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China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2023

The board (the “**Board**”) of directors (the “**Directors**”) of China Youzan Limited (the “**Company**”) is pleased to announce the unaudited first quarterly results of the Company and its subsidiaries for the three months ended 31 March 2023. This announcement, containing the full text of the 2023 first quarterly report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) in relation to information to accompany preliminary announcements of first quarterly results.

By order of the Board
China Youzan Limited
Zhu Ning
Chairman

Hong Kong, 10 May 2023

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Zhu Ning, Mr. Cui Yusong, Mr. Yu Tao and Ms. Ying Hangyan; and three independent non-executive Directors, namely Dr. Fong Chi Wah, Mr. Deng Tao and Mr. Li Shaojie.

This announcement, 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 announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

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



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HIGHLIGHTS

For the three months ended 31 March 2023, the Group recorded a revenue of approximately RMB354,817,000, representing a decrease of 2.2% compared to the same period of last year. Of which, the revenue from subscription solutions was approximately RMB205,719,000, representing a decrease of 6.5% compared to the same period of last year, and the revenue from merchant solutions was approximately RMB148,172,000, representing an increase of 6.3% compared to the same period of last year.

For the three months ended 31 March 2023, the Group recorded a gross profit of approximately RMB246,230,000, representing an increase of 11.7% compared to the same period of last year. Of which, the gross profit of subscription solutions was approximately RMB167,189,000, representing an increase of 10.2% compared to the same period of last year, and the gross profit of merchant solutions was approximately RMB78,820,000, representing an increase of 16.2% compared to the same period of last year.

For the three months ended 31 March 2023, the Group's gross profit margin increased from 60.8% in the same period of last year to 69.4% for the current period. Of which, the gross profit margin of subscription solutions increased from 69.0% in the same period of last year to 81.3% for the current period, and the gross profit margin of merchant solutions increased from 48.7% in the same period of last year to 53.2% for the current period.

The Group recorded loss from operations of approximately RMB1,667,000 for the three months ended 31 March 2023, whereas loss from operations of approximately RMB344,007,000 was recorded for the same period of last year, representing a year-on-year significant decrease of 99.5%.

The board of directors (the "Board") does not recommend the payment of any dividend for the three months ended 31 March 2023.

FINANCIAL RESULTS

The Board of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three months ended 31 March 2023 (the “reporting period”) together with the unaudited comparative figures for the corresponding period in 2022 as set out below:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the three months ended 31 March	
		2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
	<i>Notes</i>		
Revenue	3	354,817	362,802
Cost of sales		(108,587)	(142,325)
Gross profit		246,230	220,477
Investment and other income	4	18,294	11,360
Other gains and losses, net		2,949	(209)
Selling expenses		(157,128)	(255,966)
Administrative expenses		(33,338)	(123,324)
Equity-settled share-based payments		(2,662)	(4,017)
Amortisation of intangible assets		(19,986)	(20,077)
Other operating expenses	5	(56,026)	(172,251)
Loss from operations		(1,667)	(344,007)
Finance costs		(6,895)	(5,459)
Share of losses of associates		-	(663)
Loss before taxation		(8,562)	(350,129)
Income tax (expenses)/credit	6	(694)	1,849
Loss for the period	7	(9,256)	(348,280)
Attributable to:			
Owners of the Company		6,519	(182,687)
Non-controlling interests		(15,775)	(165,593)
		(9,256)	(348,280)
Earning/(loss) per share (expressed in RMB per share)	8		
Basic		0.0004	(0.0106)
Diluted		0.0004	N/A

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

	For the three months ended 31 March	
	2023	2022
	(Unaudited) RMB'000	(Unaudited) RMB'000
Loss for the period	(9,256)	(348,280)
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(1,743)	(6,841)
Other comprehensive income for the period, net of tax	(1,743)	(6,841)
Total comprehensive income for the period, net of tax	(10,999)	(355,121)
Attributable to:		
Owners of the Company	3,763	(188,961)
Non-controlling interests	(14,762)	(166,160)
	(10,999)	(355,121)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS

1. General information and basis of presentation

The Company was incorporated in Bermuda with limited liability. The address of its registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda. The address of its principal place of business in China is Building 6, No. 698 Xixi Road, Xihu District, Hangzhou City, Zhejiang Province, China, and the address of its principal place of business in Hong Kong is Unit 1511, 15/F., Shui On Centre, No. 6-8 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

The unaudited condensed financial information for the three months ended 31 March 2023 ("Financial Information") has been prepared by the directors of the Company (the "Directors") in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

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

These Financial Information should be read in conjunction with the 2022 annual financial statements. The accounting policies (including the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of the Financial Information are consistent with those used in the annual financial statements for the year ended 31 December 2022.

