately HK\$231.0 million for FY2018, representing a significant increase of approximately 784.9% as compared to that for FY2017.

After the completion of the acquisition of Youzan Group in April 2018, the merchant service segment was added into the principal operation of the Group in addition to the original third-party payment service segment. During FY2018, the Group’s revenue was approximately HK\$684.5 million, of which the revenue from the newly added merchant service segment was approximately HK\$503.4 million, representing approximately 73.5% of the total revenue of the Group. During FY2018, the revenue from the third-party payment service segment was approximately HK\$153.6 million, accounting for approximately 22.5% of the total revenue of the Group and representing an increase of approximately HK\$16.5 million or approximately 12.0% as compared with approximately HK\$137.1 million in FY2017. Such increase was primarily attributable to the expansion of the existing third-party payment service and the increase in business brought by the acquisition of Youzan Group.

The Group recorded a gross profit of approximately HK\$231.0 million for FY2018, representing an increase of approximately 784.9% as compared with that for FY2017. 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 Youzan Group. The gross profit margin of the Group increased from approximately 12.6% for FY2017 to approximately 33.7% for FY2018. The increase in gross profit margin was mainly contributable to the newly added merchant service segment.

The Group recorded loss amounting to approximately HK\$839.4 million for FY2018, representing an increase in loss of approximately 521.4% as compared to that for FY2017, mainly due to the increase in selling and distribution expenses, administrative expenses, intangible assets amortization and other operating expenses since the acquisition of Youzan Group, as well as the granting of awarded shares under share award scheme. Of the above losses, approximately HK\$56.6 million was from goodwill impairment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 December 2018, the total consolidated asset of the Group amounted to approximately HK\$7,610.6 million, representing an increase of approximately 446.5% as compared to that of approximately HK\$1,392.5 million for FY2017. The total consolidated liability of the Group amounted to approximately HK\$3,187.6 million, representing an increase of approximately 1,892.3% as compared to that of approximately HK\$160.0 million for FY2017.

2. Background and major terms of the Loan Agreement

On 8 April 2017, the Company entered into the Previous Loan Agreement with Youzan, pursuant to which the Company has conditionally agreed to grant to Youzan an unsecured loan facility up to HK\$200 million (inclusive of the principal loan amount and interest) and subject to the terms and conditions set out therein. On 29 November 2017, the Company entered into a supplemental agreement with Youzan to supplement the Previous Loan Agreement.

On 27 April 2019, the Company entered into the Loan Agreement with Youzan, pursuant to which the Company has conditionally agreed to grant to Youzan an unsecured loan facility up to HK\$900 million (inclusive of the principal loan amount and interest) which supersedes the Previous Loan Agreement and subject to the terms and conditions set out therein.

The principal terms of the Loan Agreement are as follows:

Date	:	27 April 2019
Lender	:	The Company
Borrower	:	Youzan
Loan amount	:	Not exceeding HK\$900 million at any time, inclusive of the principal loan amount and interest
Term	:	From the Loan Effective Date until 31 December 2021

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Interest rate : Youzan shall pay interest on any outstanding principal of the loan at the interest rate of 2% per annum above the Prime Rate from time to time, which shall be calculated and charged on a monthly basis. Such interest rate was arrived after arm's length negotiation with reference to the interest rate under the Previous Loan Agreement.
- Repayment term : Youzan shall fully repay any outstanding principal and any accrued but unpaid interest and any other monies due under the Loan Agreement on the expiry of the term of the Loan Agreement
- Conditions precedent : The commencement of the Loan Agreement is conditional upon fulfillment of (i) the obtaining of the approval from the Independent Shareholders by the Company in relation to the transactions contemplated under the Loan Agreement in accordance with the GEM Listing Rules; and (ii) the approval from the board of directors of Youzan in relation to the Loan Agreement and the transactions contemplated thereunder
- Other terms : (i) The Company has sole discretion to refuse to advance any part of the loan if the Company is not satisfied with the use of the loan specified in the executed notice of drawdown by Youzan.
- (ii) Any amount repaid may not be reborrowed.

3. Reasons for and benefits of entering into the Loan Agreement

As disclosed in the Letter from the Board, the Group mainly focuses on offering online and offline merchants suites of comprehensive solutions comprising third-party payments and variety of SaaS products and comprehensive service through its e-commerce platform, like marketing and customer engagement tools to facilitate the process of transactions between merchants and their customers. Youzan is an investment holding company which indirectly holds the entire issued share capital of Hangzhou Youzan Technology Co., Ltd., which is principally engaged in the e-commerce applications related business in the PRC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As discussed in the paragraphs headed “Principal Factors and Reasons Considered – 1. Information on the Group” above, the completion of acquisition of Youzan Group (i) added a new principal operation of the Group as merchant service which contributed approximately 73.5% of the total revenue of the Group for FY2018 and (ii) partly contributed to the increase in revenue of the third-party payment service segment for FY2018. According to 2018 Annual Report, the Company holds the view that the businesses of the Company are developing in its expected direction and the businesses of the Company will grow significantly in the coming year.

According to the Letter from the Board, the Company recently raised the net proceeds of approximately HK\$910 million from the issue of new Shares. It is intended that the Company will use part of such proceeds in the sum of approximately HK\$792 million to the business development of Youzan Group, details of which are set out in the announcement of the Company dated 2 April 2019.

To understand the reasons for and benefits of entering into the Loan Agreement, we have discussed with the management of the Youzan Group in relation to the current business plan of Youzan Group. As represented by the management of Youzan Group, Youzan Group intends to use the loan amounts from the Loan Agreement for (i) product development, which includes PaaS and SaaS products as well as cross border payment and settlement platform; (ii) promotion of advertising services, which includes online marketing and advertising channels; and (iii) marketing and channel establishment, which includes promotion of product and services through participating in exhibitions and industry conferences, cooperation with sales agents and carry out marketing activities in certain first-tier cities in the PRC. The target customers of the product development, and marketing and channel establishment of Youzan Group includes education, beauty and retail industry. The Company further confirms that the loan amount under the Previous Loan Agreement were used for the development of SaaS products of, among others, beauty and retail industry as well as marketing and sales promotion, which is in-line with the current business plan of Youzan Group.

