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China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

CONNECTED TRANSACTION IN RELATION TO THE SHARES PURCHASE AGREEMENT

SHARES PURCHASE AGREEMENT

On 5 June 2020, the Company, GuangFriends and Guang Holdings entered into the Shares Purchase Agreement. Subject to the terms and conditions of the Shares Purchase Agreement, among other matters, Guang Holdings agrees to issue and allot to each of the Company and GuangFriends, and each of the Company and GuangFriends agrees to purchase from Guang Holdings, 10,000,000 new Class A Shares in Guang Holdings being 10% shareholding in Guang Holdings (on an enlarged basis upon Closing) representing 2.94% of the voting power at any general meetings of Guang Holdings at the Purchase Price of US\$5,000,000.

Upon Closing, Guang Holdings will not become a subsidiary of the Company.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Guang Holdings is owned as to approximately 62.5% by Mr. Zhu and his associates and 37.5% by Mr. Huang Rongrong. Mr. Zhu is an executive Director and substantial Shareholder of the Company, whereas Mr. Huang Rongrong is a director of two subsidiaries of the Company. Therefore, each of Mr. Zhu and Mr. Huang Rongrong is a connected person of the Company and the transactions contemplated under the Shares Purchase Agreement constitute connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

In respect of the transactions contemplated under the Shares Purchase Agreement, as all the applicable percentage ratios are less than 5% and are on normal commercial terms, the transactions contemplated under the Shares Purchase Agreement are subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 20.74(2) of the GEM Listing Rules.

Mr. Zhu, who has a material interest in the Shares Purchase Agreement, has abstained from voting on the relevant board resolution(s) approving the Shares Purchase Agreement and the transactions contemplated thereunder.

SHARES PURCHASE AGREEMENT

On 5 June 2020, the Company, GuangFriends and Guang Holdings entered into the Shares Purchase Agreement.

The principal terms of the Shares Purchase Agreement are set out below:

Date

5 June 2020

Subject of the Shares Purchase Agreement

Guang Holdings indirectly holds 100% interests in the WFOE, the sole asset of which is its investment in the entire equity interests in the Domestic Company through the VIE Structure. As at the date of this announcement, the WFOE has established the VIE Structure such that the WFOE has effective control over the finance and operations of the Domestic Company and enjoys the entire economic interests and benefits generated by the Domestic Company.

Subject to the terms and conditions of the Shares Purchase Agreement, among other matters:

- (i) Guang Holdings agrees to issue and allot to the Company, and the Company agrees to purchase from Guang Holdings, 10,000,000 new Class A Shares in Guang Holdings being 10% shareholding in Guang Holdings (on an enlarged basis upon Closing) at the Purchase Price of US\$5,000,000; and
- (ii) Guang Holdings agrees to issue and allot to GuangFriends, and GuangFriends agrees to purchase from Guang Holdings, 10,000,000 new Class A Shares in Guang Holdings being 10% shareholding in Guang Holdings (on an enlarged basis upon Closing) at a purchase price of US\$5,000,000.

Parties

1. Investors : (i) The Company; and
(ii) GuangFriends
2. Guang Holdings : Guang Holdings Limited, an exempted company incorporated under the laws of the Cayman Islands

Consideration

- (i) The Company shall pay the Purchase Price of US\$5,000,000 as consideration to Guang Holdings for the purchase of 10% shareholding in Guang Holdings (on an enlarged basis upon Closing) at Closing.
- (ii) GuangFriends shall pay a purchase price of US\$5,000,000 as consideration to Guang Holdings for the purchase of 10% shareholding in Guang Holdings (on an enlarged basis upon Closing) at Closing.

Subject to the terms and conditions of the Shares Purchase Agreement, both the Company and GuangFriends shall pay their relevant purchase price to Guang Holdings in cash.

Basis of Consideration

The Purchase Price was determined after arm's length negotiations among the Company and Guang Holdings after taking into account, among others, (i) the business prospect of the live streaming industry and platform developed by the Domestic Company (i.e. the Aiguang Platform), (ii) the current number and quality of a key performance indicator for live streaming platforms (i.e. monthly active users) and (iii) the monthly active users of peer companies and peer transactions of the Domestic Company relevant to their market prices and/or purchase prices.

The Purchase Price shall be satisfied by the Company by its internal funding.

Conditions Precedent

1. *Conditions to the Investors' obligations at Closing*

The obligations of each Investor to purchase the Purchase Shares are subject to the satisfaction or written waiver (where permissible under applicable law) at or prior to the Closing of the following conditions:

(i) *Representations and warranties true and correct*

The representations and warranties made by Guang Holdings in the Shares Purchase Agreement shall be true and correct and complete when made, and shall be true and correct and complete as of the Closing Date with the same force and effect as if they had been made on and as of such date, or as of another date if any representations and warranties are made with respect to such other date.

(ii) *Performance of obligations*

Guang Holdings shall have performed and complied with all covenants, agreements, obligations and conditions contained in the Transaction Documents that are required to be performed or complied with by it on or before the Closing and shall have obtained all approvals, consents, waivers and qualifications necessary to complete the transactions contemplated hereby.

(iii) *Proceedings and documents*

All corporate and other proceedings in connection with the transactions contemplated in the Shares Purchase Agreement on the Closing and all documents and instruments incidental to such transactions shall be satisfactory in substance and form to the Investors, and the Investors shall have received all such counterpart originals or certified or other copies of such documents as they may reasonably request.

(iv) *Authorization*

Guang Holdings shall have obtained any and all approvals necessary for consummation of the transactions contemplated by the Shares Purchase Agreement on or prior to the Closing that are required to be obtained on or prior to the Closing.

(v) *Restated Articles*

The existing shareholders of Guang Holdings shall have duly approved the Restated Articles.

(vi) Register of members

Each Investor shall have received a copy of Guang Holdings's register of members, updated to show such Investor as the holder of the number of the Purchase Shares at the Closing.

(vii) VIE Agreements

Guang Holdings shall have delivered to the Investors a copy of the VIE Agreements which shall be duly executed by the parties thereto in the form and substance satisfactory to the Investors.

(viii) No Material Adverse Change

There shall not have been any Material Adverse Effect since the date of the Shares Purchase Agreement. There shall not be on the date of Closing any governmental order or any condition imposed under any law which would, in the reasonable judgment of the Investors, (a) prohibit or restrict (i) the sale and issuance of the Purchase Shares or (ii) the consummation of the transactions contemplated by the Shares Purchase Agreement, (b) subject the Investors to any material penalty or onerous condition under or pursuant to any law if the Purchase Shares were to be sold and issued under the Shares Purchase Agreement or (c) restrict the operation of the business of any member company of the Target Group in a manner that would have a Material Adverse Effect.

2. *Conditions to Guang Holdings' obligations at the Closing*

The obligations of Guang Holdings under the Shares Purchase Agreement to consummate the Closing are subject to the fulfilment of the following conditions at or prior to the Closing:

(i) Representations and Warranties

The representations and warranties of the Investors contained in the Shares Purchase Agreement shall be true and correct as of the Closing.

(ii) Execution of Transaction Agreements

The Investors shall have executed and delivered to Guang Holdings the Transaction Documents to which it is a party.

Closing

The consummation of the purchase and sale of the Purchase Shares shall be conducted by exchange of documents, on a date no later than seven (7) Business Days after the fulfilment or waiver of the conditions to the Closing as set forth in the section headed “Conditions Precedent” of this announcement, or at such other place and time as Guang Holdings and each Investor may mutually agree upon.

Upon Closing, the Company will hold 10,000,000 new Class A Shares in Guang Holdings being 10% shareholding in Guang Holdings representing 2.94% of the voting power at any general meetings of Guang Holdings. Upon Closing, Guang Holdings, the HK Co and the WFOE will not become subsidiaries of the Company. As of the date of this announcement, through VIE Agreements, the WFOE has effective control over the finance and operations of the Domestic Company and enjoys the entire economic interests and benefits generated by the Domestic Company upon Closing.