The Group had incurred a loss of approximately RMB9,256,000 during the three months ended 31 March 2023 and had net current liabilities as at 31 March 2023. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

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

The accounting policies applied in the financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2022. In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2023 but they do not have a material effect on the Group's financial statements.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or revised standards in preparing these Financial Information.

3. Revenue

Disaggregation of revenue

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

	For the three months ended 31 March	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
<hr/>		
Revenue from contracts with customers within the scope of HKFRS 15		
Subscription solutions	205,719	219,914
Merchant solutions	148,172	139,384
Others	926	3,504
	<hr/>	
	354,817	362,802
	<hr/>	

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

	General trading		Third party		Onecomm		Merchant services		Others		Total	
	2022		2023		2022		2023		2022		2023	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the three months ended 31 March												
Primary geographical markets												
– PRC, except Hong Kong	-	-	74,206	76,003	-	-	278,985	286,128	1,301	356	354,492	362,487
– Japan	-	-	-	-	-	-	415	237	-	-	415	237
– Canada	-	-	-	-	-	-	78	233	-	-	78	233
Segment revenue	-	-	74,206	76,003	-	-	279,478	286,598	1,301	356	354,985	362,957
Intersegment revenue	-	-	-	-	-	-	(168)	(155)	-	-	(168)	(155)
Revenue from external customers	-	-	74,206	76,003	-	-	279,310	286,443	1,301	356	354,817	362,802
Timing of revenue recognition												
Products transferred at a point in time	-	-	30	88	-	-	55,456	53,885	-	-	55,486	53,973
Products and services transferred over time	-	-	74,176	75,915	-	-	223,854	232,558	1,301	356	299,331	308,829
Total	-	-	74,206	76,003	-	-	279,310	286,443	1,301	356	354,817	362,802

4. Investment and other income

	For the three months ended 31 March	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest income on:		
Bank deposits	5,253	2,064
Central Bank	3,677	2,733
Financial assets at FVTPL	–	1,423
Total interest income	8,930	6,220
Government grants	4,832	–
VAT super-credit	1,573	1,099
Compensation income	775	982
Others	2,184	3,059
	18,294	11,360

5. Other operating expenses

	For the three months ended 31 March	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Research and development expenditures	55,999	172,195
Others	27	56
	56,026	172,251

6. Income tax

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

	For the three months ended 31 March	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax		
– The PRC provision	4,952	52
Deferred tax	(4,258)	(1,901)
	694	(1,849)

PRC Enterprises Income Tax (“EIT”) has been provided at a rate of 25% for the three months ended 31 March 2023 (three months ended 31 March 2022: 25%).

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the three months ended 31 March 2023 (three months ended 31 March 2022: Nil).

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

One of the Group’s subsidiaries operating in Hangzhou, the PRC, was recognised as a High and New Technology Enterprise (高新技術企業) on 30 November 2018 and renewed on 16 December 2021 and was entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2018 and from 1 January 2021 after the renewal for three years. In order to enjoy the preferential rate of 15%, the subsidiary was required to apply for renewal every three years from the first year of approval. The EIT rate was changed from 25% to 15% since the year beginning on 1 January 2018.

One of the Group’s subsidiaries operating in Beijing, the PRC, was recognised as a High and New Technology Enterprise (高新技術企業) on 21 October 2020 and was entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2020. In order to enjoy the preferential rate of 15%, the subsidiary was required to apply for renewal every three years from the first year of approval. The preferential rate was 15% since the year beginning on 1 January 2020. The abovesaid subsidiary is currently applying for renewal and management estimated that the possibility of successful renewal is high. The abovesaid subsidiary will be entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2023 for three years if the application of renewal is approved.