Considering the merchant service, which includes SaaS, PaaS products and advertising services, as well as the third-party payment service are the two major business focuses of the Group, we are of the view that the entering into the Loan Agreement and the transactions contemplated thereunder are in the interests of the Company and its Shareholder as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Interest rate and proposed annual caps of the Loan Agreement

(i) Interest rate of the Loan Agreement

Pursuant to the Loan Agreement, Youzan shall pay interest on any outstanding principal of the loan at the interest rate of 2% per annum above the Prime Rate, with the Prime Rate being the Hong Kong dollar prime rate as quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time, which shall be calculated and charged on a monthly basis. Based on our understanding as well as our discussions with the management of the Company, it is a common practice for commercial banks in Hong Kong to charge interest on corporate loans (in Hong Kong Dollars) at rates with references to Hong Kong Interbank Offered Rate or the Prime Rate (best lending rate). In addition, as at the Latest Practicable Date, according to the website of the HongKong and Shanghai Banking Corporation Limited (<https://www.hsbc.com.hk/investments/market-information/hk/lending-rate/>), the current Hong Kong Dollars best lending rate was 5.125%. Accordingly, the interest rate under the Loan Agreement shall be 7.125%.

To assess the fairness of the interest rate, we have conducted research on the website of the Stock Exchange at <http://www.hkexnews.hk> regarding the provision of financial assistance to either independent third parties or connected persons by listed companies in Hong Kong, we noted that there were around 43 such announcements (the “**Interest Rate Comparables**”) dated from to 27 March 2019 to 27 April 2019 (being the one-month period prior to and including the date of the Loan Agreement, the “**Comparable Review Period**”). As far as we are aware of, the Interest Rate Comparables are exhaustive based on our best endeavour basis. Among the Interest Rate Comparables, we noticed that there were three loans dominated in Hong Kong Dollar with the duration of approximately two to three years. The respective interest rates of the three loans were 5.13% 11.4% and 12.0%. As such, the interest rate of 7.125% per annum under the Loan Agreement is within the range charged by other listed companies in Hong Kong and thus is justifiable based on market comparison. Considering the discussions in the paragraph headed “3. Reasons for and benefits of entering into the Loan Agreement” and the market comparison, we are of the opinion that the interest rate of 2% per annum above the Prime Rate is on normal commercial terms and fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The table below set out details of the Interest Rate Comparables:

Company name	Stock code	Amount of financial assistance <i>(Note 1)</i>	Approximate duration (years)	Interest rate per annum	Provided to independent third parties
FY Financial (Shenzhen) Co., Ltd.	8452	RMB20,000,000	1.25	15.00%	Yes
Sustainable Forest Holdings Limited	723	HKD21,000,000	1.25	10.50%	Yes
Superactive Group Company Limited	176	HKD51,000,000	0.25	10.00%	Yes
Global International Credit Group Limited	1669	HKD11,000,000	1	12.00%	Yes
UTS Marketing Solutions Holdings Limited	6113	RM14,000,000	1	10.00%	Yes
<i>(Note 2)</i>					
China Minsheng Financial Holding Corporation Limited	245	HKD50,000,000	1	15.00%	Yes
Easy One Financial Group Limited	221	HKD58,000,000	1	11.53%	Yes
Green Energy Group Limited	979	HKD20,000,000	0.25	15.00%	Yes
Beijing Media Corporation Limited	1000	RMB178,200,000	0.5 to 1	4.75%	<i>(Note 4)</i>
<i>(Note 3)</i>					
Elife Holdings Limited	223	HKD17,350,000	2.07	5.13%	No
PPS International (Holdings) Limited	8201	HKD15,000,000	3	11.40%	Yes
PPS International (Holdings) Limited	8201	HKD25,000,000	1	20.00%	Yes
Huabang Financial Holdings Limited	3638	HKD80,000,000	1	8.00%	Yes
First Credit Finance Group Limited	8215	HKD66,000,000	1	8.50%	Yes
Hang Yick Holdings Company Limited	1894	HKD24,000,000	<i>(Note 5)</i>	<i>(Note 5)</i>	Yes
Asia Pacific Silk Road Investment Company Limited	767	HKD50,000,000	0.5	12.00%	Yes
Kunming Dianchi Water Treatment Co., Ltd.	3768	RMB300,000,000	1	8.50%	Yes
Vantage International (Holdings) Limited	15	HKD120,000,000	0.92	4.60%	Yes
Gome Finance Technology Co., Ltd.	628	RMB750,000,000	2.75	10.80%	No
<i>(Note 6)</i>					
Sun. King Power Electronics Group Limited	580	RMB24,500,000	0.55	8.30%	No
Grandshores Technology Group Limited	1647	HKD5,400,000	1	8.00%	No
China Properties Investment Holdings Limited	736	RMB35,000,000	2	10.00%	Yes
Allied Properties (H.K.) Limited	56	HKD65,000,000	0.5	24.00%	Yes
China Tonghai International Financial Limited	952	HKD245,000,000	0.17	9.50%	Yes
Sino Prosper (Group) Holdings Limited	766	RMB15,000,000	1	6.00%	Yes
Oi Wah Pawnshop Credit Holdings Limited	1319	HKD80,500,000	0.08	21.00%	Yes
China Tonghai International Financial Limited	952	HKD194,000,000	0.25	9.50%	Yes
Power Financial Group Limited	397	HKD19,000,000	1	11.00%	Yes
Easy Repay Finance & Investment Limited	8079	HKD4,100,000	30	14.38%	Yes
Gendale Properties and Investment Corporation Limited	535	RMB1,921,200,000	1	4.35%	No
Kunming Dianchi Water Treatment Co., Ltd.	3768	RMB300,000,000	0.75	8.50%	Yes
Easy One Financial Group Limited	221	HKD25,000,000	0.5	10.50%	Yes
Emperor Capital Group Limited	717	HKD250,000,000	1.01	15.00%	Yes
Sunshine 100 China Holdings Ltd	2608	RMB292,782,933	<i>(Note 8)</i>	<i>(Note 8)</i>	Yes
Oi Wah Pawnshop Credit Holdings Limited	1319	HKD20,000,000	0.08	18.00%	Yes
Sheng Ye Capital Limited	8469	RMB100,000,000 to RMB1,000,000,000	1 to 1.56	7.50% to 16.00%	Yes
<i>(Note 9)</i>					
Oi Wah Pawnshop Credit Holdings Limited	1319	HKD36,000,000	1	12.13%	Yes
First Tractor Company Limited	38	RMB33,000,000	1	34.35%	No
China Strategic Holdings Limited	235	HKD91,500,000	3	12.00%	Yes
China Healthwise Holdings Limited	348	HKD60,000,000	1	15.00%	Yes
Neway Group Holdings Limited	55	RMB21,953,589	2	10.50%	Yes
Lee's Pharmaceutical Holdings Limited	950	HKD3,000,000	1	4.00%	No
Shi Shi Services Limited	8181	HKD18,000,000	1	5.00%	Yes
<i>(Note 11)</i>					

