
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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 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 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 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 TRANSACTIONS,
(2) GENERAL MANDATES TO ISSUE
AND REPURCHASE SHARES,
(3) REFRESHMENT OF SCHEME MANDATE LIMIT OF
SHARE OPTION SCHEME,
(4) PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME,
(5) RE-ELECTION OF DIRECTORS,
(6) RE-APPOINTMENT OF AUDITOR
AND
(7) NOTICE OF ANNUAL GENERAL MEETING**

A notice convening the annual general meeting of the Company (the “AGM”) to be held at 24/F, Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong at 10:00 a.m. on Tuesday, 12 May 2020, is set out on pages AGM-1 to AGM-7 of this circular. A form of proxy for use by the shareholders of the Company at the AGM (or any adjournment thereof) is also enclosed. Whether or not you are able to attend the AGM, 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 not less than 48 hours before the time schedule for the holding of the AGM. Completion and return of the form of proxy will not preclude you from attending and voting at the AGM (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.

31 March 2020

CHARACTERISTICS OF THE GEM

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

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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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Accompanying: Form of proxy for AGM

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions 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 are 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 held at 24/F., Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong at 10:00 a.m. on Tuesday, 12 May 2020, notice of which is set out on pages AGM-1 to AGM-7 of this circular
“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
“Business Day”	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are open for the transaction of normal business
“Bye-Laws”	the bye-laws of the Company as may be amended from time to time

DEFINITIONS

“close associate(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Company”	China Youzan Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on GEM
“connected person(s)”	each has the meaning ascribed to it under the GEM Listing Rules
“core connected person(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“GEM”	the GEM of the Stock Exchange
“Eligible Participant(s)”	<ul style="list-style-type: none">(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.
“GEM Listing Committee”	has the meaning ascribed thereto in the GEM Listing Rules
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM
“General Mandates”	the Issue Mandate and the Repurchase Mandate
“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

DEFINITIONS

“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
“Issue Mandate”	the proposed general mandate to be granted to the Directors at the AGM to allot, issue and deal with new Shares up to 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the relevant ordinary resolution granting such mandate
“Latest Practicable Date”	25 March 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“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)

DEFINITIONS

“Notice”	the notice convening the AGM as set out on pages AGM-1 to AGM-7 of this circular
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong
“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
“Proposed Amendments”	the proposed amendments to the relevant paragraphs of the Share Option Scheme as set out in Resolution 2 of the notice of the AGM on pages AGM-1 to AGM-7 of this circular
“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 Latest Practicable Date
“Qima Group”	Qima and its subsidiaries
“Repurchase Mandate”	the proposed general mandate to be granted to the Directors at the AGM to exercise the powers of the Company to repurchase Shares up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company in issue as at the date of passing of the relevant ordinary resolution granting such mandate
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Option(s)”	the subscription right(s) attaching to the outstanding option(s) to subscribe for Shares granted by the Company under the existing Share Option Scheme

DEFINITIONS

“Share Option Scheme”	the existing share option scheme adopted by the Company pursuant to the written resolution of the Shareholders on 12 June 2019
“Shareholder(s)”	holder(s) of the Share(s)
“Scheme Mandate Limit”	being the maximum number of Shares which may be allotted and issued upon exercise of all share options to be granted under the existing Share Option Scheme of the Company as stipulated in Rule 23.03(3) of the GEM Listing Rules
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	Hong Kong Codes on Takeovers and Mergers and Share Buy-backs issued by Securities and Futures Commission, as amended from time to time
“%”	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:

31 Victoria Street
5th Floor
Hamilton, HM 10
Bermuda

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

Unit 2708, 27/F
The Center
99 Queen's Road Central
Hong Kong

31 March 2020

To the Shareholders

Dear Sir or Madam,

- (1) CONTINUING CONNECTED TRANSACTIONS,
(2) GENERAL MANDATES TO ISSUE
AND REPURCHASE SHARES,
(3) REFRESHMENT OF SCHEME MANDATE LIMIT OF
SHARE OPTION SCHEME,
(4) PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME,
(5) RE-ELECTION OF DIRECTORS,
(6) RE-APPOINTMENT OF AUDITOR
AND
(7) NOTICE OF ANNUAL GENERAL MEETING**

1. INTRODUCTION

Reference is made to the Company's announcement dated 12 March 2020 in which it was mentioned that the 2020 Third Party Payment Services Framework 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 Shareholders passed the resolutions to grant the general mandates to the Directors to issue and allot Shares and to exercise the powers of the Company to repurchase its own Shares (the “Previous Mandates”) at the annual general meeting held on 9 May 2019 in accordance with the GEM Listing Rules. As the Previous Mandates will lapse at the conclusion of the AGM, it is therefore proposed that the general mandates to issue and allot Shares and to repurchase Shares be renewed at the AGM.

In addition, the Directors would like to seek approvals from the Shareholders for (i) the refreshment of Scheme Mandate Limit of the Share Option Scheme and (ii) the Proposed Amendments of the Share Option Scheme.

The purpose of this circular is to provide you with information regarding (i) the 2020 Third Party Payment Services Framework Agreement; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in connection with the 2020 Third Party Payment Services Framework 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 2020 Third Party Payment Services Framework Agreement and the proposed annual caps in respect of the transactions contemplated thereunder; (iv) the proposed renewal of the general mandates to issue and allot Shares and to repurchase Shares of the Company; (v) the refreshment of Scheme Mandate Limit of the Share Option Scheme; (vi) the Proposed Amendments to certain terms of the Share Option Scheme; (vii) the proposed re-election of Directors and (viii) the proposed re-appointment of auditor of the Company and to seek your approval of the resolutions relating to these matters at the AGM.

2. CONTINUING CONNECTED TRANSACTIONS

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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 ending 31 December 2022 is RMB80,000,000, RMB110,000,000 and RMB150,000,000 respectively.

Basis of the proposed annual caps

Following the 2017 Third Party Payment Services Framework Agreement being effective in April 2018, the annual amount of the previous transactions contemplated under the 2017 Third Party Payment Services Framework Agreement for each of the two years ended 31 December 2019 was approximately RMB47,292,299 and RMB100,558,225 respectively.

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.

LETTER FROM THE BOARD

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 is 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;

LETTER FROM THE BOARD

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 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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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 and having made reasonable enquiry, as at the Latest Practicable Date, the remaining 49.24% interest in Qima 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), Ms. Ying Hangyan (a Director) and Mr. Cui Yusong (a Director) as to 40%, 40%, 10%, 10% and one share 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.

LETTER FROM THE BOARD

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.

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 other resolutions of the Company in respect of the 2020 Third Party Payment Services Framework Agreement.

3. ISSUE MANDATE

Ordinary resolutions will be proposed at the AGM to grant to the Directors the Issue Mandate, and authorise the extension of the Issue Mandate to issue and allot the Shares repurchased by the Company under the Repurchase Mandate, details of which are set out in ordinary resolutions nos. 6, 7 and 8 of the AGM Notice. The Shares of the Company which may be issued and allotted pursuant to the Issue Mandate is limited to a maximum of 20% of the issued share capital of the Company at the date of passing of the resolution approving the Issue Mandate. On the basis that 15,465,807,617 Shares are in issue as at the Latest Practicable Date and no further Shares are issued or repurchased prior to the AGM, exercise in full of the Issue Mandate (without being extended by the number of Shares (if any) repurchased by the Company under the Repurchase Mandate) could result in up to 3,093,161,523 Shares being issued and allotted by the Company.