7. Loss for the period

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

	For the three months ended 31 March	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Amortisation of intangible assets	19,986	20,077
Amortisation of capitalised contract costs recognised as selling expenses related to subscription solutions	43,808	58,572
Cost of goods sold	487	1,573
Depreciation of property, plant and equipment	2,427	265
Depreciation of right-of-use assets	2,947	10,901
Net gain on disposals of property, plant and equipment	(87)	(565)
Research and development expenditures (included in other operating expenses and equity-settled share-based payments)	55,707	171,767

8. Earning/(loss) per share

(a) Basic earning/(loss) per share

The calculation of basic earning/(loss) per share is based on the earning for the period attributable to owners of the Company of approximately RMB 6,519,000 (three months ended 31 March 2022: loss of approximately RMB182,687,000) and the weighted average number of ordinary shares of approximately 18,339,510,000 (three months ended 31 March 2022: approximately 17,164,283,000) in issue during the period.

(b) Diluted earning/(loss) per share

Diluted earning/(loss) per share is calculated using the weighted average number of ordinary shares outstanding, adjusted for the assumption that all potentially dilutive ordinary shares have been converted. For the three months ended 31 March 2023, the number of shares under the outstanding share options of the Company that were exercisable at the fair value of the average market share price of the Company's shares for the current period was nil. Therefore, there were no ordinary shares with potential dilutive effect in the calculation of diluted earning per share, and the diluted earning per share was the same as basic earning per share (three months ended 31 March 2022: there was no dilutive effect on the loss per share as the Group recorded a loss, and the exercise of the Company's outstanding share options would result in the decrease in the loss per share).

9. Dividend

The Board does not recommend the payment of any dividend for the three months ended 31 March 2023 (three months ended 31 March 2022: Nil).

10. Share capital

The number of issued shares of the Company was 18,421,642,097 shares as at 31 March 2023.

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

11. Unaudited Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2023	Movements (Unaudited)	As at 31 March 2023 (Unaudited)
	RMB'000	RMB'000	RMB'000
Share capital	154,484	–	154,484
Share premium account	6,420,355	–	6,420,355
Share option reserve	48,808	1,192	50,000
Shares held for Share Award Scheme	(24,679)	192	(24,487)
Share Award Scheme reserve	41,353	1,278	42,631
Capital reserve	(621,565)	–	(621,565)
Statutory reserve	8,060	–	8,060
Exchange reserve	1,062	(2,756)	(1,694)
Financial assets at FVTOCI reserve	(103,556)	–	(103,556)
Subsidiary's treasury share reserve	(7)	–	(7)
Accumulated losses	(4,511,137)	6,519	(4,504,618)
Total attributable to owners of the Company	1,413,178	6,425	1,419,603
Non-controlling interests	(368,183)	(14,762)	(382,945)
Total equity	1,044,995	(8,337)	1,036,658

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

12. Convertible bonds

As at 31 March 2023 and the date of this report, there were no outstanding convertible bonds.

13. Warrants

As at 31 March 2023 and the date of this report, there were no outstanding warrants.

14. Related party transactions

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

	For the three months ended 31 March	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Advertising service fee received from a related company (exclude VAT)	–	10
Dividend income from an associate	369	–
Administrative expenses paid to a non-controlling interest of a subsidiary	(153)	(150)
Revenue from a related company	773	1,836
Commission paid to associates	(497)	(485)

- (b) The remuneration of Directors and other members of senior management during the period was as follows:

	For the three months ended 31 March	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, bonus and allowances	2,817	3,659
Equity-settled share-based payments	643	1,475
Retirement benefit scheme contributions	65	73
	3,525	5,207

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

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

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

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

We held the 2023 Youzan spring launch event in Hangzhou on 10 April 2023, upgrading our private domain operation solutions for three major categories of customers, namely content monetization, brand DTC and store new retail, and providing support for the implementation of services such as private domain onboarding, products selection and aggregation, private domain operation consulting, and new retail onboarding, with a view to enhancing the success rate of merchants' new retail practices. At the same time, we also launched our data integration platform, namely "Youzan iPaaS", and our first AI product, namely "Jarvis".