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Note:

1. The amount may represent an aggregation of several loans;
2. RM is the lawful currency of Malaysia;
3. Some of the durations were not disclosed in the announcement of Beijing Media Corporation Limited;
4. The financial assistances were provided to both independent third parties and connected persons;
5. The loan was interest-free and without fixed repayment term;
6. RMB750,000,000 is the annual cap of a revised framework agreement;
7. As disclosed in the announcement, this interest rate was adopted for substantially all of the connected factoring loans granted to the suppliers of GOME Retail Holdings Limited and its subsidiaries during the year ended 31 December 2018 and is for reference only;
8. Such provision of financial assistance was due to a disposal transaction by Sunshine 100 China Holdings Ltd and shall not carry any interest and without duration;
9. The disclosed loan credit limits were ranged from RMB100,000,000 to RMB1,000,000,000;
10. There were total 44 factoring agreements and the disclosed duration was the initial duration or extended duration (if applicable) under each factoring agreement;
11. The disclosed interest rate caps or factoring guarantee fee caps per annum were ranged from 7.50% to 16.00%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Proposed annual caps of the Loan Agreement

According to the Letter from the Board, the annual caps of HK\$900 million for the three years ending 31 December 2021 are determined based on (i) the HK\$792 million from the proceeds raised from the issue of new Shares (the “**Subscription**”); and (ii) the United States dollars (the “**US\$**”) 25 million (equivalent to approximately HK\$195 million) advanced to Youzan under the Previous Loan Agreement, of which US\$15 million (equivalent to approximately HK\$117 million) was raised from the Subscription. The annual caps are determined with reference to, among others, the current business plan of Youzan Group.

According to the Letter from the Board, the maximum amount of the loan provided by the Company to Youzan under the Previous Loan Agreement from 1 January 2019 to the Latest Practicable Date was US\$25 million (equivalent to approximately HK\$195 million).

To assess the fairness of the proposed annual caps under the Loan Agreement for the three years ending 31 December 2021, we have obtained and reviewed (i) the breakdown of the intended use of loan proceeds under the Loan Agreement; (ii) the financial performance of Youzan; and (iii) the historical loan repayment history of Youzan under the Previous Loan Agreement from the Group. According to the information provided by the Company, Youzan intends to use approximately HK\$55.7 million for product development; approximately HK\$455.3 million for promotion of advertising services; and approximately HK\$281.0 million for marketing and channel establishment, details of which are set out in the paragraphs headed “3. Reasons for and benefits of entering into the Loan Agreement” above.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the key financial information of Youzan for the two years ended 31 December 2018 and the three months ended 31 March 2018 and 2019:

	For the year ended 31 December		For the three months ended 31 March	
	2018 <i>RMB'000</i> (unaudited)	2017 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i> (unaudited)	2018 <i>RMB'000</i> (unaudited)
Revenue	610,029	292,821	193,434	104,270
Loss for the year/period	(309,747)	(122,062)	(112,870)	(69,190)
	As at 31 December		As at 31 March	
	2018 <i>RMB'000</i> (unaudited)	2017 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i> (unaudited)	2018 <i>RMB'000</i> (unaudited)
Net Liabilities	(219,770)	(181,008)	(332,873)	(249,769)
Total Assets	360,620	889,854	989,400	1,071,414

The revenue of Youzan has increased by approximately 108.3% in 2018 when compared with 2017 and its revenue has increased by approximately 85.5% for the three months ended 31 March 2019 when compared with the corresponding period in the previous year.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The loss of Youzan has increased by 153.8% in 2018 when compared with 2017 and that has increased by 63.1% for the three months ended 31 March 2019 when compared with the corresponding period in the previous year. According to the representation from the management of Youzan, the increase in loss in 2018 was mainly attributable to the research and development expenses of products, including SaaS specific for retail, beauty and catering industries. The increase in loss for the three months ended 31 March 2019 was mainly attributable to the lack of market awareness of newly launched products for retail and beauty industries. The management of the Company and Youzan confirms that the current development of approximately 60% of those products are mature and ready to enter commercialisation stage. As discussed above, some of the products for retail and beauty industries have been launch in the first quarter of 2019 and the management of the Company and Youzan expects that approximately 20% products will be launched in 2019. Accordingly, approximately only 7.03% of the intended use of loan proceeds under the Loan Agreement is expected to be used in product development. According to the representation by the management of the Company and Youzan, research and development expenses accounts for approximately 47.8% and 62.9% of the administration expenses for 2017 and 2018, respectively. The management of the Company and Youzan holds the view that the maturity of development of approximately 20% of the products will render the product development cost less significant and hence improve the financial performance of Youzan.