LETTER FROM THE BOARD

4. REPURCHASE MANDATE

An ordinary resolution will be proposed at the AGM to grant to the Directors the Repurchase Mandate, details of which are set out in ordinary resolution no. 7 of the AGM Notice. The Shares of the Company which may be repurchased pursuant to the Repurchase Mandate is limited to a maximum of 10% of the issued share capital of the Company at the date of passing of the resolution approving the Repurchase Mandate.

An explanatory statement as required under the GEM Listing Rules, in particular Rule 13.08, giving certain information regarding the Repurchase Mandate, is set out in the Appendix II hereto.

5. PROPOSED REFRESHMENT OF SCHEME MANDATE LIMIT OF SHARE OPTION SCHEME ADOPTED ON 12 JUNE 2019

The existing Share Option Scheme was adopted by the Company pursuant to the ordinary resolution passed by the shareholders of the Company on 12 June 2019. Save for the existing Share Option Scheme, the Company has no other share option scheme currently in force.

The maximum number of Shares which may be allotted and issued upon exercise of all outstanding Share Options granted under the 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 Share Option Scheme by the Shareholders at the SGM (i.e. 12 June 2019), the maximum number of which may be refreshed according to the terms of the Share Option Scheme.

Pursuant to the GEM Listing Rules and the terms of the Share Option Scheme, the maximum number of Shares which may be issued upon exercise of all outstanding Share Options granted and yet to be exercised under the Share Option Scheme and any other scheme(s) of the Company at any time must not in aggregate exceed 30% of the Shares in issue from time to time. No share options shall be granted under any share option schemes of the Company if this will result in the 30% limit being exceeded.

The Shares which may be issued upon exercise of all share options granted or to be granted under the existing Share Option Scheme shall not exceed the Scheme Mandate Limit, being 1,546,580,761 Shares, representing 10% of the total Shares in issue as at the date of passing of the relevant ordinary resolution on 12 June 2019 by the Shareholders. In accordance with the GEM Listing Rules, the Scheme Mandate Limit can be refreshed by Shareholders in a general meeting provided that the Scheme Mandate Limit as refreshed must not exceed 10% of the Shares in issue on the date of the Shareholders' approval where the refreshment is considered.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company has granted Share Options, since the adoption of the existing Share Option Scheme, to subscribe for 340,000,000 Shares, of which 9,000,000 Share Options were lapsed. There had been no cancellation of Share Options. Therefore 331,000,000 Share Options remain outstanding and not yet exercised. Assuming the total outstanding Share Options were fully exercised by the holders as at the Latest Practicable Date, it would require the Company to issue 331,000,000 Shares representing approximately 2.14% of the total issued Shares of the Company as at the Latest Practicable Date.

Apart from the above, as at the Latest Practicable Date, the Company, under the Previous Share Option Scheme, had granted share options on 11 June 2015 to subscribe for 202,714,000 Shares, of which 100,014,000 Options were lapsed. There had been no cancellation of share options. Therefore 102,700,000 share options remain outstanding and not yet exercised. Assuming the total outstanding share options under the Previous Share Option Scheme were fully exercised by the holders as at the Latest Practicable Date, it would require the Company to issue 102,700,000 Shares representing approximately 0.66% of the total issued Shares of the Company as at the Latest Practicable Date.

Save as disclosed above, save for such outstanding share options, no other share options are outstanding under the existing Share Option Scheme or the Previous Share Option Scheme or any other share option scheme(s) of the Company as at the Latest Practicable Date. The Directors have no present intention to grant any further share options under the existing Share Option Scheme prior to the AGM.

Based on 15,465,807,617 Shares in issue as at the Latest Practicable Date and assuming that no Shares are issued or repurchased by the Company prior to the AGM, the Scheme Mandate Limit will be re-set to 1,546,580,761 Shares, representing approximately 10% of the total issued Shares of the Company as at the date of the AGM in which the relevant resolution in relation to the refreshment of Scheme Mandate Limit will be put to Shareholders' approval, pursuant to which, if approved, the Company will be allowed to grant further share options under the Share Option Scheme and any other share option scheme(s) of the Company carrying the rights to subscribe for a maximum of 1,546,580,761 Shares or an approximate 10% of the total issued Shares of the Company as at the date of the AGM. The total number of Shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the existing Share Option Scheme and the Previous Share Option Scheme and any other share option scheme(s) of the Company will not exceed 30% of the Shares in issue as at the date of the AGM (assuming that no Shares are issued or repurchased by the Company prior to the AGM).

LETTER FROM THE BOARD

The Directors consider that, in order to provide the Company with greater flexibility in granting share options to Eligible Participant(s) under the Share Option Scheme, the Board decides to seek the approval of the Shareholders to refresh the Scheme Mandate Limit so that the total number of Shares which may be issued upon exercise of all share options to be granted under Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 10% of the Shares in issue as at the date of passing of the relevant resolution at the AGM.

The refreshment of the Scheme Mandate Limit is conditional upon:

- (i) the passing of an ordinary resolution to approve the proposed refreshment of the Scheme Mandate Limit by the Shareholders at the AGM; and
- (ii) the GEM Listing Committee granting the listing of, and permission to deal in, the Shares (representing a maximum of 10% of the total issued Shares of the Company as at the date of the AGM) which may fall to be issued upon the exercise of any share options that may be granted under Share Option Scheme and any other share option scheme(s) of the Company.

Application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the new Shares (representing a maximum of 10% of the total issued Shares of the Company as at the date of the AGM) which may fall to be issued upon the exercise of any share options that may be granted under Share Option Scheme and any other share option scheme(s) of the Company under the refreshed Scheme Mandate Limit.

Further details of the Share Option Scheme are set out below:

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

LETTER FROM THE BOARD

Pursuant to Share Option Scheme, the Company may grant share options to the Eligible Participants to subscribe for ordinary shares of \$0.01 each, subject to the restriction that, when aggregated under the Share Option Scheme and any other share option scheme(s) of the Company, the total issuable Shares under the outstanding share options must not exceed 30% of the total number of Shares in issue from time to time. The exercise price in respect of any particular share 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 share 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 a share option.

The Board may, at their sole and absolute discretion, invite any person belonging to any of the prescribed classes of Eligible Participants on the basis of the Directors' opinion as to their contribution to the development and growth of the Group to take up share options to subscribe for Shares.

The total number of Shares issued and which may fall to be issued on the exercise of the share options granted under the Share Option Scheme and any other share option scheme(s) of the Group (including both exercised and outstanding Share Options) to each Eligible Participant in any 12-month period shall not exceed 1% of the Shares in issue for the time being.

For full details of the Share Option Scheme, please refer to the circular of the Company dated 21 May 2019.

6. PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME

Proposed Amendments

The purpose of the Share Option Scheme is to enable the Company to grant share options to the Eligible Participants as incentive or rewards for their contributions to the Group. The Proposed Amendments are intended to reflect Rule 23.04 (1) of the GEM Listing Rules.

LETTER FROM THE BOARD

In view of the reason set out above, the Board proposes to amend paragraph 12 of the Share Option Scheme. Capitalised terms used in this section shall have the respective meanings as defined in the Share Option Scheme. The proposed form of the amendment is indicated by the underlined text as set out below:

“11. GRANT OF OPTIONS TO A DIRECTOR, CHIEF EXECUTIVE OR SUBSTANTIAL SHAREHOLDER OF THE COMPANY OR ANY OF THEIR RESPECTIVE ASSOCIATES

- (a) Any grant of Options to a director, chief executive or substantial shareholder of the Company, or any of their respective 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 substantial shareholder or an independent non-executive director of the Company, or any of their respective associates 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. The Grantee, his associates and all core connected persons of the Company must abstain from voting in favour at the general meeting. The circular must contain the following:...”