GENERAL INFORMATION ON THE PARTIES

The Company

The Company is a company incorporated in Bermuda with limited liability, and its shares are listed on GEM. The Company 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.

Guang Holdings

Guang Holdings is an exempted company duly incorporated and validly existing under the laws of the Cayman Islands with limited liability. It is principally engaged in investment holding. Since the incorporation of Guang Holdings in May 2020 and up to the date of this announcement, Mr. Zhu has been the ultimate beneficial owner of 62.5% shareholdings in Guang Holdings. As at the date of this announcement, Guang Holdings is ultimately and beneficially held as to (i) 62.5% by Mr. Zhu, and (ii) 37.5% by Mr. Huang Rongrong (a director of two subsidiaries of the Company). Save for the 12.5% equity interest in Guang Holdings held by Mr. Zhu are Class B Shares, other shareholdings are Class A Shares. Each Class A Share has one vote and each Class B Share has twenty-five votes for matters submitted to vote at shareholders’ meetings of Guang Holdings.

The HK Co

The HK Co is a company incorporated in Hong Kong with limited liability. It is principally engaged in investment holding.

The WFOE

The WFOE is a company established in the PRC with limited liability. It is principally engaged in provision of advices and services.

The Domestic Company

The Domestic Company was established in the PRC on 20 December 2018. The Domestic Company operates a shopping platform that applies live streaming and short video technologies to provide consumers with a “cloud shopping”-style scenery. It dedicates to help consumers discover needs, technology and content-rich live streaming content and merchandise. As at the date of this announcement, the Domestic Company is owned as to 99% by Mr. Zhu and 1% by Mr. Huang Rongrong, a director of two subsidiaries of the Company.

Henan Dujian Network

Henan Dujian Network is a company established in the PRC with limited liability. It is principally engaged in network technology development, but currently does not have actual operation.

GuangFriends

GuangFriends is an exempted company duly incorporated and validly existing under the Laws of British Virgin Islands. It is principally engaged in investment holding. As at the date of this announcement, GuangFriends is ultimately and beneficially held as to (i) 10% by Mr. Tang Yongbo, (ii) 10% by Ms. Zeng Li, (iii) 10% by Mr. Mao Dai, (iv) 10% by Mr. Li Shaojie, (v) 10% by Mr. Meng Xing, (vi) 10% by Mr. Huang Rongrong (a director of two subsidiaries of the Company) and (vii) 40% by Mr. Zhu.

Save for Mr. Zhu and Mr. Huang Rongrong, to the best of the directors’ knowledge, information and belief and after having made all reasonable enquiry, other ultimate beneficial owners of GuangFriends are third parties independent of the Company and connected persons of the Company.

Financial information of the Domestic Group

The Domestic Company is the only operating company in the Domestic Group which was established on 20 December 2018. According to the unaudited management accounts of the Domestic Company for the year ended 31 December 2019, (i) the unaudited total net liabilities of the Domestic Company as at 31 December 2019 was approximately RMB1.60 million and (ii) the unaudited net loss before taxation and after taxation of the Domestic Company for the year ended 31 December 2019 were both approximately RMB2.60 million.

A valuation using market approach has been carried by an independent valuer, who valued the 100% equity interest in Guang Holdings at approximately US\$648 million as at 31 March 2020.

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Domestic Company is principally engaged in the business of operating a live streaming platform which facilitates product promotion for businesses. The Company believes that the acquisition of the Purchase Shares (i) allows the Group to capture the benefits generated by the speedy growth and expansion of the live streaming business, particularly in the PRC; and (ii) fosters the business integration between the Group and the Aiguang Platform, which produces synergistic effects, in that the live streaming platform, which is designed chiefly to promote products, complements the Group's e-commerce business by allowing merchants to engage streamers to promote their products.

In view of the foregoing, the Directors (including the independent non-executive Directors) are of the view that the Shares Purchase Agreement and the transactions contemplated thereunder have been entered into on normal commercial terms or better, are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

BACKGROUND AND REASONS FOR USE OF THE VIE STRUCTURE

Laws and regulations relating to the operation of live streaming platforms in the PRC

As mentioned above, the Domestic Company is principally engaged in operating a live streaming and short video platform which facilitates product promotion for merchants on e-commerce sites. Such business may be categorised as engaging in the provision of value-added telecommunications services, internet cultural services, online audio and video program services and talent agency services.

The following is a summary of the principal laws and regulations of the PRC that govern the business of the operation of live streaming platforms in the PRC:

The Administrative Measures for Internet Information Services (《互聯網信息服務管理辦法》) (the “Internet Measures”), which was promulgated by the State Council of the PRC on 25 September 2000, was amended on 8 January 2011 and took effect on the same day. Pursuant to the Internet Measures, the internet information services providers, also called internet content providers, or ICPs, that provide commercial services are required to obtain an operating permit from the Ministry of Industry and Information Technology or its provincial counterpart before engaging in any commercial internet information service operations in China. As at the date of this announcement, the Domestic Company has already obtained the ICP Licence.

The Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) promulgated by the Ministry of Culture on 17 February 2011 and amended on 15 December 2017, provide that internet entities are classified into operational interest cultural entities and non-operational interest cultural entities. Operational interest cultural entities shall file application for establishment to the competent cultural administration authorities for approval and obtain an online culture operating licence. As at the date of this announcement, the Domestic Company has already obtained the online culture operating licence.

Restrictions on Foreign Investment

Investment activities in the PRC by foreign investors are primarily regulated by the Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》) (the “**Catalogue**”), which was promulgated and is amended from time to time jointly by the Ministry of Commerce of the PRC (中華人民共和國商務部) and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會). The list of restricted industries and prohibited industries in the Catalogue was amended in the Special Administrative Measures for the Admission of Foreign Investment (Negative List) (《外商投資准入特別管理措施(負面清單)》) (“**Negative List 2018**”) which took effect on 28 July 2018. On 30 June 2019, the list of restricted industries and prohibited industries in the Catalogue was amended in the Special Administrative Measures for the Admission of Foreign Investment (Negative List) (2019) (《外商投資准入特別管理措施(負面清單)(2019年版)》) (“**Negative List 2019**”) which took effect on 30 July 2019. According to the Negative List 2018 and the Negative List 2019, foreign investment in the business of internet cultural activities in the PRC is prohibited.

