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China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

CONTINUING CONNECTED TRANSACTION

RENEWAL OF THIRD PARTY PAYMENT SERVICES FRAMEWORK AGREEMENT

RENEWAL OF THIRD PARTY PAYMENT SERVICES FRAMEWORK AGREEMENT

Reference is made to (i) the circular of the Company dated 2 January 2018 in relation to, among other things, the 2017 Third Party Payment Services Framework Agreement entered into between Beijing Gaohuitong (an indirect wholly-owned subsidiary of the Company), and Hangzhou Youzan (an indirect wholly-owned subsidiary of Qima) for the provision of various third party payment services; and (ii) the announcement of the Company dated 31 December 2019 in relation to the New Third Party Payment Services Framework Agreement entered into between Beijing Gaohuitong and Hangzhou Youzan for the continuous provision of various third party payment services.

As the New Third Party Payment Services Framework Agreement will expire on 31 May 2020, Beijing Gaohuitong and Hangzhou Youzan have entered into the 2020 Third Party Payment Services Framework Agreement on 12 March 2020, pursuant to which Beijing Gaohuitong will continue to provide various third party payment services to Hangzhou Youzan for a term from the date on which the conditions precedent mentioned therein are fulfilled to 31 December 2022 (both days inclusive).

GEM LISTING RULES IMPLICATIONS

Qima is a non wholly-owned subsidiary of the Company which is owned as to 50.76% by the Company and 10.54% by Whitecrow Investment Ltd. Whitecrow Investment Ltd. is wholly-owned by Mr. Zhu Ning, a Director and substantial shareholder of the Company. Therefore, Qima and its subsidiaries, including Hangzhou Youzan, are the connected subsidiaries and connected persons of the Company under Rule 20.07(5) of the GEM Listing Rules. Accordingly, transactions under the 2020 Third Party Payment Services Framework Agreement for which Hangzhou Youzan makes payment shall constitute continuing connected transactions of the Company.

In respect of the proposed annual caps under the 2020 Third Party Payment Services Framework Agreement, as one or more applicable percentage ratio(s) (as defined in Rule 19.07 of the GEM Listing Rules) with respect to the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement is more than 25% and the annual caps in respect of the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement are expected to be more than HK\$10,000,000, the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Company will seek approval from the Independent Shareholders for the 2020 Third Party Payment Services Framework Agreement and the proposed annual caps thereto at the AGM.

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the 2020 Third Party Payment Services Framework Agreement and the proposed annual caps thereto. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders of the same.

The AGM will be convened to consider and, if thought fit, to approve, among other matters, (i) the 2020 Third Party Payment Services Framework Agreement and the transactions contemplated thereunder; and (ii) the proposed annual caps in respect of the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement and the transactions contemplated thereunder.

A circular containing, among other matters, (i) further information on the 2020 Third Party Payment Services Framework Agreement; (ii) a letter from the Independent Board Committee; (iii) a letter from the Independent Financial Adviser; and (iv) the notice convening the AGM and a form of proxy will be despatched to the Shareholders on or before 31 March 2020.

INTRODUCTION

Reference is made to (i) the circular of the Company dated 2 January 2018 in relation to, among other things, the 2017 Third Party Payment Services Framework Agreement entered into between Beijing Gaohuitong (an indirect wholly-owned subsidiary of the Company), and Hangzhou Youzan (an indirect wholly-owned subsidiary of Qima) for the provision of various third party payment services; and (ii) the announcement of the Company dated 31 December 2019 in relation to the New Third Party Payment Services Framework Agreement entered into between Beijing Gaohuitong and Hangzhou Youzan for the continuous provision of various third party payment services.

As the New Third Party Payment Services Framework Agreement will expire on 31 May 2020, Beijing Gaohuitong and Hangzhou Youzan have entered into the 2020 Third Party Payment Services Framework Agreement on 12 March 2020, pursuant to which Beijing Gaohuitong will continue to provide various third party payment services to Hangzhou Youzan for a term from the date on which the conditions precedent mentioned therein are fulfilled to 31 December 2022 (both days inclusive).

THE 2020 THIRD PARTY PAYMENT SERVICES FRAMEWORK AGREEMENT

The principal terms of the 2020 Third Party Payment Services Framework Agreement are set out below:

Date

12 March 2020

Parties

- (i) Beijing Gaohuitong; and
- (ii) Hangzhou Youzan

Conditions precedent

The commencement of the 2020 Third Party Payment Services Framework Agreement is conditional upon fulfillment of the following conditions:

- (i) the obtaining of the approval from the Independent Shareholders by the Company in relation to the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement; and

- (ii) the approval from the board of directors of Qima in relation to the 2020 Third Party Payment Services Framework Agreement and the related transactions contemplated thereunder.