Apart from the Proposed Amendments mentioned above, all other existing terms of the Share Option Scheme will remain unchanged. A copy of the Share Option Scheme incorporating the Proposed Amendments together with the Bye-laws 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 10:00 a.m. to 5:30 p.m. on any weekdays (except for public holidays), from date of this circular up to (and including) the date of the AGM.

Pursuant to note (1) to Rule 23.03(18) of GEM Listing Rules and the terms of the Share Option Scheme, any alterations to the terms and conditions of the Share Option Scheme, which are to the advantage of its participants, must be approved by the Shareholders in general meeting. The Proposed Amendments to the terms of the Share Option Scheme will therefore be subject to the approval by the Shareholders at the AGM.

LETTER FROM THE BOARD

7. RE-ELECTION OF DIRECTORS

In accordance with Article 99 of the Bye-Laws, Mr. Cao Chunmeng, Mr. Yan Xiaotian, Dr. Fong Chi Wah and Mr. Xu Yanqing will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

Saved as disclosed in Appendix III to this Circular, Mr. Cao Chunmeng, Mr. Yan Xiaotian, Dr. Fong Chi Wah and Mr. Xu Yanqing have no relationships with any directors, senior management, substantial shareholders, or controlling shareholders of the Company.

The nomination committee of the Company has assessed and reviewed each of the independent non-executive Directors' annual written confirmation of independence based on the independence criteria as set out in Rule 5.09 to the GEM Listing Rules and confirmed that all independent non-executive Directors remain independent.

Pursuant to Rule 17.46A of the GEM Listing Rules, a listed issuer shall disclose the details required under Rule 17.50(2) of the GEM Listing Rules of any directors proposed to be re-elected or proposed new director in the notice or accompanying circular to its shareholders of the relevant general meeting, if such re-election and appointment is subject to shareholders' approval at the relevant general meeting.

Brief biographical details of the retiring Directors proposed to be re-elected at the AGM are set out in Appendix III to this circular.

8. RE-APPOINTMENT OF AUDITORS

At the last annual general meeting of the Company, RSM Hong Kong was re-appointed as the auditor of the Company.

Messrs. RSM Hong Kong will retire as the auditors of the Company at the AGM and, being eligible, offer themselves for re-appointment. The Board proposes to re-appoint Messrs. RSM Hong Kong as the auditors of the Company and to hold office until the conclusion of the next annual general meeting of the Company to be held in 2021.

LETTER FROM THE BOARD

9. ANNUAL GENERAL MEETING

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., which holds approximately 10.54% interest in Qima, held 1,440,601,703 Shares; (ii) V5. Cui Investment Ltd., which holds approximately 1.77% interest in Qima, held 241,885,127 Shares; (iii) Youzan Teamwork Inc., which holds approximately 4.52% interest in Qima, held 363,170,101 Shares; (iv) Xincheng Investment Limited, which holds approximately 2.33% interest in Qima, held 325,143,335 Shares; and (v) Rory Huang Investment Ltd., which holds 0.36% in Qima, held 407,543,167 Shares, are required to abstain from voting on the relevant resolutions in relation to the 2020 Third Party Payment Services Framework and the annual caps in relation thereto at the AGM; and (ii) no Shareholders are required to abstain from voting on the other resolutions to be proposed at the AGM.

A notice convening the AGM is set out on page AGM-1 to AGM-7 of this circular. A form of proxy for use by the Shareholders at the AGM is also enclosed.

The Company has established the Independent Board Committee comprising Dr. Fong Chi Wah, Mr. Gu Jiawang, Mr. Xu Yanqing and Mr. Deng Tao, each an independent non-executive Director, to advise the Independent Shareholders in relation to the 2020 Third Party Payment Services Framework Agreement and the proposed annual caps thereto, and to make recommendation to the Independent Shareholders on their voting on the proposed resolutions. First Shanghai Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same. The appointment of First Shanghai Capital Limited as the Independent Financial Adviser has been approved by the Independent Board Committee.

Whether or not you intend to attend the AGM 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 not less than 48 hours before the time appointed for holding of the AGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the AGM or any adjournment thereof should you so wish.

LETTER FROM THE BOARD

10. VOTING BY POLL

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the AGM shall be voted by poll.

An announcement on the poll results will be made by the Company after the AGM in the manner prescribed and Rule 17.47(5) of the GEM Listing Rules.

11. 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 terms of the 2020 Third Party Payment Services Framework Agreement set out on pages IFA-1 to IFA-17 of this circular.

The Board considers that the terms of the 2020 Third Party Payment Services Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed as set out in the notice of the AGM.

In addition, the Directors believe that the granting of the Issue Mandate, the Repurchase Mandate and the extension of the Issue Mandate, the refreshment of Scheme Mandate Limit of the Share Option Scheme, the Proposed Amendments of the Share Option Scheme, the re-election of Directors and the re-appointment of auditors are in the best interests of the Company, the Group and the shareholders as a whole and so recommend the shareholders to vote in favour of the resolutions to be proposed at the AGM. The Directors will vote all their shareholdings in favour of the resolutions.

LETTER FROM THE BOARD

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

13. 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 – 2020 THIRD PARTY PAYMENT SERVICES FRAMEWORK AGREEMENT

31 March 2020

To the Shareholders

Dear Sir or Madam,

We refer to the circular issued by the Company to the Shareholders dated 31 March 2020 (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 2020 Third Party Payment Services Framework 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

First Shanghai Capital 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 2020 Third Party Payment Services Framework 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 2020 Third Party Payment Services Framework 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 2020 Third Party Payment Services Framework 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. Gu Jiawang

Mr. Xu Yanqing

Mr. Deng Tao

Independent non-executive Director *Independent non-executive Director* *Independent non-executive Director* *Independent non-executive Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter to the Independent Board Committee and the Independent Shareholders received from the Independent Financial Adviser setting out its opinion regarding the continuing connected transactions (including the proposed New Annual Caps (as defined below)) contemplated under the 2020 Third Party Payment Services Framework Agreement (the “**Continuing Connected Transactions**”), for the purpose of inclusion in this circular.*



31 March 2020

*To the Independent Board Committee and
the Independent Shareholders*

China Youzan Limited
Unit 2708, 27th Floor, The Center
99 Queen’s Road Central
Hong Kong

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS RENEWAL OF THIRD PARTY PAYMENT SERVICES FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions (including the proposed New Annual Caps) contemplated under the 2020 Third Party Payment Services Framework Agreement, details of which are contained in the circular to the Shareholders dated 31 March 2020 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those ascribed in the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 are fulfilled to 31 December 2022 (both days inclusive). The Company has proposed to renew the annual caps of RMB80,000,000, RMB110,000,000 and RMB150,000,000 for each of the three years ending 31 December 2022 (the “**New Annual Caps**”) pursuant to the 2020 Third Party Payment Services Framework.