Moreover, the Company had provided loan in the amount of US\$10 million (equivalent to approximately HK\$78 million) in 2018 under the Previous Loan Agreement and such loan amount was repaid in the same financial year despite further increase in loss of Youzan in 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed under the principal terms under the paragraphs headed “2. Background and major terms of the Loan Agreement”, the Company has sole discretion to refuse to advance any part of the loan if the Company is not satisfied with the use of the loan specified in the executed notice of drawdown by Youzan. Considering Youzan was loss making in 2018 and its repayment history in the same year, the internal control measures to be discussed, as well as the Board (excluding Mr. Zhu Ning, Mr. Cui Yusong, Mr. Yu Tao and Ms. Ying Hangyan who have material interests in the transactions contemplated under the Loan Agreement) has sole discretion in approving each of the drawdown by Youzan, we believe the Board would make proper decisions and control in relation to the credit risk management of the transactions contemplated under the Loan Agreement.

As disclosed in the 2018 Annual Report and according the industry report from iResearch, the size of PRC’s online shopping market is about RMB8.0 trillion in 2018, and it is expected to grow from approximately RMB9.7 trillion in 2019 to RMB12.8 trillion in 2021, representing a compound annual growth rate (“CAGR”) of approximately 14.7%. The market size of SaaS industry in PRC reached approximately RMB23.2 billion in 2018. Benefiting from a number of government policies and guidelines in promoting and motivating cloud access for enterprises, as well as the technological development of upstream “Infrastructure as a Service” (“IaaS”) and PaaS which drive the development of downstream SaaS, the PRC’s SaaS industry market is expected to grow at a CAGR of approximately 34.1% from 2019 to 2021. The market size of third-party payment service in the PRC in 2018 was approximately RMB312.4 trillion, and it is expected to grow at a CAGR of approximately 14.7% from 2019 to 2021.

Considering (i) the breakdown of intended use of loan amount under the Loan Agreement; (ii) the financial performance of Youzan as discussed above; (iii) the historical loan repayment history of Youzan under the Previous Loan Agreement; (iv) the expected growth of PRC’s online shopping market from 2019 to 2021; (v) the expected growth of market size of SaaS industry in the PRC from 2019 to 2021; (vi) the expected growth of market size of third-party payment service in the PRC; (vii) the condition of the Board (excluding Mr. Zhu Ning, Mr. Cui Yusong, Mr. Yu Tao and Ms. Ying Hangyan who have material interests in the transactions contemplated under the Loan Agreement) has sole discretion to refuse to advance any part of the loan if the Company is not satisfied with the use of the loan specified in the executed notice of drawdown by Youzan and the relevant credit risk management by the Board as discussed above; and (viii) the condition of any amount repaid under the Loan Agreement may not be reborrowed, we consider the annual caps contemplated under the Loan Agreement is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

However, as the proposed annual caps under the Loan Agreement are determined based on information currently available to the Company and the Company has sole discretion to refuse to advance any part of the loan if the Company is not satisfied with the use of the loan specified in the executed notice of drawdown by Youzan, the utilisation of the respective proposed annual caps refer to future events associated with factors related to, among others, business decisions by the Company, we express no opinion as to the accuracy and utilisation of the proposed annual caps under the Loan Agreement.

The business plan of Youzan (and its intended use of loan proceeds under the Loan Agreement) are based on the information currently available to the Company and Youzan, there is no assurance to the implementation of such business plan and the financial performance of Youzan.

INTERNAL CONTROL MEASURES AND ANNUAL REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

According to the representation by the Company, the Company has established the following internal control measures in relation to the Loan Agreement:

- (i) Designated personnel from finance department will perform regular check to review and assess whether the loan is provided in accordance with the terms and conditions of the Loan Agreement;
- (ii) The audit committee will review the report prepared by the management of the Company based on the continuing connected transactions conducted at least twice a year; and
- (iii) The independent non-executive Directors and external auditors will review and report on the continuing connected transactions pursuant to Rule 20.53 and 20.54 of the GEM Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the Rule 20.53 and 20.54 of the GEM Listing Rules, the continuing connected transactions contemplated under the Loan Agreement are subject to the following requirements:

- (i) The independent non-executive Directors must review the continuing connected transactions every year and confirm in the annual report whether the transactions have been entered into:
 - in the ordinary and usual course of business of the Group;
 - on normal commercial terms or better; and
 - according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

- (ii) The Company must engage its auditors to report on the continuing connected transaction every year. The auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions:
 - have not been approved by the Board;
 - were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
 - have exceeded the cap.

In view of the internal control measures established by the Company in relation to the continuing connected transactions, we are of the view that appropriate measures will be in place to govern the conduct of the continuing connected transactions under the Loan Agreement and safeguard the interests of the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we are of the opinion that the terms of the Loan Agreement are on normal commercial terms, and the Loan Agreement and the proposed annual caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the Loan Agreement and the transactions contemplated thereunder at the SGM.

Yours faithfully,
for and on behalf of
Advent Corporate Finance Limited
Kan Tsz Yan Arthur
Managing Director

Mr. Arthur Kan is a licensed person registered with the Securities and Futures Commission and a responsible officer of Advent Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (chapter 571 of the laws of Hong Kong). He has over 17 years of experience in corporate finance and investment banking industry.