Term

The 2020 Third Party Payment Services Framework Agreement is of a term commencing from the date on which the above conditions precedent are fulfilled (the “**Effective Date**”) and ending on 31 December 2022 (both days inclusive).

Scope of services

Beijing Gaohuitong shall provide the following types of third party payment services to Hangzhou Youzan subject to the terms and conditions of the 2020 Third Party Payment Services Framework Agreement:

1. offline integrated payment transactions services, including but not limited to, point of sales based business handling services for bank cards for offline transactions;
2. online payment services for “WeiMall”, including but not limited to express checkout, Wechat Pay and Alipay services;
3. cross-border RMB payment settlement services for “WeiMall” overseas merchants;
4. physical and virtual prepaid cards services for merchants of Qima Group; and
5. other payment related services.

Pricing policy and payment terms

The service fee under the 2020 Third Party Payment Services Framework Agreement is determined principally by arm’s length commercial negotiations between the parties with reference to (i) the upstream channel costs and operating costs incurred in relation to the provision of the similar payment services by Beijing Gaohuitong and (ii) the quotation arrangement of similar payment services by Beijing Gaohuitong to Independent Third Parties. In any event, the service fee charged under the 2020 Third Party Payment Services Framework Agreement shall not (i) be less favourable than those available to Independent Third Parties for similar quotation arrangement of similar payment services provided by Beijing Gaohuitong; or (ii) be lower than the upstream channel costs and operating costs incurred in relation to the provision of similar payment services by Beijing Gaohuitong plus a markup of 20%.

Under the terms of the 2020 Third Party Payment Services Framework Agreement, the upstream channel costs and operating costs incurred in relation to the provision of payment services will be payable by the end users directly to Beijing Gaohuitong and the remaining service fee will be payable by Hangzhou Youzan. The end users of the internet payment services have entered into separate agreements with Beijing Gaohuitong in relation to the payment of the service fees.

Proposed annual caps

The proposed annual caps in respect of the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement (including the transaction contemplated under the New Third Party Payment Services Framework Agreement) for each of the three years ended 31 December 2022 is RMB80,000,000, RMB110,000,000 and RMB150,000,000 respectively.

Basis of the proposed annual caps

The proposed annual caps for the continuing connected transactions contemplated under the 2020 Third Party Payment Services Framework Agreement have been determined based on, among others, (i) the historical amount of service fee paid by Qima to Beijing Gaohuitong and (ii) Qima's estimate of its business growth.

As the end users of the internet payment services have entered into separate agreements with Beijing Gaohuitong in relation to the payment of the service fees, under the 2020 Third Party Payment Services Framework Agreement, Hangzhou Youzan is only required to pay the remaining service fee to Beijing Gaohuitong after netting off the service fee paid by those end users, therefore the proposed annual caps are accordingly lesser than the previous annual caps under the 2017 Third Party Payment Services Framework Agreement.

Other major terms of the 2020 Third Party Payment Services Framework Agreement

The 2020 Third Party Payment Services Framework Agreement will supersede and replace the New Third Party Payment Services Framework Agreement previously entered into between the relevant parties upon the 2020 Third Party Payment Services Framework Agreement becoming effective on the Effective Date.

INTERNAL CONTROL AND PRICING POLICY

In order to ensure that the service fee charged under the 2020 Third Party Payment Services Framework Agreement shall not (i) be less favourable than those available to independent third parties for similar quotation arrangement of similar payment services provided by Beijing Gaohuitong or (ii) be lower than the upstream channel costs and operating costs incurred in relation to the provision of similar payment services by Beijing Gaohuitong plus a markup of 20%, the Company has adopted the following measures:

1. the Company will monitor and make sure that the continuing connected transactions are conducted in accordance with the procedures set forth in the Company's internal control procedure on continuing connected transactions. In particular, designated personnel of the operation department of the Company will (i) collect and analyse the monthly data including the service fees of similar services provided to independent third parties; (ii) conduct regular checks to review and assess whether relevant transactions are conducted in accordance with the terms of the 2020 Third Party Payment Services Framework Agreement; and (iii) monitor the changes in the relevant upstream channel costs and operating costs incurred in relation to the provision of payment services, in order to determine the service fee charged under the 2020 Third Party Payment Services Framework Agreement on a monthly basis. The Company will notify such changes in the upstream channel costs and operating costs incurred in relation to the provision of payment services to Hangzhou Youzan as soon as practicable and the relevant service fees will be adjusted accordingly on a monthly basis to ensure that such service fee will be no less favourable than the service fees of similar services provided to independent third parties;
2. the Company's external auditors will conduct a review on the pricing policy and the proposed annual caps of the continuing connected transactions;
3. the Company's Audit Committee will review the analysis reports and the improvement measures prepared by the Company's management based on the implementation of the continuing connected transactions by the Company; and
4. the independent non-executive Directors will conduct review of the implementation and enforcement of the continuing connected transactions.