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 Latest Practicable Date, 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 New 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 New 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 is going to seek approval from the Independent Shareholders for the 2020 Third Party Payment Services Framework Agreement and the proposed New Annual Caps thereto at the AGM.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising Dr. Fong Chi Wah, Mr. Gu Jiawang, Mr. Xu Yanqing and Mr. Deng Tao, being all the four independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Continuing Connected Transactions (including the proposed New Annual Caps) pursuant to the 2020 Third Party Payment Services Framework Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser, we have been appointed to advise the Independent Board Committee and the Independent Shareholders as to (i) whether or not the Continuing Connected Transactions (including the proposed New Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in relation to the ordinary resolutions to be proposed for approving the Continuing Connected Transactions (including the proposed New Annual Caps) pursuant to the 2020 Third Party Payment Services Framework Agreement at the forthcoming AGM.

OUR INDEPENDENCE

Apart from our current appointment as the Independent Financial Adviser in respect of the Continuing Connected Transactions (including the proposed New Annual Caps), we are not associated with the Group, Hangzhou Youzan, or any party acting, or presumed to be acting, in concert with any of them. In addition, we did not have any business relationship with the Company within two years prior to the Latest Practicable Date. Accordingly, we consider ourselves independent under Rule 20.42 of the GEM Listing Rules to form our opinion and recommendation in respect of the Continuing Connected Transactions (including the proposed New Annual Caps).

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group, Beijing Gaohuitong and Hangzhou Youzan.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Continuing Connected Transactions (including the proposed New Annual Caps) pursuant to the 2020 Third Party Payment Services Framework Agreement, we have taken into consideration the following principal factors and reasons:

1. Background of the Group

The Group mainly focuses on offering online and offline merchant 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.

2. Background of the contracting parties

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Hangzhou Youzan was established 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.

3. Reasons for and benefits of entering into the 2020 Third Party Payment Services Framework Agreement

As disclosed in the “Letter from the Board” in the Circular (“**Board Letter**”), 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 will expire 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 consider that the terms of the 2020 Third Party Payment Services Framework Agreement (including the proposed New 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.

4. Principal terms of the 2020 Third Party Payment Services Framework Agreement

On 12 March 2020, Beijing Gaohuitong and Hangzhou Youzan entered into the 2020 Third Party Payment Services Framework Agreement with a term commencing from the date on which the conditions precedent mentioned therein are fulfilled and ending on 31 December 2022 (both days inclusive).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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:

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

Pricing policy

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 mark-up of 20%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand from the Management that the Group's current estimation of the service fee for the provision of major relevant payment services under the 2020 Third Party Payment Services Framework Agreement is approximately 0.735%, being the estimated service rate (the "**Service Fee Rate**") to be charged on the estimated total value of all confirmed transactions for products and services on Hangzhou Youzan's e-commerce platform (regardless of whether the goods are delivered or returned to its end-customers or how such orders are settled) ("**GMV**") to be made by Hangzhou Youzan, which shall require the third party payment services provided by Beijing Gaohuitong under the 2020 Third Party Payment Services Framework Agreement (the "**GMV Transactions**"). The Service Fee Rate is determined by the Group in accordance with the formula as follow:

$$\text{Service Fee Rate} = \text{Service costs (mainly including channel operating cost and compliance cost), plus a mark-up of not less than 20\%}$$

We also understand from the Management that Beijing Gaohuitong's total service costs have generally accounted for approximately 0.60% of the total GMV in the recent years, which as customarily sets the estimated Service Fee Rate at around 0.735% (i.e. service costs plus a mark-up of 22.53%) for the coming three years ending 31 December 2022 and has been consistent with Beijing Gaohuitong's historical Service Fee Rate for the year ended 31 December 2019 and as at the Latest Practicable Date, (i) must be higher than the corresponding service fee rates charged on similar payment services to be provided by Beijing Gaohuitong to Independent Third Parties, if any; and (ii) is not lower than the Group's service costs plus a mark-up of not less than 20% (i.e. at 22.53%), which the margin itself is also higher than the corresponding margin charged and/or quoted on similar payment services to be provided by Beijing Gaohuitong to other Independent Third Parties as confirmed by the Company, we are of the view that the current estimated Service Fee Rate (i.e. 0.735%) under the 2020 Third Party Payment Services Framework Agreement is no less favourable to the Group, on normal commercial terms or even better, in the interests of the Group and the Shareholders as a whole, fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Being part of its internal control policy, in order to determine the service fee charged under the 2020 Third Party Payment Services Framework Agreement on a monthly basis, the Group has designated personnel of its operation department to (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. 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.

Payment terms

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.

According to the 2020 Third Party Payment Services Framework Agreement, Beijing Gaohuitong and Hangzhou Youzan shall confirm to each other the actual service fee amount to be payable within seven business days following a calendar month, and Hangzhou Youzan shall within three business day after receiving such confirmation make payment of the relevant monthly service fee to Beijing Gaohuitong.

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Based on our independent review of the annual report of the Company for the year ended 31 December 2018 (the “**Annual Report**”), we noted that the Group’s trading terms with customers are mainly on credit terms generally ranged from 25 to 90 days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. As at 31 December 2017 and 2018, 100% and approximately 93.7% of the outstanding trade receivable balances were within an aging period of 90 days from their respective invoice dates. Based on such understanding, we concur with the Management’s view that the payment terms granted by Beijing Gaohuitong to Hangzhou Youzan are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

We have further reviewed a sample service agreement and the sales invoices conducted between Beijing Gaohuitong and (i) Hangzhou Youzan; and (ii) an independent third party service provider of the Group (the “**Independent Service Provider**”) for the two years ended 31 December 2018 and 2019, and noted that the pricing principles of comparable third party payment services provided by Beijing Gaohuitong to Hangzhou Youzan is basically comparable to that charged by that Independent Service Provider to Beijing Gaohuitong. Based on the above independent review, we concur with the Management’s view that the pricing principles (i.e. on revenue sharing basis) under the 2020 Third Party Payment Services Framework Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Group and the Shareholders as a whole notwithstanding the connected relationship between the Group and Hangzhou Youzan.

Having considered the above mechanism for setting the Service Fee Rate for third party payment services to be provided by Beijing Gaohuitong to Hangzhou Youzan as well as the payment terms thereunder, we concur with the Board’s view that the 2020 Third Party Payment Services Framework Agreement are on normal commercial terms, the Continuing Connected Transactions have been conducted in the ordinary and usual course of business of the Group, and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. The historical transaction amounts, existing annual caps and the proposed New Annual Caps

Historical transaction amounts

The table below sets out the historical transaction amounts in relation to the provision of third party payment services by Beijing Gaohuitong to Hangzhou Youzan pursuant to the 2017 Third Party payment Services Framework Agreement during the periods indicated below:

	For the year ended 31 December				Increase from 2018 %
	2017	2018	Increase from 2017 %	2019	
	RMB'000	RMB'000		RMB'000	
Existing annual caps	50,000	110,000	120.0	160,000	45.5
Utilisation rate of the existing annual caps	N/A	43.0%		62.8%	

Note:

1. The relevant circular of the Company for considering and approving, among other things, the 2017 Third Party Payment Services Framework Agreement was despatched to the Shareholders on 2 January 2018, which was subsequently approved and effective on 8 April 2018, so the existing annual cap amount of HK\$50 million for the year ended 31 December 2017 was not applicable.