For the purpose of this letter, unless otherwise indicated, conversion of US\$ into HK\$ is calculated at the approximate exchange rate of US\$1.00 to HK\$7.8. The exchange rate is for illustration purpose only and do not constitute representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

This Appendix I summaries the principal terms of the New Share Option Scheme but does not form part of nor was it intended to be, part of the New Share Option Scheme nor should it be taken as effecting the interpretation of the rules of the New Share Option Scheme.

(1) PURPOSE OF THE NEW SHARE OPTION SCHEME

The purpose of the New Share Option Scheme is to enable the Company to grant Options to the Eligible Participants as incentive or rewards for their contributions to the Group.

(2) WHO MAY JOIN

The Board may, at their sole and absolute discretion, invite any person belonging to any of the following classes of eligible participants (the “**Eligible Participants**”) on the basis of the Directors’ opinion as to their contribution to the development and growth of the Group to take up Options to subscribe for Shares:

- (a) any employee or proposed employee, manager or officer (whether full time or part time) of the Company or any of its Subsidiaries;
- (b) any director (including executive or non-executive and whether independent or not) of the Company or any of its Subsidiaries; and
- (c) any advisors, consultants, contractors, distributors, suppliers, agents, customers, business partners, joint venture, promoters and service providers of any member of the Group.

The Board may in its sole and absolute discretion select and subject to such conditions (including, without limitation, any minimum period for which an Option must be held before it can be wholly or partly exercised and/or any performance targets which must be achieved before an Option can be wholly or partly exercised) as it may think fit.

(3) MAXIMUM NUMBER OF SHARES

- (a) The maximum aggregate number of Shares to be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Group must not in aggregate exceed 30% of the Shares in issue to time (the “**Overall Scheme Limit**”).
- (b) The total number of Shares which may be allotted and issued upon the exercise of all Options (excluding, for this purpose, Options which have lapsed in accordance with the terms of the New Share Option Scheme and any other share option scheme(s)) to be granted under the New Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the New Share Option Scheme (the “**Scheme Mandate Limit**”).
- (c) Subject to (a) above and without prejudice to (d) below, the Company may seek approval of the Shareholders in general meeting for “refreshing” the Scheme Mandate Limit. However, the total number of Shares which may be issued upon exercise of all Options to be granted under the New Share Option Scheme and any other share option schemes of the Group under the Scheme Mandate Limit as “refreshed” must not exceed 10% of the Shares in issue as at the date of approval of the refreshing of the Scheme Mandate Limit (the “**Refreshed Scheme Mandate Limit**”). Options to subscribe for Shares previously granted under any existing schemes (including those outstanding, cancelled, lapsed or exercised in accordance with the New Share Option Scheme or exercised Options) will not be counted for the purpose of calculating the Refreshed Scheme Mandate Limit.
- (d) Subject to (a) above and without prejudice to (c) above, the Company may seek separate approval by its Shareholders in general meeting for granting Options to subscribe for Shares beyond the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit to the Eligible Participant specially identified by the Company before such approval is sought. In such event, the Company must send a circular to its Shareholders containing a generic description of the specified Eligible Participant, the number and terms of Options to be granted, the purpose of granting Options to the specified Eligible Participant with an explanation as to how the terms of these Options serve such purpose and such other information and the information required under Rule 23.02(2)(d) of the GEM Listing Rules and disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

(4) MAXIMUM ENTITLEMENT OF EACH ELIGIBLE PARTICIPANT

The total number of Shares issued and which may fall to be issued on the exercise of the Options granted under the New Share Option Scheme and any other share option scheme of the Group (including both exercised and outstanding Options) to each Eligible Participant in any 12-month period shall not exceed 1% of the Shares in issue for the time being (the “**Individual Limit**”). Any further grant of Options to an Eligible Participant in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the approval of the Shareholders in general meeting with such Eligible Participant and his associates abstaining from voting. The number and terms (including the Exercise Price) of Options to be granted (and Options previously granted to such Eligible Participant) must be fixed before approval of the Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the Exercise Price under Note 1 to Rule 23.03(9) of the GEM Listing Rules.

(5) GRANT OF OPTIONS TO CONNECTED PERSONS

- (a) Any grant of Options to a Connected Person or its associates must be approved by all the independent non-executive Directors (excluding any independent non-executive Director who is a Grantee).
- (b) Where Options are proposed to be granted to a Connected Person and if such grant would result in the total number of Shares issued and to be issued upon exercise of all Options granted and to be granted (including Options exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant to such person: (i) representing in aggregate over 0.1% of all the Shares in issue for the time being; and (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million; then proposed grant must be subject to approval of the Shareholders in general meeting taken on a poll. The Company must send a circular to the Shareholders. All Connected Persons of the Company must abstain from voting (except that any Connected Persons may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular) at the general meeting. The circular must contain the following:
 - (i) details of the number and terms (including the Exercise Price) of the Options to be granted to each Eligible Participant, which must be fixed before the general meeting concerned, and the date of meeting of the Board for proposing such further grant is to be taken as the date of grant for the purpose of calculating the Exercise Price;

- (ii) a recommendation from the independent non-executive Directors of the Company (excluding any independent non-executive Director of the Company who is the Grantee of the Options) to the independent shareholders as to voting; and
- (iii) the information required under the relevant provisions of Chapters 2 and 23 of the GEM Listing Rules.

(6) TIME OF ACCEPTANCE AND EXERCISE OF AN OPTION

An offer of grant of an Option shall remain open for acceptance by an Eligible Participant to whom the offer is made for a period of twenty-eight (28) days from the date upon which the offer is made.

An Option may be exercised in accordance with the provisions of the New Share Option Scheme at any time during the Option Period subject to the provisions for early termination thereof.

There is no specific requirement under the New Share Option Scheme that an Option must be held for any minimum period before it can be exercised, but the terms of the New Share Option Scheme provide that the Board has the discretion to impose a minimum period at the time of grant of any particular Option.