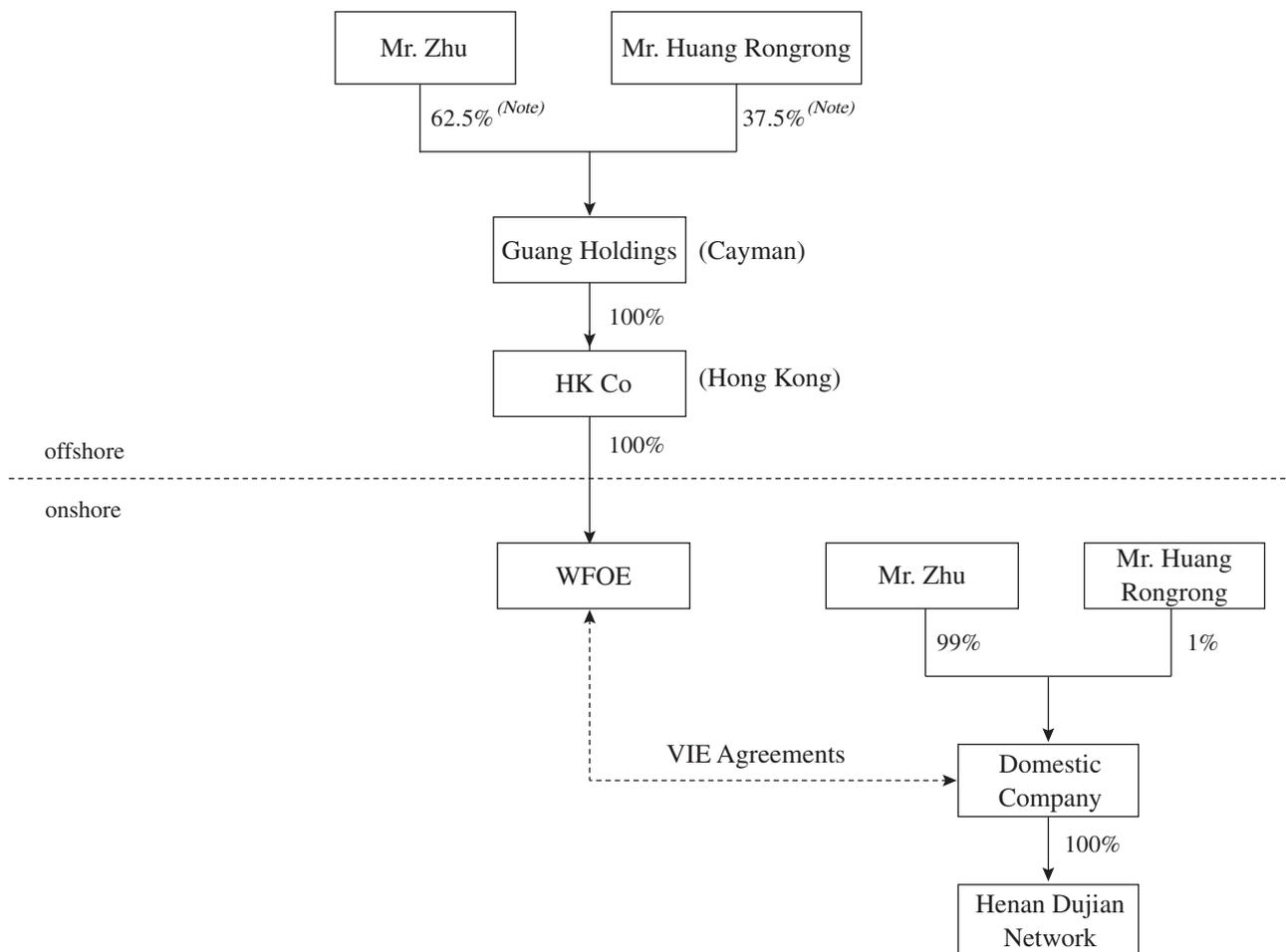
Reasons for adopting the VIE Structure

The primary purpose for the Group to continue adopting the VIE Structure, which was already set up prior to the entering into of the Shares Purchase Agreement by the Parties, is to enable the Group to acquire a certain shareholding in the Target Group, which is engaged in the business of operating a live streaming platform in the PRC, indirectly through the Domestic Company.

The VIE Structure was set up due to and in order to comply with the foreign ownership restrictions under the PRC laws and regulations as outlined above while enabling the WFOE to gain control over the Domestic Company and enjoy the entire economic benefits of and interests in the Domestic Company.

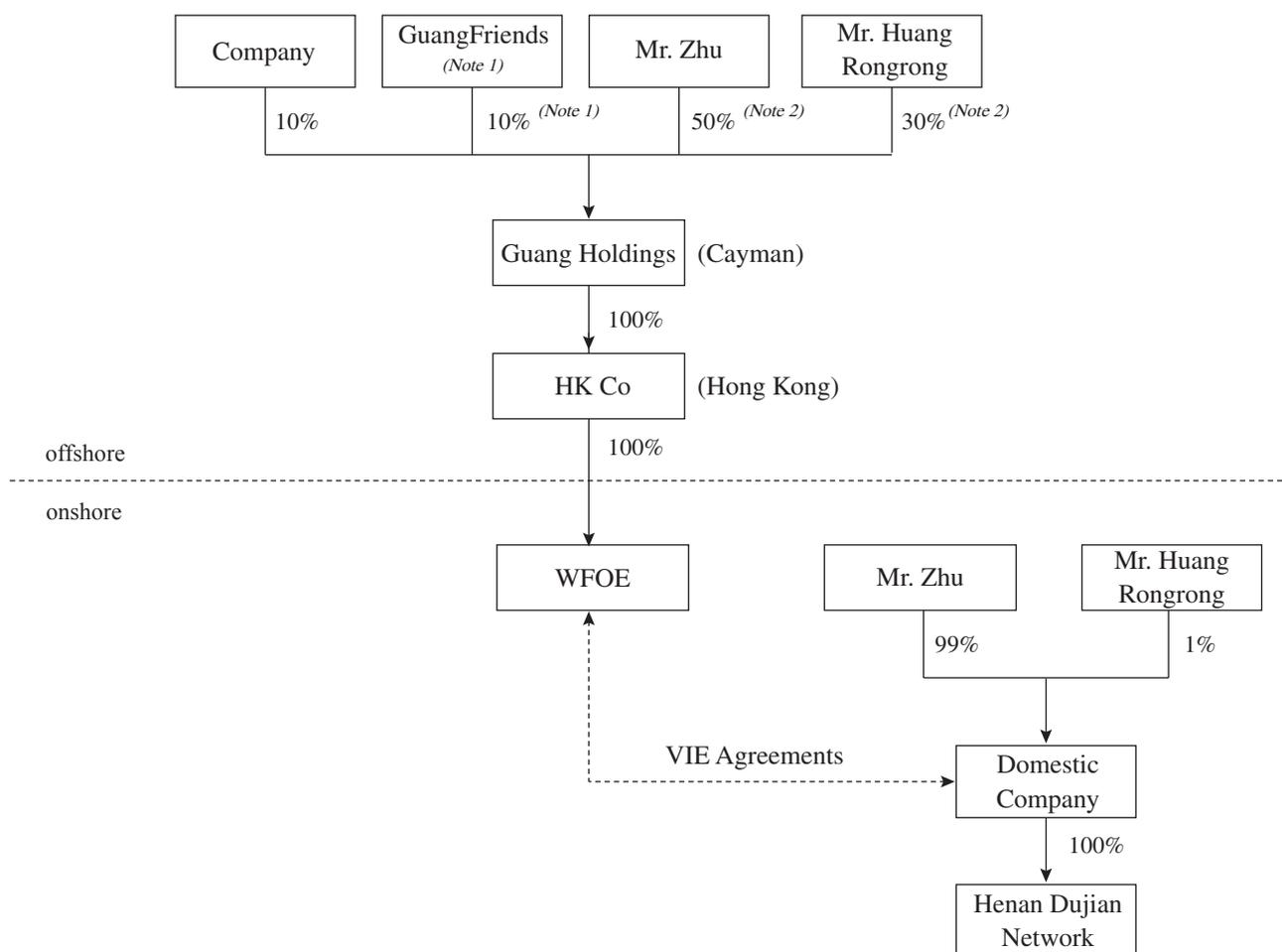
DIAGRAM OF THE VIE STRUCTURE

The following diagram sets out the VIE Structure as at the date of this announcement:



Note: As the date of this announcement, Mr. Zhu and Mr. Huang Rongrong are the ultimate beneficial owners of Guang Holdings, who indirectly own 62.5% and 37.5%, respectively. Save for the 12.5% equity interest in Guang Holdings owned by Mr. Zhu are Class B Shares, other shareholdings are Class A Shares.

The following diagram sets out the VIE Structure upon Closing:



Note 1: As at the date of this announcement, GuangFriends is ultimately and beneficially held as to (i) 10% by Mr. Tang Yongbo, (ii) 10% by Ms. Zeng Li, (iii) 10% by Mr. Mao Dai, (iv) 10% by Mr. Li Shaojie, (v) 10% by Mr. Meng Xing, (vi) 10% by Mr. Huang Rongrong (a director of two subsidiaries of the Company) and (vii) 40% by Mr. Zhu.

Note 2: Only the ultimate beneficial owners of Guang Holdings are shown.