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The proposed New Annual Caps

In assessing the fairness and reasonableness of the proposed New Annual Caps of the 2020 Third Party Payment Services Framework Agreement, we have discussed with the Management regarding the basis of determination of the proposed New Annual Caps as set out below. In this regard, we have obtained the calculation of the proposed New Annual Caps for the payment services to be provided thereunder for the three years ending 31 December 2022 (the “**Calculation**”), which is summarized as follows:

	For the year ending 31 December					
	Increase/ (decrease)		Increase/ (decrease)		Increase/ (decrease)	
	2020	from 2019	2021	from 2020	2022	from 2021
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
Expected revenue receivable from China Youzan after netting off	72,192,000	N/A	97,582,000	35.2	134,948,000	38.3
Buffer	7,808,000	N/A	12,418,000	59.0	15,052,000	21.2
	10.8%		12.7%		11.2%	
New Annual Caps <i>(Note 2)</i>	80,000,000	(24.9)	110,000,000	37.5	150,000,000	36.4

Note:

2. 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 New Annual Caps are accordingly lesser than the previous annual caps under the 2017 Third Party Payment Services Framework Agreement.

Basis of determination of the proposed New Annual Caps

We understand from the Management that in determining the proposed New Annual Caps of RMB80,000,000, RMB110,000,000 and RMB150,000,000 for each of the three years ending 31 December 2022 pursuant to the 2020 Third Party Payment Services Framework, the Company has taken into account the following factors:

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- (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 New Annual Caps are accordingly lesser than the previous annual caps under the 2017 Third Party Payment Services Framework Agreement.

The Directors are of the view that the proposed New Annual Caps under the 2020 Third Party Payment Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

We have further discussed and clarified with the Management that regarding the basis of determination of the proposed New Annual Caps mentioned above, the Company has taken into account the following factors in the course of preparation of the Calculation:

- the number of total registered merchants of “WeiMall” is expected to increase with a single digit stable growth rate per month with considerable increase in average outstanding active registered merchants during the three years ending 31 December 2022. The said single digit stable growth rate is consistent with the Group's average historical monthly growth rate for the seven months ended 31 December 2019, we considered it is reasonable to expect the number of annual growth of new registered merchants for the coming three years ending 31 December 2022 to follow the relevant growth recorded for the year ended 31 December 2019 as estimated by the management of Hangzhou Youzan, which implied an increasing trend for the coming three years ending 31 December 2022;

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- the average expected GMV transaction and settlement amounts per expected active registered merchant of “WeiMall” are estimated to be stable on monthly basis throughout the coming three years ending 31 December 2022, which would be consistent with that for the year ended 31 December 2019;
- 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;
- the current estimation of the Service Fee Rate for the provision of major relevant payment services under the 2020 Third Party Payment Services Framework Agreement of around 0.735% which we consider to be reasonable and basically comparable to, or even higher than, the processing fee range in the online payment service industry; and
- the Group has roughly provided a moderate buffer of cap amounts to accommodate any possible increase in the monthly GMV transaction amounts between 10.8% and 12.7% during the coming three years ending 31 December 2022, which we consider to be prudent and justifiable.

Based on our independent review of the Calculation, we noted that the increasing trend of the proposed New Annual Caps would substantially be arising from the expected considerable increase in the average number of total registered merchants in the coming three years ending 31 December 2022. This projection is based on the Group’s average historical monthly single digit growth rate in total number of registered merchants for the seven months ended 31 December 2019. Other components being taken into account in computation of the proposed New Annual Caps would generally be stable and comparable with those for the year ended 31 December 2019. Taking into account the historical actual transaction amounts of approximately RMB47.3 million and RMB100.6 million for each of the two years ended 31 December 2019, we noted that there had been a significant annual growth rate of about 112.6% over the past two financial years between 2018 and 2019. On such basis, we are of the view that the basis for determination of the proposed New Annual Caps for the coming three years ending 31 December 2022 shall be realistic and not be too aggressive.

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Based on the above analysis and consideration, we are of the view that the basis adopted by the Management in determining the proposed New Annual Caps is prudent, justifiable, fair and reasonable; while the entering into of the 2020 Third Party Payment Services Framework Agreement (including the proposed New Annual Caps) is conducted in the ordinary and usual course of business of the Group and on normal commercial terms or even better, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as whole.

6. Measures to ensure compliance with the GEM Listing Rules

In compliance with the annual review requirements under the GEM Listing Rules, the Company will comply with the following during the term of the 2020 Third Party Payment Services Framework Agreement in relation to the Continuing Connected Transactions:

- (i) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts of the Company that the Continuing Connected Transactions have been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (c) in accordance with the 2020 Third Party Payment Services Framework Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) confirming that the Continuing Connected Transactions (a) have received the approval of the Board; (b) are in accordance with the pricing policies of the Company if the Continuing Connected Transactions involve provision of goods or services by the Company; (c) have been entered into in accordance with the relevant agreement governing the transactions; and (d) have not exceeded the New Annual Caps;

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- (iii) the Company will allow, and will procure that the counter-party (i.e. Hangzhou Youzan) will allow, the auditors of the Company with sufficient access to the relevant records of the Continuing Connected Transactions for the purpose of reporting on the Continuing Connected Transactions. The Board must state in the annual report whether its auditors have confirmed the matters stated in paragraph (ii) above; and
- (iv) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the GEM Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (i) and/or (ii) above respectively.

In light of the requisite reporting requirements attached to the Continuing Connected Transactions, and having considered, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the proposed New Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Continuing Connected Transactions and the proposed New Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern and monitor the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

In fact, according to the Annual Report, the Company had confirmed that the independent non-executive Directors have reviewed the continuing connected transactions conducted for the year ended 31 December 2018, and such transactions had complied with the requisite requirements under the GEM Listing Rules. In addition, the Company's auditors have issued their unmodified assurance report containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the Annual Report in accordance with Rule 20.54 of the GEM Listing Rules. On such basis, we believe that the Company's internal control measures and policies for governing and monitoring the conduct of the Continuing Connected Transactions have been, and are expected to be, properly followed.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, we are of the view that the Continuing Connected Transactions (including the proposed New Annual Caps) contemplated under the 2020 Third Party Payment Services Framework Agreement are conducted in the ordinary and usual course of business of the Group, and are on normal commercial terms or even better, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the forthcoming AGM to approve the Continuing Connected Transactions (including the proposed New Annual Caps) and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited
Nicholas Cheng
Director

Note:

Mr. Nicholas Cheng has been the Responsible Officer of Type 6 (advising on corporate finance) regulated activity under the SFO and has over 17 years of experience in corporate finance industry. He has participated in the provision of independent financial advisory services for, and completed, numerous connected transactions involving companies listed in Hong Kong.

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>	411,592,000	–	411,592,000	2.66%
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> 363,170,101 <i>(Note 4)</i>	100,000,000 <i>(Note 6)</i>	1,903,771,804	12.31%
Mr. Yu Tao	363,170,101 <i>(Note 4)</i>	20,000,000 <i>(Note 7)</i>	383,170,101	2.48%
Mr. Cui Yusong	241,885,127 <i>(Note 5)</i>	20,000,000 <i>(Note 7)</i>	261,885,127	1.69%
Ms. Ying Hangyan	363,170,101 <i>(Note 4)</i>	20,000,000 <i>(Note 7)</i>	383,170,101	2.48%

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.
- (6) The Company granted the share options under New Share Option Scheme on 9 September 2019. The share options is valid until 8 September 2024 and has an exercise price of HK\$1.00.
- (7) The Company granted the share options under New Share Option Scheme on 9 September 2019. The share options is valid until 8 September 2024 and has an exercise price of HK\$0.90.