Youzan iPaaS is a data integration platform that supports merchants to quickly connect and efficiently automate the management of new retail business scenarios with one single click. Merchants can independently connect to ERP, CRM, POS, finance, and other system software through the visualized operation interface, realizing the connection and synergy between Youzan and third-party systems, helping enterprises to accelerate digital transformation and improve operational efficiency. Youzan iPaaS relies on Youzan's strong open capacity and has built-in common business data programming components, such as Merchandise Connect (商品通), Membership Connect (會員通), Points Connect (積分通), Order Connect (訂單通), Coupon Connect (優惠券通), and Prepaid Top-up Connect (儲值通). In addition, based on Youzan Cloud platform ecosystem, Youzan iPaaS has been deeply integrated with the industry capabilities of numerous software vendors and has already integrated application connectors of 38 vendors such as Burgeon, Baison, Nascent, Digiwin, Kingdee and Hualala. Merchants can order and use the software directly from the Youzan iPaaS platform without requiring re-development, which is really ready for use.

We have launched our first AI product, namely "Jarvis". Currently, "Jarvis" mainly supports two scenarios of graphic promotion and campaign planning. The "graphic promotion" can generate content with better conversion rates and preferred results based on the merchandise information, campaign information, promotion channels, and usage scenarios; while the "campaign planning" can clearly understand the purpose of the campaign and automatically generate marketing campaigns across products and functions. "Jarvis" will continue to roll out new functions to serve merchants focusing on five key capabilities including report analysis, sales enhancement, after-sales customer service, merchandise creation, and shop design.

In the first quarter of 2023, the gross merchandise volume generated by the merchants through Youzan's solutions reached approximately RMB23.4 billion, increased by approximately 2% year-on-year. The gross merchandise volume of store SaaS business was approximately RMB11.3 billion, accounting for 48% of the gross merchandise volume, representing an increase of approximately 26% year-on-year. The average sales of a single merchant were approximately RMB300,000 in the first quarter of 2023, representing an increase of approximately 16% year-on-year.

As of 31 March 2023, we had 78,389 paying merchants, of which approximately 64% were those subscribing for e-commerce SaaS; approximately 36% were those subscribing for store SaaS, including Youzan Retail, Youzan Chain, Youzan Beauty, Youzan Education and WowShop etc.

The number of new paying merchants in the first quarter of 2023 was 5,015, of which the new paying merchants of store SaaS accounted for 38% of the total new paying merchants.

As of 31 March 2023, Youzan had a total of 1,936 employees.

Business Development Strategies

In 2023, we will continue to make continuous improvement in operating efficiency as our primary business objective. While achieving a stable growth in cash income, we will continue to improve operating cash flow and operating results by investing resources in a scientific and rational manner, so as to achieve the long-term sustainable and healthy development of the Company.

We will continue to focus on our core customer base for market expansion purpose and continue to upgrade customer structure in a bid to achieving higher fee renewal rates and higher renewal revenue for the continuous optimization of business results.

We will always adhere to the vision of “customer-centric”, continue to deepen our understanding of core customer base’s business, and take “creating value for customers” as the direction to improve our solution capabilities and help merchants to increase their sales.

Financial Review

Revenue

The Group’s revenue for the period was approximately RMB354,817,000 (three months ended 31 March 2022: approximately RMB362,802,000), representing a decrease of approximately 2.2% compared with the same period in 2022.

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

	For the three months ended 31 March		
	2023	2022	Changes
	(Unaudited)	(Unaudited)	
	RMB’000	RMB’000	%
Subscription solutions	205,719	219,914	(6.5)
Merchant solutions	148,172	139,384	6.3
Others	926	3,504	(73.6)
Total	354,817	362,802	(2.2)

Subscription Solutions

Revenue from subscription solutions primarily include subscription fees for SaaS products and a per-transaction cloud service fee for each extra order beyond a pre-specified order number threshold that consumers made to such merchants through SaaS products. Revenue generated from subscription solutions decreased by 6.5% from approximately RMB219,914,000 for the three months ended 31 March 2022 to RMB205,719,000 for the reporting period, mainly attributable to the decrease in the number of paying merchants.