THE VIE AGREEMENTS

Exclusive Business Cooperation Agreement

Parties and Date

The WFOE and the Domestic Company entered into the Exclusive Business Cooperation Agreement on 5 June 2020.

Subject matter

The Domestic Company agreed to engage the WFOE as its exclusive service provider. Meanwhile, the WFOE agreed to allow the Domestic Company to use the relevant software for which the WFOE owns the relevant legal rights and titles.

The advices and services which the WFOE shall provide to the Domestic Company include, but are not limited to, (i) the development, maintenance and update of the relevant application software of the Domestic Company, (ii) design, installation and daily management, maintenance and update of computer network system, hardware equipment and database, (iii) technical support and professional training of relevant personnel of the Domestic Company, (iv) assist the Domestic Company in the consultation, collection and research of relevant technical and market information (except for market research prohibited by PRC laws for foreign-owned enterprises), (v) provide enterprise management consultancy for the Domestic Company, (vi) provide marketing and promotion services for the Domestic Company, (vii) provide customer order management and customer service for the Domestic Company, (viii) the rental of equipment and assets, and (ix) other relevant services requested by the Domestic Company from time to time as permitted by PRC laws.

Unless with the prior written consent of the WFOE, during the period of the Exclusive Business Cooperation Agreement, the Domestic Company shall not directly or indirectly obtain any services identical or similar to the Exclusive Business Cooperation Agreement from any third party, and shall not establish any similar cooperative relationship with any third party on the matters described in the Exclusive Business Cooperation Agreement. Both parties agree that (i) the WFOE can designate other parties to provide the Domestic Company with the services agreed in the Exclusive Business Cooperation Agreement; (ii) in the event that the Domestic Company faces adverse operation circumstances such as financial difficulties, the WFOE has the right to request, with which the Domestic Company shall comply, the Domestic Company to cease operations; and (iii) the WFOE has the right to at any time provide financial support to the Domestic Company to ensure that the Domestic Company can satisfy its cash flow needs and/or offset any operating losses.

The WFOE has exclusive ownership of any and all intellectual property rights (including but not limited to copyright, patent rights, patent application rights, software, technical secrets, trade secrets and others) arising from or created by the performance of the Exclusive Business Cooperation Agreement.

The Domestic Company shall pay monthly service fees to the WFOE as determined by the WFOE with reference to the comprehensive profit before tax of the Domestic Company and its subsidiaries after deducting the amount required for working capital, expenses and taxes, as well as the complexity and difficulty of the services, the position of the WFOE's employee and the time spent for providing such service, the specific services provided and the commercial value thereof, the market reference price of services of similar type and the business conditions of the Domestic Company.

The Domestic Company shall procure each of its subsidiaries (if applicable) to strictly comply with the terms of the Exclusive Business Cooperation Agreement as if it were a party to such agreements.

Term and Termination

Unless mutually terminated prematurely by both parties thereto or by the WFOE's written notification, the term of Exclusive Business Cooperation Agreement is perpetual.

Exclusive Call Option Agreement

Parties and Date

Each of the Domestic Company Registered Shareholders individually entered into an Exclusive Call Option Agreement with the WFOE and the Domestic Company on 5 June 2020.

Subject matter

Each of the Domestic Company Registered Shareholders granted the WFOE (exercisable by itself or any person designated by the WFOE) irrevocable options to purchase, to the extent permitted by PRC laws and regulations, the equity interests in the Domestic Company, entirely or partially, and the assets of the Domestic Company, entirely or partially, at the purchase price of the higher of RMB10 or the minimum purchase price permitted under PRC laws and regulations. The Domestic Company thereby explicitly agrees with the grant of exclusive call option to the WFOE by each of the Domestic Company Registered Shareholders. The exercise of such options by WFOE (by itself or any of its designee as specified above) shall be in compliance with applicable PRC laws and regulations.

The Domestic Company and the Domestic Company Registered Shareholders have undertaken to perform certain acts or refrain from performing certain other acts, including but not limited to the following matters:

- (i) not to supplement, modify or amend its constitutional documents, alter the registered capital or change the registered capital structure of the Domestic Company without the prior written approval from the WFOE;
- (ii) prudently and effectively operate the business and manage the matters of the Domestic Company, and to ensure their existence, and obtain and maintain all government permits and licenses required by the Domestic Company to conduct its business in accordance with the good business standards and practice;
- (iii) not to sell, transfer, mortgage or otherwise dispose of any material assets, business, legal or beneficial interest in the income of the Domestic Company above RMB500,000 or allow any security interest to be created on its assets of the Domestic Company from the date of signing of the Exclusive Call Option Agreement without the prior written approval from the WFOE;
- (iv) not to incur, take up, guarantee or allow any indebtedness without the prior written approval from the WFOE (save for account payables incurred by means other than borrowing in the ordinary course of business);
- (v) to operate the business of the Domestic Company and its subsidiaries in an ordinary business fashion in order to maintain its asset value, and not allow any acts or omission which adversely affects its business conditions or assets value;
- (vi) procure the Domestic Company not to enter into any material contracts with a contractual amount of over RMB500,000 (other than those entered in the ordinary course of business) without the prior written approval from the WFOE;
- (vii) procure the Domestic Company not to lend or provide any financing to any other third party without the prior written approval from the WFOE;
- (viii) to provide all operating and financial information of the Domestic Company and its subsidiaries to the WFOE upon request;
- (ix) where possible, the Domestic Company shall purchase and maintain such insurance in respect of its assets and business with insurers acceptable by the WFOE, with insurance coverage and limit in line with insurance generally maintained by companies engaging in similar business as the Domestic Company;

- (x) procure the Domestic Company not to engage in any amalgamations, mergers or acquisitions or make investment in any entities without the prior written approval from the WFOE;
- (xi) immediately inform the WFOE of any actual or potential litigations, arbitrations or administrative proceedings related to the assets, business or income of the Domestic Company;
- (xii) execute all necessary or appropriate documents, take all necessary or appropriate actions, bring all necessary or appropriate charges or claims and submit all necessary or appropriate defenses against any charges or claims in order to maintain the ownership of all of its assets by the Domestic Company;
- (xiii) not to distribute any dividend to any of its shareholders without the prior written approval from the WFOE, and upon request by the WFOE, procure the Domestic Company to forthwith distribute all its distributable profits to the Domestic Company Registered Shareholders;
- (xiv) upon request of the WFOE, appoint any candidate designated by the WFOE to serve as the director or executive director of the Domestic Company;
- (xv) without the written consent of the WFOE, not to engage in any business that competes with WFOE or its affiliates;
- (xvi) unless required by PRC laws and regulations, the Domestic Company shall not be dissolved or liquidated without the written consent of the WFOE; and
- (xvii) where the Domestic Company is dissolved or liquidated within the term of the Exclusive Call Option Agreement, to the extent allowed by PRC laws and regulations, appoint persons recommended by the WFOE as the liquidators in respect of the assets of the Domestic Company and its subsidiaries, and the Domestic Company and its subsidiaries shall transfer to the WFOE or other third parties designated by the WFOE all their assets at the minimum purchase price permitted under PRC laws and regulations and waive the payment obligations of the WFOE or its designated third parties. The Domestic Company Registered Shareholders further confirmed to, regardless of whether the aforesaid is enforced, transfer to the WFOE or its designated third parties all proceeds obtained from the dissolution of the Domestic Company and its subsidiaries as part of the service fees payable under the Exclusive Business Cooperation Agreement in accordance with PRC laws and regulations.