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 Shareholders	Interest in Shares	Interest in underlying Shares	Total interest in Shares	% Shareholding
Mr. Zhu Ning	1,440,601,703 <i>(Note 1)</i>	100,000,000 <i>(Note 3)</i>	1,903,771,804	12.31%
	363,170,101 <i>(Note 2)</i>			
Poyang Lake Investment Limited <i>(Note 4)</i>	1,036,766,038	–	1,036,766,038	6.70%

Notes:

1. The shares are held by Whitecrow Investment Ltd. (“Whitecrow”). Whitecrow is a company incorporated in the British Virgin Islands with limited liability and 100% beneficially wholly owned by Mr. Zhu Ning.
2. The shares are held by Youzan Teamwork Inc. (“Youzan Teamwork”). Youzan Team is a company incorporated in the British Virgin Islands with limited liability. Mr. Zhu Ning holds 40% of its shares interest.
3. The Company granted the share options under New Share Option Scheme on 9 September 2019. The share options is valid until 8 September 2024 and has an exercise price of HK\$1.00.
4. 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, save for the third quarterly report of the Group for the nine months ended 30 September 2019 during which the Group recorded an unaudited loss after taxation of approximately HK\$559.4 million for the nine months ended 30 September 2019, 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, up to and including the Latest Practicable Date.

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
First Shanghai Capital Limited ("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, the Independent Financial Adviser did not have 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 the date of this circular up to (and including) the date of the SGM:

- (i) the 2020 Third Party Payment Services Framework Agreement;
- (ii) Share Option Scheme incorporating the Proposed Amendments;
- (iii) Bye-laws;
- (iii) this circular;
- (iv) the letter of advice from the Independent Financial Adviser in connection with the 2020 Third Party Payment Services Framework Agreement, the text of which is set out on page IFA-1 to IFA-17 of this circular;
- (v) the letter from the Board, the text of which is set out on pages 6 to 24 of this circular;
- (vi) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages IBC-1 to IBC-2 of this circular; and
- (vii) the written consent letters of the experts referred to in the section headed "Qualification of experts and consents" in this appendix.

The following is the explanatory statement given to all shareholders which is required by Rule 13.08 of the GEM Listing Rules and under the Share Buy Back Rules in connection with the proposed Repurchase Mandate.

(I) GEM LISTING RULES RELATING TO THE REPURCHASE SHARES

The GEM Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their shares on the Stock Exchange and any other stock exchange on which the securities of the company are listed and such exchange is recognized by the Securities and Future Commission of Hong Kong subject to certain restrictions. Among such restrictions, the GEM Listing Rules provide the shares of such company must be fully paid up and all repurchase of shares by such company must be approved in advance by an ordinary resolution of shareholders, either by way of a general repurchase mandate or by specific approval of a particular transaction.

(II) SHARE CAPITAL

As the Latest Practicable Date, the issued share capital of the Company comprised 15,465,807,617 Shares.

(III) THE REPURCHASE PROPOSAL

The resolution set out in Resolution 5 in the notice convening the AGM which will be proposed at the AGM relates to the granting of a general and unconditional mandate (the “Repurchase Mandate”) to the Directors to repurchase, on GEM or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission, Shares up to a maximum of 10% of the issued share capital of the Company at the date of passing the resolution (the “Repurchase Proposal”). Exercise in full of the Repurchase Mandate, on the basis of 15,465,807,617 shares in issue as at the Latest Practicable Date, would result in 1,546,580,761 shares (representing 10% of the total issued share capital of the Company).

Subject to the passing of the ordinary resolution granting the Repurchase Mandate and on the basis that no further Shares are issued or repurchased prior to the AGM, the Company would be allowed to repurchase a maximum of 1,546,580,761 fully paid-up Shares (representing 10% of the issued share capital of the Company as at the date of passing of the relevant resolution at the AGM) during the period ending on the earliest of (i) the conclusion of the next annual general meeting of the Company; or (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws or the Companies Act 1981 of Bermuda (as amended) to be held; or (iii) the date upon which such authority is revoked or varied by an ordinary resolution of Shareholders in general meeting.

(IV) REASONS FOR REPURCHASE

Although the Directors have no present intention of repurchasing the Shares, they believe that it is in the best interests of the Company and the Shareholders for the Directors to have a general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchase may, depending on the market conditions and funding arrangement at the time, lead to an enhancement of the net assets value of the Company and/or its earnings per Share and will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders.

(V) FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its Bye-Laws, the GEM Listing Rules and the applicable laws of Bermuda.

It is envisaged that the funds required for any repurchase of Shares would be derived from the capital paid up on the Shares being repurchased and from the distributable profits of the Company.

An exercise of the Repurchase Mandate in full might have a material adverse impact on the working capital and gearing position of the Company (as compared with the position disclosed in its most recent published audited accounts as at 31 December 2019) in the event that the Repurchase Mandate were to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse impact on the working capital requirements or the gearing levels of the Company which in the opinion of the Directors are from time to time appropriate for the Company.

(VI) SHARE PRICES

The highest and lowest prices at which the Shares were traded on the Stock Exchange during each of the previous twelve months before the Latest Practicable Date were as follows:

	Share Prices	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2019		
March	0.83	0.485
April	0.79	0.58
May	0.63	0.47
June	0.53	0.425
July	0.495	0.42
August	0.58	0.445
September	0.53	0.475
October	0.52	0.47
November	0.54	0.46
December	0.495	0.45
2020		
January	0.64	0.49
February	0.86	0.54
March (up to the Latest Practicable Date)	0.80	0.68

(VII) GENERAL INFORMATION

- (a) None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates, have any present intention to sell any Shares to the Company or any of its subsidiaries under the Repurchase Mandate if such is approved by the Shareholders.
- (b) The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make repurchases pursuant to the Repurchase Mandate in accordance with the Bye-Laws, the GEM Listing Rules and the applicable laws of Bermuda.

- (c) No core connected persons (as defined in the GEM Listing Rules) of the Company has notified the Company that they have a present intention to sell Shares to the Company or its subsidiaries, or have undertaken not to do so, if the Repurchase Mandate is exercised.

(VIII) TAKEOVERS CODE

If as the result of a repurchase of the Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. As a result, a Shareholder, or group of Shareholders acting in concert, depending on the level of increase of the Shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory general offer in accordance with Rules 26 and 32 of the Takeovers Code.

As at the Latest Practicable Date, to the best of the knowledge and belief of the Directors, Whitecrow Investment Ltd., wholly-owned by Mr. Zhu Ning, a substantial shareholder of the Company and an Executive Director, held 1,440,601,703 Shares, representing approximately 9.31% of the existing entire issued share capital of the Company, and Youzan Teamwork Inc., the 40% equity interest of which is owned by Mr. Zhu Ning, held 363,170,101 Shares, representing approximately 2.35% of the existing entire issued share capital of the Company, having a total of 1,803,771,804 Shares, representing approximately 11.66% of the existing entire issued share capital of the Company. In the event that the Directors exercise the Repurchase Mandate in full, the equity interest of Mr. Zhu Ning in the Company through the companies he owned would be increased to approximately 12.96% of the issued share capital of the Company. No obligation to make a mandatory offer under the Takeovers Code would arise.

(IX) SHARES PURCHASE MADE BY THE COMPANY

The Company had not purchased any Shares (whether on the GEM or otherwise) in the previous six months prior to the Latest Practicable Date.