Merchant Solutions

The Group offers merchant solutions which comprise comprehensive value-added services addressing merchant needs that arise in daily operations. Revenue from merchant solutions mainly include transaction service fee charged for transaction service, service fees charged for Youzan Distribution and Youzan Worry-free Shopping, as well as rebates granted by social media for Youzan Promotion. Transaction service fee and service fees for Youzan Distribution and Youzan Worry-free Shopping are determined with reference to the GMV generated by merchants through solutions.

Revenue from merchant solutions for the reporting period was approximately RMB148,172,000 (three months ended 31 March 2022: approximately RMB139,384,000), representing a year-on-year increase of 6.3%, mainly due to the increase in the revenue from private domain operation service.

Others

Revenue from other businesses for the reporting period was approximately RMB926,000 (three months ended 31 March 2022: approximately RMB3,504,000), representing a year-on-year decrease of 73.6%.

Cost of Sales

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

	For the three months ended 31 March				Changes %
	2023 (Unaudited)		2022 (Unaudited)		
	RMB'000	Percentage %	RMB'000	Percentage %	
Staff costs	28,421	26.2	42,759	30.0	(33.5)
Server and SMS costs	9,971	9.2	30,470	21.4	(67.3)
Transaction costs	42,111	38.8	51,600	36.3	(18.4)
Costs of goods sold	487	0.4	1,573	1.1	(69.0)
Depreciation of right-of-use assets	326	0.3	1,286	0.9	(74.7)
Technology services expenses	5,537	5.1	1,022	0.7	441.8
Contracted operation services costs	10,621	9.8	2,825	2.0	276.0
Taxes and surcharges	1,716	1.6	1,625	1.1	5.6
Insurance premium costs	1,565	1.4	3,052	2.2	(48.7)
Others	7,832	7.2	6,113	4.3	28.1
Total	108,587	100.0	142,325	100.0	(23.7)

The Group's costs of sales for the reporting period were approximately RMB108,587,000 (three months ended 31 March 2022: approximately RMB142,325,000), representing a year-on-year decrease of 23.7%, due to (i) server and SMS costs decreased by 67.3% from approximately RMB30,470,000 in the same period of last year to approximately RMB9,971,000 for the reporting period, mainly due to precise costs control measures, and (ii) staff costs decreased by 33.5% from approximately RMB42,759,000 in the same period of last year to approximately RMB28,421,000 for the reporting period, mainly due to the decrease in headcount as a result of the optimization of organization structure.

Gross Profit and Gross Profit Margin

The Group recorded a gross profit for the reporting period of approximately RMB246,230,000 (three months ended 31 March 2022: approximately RMB220,477,000), representing a year-on-year increase of 11.7%, due to the increase of gross profit of subscription solutions and merchant solutions.

The Group's gross profit margin increased from 60.8% in the same period of 2022 to 69.4% for the reporting period, primarily due to the increase of gross profit margin of subscription solutions and merchant solutions.

	For the three months ended 31 March 2023 (Unaudited)		2022 (Unaudited)	
	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %
Subscription solutions	167,189	81.3	151,706	69.0
Merchant solutions	78,820	53.2	67,820	48.7
Others	221	23.9	951	27.1
Total	246,230	69.4	220,477	60.8

Subscription Solutions

The gross profit of subscription solutions for the reporting period was approximately RMB167,189,000 (three months ended 31 March 2022: approximately RMB151,706,000), representing a year-on-year increase of 10.2%. The increase in gross profit was mainly due to the decrease in staff costs and server costs brought by precise costs control measures.

The gross profit margin increased from 69.0% for the three months ended 31 March 2022 to 81.3% for the reporting period, primarily due to the decrease in the cost of subscription solutions.

Merchant Solutions

The gross profit of merchant solutions for the reporting period was approximately RMB78,820,000 (three months ended 31 March 2022: approximately RMB67,820,000), representing an increase of 16.2%, mainly due to the increase in the gross profit of transaction services benefited by the optimization of cost structure.

The gross profit margin increased from 48.7% for the three months ended 31 March 2022 to 53.2% for the three months ended 31 March 2023, mainly due to the increase in the gross profit margin of transaction services benefited by the optimization of cost structure.

Expenses and Others

The Group recorded a 38.6% decrease compared with the same period in 2022 in selling expenses to approximately RMB157,128,000 (three months ended 31 March 2022: approximately RMB255,966,000). It was mainly due to the decrease in sales personnel which led to the decrease in sales staff costs and the decrease in channel commission expenses.