The Domestic Company Registered Shareholders have further undertaken to perform certain acts or refrain from performing certain other acts, including but not limited to the following matters:

- (i) save for the equity pledge in favor of the WFOE created under the Equity Pledge Agreement and the rights granted under the Powers of Attorney, not to allow any sale, transfer, mortgage or otherwise dispose of any of their legal and beneficial equity interests held in the Domestic Company or allow the creation of any encumbrances thereon, without the prior written approval from the WFOE;
- (ii) save for the equity pledge in favor of the WFOE created under the Equity Pledge Agreement and the rights granted under the Powers of Attorney, not to approve at any shareholders' meeting of the Domestic Company and procure the board of directors (or executive director) of the Domestic Company not to approve any sale, transfer, mortgage or other third party rights or otherwise dispose of any legal and beneficial equity interests in or assets of the Domestic Company or allow the creation of any encumbrances thereon, without the prior written approval from the WFOE;
- (iii) not to approve at the shareholders' meeting of the Domestic Company and procure the board of directors (or executive director) of the Domestic Company not to approve, any amalgamations, mergers or acquisitions or make investment in any entities by the Domestic Company, without the prior written approval from the WFOE;
- (iv) immediately inform the WFOE of any actual or potential litigations, arbitrations or administrative proceedings related to shares or equity interests held or assets owned by the Domestic Company Registered Shareholders;
- (v) approve and vote in favor of the shareholders' resolutions of the Domestic Company, or procure the board of directors (or executive directors) of the Domestic Company to approve and vote in favor of any resolutions of the Domestic Company, concerning the transfer of equity interests pursuant to the Exclusive Call Option Agreement, and take any other action upon the request of the WFOE;
- (vi) execute all necessary or appropriate documents, take all necessary or appropriate actions, bring all necessary or appropriate charges or claims and submit all necessary appropriate defenses against any charges or claims in order to safeguard the shares or equity interests held or assets owned by the Domestic Company Registered Shareholders;
- (vii) upon request from the WFOE, appoint any candidate designated by the WFOE as a director or executive director of the Domestic Company;

- (viii) each of the Domestic Company Registered Shareholders hereby waives his first rights of refusal (if any) when the other Domestic Company Registered Shareholders transfer their shareholdings or assets to the WFOE, and agrees that the other Domestic Company Registered Shareholders, the WFOE and the Domestic Company sign agreements or documents similar to the Exclusive Call Option Agreement, the Equity Pledge Agreement and the Powers of Attorney, and guarantees that it/he/she will not take any actions that conflict with any such documents signed by the other Domestic Company Registered Shareholders;
- (ix) if any of the Domestic Company Registered Shareholders receives any dividends, distributable profits and/or other assets upon liquidation from the Domestic Company, to forthwith transfer such benefits received by it at nil consideration to the WFOE or any persons designated by the WFOE, to the extent permissible by PRC laws and regulations; and
- (x) to strictly comply with the terms of the Exclusive Call Option Agreement and any other agreements jointly or severally entered into among the WFOE, the Domestic Company Registered Shareholders and the Domestic Company and earnestly fulfil their respective obligations under such agreements and not to take, or omit to take, any actions which may affect the validity and enforceability of these agreements. In any event where the Domestic Company Registered Shareholders retain any rights in the equity interests under the Exclusive Call Option Agreement, the Equity Pledge Agreement, or the Powers of Attorney, the Domestic Company Registered Shareholders shall not exercise such rights without the prior written approval from the WFOE.

Term and Termination

Each of the Exclusive Call Option Agreements shall expire when all of the equity interests of the Domestic Company Registered Shareholders in the Domestic Company have been transferred to the WFOE or its designee in accordance therewith.

Equity Pledge Agreement

Parties and Date

Each of the Domestic Company Registered Shareholders individually entered into an Equity Pledge Agreement with the WFOE and the Domestic Company on 5 June 2020.

Subject Matter

Each of the Domestic Company Registered Shareholders agreed to pledge all of their equity interests in the Domestic Company to the WFOE to secure performance of all their respective obligations and the obligations of the Domestic Company under the agreements underlying the VIE Structure. If the relevant Domestic Company Registered Shareholder or the Domestic Company breaches or fails to fulfil their obligations under any of the agreements underlying the VIE Structure, the WFOE, as the pledgee, will be entitled to foreclose the pledged equity interests. In addition, the Domestic Company Registered Shareholders have undertaken to the WFOE, among other things, not to transfer or otherwise dispose their respective equity interests in the Domestic Company or any part thereof, and not to create or allow the creation of any security interest or encumbrance thereon (save for the pledge contemplated under the Equity Pledge Agreements) without the prior written consent of the WFOE.

Moreover, if the Domestic Company declares any dividend or distribute any income during the term of the pledge, the WFOE is entitled to receive all such dividends or other income arising from the pledged equity interests, if any. It is also agreed that in the event that the Domestic Company Registered Shareholders subscribe additional equity interest in the Domestic Company, the additional equity interest subscribed by the relevant Domestic Company Registered Shareholder shall be considered pledged in favour of the WFOE pursuant to the Equity Pledge Agreements.

Term and Termination

The Equity Pledge Agreements shall terminate when each of the Domestic Company Registered Shareholders and the Domestic Company have fulfilled and performed all obligations under the agreements underlying the VIE Structure.

Powers of Attorney

Parties and Date

Each of the Domestic Company Registered Shareholders executed a Power of Attorney in favour of Guang Holdings on 5 June 2020.

Subject Matter

Each of the Domestic Company Registered Shareholders appointed Guang Holdings as his proxy to exercise all of his shareholders' rights in the Domestic Company.

The shareholders' rights exercisable by the proxy include, but not limited to, the rights (i) to attend shareholders' meetings of the Domestic Company, (ii) to exercise all shareholders' rights in accordance with applicable laws and the constitutional documents of the Domestic Company, including but not limited to the exercise of voting rights in shareholders' meetings, sell, transfer, pledge or otherwise dispose of all or part of the equity interests held in the Domestic Company, (iii) to elect and appoint the legal representative, directors, supervisors, general manager and senior management of the Domestic Company, and (iv) to sign documents, minutes of meetings and file any documents to relevant companies registry, and (v) to vote as the Domestic Company Registered Shareholder upon the bankruptcy of the Domestic Company. The proxy is also authorised to enter into and execute any transfer agreement upon the exercise of the call option granted under the Exclusive Call Option Agreement and to secure performance of the other agreements underlying the VIE Structure for and on behalf of the Domestic Company Registered Shareholders.

Term and Termination

Each of the Domestic Company Registered Shareholders irrevocably confirmed that their respective power of attorney shall remain in full force and effect during the term which he remains as shareholder of the Domestic Company. The proxy shall have the right to re-designate the power of attorney to any other individuals or entities without requiring prior notice to or consent from the relevant Domestic Company Registered Shareholder.

Confirmation from the Domestic Company Registered Shareholders and their Respective Spouse

Pursuant to the VIE Agreements, each of the Domestic Company Registered Shareholders has provided a written confirmation, confirming that appropriate arrangements have been made to ensure that none of his successor, guardian, creditor, spouse or any other person who may be entitled to assume rights and interests in his equity interest in the Domestic Company upon his death, incapacity, divorce, bankruptcy or any other circumstances that may affect his ability to exercise his shareholder's rights in the Domestic Company will carry out any act that may affect or hinder the fulfillment of his obligations under each of the agreements underlying the VIE Structure to which he is a party. In addition, each of the Domestic Company Registered Shareholders have agreed to return any proceeds he will receive from the transfer of equity interests in the Domestic Company to the WFOE or its designated parties in the event that the arrangements under the VIE Agreements are terminated.

On 5 June 2020, each of the spouse of the Domestic Company Registered Shareholders has also provided a written confirmation confirming that she will not carry out any act that may affect or hinder the fulfillment of the corresponding Domestic Company Registered Shareholder's obligations under each of the agreements underlying the VIE Structure to which her spouse is a party.

DISPUTE RESOLUTION, LIQUIDATION, SUCCESSION AND LOSS SHARING UNDER THE VIE AGREEMENTS

Dispute resolution

The Exclusive Business Cooperation Agreement, Exclusive Call Option Agreements and the Equity Pledge Agreements all stipulate that in the event of any dispute arising out of or in relation to the VIE Structure, the parties shall first negotiate in good faith to resolve such dispute. If the parties fail to reach an agreement on the resolution of such dispute within thirty (30) days, any party may submit such dispute to the CIETAC for arbitration in accordance with the then effective arbitration rules. The arbitration shall be conducted in Hangzhou, and the results of the arbitration shall be final and binding on all relevant parties.