In view of the above, the Directors consider that such methods and procedures can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2020 THIRD PARTY PAYMENT SERVICES FRAMEWORK AGREEMENT

Following the integration of Qima Group's "WeiMall" and its other ancillary and specialised e-commerce platforms with the Group's third party payment services infrastructure, the Group has been providing third party payment services on all online stores opened with "WeiMall" as the platform's authorised payment service provider since 2017. As the New Third Party Payment Services Framework Agreement expires on 31 May 2020, in order to continuously implement the Group's development strategy regarding its third party payment services, the Group intends to continue the provision of the third party payment services by entering into the 2020 Third Party Payment Services Framework Agreement.

The Directors (excluding the independent non-executive Directors who will express their views after considering the advice of the Independent Financial Adviser) consider that the terms of the 2020 Third Party Payment Services Framework Agreement (including the proposed annual caps) and the transactions contemplated thereunder are on normal commercial terms after arm's length negotiations and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and its shareholders as a whole.

INFORMATION OF THE PARTIES TO THE TRANSACTION

The Group

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.

Beijing Gaohuitong

Beijing Gaohuitong is an indirect wholly-owned subsidiary of the Company, principally engaged in the provision of the third party payment services and related customer services in the PRC.

Hangzhou Youzan

Hangzhou Youzan was incorporated under the laws of the PRC on 23 September 2014 and is an indirect wholly-owned subsidiary of Qima. Hangzhou Youzan provides administrative supports and handles the employment matters for Qima Group.

GEM LISTING RULES IMPLICATIONS

Qima is an investment holding company which indirectly holds the entire issued share capital of Hangzhou Youzan, which is principally engaged in the e-commerce applications related business in the PRC. Qima is a non wholly-owned subsidiary of the Company which is owned as to 50.76% by the Company. To the best knowledge of the Directors having made reasonable enquiry, as at the date of this announcement, the remaining 49.24% interest in Youzan is held by: (i) Whitecrow Investment Limited, whose ultimate shareholder is Mr. Zhu Ning, a Director and substantial shareholder of the Company, as to approximately 10.54%; (ii) Rory Huang Investment Ltd., whose ultimate shareholder is Mr. Huang Rongrong (a director of Qima), as to approximately 0.36%; (iii) V5. Cui Investment Ltd., whose ultimate shareholder is Mr. Cui Yusong (a Director), as to approximately 1.77%; (iv) Youzan Teamwork Inc., which is held by Mr. Zhu Ning, Mr. Huang Rongrong, Mr. Yu Tao (a Director) and Ms. Ying Hangyan (a Director) as to 40%, 40%, 10% and 10% respectively, as to approximately 4.52%; (v) Qima Teamwork Inc., which is held by Mr. Hong Bo (an Independent Third Party), as to approximately 7.20%; (vi) Xincheng Investment Limited, whose ultimate shareholder is Li Zhiguo (a director of Qima) as to approximately 2.33%; (vii) Aves Capital, LLC which is wholly owned by Mr. Xiong Minghua (an Independent Third Party), as to approximately 1.47%; (viii) 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 6.11%; (ix) Matrix Partners China III, L.P. whose beneficial owner is Matrix China Management III, L.P. as to approximately 2.58%; (x) Matrix Partners China III-A, L.P. whose beneficial owner is Matrix China Management III, L.P. as to approximately 0.29%; (xi) Hillhouse KDWD Holdings Limited whose beneficial owner is Hillhouse Fund II, L.P. as to approximately 5.13%; (xii) 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 2.47%; (xiii) Ralston Global Holdings Limited, which is wholly owned by Ms. Wen Qun (an Independent Third Party), as to approximately 0.57%; (xiv) Hangzhou San Ren Yan Xing Investment Partnership whose beneficial owner is Mr. Cao Guoxiong (an Independent Third Party) as to approximately 0.57%; (xv) Franchise Fund Limited, a discretionarily-managed fund managed by Franchise Capital Limited, as to approximately 1.66%; (xvi) Happy Zan Holdings Limited which is ultimately controlled by Mr. Wang Haining (an Independent Third Party) as to approximately 0.47%; and (xvii) Fresco Mobile Limited which is ultimately wholly owned by Baidu Inc., a company listed on NASDAQ, as to 1.20%. Therefore, Qima and its subsidiaries, including Hangzhou Youzan, are the connected subsidiaries and connected persons of the Company under Rule 20.07(5) of the GEM Listing Rules. Accordingly, transactions under the 2020 Third Party Payment Services Framework Agreement for which Hangzhou Youzan makes payment shall constitute continuing connected transactions of the Company.