The biographical details of the retiring Directors proposed to be re-elected at the AGM are set out as follows:

Mr. Cao Chunmeng, aged 48, joined the Company in March 2011 and acted as Vice President of the Company. Mr. Cao was appointed as executive Director and chief executive officer of the Company on 11 July 2012 and he was re-designated as an executive Director and the president of the Company in May 2018. Mr. Cao held a bachelor's degree in Computer Science from Shandong University in 1994. And he obtained a master's degree in business administration from Peking University in 2006. He worked at Shandong Branch of Industrial and Commercial Bank of China Limited, acted as General Manager in Jinan Xiande Technology Limited (濟南先得科技有限公司), Senior Deputy President in Fengyuanxin (China) Limited (豐元信(中國)有限公司), General Manager in Zongheng Tiandi (Beijing) Information Technology Limited (縱橫天地(北京)資訊技術有限公司), Vice President in Beikong Easycode (Beijing) Electric Commerce Ltd. (北控易碼通(北京)電子商務有限公司) and Vice President of Beijing Shangyin Investment Consultancy Co., Limited (商銀融通(北京)投資諮詢有限公司). From December 2014, Mr. Cao acts as Director of Haier Consumer Finance Co., Ltd. (海爾消費金融有限公司). Mr. Cao has over 20 years of financial information technology Internet industry management experience.

Pursuant to a service contract entered into between the Company and Mr. Cao, his appointment as an executive Director is for a term of three years and shall continue thereafter subject to retirement by rotation at least once every three years in accordance with the Company's Bye-law 99 and is eligible offer himself for re-election as director in the AGM. He is entitled to a director's fee of HK\$1,980,000 per annum, which is determined by the prevailing market conditions and his roles and responsibilities in the Company.

As at the date of this circular, the interests or short positions of Mr. Cao 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:

Name of Director	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Cao Chunmeng	67,420,000	36,000,000 (Note 1)	103,420,000	0.67%

Note 1: The Company granted the share options under Share Option Scheme on 11 June 2015.

Save as disclosed above, as at the Latest Practicable Date, Mr. Cao Chunmeng does not have any interests or short positions in any Shares, underlying Shares or debentures of the Company and its associated corporations within the meaning of Part XV of the SFO. He has confirmed that there is no other information relating to his appointment which is required to be disclosed pursuant to Rule 17.50(2)(h) to (w) of the GEM Listing Rules or matters needed to be brought to the attention of the Shareholders. Save as disclosed herein, Mr. Cao has confirmed that he does not hold any other position with the Company and other members of the Group, or any other directorship in other listed public companies in Hong Kong or overseas in the last three years.

Mr. Cao does not have any relationship with any Directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and any of their respective associates (as defined under GEM Listing Rules) as at the Latest Practicable Date.

Mr. Yan Xiaotian, aged 60, joined the Company in April 2014 and acted as the chief strategy and investment officer of the Company; and acted as the chairman and legal representative of Beijing ONECOMM Technology Company Limited, an indirect subsidiary of the Company since December 2014. Mr. Yan has been appointed as an executive Director and the chief investment officer of the Company with effect from 24 December 2014. Mr. Yan has obtained a master degree in economics from Graduate School of the People's Bank of China (中國人民銀行研究部), which was then merged with Tsinghua University and known as PBC School of Finance, Tsinghua University since 2012, and is a senior economist. Mr. Yan had worked consecutively as the president of the head office of Bank of China Limited, vice president of Guangzhou Branch of China CITIC Bank Corporation Limited, formerly known as CITIC Industrial Bank Limited, general manager of CITIC Securities Co., Ltd. (Guangzhou) and director and executive president of South China International Leasing Co., Ltd. On 30 September 2019, Mr. Yan was appointed as an independent non-executive director of China Billion Resources Limited, a Company listed on the Hong Kong Stock Exchange ("HKSE") and at the same times Mr. Yan was appointed as an independent non-executive director of Prosperity International Holdings (H.K.) Limited, a Company listed on HKSE since 28 October 2019.

Pursuant to a service contract entered into between the Company and Mr. Yan, his appointment as an executive Director is for a term of three years and shall continue thereafter subject to retirement by rotation at least once every three years in accordance with the Company's Bye-law 99 and is eligible offer himself for re-election as director in the AGM. He is entitled to a director's fee of HK\$1,760,004 per annum, which is determined by the prevailing market conditions and his roles and responsibilities in the Company.

As at the date of this circular, the interests or short positions of Mr. Yan 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:

Name of Director	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Yan Xiaotian	21,640,000	25,000,000 <i>(Note 1)</i>	46,640,000	0.30%

Note 1: The Company granted the share options under Share Option Scheme on 11 June 2015.

Save as disclosed above, as at the Latest Practicable Date, Mr. Yan Xiaotian does not have any interests or short positions in any Shares, underlying Shares or debentures of the Company and its associated corporations within the meaning of Part XV of the SFO. He has confirmed that there is no other information relating to his appointment which is required to be disclosed pursuant to Rule 17.50(2)(h) to (w) of the GEM Listing Rules or matters needed to be brought to the attention of the Shareholders. Save as disclosed herein, Mr. Yan has confirmed that he does not hold any other position with the Company and other members of the Group, or any other directorship in other listed public companies in Hong Kong or overseas in the last three years.

Mr. Yan does not have any relationship with any Directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and any of their respective associates (as defined under GEM Listing Rules) as at the Latest Practicable Date.

Dr. Fong Chi Wah, aged 57, joined the Company from 2003. Dr. Fong has over 25 years of extensive experience in various sectors of the financial industry including direct investment, project and structured finance and capital markets having worked for KPMG, the American International Group in Asia, and the ING Group in Beijing and Hong Kong. In his last position within the ING Group, he served as a Director of the Baring Capital (China) Management Limited that managed ING Beijing Investment Co., Ltd., a company listed on the Hong Kong Stock Exchange (“HKSE”).

Dr. Fong has been the Chief Financial Officer of Citychamp Watch & Jewellery Group Limited, a company listed on the HKSE, since September 2004 and Company Secretary since February 2007. He has also served as Director of its subsidiary, Bendura Bank Liechtenstein, since September 2016. He has served as an Independent Non-executive Director of the Company since December 2003. Besides, he also served as a Non-independent Non-executive Director of Cordlife Group Limited, a company listed on the Singapore Exchange since January 2019.

Dr. Fong was an Executive Director of the National Fund Limited listed on the HKSE from November 2005 to August 2018 and an Independent Non-executive Director of the Real Nutriceutical Group Limited, also listed on the HKSE from March 2008 to December 2018.

Dr. Fong holds a Bachelor’s degree, majoring in Management Sciences (Economics) from the Lancaster University, United Kingdom. He also holds three Master’s degrees including a Master of Business Administration from the Warwick University, United Kingdom, a Master’s degree in Investment Management from the Hong Kong University of Science and Technology, and a Master’s degree in practicing accounting from the Monash University, Australia. He has a Doctorate in Business Administration from the Hong Kong Polytechnic University and is a Juris Doctor from the Chinese University of Hong Kong. He is a CFA charterholder, a member of the Hong Kong Society of Financial Analysts, a fellow of the CPA (Australia), a fellow of the HKICPA, a member of the Institute of Certified Management Accountants, Australia, and a fellow of the Hong Kong Institute of Directors.

Dr. Fong attends executive courses in Harvard Business School and Said Business School of Oxford University.

Pursuant to a service contract entered into between the Company and Dr. Fong, his appointment as an independent non-executive Director is for a term of three years and shall continue thereafter subject to retirement by rotation at least once every three years in accordance with the Company’s Bye-law 99 and is eligible offer himself for re-election as director in the AGM. He is entitled to a director’s fee of HK\$264,000 per annum, which is determined by the prevailing market conditions and his roles and responsibilities in the Company.