In addition, pursuant to the dispute resolution clause contained in the Exclusive Business Cooperation Agreement, Exclusive Call Option Agreements and the Equity Pledge Agreements, to the extent permitted by the then effective applicable laws and regulations, the arbitral tribunal may award remedies over the equity interests or landed assets of the Domestic Company, injunctions (where necessary for the conduct of business or transfer of assets) or order the winding up of the Domestic Company, and the courts of the PRC, Hong Kong, Bermuda and the Cayman Islands shall have jurisdiction to grant interim remedies in support of the arbitration.

The PRC Legal Adviser confirms that the aforementioned dispute resolution provisions set forth in the VIE Agreements (as abovementioned) are legally valid and binding on the relevant signatories. However, the PRC Legal Adviser is also of the opinion that the aforementioned provisions may not be enforceable under PRC laws. For instance, CIETAC has no power to grant such injunctive relief, nor will it be able to order the winding up of the Domestic Company under current PRC laws. In addition, interim remedies or enforcement orders granted by courts in an overseas jurisdiction, such as Hong Kong, Bermuda and the Cayman Islands, may not be recognised or enforceable in China, and the WFOE may only seek interim remedies or enforcement from competent PRC courts. As a result, in the event that any party to the VIE Agreements breaches any of the VIE Agreements, Guang Holdings or the WFOE may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the Domestic Company and its subsidiaries and conduct its business, as well as its financial conditions and results of operations, could be materially and adversely affected.

Liquidation

Pursuant to the Exclusive Call Option Agreement, upon the liquidation and dissolution of the Domestic Company pursuant to PRC laws and regulations, the WFOE shall be entitled to appoint a liquidator to manage the assets of the Domestic Company and its subsidiaries. The Domestic Company and its subsidiaries shall, to the extent permitted by PRC laws and regulations, sell all assets at the minimum purchase price permitted by PRC laws and regulations to the WFOE or persons designated by the WFOE. The Domestic Company and its subsidiaries shall relieve the WFOE or other designated persons of the WFOE of any payment obligation derived from the above mentioned sale to the extent permitted by PRC laws and regulation; any profit derived from the aforementioned the Domestic Company's sale of assets to the WFOE shall form part of the service fee under the Exclusive Business Cooperation Agreement and be paid to the WFOE or other persons designated by the WFOE.

Succession

As advised by the PRC Legal Adviser, the VIE Agreements are also binding on the successors or permitted assignees of the Domestic Company Registered Shareholders and the WFOE, as if such successors or permitted assignees were signing parties to the VIE Agreements. Under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and maternal grandparents and any breach by the successors would be deemed to be a breach of the VIE Agreements. Advised by the PRC Legal Adviser, the death of the Domestic Company Registered Shareholders and/or their respective successors or permitted assignees will not affect the validity of the VIE Agreements.

In addition, the spouse of each of the Domestic Company Registered Shareholders has given certain consents, undertakings and confirmation, details of which are set out in the sections headed "Confirmation from the Domestic Company Registered Shareholder and their Respective Spouse" in this announcement. As advised by PRC Legal Adviser, any change in the marital status of the Domestic Company Registered Shareholders will not affect the benefits and interests in the WFOE under the VIE Agreements.

Loss Sharing

As advised by the PRC Legal Adviser, none of the VIE Agreements provides that the Group is obligated to share the losses of the Domestic Company or provide financial support to the Domestic Company. Further, the Domestic Company is a limited liability company and will be solely liable for its own debts and losses with assets and properties owned by it. Under the PRC laws and regulations, the WFOE, as the primary beneficiary of the Domestic Company under the VIE Agreements, is not required to share the losses of the Domestic Company or provide financial support to the Domestic Company.

ARRANGEMENTS TO ADDRESS POTENTIAL CONFLICT OF INTERESTS

Each of the Domestic Company Registered Shareholders undertake that, during the period that he is a shareholder of the Domestic Company, he will not take or omit to take any action which may lead to a conflict of interest between the WFOE and the Domestic Company or the Domestic Company's subsidiaries (if applicable). If there is any conflict of interest, each of the Domestic Company Registered Shareholders will support the lawful interests in the WFOE and perform actions reasonably required by the WFOE. Furthermore, each of the Domestic Company Registered Shareholders has unconditionally and irrevocably transferred all his rights in the Domestic Company, including but not limited to the right to dividends, to the WFOE.

Arrangements are also in place to ensure that the directors or officers of the Company will be appointed by Guang Holdings under the Powers of Attorney and they will not in any way hinder Guang Holdings' exercises of the shareholder rights conferred upon it by the Domestic Company Registered Shareholders.

INSURANCE

The Group did not purchase any insurance to cover the risks relating to the VIE Agreements.

EFFECT AND LEGALITY OF THE VIE AGREEMENTS

The PRC Legal Adviser, after taking reasonable actions and steps to reach its legal conclusions, is of the following legal opinion:

- each of the VIE Agreements, taken individually and collectively, constitutes legal, valid and binding obligations of the parties thereto and will be enforceable under applicable PRC laws and regulations except that (a) the arbitration centre has no power to grant injunctive relief, nor will it be able to order the winding up of the Domestic Company pursuant to the current PRC laws; and (b) interim remedies or enforcement order granted by overseas courts such as the courts of Hong Kong, Bermuda and the Cayman Islands may not be recognised or enforceable in the PRC;
- the VIE Agreements do not, individually or collectively, violate the Contract Law of the PRC (《中華人民共和國合同法》);
- the VIE Structure does not violate the Administrative Measures for Internet Information Services (《互聯網信息服務管理辦法》) and the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》);

- none of the VIE Agreements violates any provisions of the existing articles of association of each of the WFOE and the Domestic Company; and
- the execution, effectiveness and enforceability of the VIE Agreements do not require any approvals from any PRC governmental authority, except that (a) the transfer of shares in the Domestic Company under the VIE Agreements is subject to the approval by/filing with relevant PRC governmental authority; (b) the enforcement of relevant arbitral award or enforcement order granted by overseas courts needs to apply to the relevant PRC governmental authority in order to be recognised or enforceable in the PRC; and (c) the share pledge under the VIE Agreements is subject to registration requirements with relevant PRC governmental authority.

INTERNAL CONTROL MEASURES

The Group has adopted, and will continue to adopt, the following internal control measures to ensure legal and regulatory compliance of the Group, the sound and effective operation of the Target Group and the implementation of the VIE Agreements:

- (i) as part of the internal control measures, major issues arising from implementation of the VIE Agreements will be regularly reviewed, at least on a quarterly basis, by the Board after Closing;
- (ii) matters relating to compliance and regulatory enquiries from the Governmental Authority (if any) will be discussed at these regular meetings;
- (iii) the relevant business units and operation divisions of the Target Group will report regularly, which will be no less frequently than on a monthly basis, to the senior management of the Company in relation to compliance and performance conditions under the VIE Agreements and other related matters;
- (iv) the company seals, financial seals, contract seals and crucial corporate certificates of the Domestic Company and its subsidiaries are kept by the Target Group's finance department. Any employee of the Target Group who wishes to use the seals will have to obtain internal approval from the business, legal and/or finance department(s) (as the case may be) of the Target Group, as well as approval from relevant department head and vice president and the chief executive officer of Guang Holdings, depending on the importance or transaction value of the document to which the seal/seals will be affixed. The business, legal and/or finance departments constitute the Target Group's central management system and the persons in charge of these departments as well as the department members responsible for the custody and handling of the seals and crucial corporate certificates are employees of Guang Holdings;