The Group recorded a 73.0% decrease compared with the same period in 2022 in administrative expenses to approximately RMB33,338,000 (three months ended 31 March 2022: approximately RMB123,324,000). It was mainly due to the one-off severance packages of approximately RMB61,181,000 during the period ended 31 March 2022 and the decrease in administrative staff costs due to the decrease in administrative personnel as a result of the optimization of the organizational structure.

The Group recorded a 67.5% decrease compared with the same period in 2022 in other operating expenses to approximately RMB56,026,000 (three months ended 31 March 2022: approximately RMB172,251,000). It was mainly due to the reduction in research and development expenses as a result of the rational arrangement of research and development investment and the optimization of the organizational structure to reduce the research and development staff costs by the Group.

The Group recorded a 33.7% decrease compared with the same period in 2022 in equity-settled share-based payments to approximately RMB2,662,000 (three months ended 31 March 2022: approximately RMB4,017,000).

The Group recorded a 61.0% increase compared with the same period in 2022 in investment and other income to approximately RMB18,294,000 (three months ended 31 March 2022: approximately RMB11,360,000). It was mainly due to the increase in government grants and bank interest income.

The Group recorded a 26.3% increase compared with the same period in 2022 in finance costs to approximately RMB6,895,000 (three months ended 31 March 2022: approximately RMB5,459,000), mainly due to the increase in interest as a result of the new bank loans in June 2022, partially offset by the decrease in interest expenses of lease liabilities in relation to leases of office premises.

Dividends

No dividends have been paid or proposed for the three months ended 31 March 2023, nor has any dividend been proposed since the end of the reporting period (three months ended 31 March 2022: Nil).

Pledge of Assets

As at 31 March 2023, the Group had no pledge of assets.

Financial Resources and Liquidity

As at 31 March 2023, the Group had cash and cash equivalents of approximately RMB842,118,000 (31 December 2022: approximately RMB889,944,000).

As at 31 March 2023, the Group had borrowings of approximately RMB481,377,000 (31 December 2022: approximately RMB480,986,000).

Contingent Liability

In September 2021, Hangzhou Youzan Technology Co., Ltd. (杭州有贊科技有限公司) (“Hangzhou Youzan”), a subsidiary of the Company, and its merchants had a legal dispute with third party for patent infringements. The third party sued for patent infringements and claimed the merchants and Hangzhou Youzan for damages of RMB1,000,000. Management and the Group’s legal department assessed the likelihood of the claim as low and the maximum compensation, if any, could be RMB1,000,000. The Directors are of the opinion that it is not probable that an outflow of economic benefits will be required to settle the case, and therefore disclosed as contingent liabilities.

Save as disclosed above, the Group had no other material contingent liabilities as at 31 March 2023.

Foreign Exchange Exposure

Since the Group’s operations are mainly located in the PRC, its transactions, monetary assets and liabilities are primarily denominated in Renminbi. During the three months ended 31 March 2023, no hedging arrangement was made to offset the exposures to fluctuations in exchange rates. The Group monitors its foreign currency risks and will consider hedging significant currency exposures should the need arises.

Employees

As at 31 March 2023, the Group has approximately 1,936 employees (31 December 2022: 1,952). Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus, share options and share awards etc. The Directors believe that good quality of its employees is a company asset which affects growth and improves profitability. The Group recognizes the importance of staff training and thus regularly provides internal and external training for its staff to enhance their skills and product knowledge.

Grant of Share Options

On 20 January 2023, the Company offered to grant 14,450,000 share options (the "Options") to 36 eligible participants (the "Grantees") to subscribe for ordinary shares of HK\$0.01 each in the share capital of the Company (the "Shares") under the share option scheme adopted by the Company on 12 June 2019 (the "Share Option Scheme") and the scheme mandate limit under the Share Option Scheme as refreshed on 12 May 2020, subject to the acceptance of the Options by the Grantees. Exercise price for each Share Option is HK\$0.385 per Share.

Details are set forth in the Company's announcement dated on 20 January 2023.

Significant Investment and Acquisition

There were no significant investments or acquisitions during the three months ended 31 March 2023.