(7) PERFORMANCE TARGETS

Unless the Board otherwise determined and stated in the offer of the grant of Options to a Grantee, a Grantee shall not be required to achieve, meet or exceed any performance targets before that particular Grantee can exercise the Option(s) granted.

(8) EXERCISE PRICE FOR SHARES AND CONSIDERATION FOR THE OPTION

The Exercise Price in respect of any particular Option shall be such price as determined by the Board in its sole and absolute discretion at the time of the grant of the relevant Option but in any case the Exercise Price must be the higher of (a) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a Business Day; (b) the average closing price of Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) Business Days immediately preceding the date of grant; and (c) the nominal value of a Share. A nominal consideration of HK\$1.00 is payable on acceptance of the grant of an Option.

(9) RANKING OF SHARES

No dividends will be payable and no voting rights will be exercisable in relation to an Option that has not been exercised (including those arising on a liquidation of the Company). The Options will not rank for any rights (which include, among other things, voting rights and dividend rights) attaching to Shares by reference to a date preceding the date of allotment.

The Shares to be allotted upon the exercise of an Option will not carry voting rights until completion of the registration of the Grantee (or such other person nominated by the Grantee) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of Options will rank *pari passu* with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of the Company as attached to the other fully-paid Shares in issue on the date of issue.

(10) RESTRICTIONS ON THE TIME OF GRANT OF OPTIONS

A grant of Options shall not be made after a price sensitive development has occurred or a price-sensitive matter has been the subject of a decision of the Group until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, during the period of one month immediately preceding the earlier of: (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half-year, quarterly, or any other interim period (whether or not required under the GEM Listing Rules); and (b) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements, no Option may be granted. Such period shall cover any period of delay in the publication of a results announcement.

(11) PERIOD OF THE NEW SHARE OPTION SCHEME

The New Share Option Scheme shall be valid and effective for a period of ten (10) years commencing on the date when the New Share Option Scheme is conditionally adopted by the Shareholders.

(12) RIGHTS ON CEASING EMPLOYMENT OR ENGAGEMENT

In the event that the Grantee ceases to be an Eligible Participant for any reason(s) other than his (i) death; (ii) retirement; (iii) ill-health; (iv) disability; (v) injury and (vi) termination of relationship with the Company and/or any of the Subsidiaries on the grounds of guilty of misconduct or conviction of any criminal offence involving integrity or honesty or breach of contract or in relation to an employee on any ground (if so determined by the Board) on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws, the Option granted to such Grantee will lapse within three months following the date of such cessation (to the extent not already exercised).

(13) RIGHTS ON DEATH, RETIREMENT, ILL-HEALTH, DISABILITY OR INJURY

If the Grantee is an employee and ceases to be an Eligible Participant by reason of his death, retirement, ill-health, disability or injury, any outstanding offer of an Option which has not been accepted in accordance with the provisions of the New Share Option Scheme and any Option which has not then become exercisable will lapse and, his personal representative(s), or, as appropriate, the Grantee may exercise any Option which has then become exercisable (to the extent not already been exercised) in whole or in part within a period of twelve (12) months following the date of cessation which date shall be the last day on which the Grantee was at work with the Group whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

(14) RIGHTS ON A GENERAL OFFER

If a general offer by way of takeover is made to all Shareholders (or all Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant Option, the Grantee (or his legal personal representatives) shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(15) RIGHTS ON VOLUNTARY WINDING UP

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all Grantees and thereupon, each Grantee (or his legal personal representatives) shall be entitled to exercise all or any of his Options at any time not later than two (2) Business Days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate Exercise Price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

(16) RIGHTS ON COMPROMISE OR ARRANGEMENT BETWEEN THE COMPANY AND ITS MEMBERS OR CREDITORS

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with any scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and the Grantee shall be entitled to exercise all or any of his Options in whole or in part at any time prior to 12 noon (Hong Kong time) on the Business Day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are not than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all Grantees to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of Options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of the Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the Grantees to exercise their respective Options shall with effect from the date of the making of the order by the relevant court be restored in full) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any Grantee as a result of the aforesaid suspension.

(17) RIGHTS ON WINDING-UP BY COURT ORDER

In the event that a court order is made for the winding-up of the Company, the Grantee (or his personal representative(s)) may, by giving notice in writing to the Company at any time within twenty-one (21) days after the date of the court order, elect to be treated as if his Option (to the extent not already exercised) has been exercised either to its full extent or to the extent specified in such notice immediately before the court order and shall accordingly be entitled to receive out of the assets available in liquidation *pari passu* with the holders of the Shares such sum (if any) as would have been received by him in respect of the Shares subject to his Option reduced by an amount equal to the aggregate Exercise Price which would otherwise have been payable in respect thereof.

(18) ALTERATIONS OF CAPITAL STRUCTURE

In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable, whether by way of capitalization issue, rights issue, sub-division, consolidation of shares or reduction of the share capital of the Company, such corresponding alterations (if any) shall be made (except on an issue of securities of the Company as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) in:

- (a) the number or nominal amount of the Shares subject to the Option so far as unexercised; or
- (b) the Exercise Price,

as the Company's independent financial adviser or the Auditors shall at the request of the Company or any Grantee, certify in writing to the Board, either generally or as regard any particular Grantee, to have, in their opinion, satisfied the requirement of the relevant provisions of the GEM Listing Rules (including, where applicable, the requirements contained in any supplementary guidance issued by the Stock Exchange as may be in force) that such adjustments give an Eligible Participant the same proportion of the equity capital as that to which that person was previously entitled, but that no such adjustments be made to the extent that a Share would be issued at less than its nominal value.