- (v) if necessary, legal advisers and/or other professionals will be retained to assist the Target Group to deal with specific issues arising from the VIE Agreements and to ensure that the operation and implementation of the VIE Agreements as a whole will comply with applicable laws and regulations;
- (vi) the Company's independent non-executive Directors will review the compliance of the VIE Agreements on an annual basis and their confirmation will be disclosed in the Company's annual report;
- (vii) to avoid potential conflicts of interest, the Board (including the independent non-executive Directors) will ensure that any designee or person or entity designated by the WFOE for the purpose of exercising any of the rights originally granted to the WFOE and/or such designee under the VIE Agreements shall be restricted to a legally-held subsidiary of Guang Holdings (and which will be under the management control of Guang Holdings) or an authorised director of Guang Holdings or a legally-held subsidiary (whom shall owe fiduciary duties to Guang Holdings or the legally-held subsidiary) and shall exclude Domestic Company Registered Shareholders and any of their associates. The Board will also ensure that no rights shall be granted to any other third parties outside of the Target Group which does not owe any fiduciary duties to Guang Holdings;
- (viii) the Board (including the independent non-executive Directors) will ensure that the WFOE will only approve and consent to the relevant operating entity carrying out the Target Group's principal business and ancillary business which would otherwise be prohibited or restricted to be carried out by foreign invested entities under relevant PRC laws and regulations;
- (ix) the Board (including the independent non-executive Directors) will ensure that the Domestic Company shall retain and continue to hold all relevant intellectual properties, including trademarks, computer software, copyrights and domain names, required for the purpose of maintaining and renewing its operating licences and permits as required by relevant PRC government authorities; and
- (x) the Target Group will unwind the VIE Agreements as soon as relevant PRC laws and regulations allow the business of the Domestic Company to be conducted and operated by Guang Holdings's subsidiaries without such arrangements in place.

BOARD'S VIEW ON THE VIE AGREEMENTS

Based on the above, the Board is of the view that the VIE Agreements are narrowly tailored to achieve the Target Group's business purpose and minimise the potential for conflict with the relevant PRC laws and regulations. The VIE Agreements also provide that as soon as relevant PRC rules and regulations governing foreign investment in the operation of the Domestic Company are changed which allow the WFOE to register itself as the shareholder of the Domestic Company, the WFOE is entitled to exercise the option and terminate the VIE Agreements. In view of the foregoing, the Board considers that (i) the VIE Agreements are fundamental to the Domestic Company's legal structure and business operations; and (ii) save as disclosed in this announcement, the VIE Agreements are enforceable under the relevant PRC laws and provide a mechanism that enables the Target Group to exercise effective control over the Domestic Company.

As of the date of this announcement, to the best of the knowledge, information and belief of the Directors, after making all reasonable enquiries, the Directors are not aware of any factors that has led or would lead to any interference from or restrictions imposed by any PRC governing bodies on the Target Group's operation of the businesses under the VIE Agreements.

RISK FACTORS IN RELATION TO THE VIE AGREEMENTS

- (i) If the PRC government finds that the VIE Agreements do not comply with PRC laws and regulations, or if the laws and regulations, or if their interpretations change in the future, the Target Group may be subject to severe penalties or be forced to relinquish our interests received through the VIE Agreements**

There can be no assurance that the VIE Agreements will be deemed by the relevant governmental or judicial authorities to be in compliance with the existing or future applicable PRC laws and regulations, or the relevant governmental or judicial authorities may in the future interpret the existing laws or regulations with the result that the VIE Agreements will be deemed not to be in compliance with the PRC laws and regulations.

The Foreign Investment Law

On 15 March 2019, the National People's Congress approved the Foreign Investment Law, which has come into effect on 1 January 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to unify the corporate legal requirements for both foreign and domestic investments and by way of having a Negative List.

The Negative List, which will be issued by or upon approval by the State Council, refers to special administrative measures for access of foreign investment in specific fields in PRC. A foreign investor shall not invest in any field prohibited from foreign investment under the Negative List. A foreign investor shall meet the investment conditions stipulated under the Negative List for any restricted fields under the Negative List. For fields not mentioned in the Negative List, domestic and foreign investments shall be treated equally. "Foreign investors" in Foreign Investment Law only include foreign natural persons, enterprises and other organizations, which do not include enterprises incorporated within the territory of China in accordance with PRC laws but controlled by foreign natural persons or entities. Moreover, the Foreign Investment Law does not stipulate that "foreign investment" as defined thereunder shall include contractual arrangements (which include the VIE Structure). Instead, it adds a catch-all provision to the definition of foreign investment so that foreign investment, by its definition, includes "investments made by foreign investors in China through other means stipulated under laws or administrative regulations or provisions of the State Council" without elaboration on the meaning of "other means".

The Potential Impact of the Foreign Investment Law on the Target Group

If there is no applicable law or regulation that explains "other means" of foreign investment under which the Foreign Investment Law refers to, or if "other means" of foreign investment are specified under applicable laws or regulations not to include contractual arrangements, it is unlikely that the contractual arrangements (including the arrangements under the VIE Agreements) will be deemed as "foreign investments" under the Foreign Investment Law and therefore shall neither be subject to the Negative List nor be regulated by relevant authorities in accordance with the requirements of the Negative List.

If the business of the Domestic Company is not on the Negative List and the WFOE can legally operate such business under PRC laws, the WFOE will exercise the call option under the VIE Agreements to acquire the equity interest in the Domestic Company and unwind the contractual arrangements subject to re-approval by the relevant authorities.

If the business of the Domestic Company is on the Negative List, unless applicable laws or regulations define contractual arrangements as one of the “other means” of foreign investment, the probability that contractual arrangements are deemed as “foreign investment” under the Foreign Investment Law and be regulated by relevant authorities in accordance with the requirements of the Negative List, which results in the contractual arrangements being deemed as invalid or being required to meet the requirements of the Negative List is low.

If there are other related regulations defining “other means” of foreign investment to include contractual arrangements, the regulations above will not only apply to the Domestic Company, but also apply to other entities which operate under contractual arrangements.

Measures adopted by Guang Holdings to mitigate against any potential risk arising from the Foreign Investment Law

Foreign Investment Law does not contain a concrete guidance to deal with the existing VIE structures. As such, the Board will monitor the implementation of the Foreign Investment Law and discuss with the Company’s PRC Legal Adviser on a regular basis in order to assess any possible impact arising from the implementation of the Foreign Investment Law on the VIE Agreements and the business operation of the Target Group. In case there would be material and adverse effect on the Target Group or the business of the Domestic Company arising from the Foreign Investment Law, the Company will timely publish announcements in relation to (i) any amendments to or interpretations of the Foreign Investment Law; and (ii) any material impact of the Foreign Investment Law on the Target Group’s operations and financial position.

(ii) The VIE Agreements may not be as effective as direct ownership in providing control over the Domestic Company or its shareholders may fail to perform its obligations under the VIE Agreements

The Target Group will not have equity ownership interests in the Domestic Company and relies on contractual arrangements under the VIE Agreements with the Domestic Company to operate the live streaming and short video platforms of the Domestic Company in the PRC. The VIE Agreements may not be as effective as direct ownership in providing the Target Group with control over the Domestic Company. Direct ownership would allow the Target Group, for example, to directly or indirectly exercise its rights as a shareholder to effect changes in the board of directors of the Domestic Company. However, under the VIE Agreements, the Target Group relies on the performance by the Domestic Company Registered Shareholders of their obligations under the VIE Agreements to exercise control over the Domestic Company. In addition, if the Domestic Company Registered Shareholders or the Domestic Company fail to perform their respective obligations under the VIE Agreements or otherwise have disputes with the Target Group, the Target Group may have to initiate arbitration or other legal proceedings and rely on legal remedies under PRC laws which may be limited and involve significant uncertainty. There can be no assurance that the outcome will be in the Target Group’s favour and it may adversely affect the Target Group’s ability to control the Domestic Company.