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

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

As at 31 March 2023, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

Long position in Shares

Directors	Interest in shares	Interest in underlying shares	Total interest in shares	Shareholding (%)
Mr. Zhu Ning	1,440,601,703 <i>(Note 1)</i> 363,170,101 <i>(Note 2)</i> 28,000,000	100,000,000 <i>(Note 4)</i> 1,000,000 <i>(Note 6)</i>	1,932,771,804	10.49
Mr. Cui Yusong	241,885,127 <i>(Note 3)</i> 8,900,000	20,000,000 <i>(Note 5)</i> 1,000,000 <i>(Note 6)</i>	271,785,127	1.48
Mr. Yu Tao	13,848,000	15,000,000 <i>(Note 5)</i> 1,000,000 <i>(Note 6)</i>	29,848,000	0.16
Ms. Ying Hangyan	852,000	15,000,000 <i>(Note 5)</i> 1,000,000 <i>(Note 6)</i>	16,852,000	0.09
Dr. Fong Chi Wah	1,000,000	–	1,000,000	0.01
Mr. Li Shaojie	1,000,000	–	1,000,000	0.01

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

Note 2: The shares are held by Youzan Teamwork Inc. (“Youzan Teamwork”). Youzan Teamwork is a company incorporated in the British Virgin Islands with limited liability and is owned as to 8% by Mr. Zhu Ning and 18% by Whitecrow Investment, which is in turn 100% beneficially owned by Mr. Zhu Ning.

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

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

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

Note 6: The Company granted the share options under the Share Option Scheme on 20 January 2023. The share options are valid until 19 January 2028 and have an exercise price of HK\$0.385.

Save as disclosed above, as at 31 March 2023, none of the Directors nor chief executives of the Company had any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (iii) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

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

Save as disclosed below, as at 31 March 2023, there was no other person (other than a Director or chief executive of the Company) who had any interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long position in Shares

Name of Substantial Shareholders	Capacity	Number of interest in shares	Shareholding (%)
Whitecrow Investment <i>(Note 1)</i>	Beneficial owner	1,440,601,703	7.82
Double Peace Limited	Interests of controlled corporation	1,440,601,703	7.82
Tricor Equity Trustee Limited	Trustee	1,440,601,703	7.82
Poyang Lake Investment Limited <i>(Note 2)</i>	Beneficial owner	1,036,766,038	5.63
Tencent Holdings Limited <i>(Note 2)</i>	Interests of controlled corporation	1,036,766,038	5.63

Note 1: Whitecrow Investment is a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Double Peace Limited. Mr. Zhu Ning is the settlor of a discretionary trust which holds the entire issued share capital of Double Peace Limited. Tricor Equity Trustee Limited holds the entire issued share capital of Double Peace Limited as trustee of the discretionary trust.

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

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

As at 31 March 2023, there were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Company's specific enquiry, each director has confirmed that during the year ended 31 March 2023, he/she had complied with the required standard of dealings and the code of conduct.

CORPORATE GOVERNANCE CODE

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

The Company has complied with the provisions of the Code during the three months ended 31 March 2023, except for the deviation from code provision C.2.1 of the Code, details of which are set out in the paragraph headed "Chairman and Chief Executive Officer" of this report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision C.2.1 of the Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual.

Since 19 February 2021, Mr. Zhu Ning, who has been an executive director and the chief executive officer of the Company since May 2018, has also been appointed as the chairman of the Board. Such practice deviates from the code provision C.2.1 of the Code.

Mr. Zhu Ning has been the key leadership figure since joining the Group who has primarily participated in formulation of business plans, strategies and major decisions of the Group, and has been responsible for the overall management of the Group. Taking into account the continuation of the implementation of our business plans, the Directors consider that Mr. Zhu is the best candidate for both positions and this arrangement is beneficial and in the interests of our Company and the shareholders as a whole. Therefore, the Board considers the deviation from the code provision C.2.1 of the Code is appropriate in such circumstances.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Company for the three months ended 31 March 2023 and is of the opinion that such results have complied with the applicable accounting standards and the requirements under the GEM Listing Rules.

By order of the Board
China Youzan Limited
Zhu Ning
Chairman

Hong Kong, 10 May 2023

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

Executive Directors

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

Independent Non-executive Directors

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

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