(19) CANCELLATION OF OPTIONS

The Board shall be entitled for following reasons or causes to cancel any Option in whole or in part by giving notice in writing to the Grantee stating that such Option is thereby cancelled with effect from the date specified in such notice:

- (a) the Grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of the Option pursuant to paragraph (21) hereof or any terms or conditions imposed or attached to the grant of the Option; or
- (b) if the Grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of the Company or its Subsidiaries,

that the Option shall be deemed to have been cancelled with effect from such specified date in respect of any part of the Option which has not been exercised as at such specified date and no compensation shall be payable upon any such cancellation, Provided that the Board shall be entitled in its sole and absolute discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

(20) TERMINATION OF THE NEW SHARE OPTION SCHEME

The Company by resolution in general meeting or the Board may at any time resolve to terminate the operation of the New Share Option Scheme and in such event no further Options shall be offered but the provisions of the New Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Option granted prior to the termination or otherwise as may be required in accordance with the provisions of the New Share Option Scheme and Options granted prior to such termination shall continue to be valid and exercisable in accordance with the New Share Option Scheme. Details of the Options granted, including Options exercised or outstanding, under the New Share Option Scheme shall be disclosed in the circular to the Shareholders seeking approval of the new scheme established after the termination of the New Share Option Scheme.

(21) TRANSFERABILITY OF OPTIONS

An Option is personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option.

(22) LAPSE OF OPTIONS

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period;
- (b) the expiry of any of the periods or situations referred to in paragraphs (12) to (17);
- (c) the date of on which the scheme of arrangement of the company referred to in paragraph (16);
- (d) the date of commencement of the winding-up of the Company commences;
- (e) the date on which the Grantee ceases to be an Eligible Participant by reason of the termination of his relationship with the Company or any of the Subsidiaries on any one or more of the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty or he has committed any breach of contract or in relation to an employee of the Company or any of the Subsidiaries (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the Grantee's service contract with the Company or the relevant Subsidiary and that a resolution of the Board or the board of directors of the relevant Subsidiary to the effect that the relationship of a Grantee has or has not been terminated on the grounds specified in this paragraph shall be conclusive; and
- (f) the date on which the Board shall exercise the Company's right to cancel the Option at any time after the Grantee commits a breach of paragraph (21) or the Options are cancelled referred to in paragraph (19).

(23) ALTERATION OF THE NEW SHARE OPTION SCHEME

- (a) Subject to the GEM Listing Rules and sub-paragraphs (b) to (e) below, all provisions of the New Share Option Scheme may be altered in any respect by resolution of the Board without the approval of the Shareholders in general meeting.
- (b) The terms of the New Share Option Scheme relating to the matters set out in Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of the Grantees without the prior approval of the Shareholders in general meeting.
- (c) Any alterations to the provisions of the New Share Option Scheme which are of a material nature or any change to the terms of Options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the provisions of the New Share Option Scheme.
- (d) The amended terms of the New Share Option Scheme or the Options must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules as amended from time to time.
- (e) Any change to the authority of the Board in relation to any alteration to the terms of the New Share Option Scheme must be approved by the Shareholders in general meeting.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the 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 positions in the Shares and underlying Shares:

Name of Director	Interest in Shares	Number of Shares		% Shareholding
		Interest in underlying Shares	Total interest in Shares	
Mr. Guan Guisen <i>(Note 1)</i>	711,592,000	–	711,592,000	4.60%
Mr. Cao Chunmeng	67,420,000	36,000,000 <i>(Note 2)</i>	103,420,000	0.67%
Mr. Yan Xiaotian	21,640,000	25,000,000 <i>(Note 2)</i>	46,640,000	0.30%
Dr. Fong Chi Wah	1,000,000	3,000,000 <i>(Note 2)</i>	4,000,000	0.03%
Mr. Gu Jiawang	1,000,000	3,000,000 <i>(Note 2)</i>	4,000,000	0.03%
Mr. Zhu Ning	1,440,601,703 <i>(Note 3)</i>	–	1,803,771,804	11.66%
	363,170,101 <i>(Note 4)</i>			

Name of Director	Interest in Shares	Number of Shares		% Shareholding
		Interest in underlying Shares	Total interest in Shares	
Mr. Yu Tao	363,170,101 <i>(Note 4)</i>	–	363,170,101	2.35%
Mr. Cui Yusong	241,885,127 <i>(Note 5)</i>	–	241,885,127	1.56%
Ms. Ying Hangyan	363,170,101 <i>(Note 4)</i>	–	363,170,101	2.35%

Notes:

- (1) These shares are held by Mighty Advantage Enterprises Limited (“**Mighty Advantage**”). Mighty Advantage was incorporated in the British Virgin Islands and is beneficially owned by Mr. Guan Guisen.
- (2) The Company granted the share options under the 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.
- (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.
- (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.
- (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 Latest Practicable Date, 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.

3. DISCLOSURE OF INTERESTS OF THE SHAREHOLDERS PURSUANT TO THE SFO

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have, interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or had any option in respect of such capital:

Name of Substantial Shareholder	Nature of interest	Number of issued Shares and underlying Shares held	Approximate percentage of the existing issued share capital of the Company
Zhu Ning (<i>Note 2</i>)	Interest in controlled corporation	1,803,771,804 (L)	11.66 (L)
Whitecrow Investment Ltd.	Beneficial owner	1,440,601,703 (L)	9.31 (L)
Tencent Holdings Limited (<i>Note 3</i>)	Interest in controlled corporation	1,036,766,038 (L)	6.70 (L)
Poyang Lake Investment Limited	Beneficial owner	1,036,766,038 (L)	6.70 (L)

Note:

- The letter "L" represents the Director's interests in the shares and underlying Shares of the Company.
- Mr. Zhu Ning was interested in a total of 1,803,771,804 Shares, of which 1,440,601,703 Shares were held by Whitecrow Investment Ltd., which was a company wholly-owned by him, and 363,170,101 Shares was held by Youzan Teamwork Inc., which was a company owned as to 40% by him.
- Poyang Lake Investment Limited is a wholly-owned subsidiary of Tencent Holdings Limited (stock code: 700).