As at the date of this circular, the interests or short positions of Dr. Fong 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:

Name of Director	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Dr. Fong Chi Wah	1,000,000	3,000,000 <i>(Note 1)</i>	4,000,000	0.03%

Note 1: The Company granted the share options under Share Option Scheme on 11 June 2015.

Save as disclosed above, as at the Latest Practicable Date, Dr. Fong does not have any interests or short positions in any Shares, underlying Shares or debentures of the Company and its associated corporations within the meaning of Part XV of the SFO. He has confirmed that there is no other information relating to his appointment which is required to be disclosed pursuant to Rule 17.50(2)(h) to (w) of the GEM Listing Rules or matters needed to be brought to the attention of the Shareholders. Save as disclosed herein, Dr. Fong has confirmed that he does not hold any other position with the Company and other members of the Group, or any other directorship in other listed public companies in Hong Kong or overseas in the last three years.

Dr. Fong does not have any relationship with any Directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and any of their respective associates (as defined under GEM Listing Rules) as at the Latest Practicable Date.

Mr. Xu Yanqing, aged 63, graduated from the Department of Finance at the Central Institute of Finance (中央財政金融學院) (now known as the Central University of Finance and Economics) with a bachelor degree in economics (major in international insurance) in 1984. Mr. Xu is a senior economist and has over 30 years of experience in finance industry. Prior to his retirement in August 2016, he was the vice general manager of The People's Insurance Company of China (Hong Kong) Ltd between August 2011 and August 2016. Mr. Xu joined the Company on 4 August 2017.

Pursuant to a service contract entered into between the Company and Mr. Xu, his appointment as an independent non-executive Director is for a term of one year and shall continue thereafter subject to retirement by rotation every year in accordance with the Company's Bye-law 99 and is eligible offer himself for re-election as director in the AGM. He is entitled to a director's fee of HK\$264,000 per annum, which is determined by the prevailing market conditions and his roles and responsibilities in the Company.

As at the date of this circular, Mr. Xu had no interests or short positions 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.

Save as disclosed above, as at the Latest Practicable Date, Mr. Xu Yanqing does not have any interests or short positions in any Shares, underlying Shares or debentures of the Company and its associated corporations within the meaning of Part XV of the SFO. He has confirmed that there is no other information relating to his appointment which is required to be disclosed pursuant to Rule 17.50(2)(h) to (w) of the GEM Listing Rules or matters needed to be brought to the attention of the Shareholders. Save as disclosed herein, Mr. Xu has confirmed that he does not hold any other position with the Company and other members of the Group, or any other directorship in other listed public companies in Hong Kong or overseas in the last three years.

Mr. Xu does not have any relationship with any Directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company and any of their respective associates (as defined under GEM Listing Rules) as at the Latest Practicable Date.

NOTICE OF AGM



China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of China Youzan Limited (the “Company”) will be held at 24/F., Admiralty Centre 1, 18 Harcourt Road, Admiralty, Hong Kong at 10:00 a.m. on Tuesday, 12 May 2020 for the following purposes:

1. To consider and approve the following:

“THAT:

- (i) the framework agreement dated 12 March 2020 entered into between Beijing Gaohuitong Commercial Management Co., Ltd. and 杭州有贊科技有限公司 (Hangzhou Youzan Technology Company Limited*) (the “2020 Third Party Payment Services Framework 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;
- (ii) the annual caps for the maximum aggregate annual value for the transactions contemplated under the 2020 Third Party Payment Services Framework Agreement for each of the three financial years ending 31 December 2022 as more particularly set out in the Company’s circular to the shareholders of the Company dated 31 March 2020 (the “Circular”) be and are hereby approved, confirmed and ratified; and

NOTICE OF AGM

(iii) 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 2020 Third Party Payment Services Framework 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 2020 Third Party Payment Services Framework Agreement.”

2. To consider and approve the following:

“**THAT** the proposed amendments to paragraph 12 of the share option scheme of the Company adopted on 12 June 2019 (the “Share Option Scheme”) as set out in the Circular and contained in the revised Share Option Scheme, a copy of which is available for inspection as detailed in the Circular and produced to this meeting marked ‘B’ and for identification purposes initialled by the chairman of the meeting, be and are hereby approved, authorised and confirmed and **THAT** any one director of the Company be and is hereby authorized to do all such acts and execute such documents as may be necessary, desirable or expedient in order to give full effect to such amendment to the Share Option Scheme.”

3. To consider and approve the audited financial statements and the reports of the directors and auditors for the year ended 31st December 2019.

4. To re-elect retiring directors and authorise the board of directors to fix their remuneration.

5. To re-appoint auditors of the Company and to authorise the board of directors to fix their remuneration.

NOTICE OF AGM

As special business, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:

6. **“THAT**

- (i) subject to paragraph (iii) of this resolution, pursuant to the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as defined below), (b) the exercise of warrants to subscribe for shares of the Company or the exercise of options granted under any ordinary share option scheme adopted by the Company, or (c) an issue of shares of the Company in lieu of whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and

NOTICE OF AGM

(iv) for the purpose of this resolution:

“Relevant Period” means the period from the date of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or the Company Act 1981 of Bermuda (amended) or any applicable laws to be held; and
- (c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting.

“Rights Issue” means offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

7. **“THAT**

- (i) subject to paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as defined below) of all powers of the Company to repurchase issued shares in the capital of the Company on GEM or any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in connection with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on GEM or of any other stock exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;

NOTICE OF AGM

(ii) the aggregate nominal amount of shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (i) of this resolution shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and

(iii) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or the Company Act 1981 of Bermuda (as amended) or any applicable laws to be held; and
- (c) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution in general meeting.”

8. “**THAT** conditional upon ordinary resolutions nos. 6 and 7 above being passed, the aggregate nominal amount of shares of the Company which are repurchased by the Company under the authority granted to the directors of the Company as mentioned in ordinary resolution no. 7 above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to ordinary resolution no. 6 above.”

NOTICE OF AGM

9. “**THAT** the existing scheme mandate limit in respect of the granting of options to subscribe for shares of the Company (the “Shares”) under the existing share option scheme adopted by the Company on 12 June 2019 (the “Share Option Scheme”) provided that the total number of Shares which may be allotted and issued upon exercise of the options to be granted under the Share Option Scheme shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution (the “Refreshed Limit”) and subject to the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares to be issued pursuant to the exercise of the options to be granted under the Refreshed Limit and in compliance with the GEM Listing Rules, the directors of the Company be and are hereby authorised, at their absolute discretion, to grant options and to allot and issue Shares pursuant to the exercise of any options up to the Refreshed Limit.”

By order of the Board
China Youzan Limited
Guan Guisen
Chairman

Hong Kong, 31 March 2020

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 AGM 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 AGM, 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 AGM 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.

NOTICE OF AGM

3. The register of members of the Company will be closed from Thursday, 7 May 2020 to Tuesday, 12 May 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, 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 17M/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 6 May 2020.
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 AGM. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the AGM and any adjourned meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. An explanatory statement containing further details regarding ordinary resolutions nos. 6 to 8 as required by the Rules Governing the Listing of Securities on GEM is set out in appendix II to the circular of the Company dated 31 March 2020.
6. Particulars of the retiring directors are set out in appendix III to the circular of the Company dated 31 March 2020.
7. A form of proxy for use in connection with the AGM is enclosed with the circular of the Company dated 31 March 2020. Such form is also published on the website of GEM at www.hkgem.com and on the Company's website at www.chinayouzan.com.
8. 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.