In respect of the proposed annual caps under the 2020 Third Party Payment Services Framework Agreement, as one or more applicable percentage ratio(s) (as defined in Rule 19.07 of the GEM Listing Rules) with respect to the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement is more than 25% and the proposed annual caps in respect of the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement are expected to be more than HK\$10,000,000, the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Company will seek approval from the Independent Shareholders for the 2020 Third Party Payment Services Framework Agreement and the proposed annual caps thereto at the AGM.

GENERAL

An Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the 2020 Third Party Payment Services Framework Agreement and the proposed annual caps thereto. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders of the same.

The AGM will be convened to consider and, if thought fit, to approve, among other matters, (i) the 2020 Third Party Payment Services Framework Agreement and the transactions contemplated thereunder; and (ii) the proposed annual caps in respect of the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement.

A circular containing, among other matters, (i) further information on the 2020 Third Party Payment Services Framework Agreement; (ii) a letter from the Independent Board Committee; (iii) a letter from the Independent Financial Adviser; and (iv) the notice convening the AGM and a form of proxy will be despatched to the Shareholders on or before 31 March 2020.

Given that Qima is owned as to 1.77% by V5.Cui Investment Ltd. and 4.52% by Youzan Teamwork Inc. V5.Cui Investment Ltd. is wholly-owned by Mr. Cui Yusong, a Director. Youzan Teamwork Inc. is owned by Mr. Zhu Ning, Mr. Huang Rongrong, Mr. Yu Tao, Ms. Ying Hangyan and Mr. Cui Yusong as to approximately 40%, 40%, 10%, 10% and one share while except Mr. Huang Rongrong, all of them are Directors. Mr. Zhu Ning, Mr. Cui Yusong, Ms. Ying Hangyan and Mr. Yu Tao had interests in the 2020 Third Party Payment Services Framework Agreement by virtue of their respective interests in Qima and they therefore abstained from voting on the board resolution of the Company approving the 2020 Third Party Payment Services Framework Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in the 2020 Third Party Payment Services Framework Agreement and none were required to abstain from voting on the board resolution of the Company in respect of the 2020 Third Party Payment Services Framework Agreement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“2017 Third Party Payment Services Framework Agreement”	the framework agreement dated 8 April 2017 and entered into between Beijing Gaohuitong and Hangzhou Youzan in relation to the provision of various third party payment services for a term commencing from the date on which the conditions precedent contained in such framework agreement were fulfilled and ending on 31 December 2019 (both days inclusive)
“2020 Third Party Payment Services Framework Agreement”	the framework agreement dated 12 March 2020 and entered into between Beijing Gaohuitong and Hangzhou Youzan in relation to the continuous provision of various third party payment services for a term commencing from the date on which the conditions precedent mentioned therein are fulfilled to 31 December 2022 (both days inclusive)
“AGM”	the annual general meeting of the Company to be convened to approve, among other matters, (i) the 2020 Third Party Payment Services Framework Agreement and the transactions contemplated thereunder; and (ii) the proposed annual caps in respect of the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement
“Beijing Gaohuitong”	Beijing Gaohuitong Commercial Management Co., Ltd. (北京高匯通商業管理有限公司), an indirect wholly-owned subsidiary of the Company, principally engaged in the provision of the third party payment services and related customer services in the PRC
“Board”	the board of Directors
“Company”	China Youzan Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the GEM
“connected person(s)”	each has the meaning ascribed to it under the GEM Listing Rules
“Director(s)”	the director(s) of the Company

“GEM”	the GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hangzhou Youzan”	杭州有贊科技有限公司, a company incorporated in the PRC and is indirectly wholly-owned by Qima
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising the independent non-executive Directors
“Independent Financial Adviser”	First Shanghai Capital Limited, a corporation licensed to carry out Type 6 regulated activity under the SFO which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2020 Third Party Payment Services Framework Agreement and the proposed annual caps thereto
“Independent Shareholders”	the Shareholders other than the Shareholders who are involved in or interested in the 2020 Third Party Payment Services Framework Agreement
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which, as far as the Directors are aware after having made all reasonable enquiries, is/are not a connected person(s) of the Company within the meaning of the GEM Listing Rules
“New Third Party Payment Services Framework Agreement”	the framework agreement dated 31 December 2019 and entered into between Beijing Gaohuitong and Hangzhou Youzan in relation to the continuous provision of various third party payment services for a term commencing from 1 January 2020 to 31 May 2020 (both days inclusive)
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macao and Taiwan

“Qima”	Qima Holdings Ltd., a company incorporated in the Cayman Islands with limited liability and is a non-wholly owned subsidiary of the Company as at the date of this announcement
“Qima Group”	Qima and its subsidiaries
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“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
“%”	per cent.

By Order of the Board
China Youzan Limited
Guan Guisen
Chairman

Hong Kong, 12 March 2020

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

This announcement, 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 “Latest Company Announcements” page of the GEM website for at least 7 days from the date of its posting and on the Company’s website at www.chinayouzan.com.