4. COMPETING BUSINESS INTERESTS OF DIRECTORS

At the Latest Practicable Date, none of the Directors, controlling Shareholders or their respective close associates had any business or interest apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

5. DIRECTORS' MATERIAL INTERESTS

As at the Latest Practicable Date,

- (i) none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up), been (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group; and
- (ii) none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group or any associated company of the Company (excluding contracts expiring or determinable within one year without payment of compensation, other than statutory compensation).

7. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there is no material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Group were made up.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

9. QUALIFICATION OF EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which are contained or referred to in this circular:

Name	Qualification
Independent Financial Adviser	A corporation licensed to carry on Type 6 regulated activity under the SFO

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with copies of its letter or report (as the case may be) and the references to its name and logo in the form and context in which it appears.

As at the Latest Practicable Date, the Independent Financial Adviser was not interested in any Share or share in any member of the Group, nor does it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group.

As at the Latest Practicable Date, none of the aforesaid parties had any direct or indirect interests in any assets which have since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to or by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to or by the Company or any of its subsidiaries.

10. MATERIAL CONTRACTS

There is no contract, not being contracts in the ordinary course of business carried on or intended to be carried on by members of the Group, have been entered into by members of the Group within two years immediately preceding the Latest Practicable Date which are or may be material.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 10:00 a.m. to 5:30 p.m. on any weekdays (except for public holidays) at the principal office of the Company at Unit 2708, 27/F, The Center, 99 Queen's Road Central, Hong Kong, from date of this circular up to (and including) the date of the SGM:

- (i) the Loan Agreement;
- (ii) this circular;
- (iii) the letter of advice from the Independent Financial Adviser in connection with the Loan Agreement, the text of which is set out on page IFA-1 to IFA-18 of this circular;
- (iv) the letter from the Board, the text of which is set out on pages 5 to 15 of this circular;
- (v) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages IBC-1 to IBC-3 of this circular;
- (vi) the written consent letters of the experts referred to in the section headed "Qualification of experts and consents" in this appendix.

NOTICE OF SGM



China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

NOTICE OF SGM

NOTICE IS HEREBY GIVEN that a special general meeting (“**SGM**”) of China Youzan Limited (the “**Company**”) will be held at 24/F., Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong on Wednesday, 12 June 2019, at 10:00 a.m., for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**
 - (a) the loan agreement dated 27 April 2019 entered into between the Company and the Target Company (the “**Loan Agreement**”) (a copy of which has been produced before the meeting marked “A” and initialed by the chairman of the meeting for identification purpose) and all the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
 - (b) the annual caps for the maximum aggregate annual value for the transactions contemplated under the Loan Agreement for each of the three financial years ending 31 December 2021 as more particularly set out in the Circular be and are hereby approved, confirmed and ratified; and

NOTICE OF SGM

- (c) any one director of the Company be and is hereby authorised to do all such things and acts of administrative nature as he may in his discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the Loan Agreement and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he considers necessary or expedient in his opinion to implement and/or give effect to the Loan Agreement.”
2. “**THAT** conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the shares of HK\$0.01 each in the capital of the Company (the “**Shares**”) which may fall to be allotted and issued upon exercise of the subscription rights attaching to the options that may be granted under the share option scheme, a copy of which is produced to the meeting marked “**B**” and signed by the chairman of this meeting for the purpose of identification (the “**New Share Option Scheme**”), up to the general scheme limit, being the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme of the Group and which must not in aggregate exceed 10 per cent. of the Shares in issue as at the day of the passing of this resolution, the New Share Option Scheme be and is hereby approved and adopted by the Company and the directors of the Company be and are hereby authorised to grant options to subscribe for Shares under the New Share Option Scheme and to allot and issue Shares pursuant to the exercise of any options which may fall to be granted under the New Share Option Scheme and to do all such acts as they may in their absolute discretion consider necessary or expedient in order to give full effect to the New Share Option Scheme, and that to the extent permissible under the by-laws of the Company, the GEM Rules and the rules of the New Share Option Scheme, the directors of the Company may vote in respect of any resolution(s) under or affecting the New Share Option Scheme (including the granting of options thereunder or approving the allotment and issue of Shares upon exercise of options thereunder) notwithstanding any interest(s) of any director(s) of the Company.”

By order of the Board
China Youzan Limited
Guan Guisen
Chairman

Hong Kong, 21 May 2019

NOTICE OF SGM

Head Office and Principal Place of Business:

Unit 2708, 27/F

The Center

99 Queen's Road Central

Hong Kong

Notes:

1. Any member entitled to attend and vote at the SGM is entitled to appoint one or more separate proxies to attend and vote instead of him/her. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company.
2. Where there are joint holders of any share, any one of such persons may vote at the SGM, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, provided that if more than one of such joint holders be present at the SGM personally or by proxy, the person whose name stands first in the register in respect of such share shall alone be entitled to vote in respect thereof.
3. The register of members of the Company will be closed from Monday, 10 June 2019 to Wednesday, 12 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the SGM, unregistered holders of Shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 6 June 2019.
4. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at Computershare Hong Kong Investor Services Limited, the share registrar of the Company in Hong Kong, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no less than 48 hours before the time schedule for holding the SGM (i.e. no later than 10:00 a.m. on Monday, 10 June 2019). Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the SGM and any adjourned meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. A form of proxy for use in connection with the SGM is enclosed with the circular of the Company dated 21 May 2019. Such form is also published on the website of GEM at www.hkgem.com and on the Company's website at www.chinayouzan.com.
6. As at the date of this notice, the Board comprises seven executive Directors, namely 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, namely Dr. Fong Chi Wah, Mr. Gu Jiawang, Mr. Xu Yanqing and Mr. Deng Tao.