- (iii) The Target Group may lose control over the Domestic Company and may not enjoy the full economic benefits of the Domestic Company if the Domestic Company declares bankrupt or becomes subject to a dissolution or liquidation proceeding**

The VIE Agreements contain terms that specifically provide that the Domestic Company may not be dissolved or liquidated without the written consent of the WFOE. However, if the Domestic Company Registered Shareholders breaches this obligation and voluntarily liquidate the Domestic Company, all or part of the assets of the Domestic Company may become subject to liens or rights of third party creditors and the Target Group may be unable to continue to control the Domestic Company and may not enjoy the economic benefits of the Domestic Company, which could adversely affect our business, financial condition and results of operations.

- (iv) The VIE Agreements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that the WFOE or the Domestic Company owes additional taxes could substantially reduce the Target Group's net income**

The Target Group may face material adverse tax consequences if the PRC tax authorities determine that the VIE Agreements were not entered into on an arm's length basis. If the PRC tax authorities determine that the VIE Agreements were not entered into on an arm's length basis, they may adjust income and expenses of the Domestic Company for PRC tax purposes, which could result in higher tax liabilities on the Domestic Company. The operating and financial results of the Target Group may be materially and adversely affected if the tax liabilities of the Domestic Company increase significantly or if it is required to pay interest on late payments and other penalties.

- (v) The shareholders of the Domestic Company may have conflicts of interest with the Target Group, which may materially and adversely affect the Target Group's business and financial conditions**

The Target Group's control over the Domestic Company is based upon the contractual arrangements under the VIE Agreements, among others, entered into among the WFOE, the Domestic Company Registered Shareholders, and the Domestic Company. If the Domestic Company Registered Shareholders does not act completely in the Target Group's interests or the conflicts of interest between the Target Group and them are not resolved in the Target Group's favour, the Target Group's business and financial condition may be materially and adversely affected.

(vi) Certain terms of the VIE Agreements may not be enforceable under PRC law and enforcement of certain of the Target Group's rights under the VIE Agreements is subject to regulatory approval

The VIE Agreements are governed by PRC laws and all disputes will be submitted for arbitration, the ruling of which will be final and binding. Accordingly, these agreements would be interpreted in accordance with PRC laws and disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions and uncertainties in the PRC legal system could limit the Target Group's ability to enforce the VIE Agreements. In the event that the Target Group is unable to enforce the VIE Agreements, or if the Target Group suffers significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert control over the Domestic Company. The VIE Agreements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of the Domestic Company, injunctive relief and/or winding up of the Domestic Company. The VIE Agreements also include a clause in relation to dispute resolution among the parties where, when awaiting the formation of the arbitral tribunal or otherwise under appropriate conditions, the parties thereto may seek temporary injunctive relief or other temporary remedies from the courts in Hong Kong, the PRC, Bermuda, the Cayman Islands and the place where the principal assets of the Domestic Company are located. However, the PRC Legal Adviser is of the view that pursuant to the PRC laws, the arbitral tribunal may have no power to grant the aforementioned remedies or injunctive relief or to issue a provisional or final liquidation order. In addition, even though the VIE Agreements provide that overseas courts (e.g. courts in Hong Kong) will have the power to grant certain relief or remedies, such relief or remedies may not be recognised or enforced under the PRC laws. As a result, in the event that the Domestic Company or any of the shareholders of the Domestic Company breaches the terms of the VIE Agreements, the Target Group may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the Domestic Company could be materially and adversely affected. Furthermore, notwithstanding the relevant contractual provisions contained in the VIE Agreements, courts of competent jurisdiction may grant interim remedies only to the extent permitted under the PRC laws. Pursuant to the VIE Agreements, the WFOE (or its designee) has the exclusive right to purchase all or any part of the equity interests in the Domestic Company from the shareholders of the Domestic Company at the higher of RMB10 or the minimum price permitted under the then applicable PRC laws. The equity interest transfer is subject to the approval from or filings with the Ministry of Commerce of the PRC (中華人民共和國商務部) or its competent local branches and/or their local competent branches, which is outside of the Target Group's control.

(vii) The Target Group does not have any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

The insurance of the Target Group does not cover the risks relating to the VIE Agreements and the transactions contemplated thereunder and Guang Holdings has no intention to purchase any insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the operation of the Domestic Company, the financial results and financial position of the Target Group may be adversely affected. However, the Target Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. In addition, the Target Group will implement relevant internal control measures to reduce the operational risk. The Target Group will continue evaluating the feasibility, the cost and the benefit of procuring insurance for the transactions under the VIE Agreements.

(viii) Economic risks the WFOE bears as the primary beneficiary of the Domestic Company, financial support to the Domestic Company and potential exposure of the Group to losses

As the primary beneficiary of the Domestic Company, the WFOE will share both profit and loss of the Domestic Company and bears economic risks which may arise from difficulties in the operation of the Domestic Company's businesses. The WFOE may have to provide financial support in the event of financial difficulty of the Domestic Company. Under these circumstances, the Target Group's financial results and financial position may be adversely affected by the worsening financial performance of the Domestic Company and the need to provide financial support to it.

(ix) There are limitations in exercising the option to acquire ownership in the Domestic Company

Despite the Exclusive Call Option Agreement granting the WFOE an option to purchase the entire equity interest in the Domestic Company if and when PRC laws and regulations allow, ownership transfer may be subject to substantial costs which may not be immediately apparent.

LISTING RULES IMPLICATIONS

Connected Transaction

As at the date of this announcement, Guang Holdings is owned as to approximately 62.5% by Mr. Zhu and his associates and 37.5% by Mr. Huang Rongrong. Mr. Zhu is an executive Director and substantial Shareholder of the Company, whereas Mr. Huang Rongrong is a director of two subsidiaries of the Company. Therefore, each of Mr. Zhu and Mr. Huang Rongrong is a connected person of the Company and the transactions contemplated under the Shares Purchase Agreement constitute connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

In respect of the transactions contemplated under the Shares Purchase Agreement, as all the applicable percentage ratios are less than 5% and are on normal commercial terms, the transactions contemplated under the Shares Purchase Agreement are subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 20.74(2) of the GEM Listing Rules.

Mr. Zhu, who has a material interest in the Shares Purchase Agreement, has abstained from voting on the relevant board resolution(s) approving the Shares Purchase Agreement and the transactions contemplated thereunder.

The transactions contemplated under the Shares Purchase Agreement are subject to the fulfilment of the conditions precedent set out therein and may or may not proceed. Shareholders and potential investors of the Company are reminded to exercise caution when dealing with the shares and other securities of the Company.

DEFINITIONS

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

“Aiguang Platform”	the live streaming and short video platform developed by the Domestic Company, which facilitates product promotion for businesses
“Board”	the board of Directors
“Business Day(s)”	any day that is not a Saturday, a Sunday or a day on which banks are required or authorized by applicable laws or executive order to be closed in Beijing or Hong Kong or the Cayman Islands
“CIETAC”	China International Economic and Trade Arbitration Commission
“Class A Shares”	the Class A ordinary shares, par value US\$0.0001 per share, of Guang Holdings
“Class B Shares”	the Class B ordinary shares, par value US\$0.0001 per share, of Guang Holdings
“Closing”	the closing of the transactions contemplated under the Shares Purchase Agreement
“Closing Date”	the date on which Closing occurs
“Company”	China Youzan Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on GEM
“Director(s)”	the director(s) of the Company
“Domestic Company”	杭州愛逛網絡信息服務有限公司 (Hangzhou Aiguang Network Information Service Co., Ltd*), a limited liability company established under the laws of the PRC
“Domestic Company Registered Shareholders”	the registered holders of all the issued shares of the Domestic Company for the time being, including the Mr. Zhu and Mr. Huang Rongrong

“Domestic Group”	the Domestic Company together with its subsidiary
“Equity Pledge Agreement(s)”	the equity pledge agreement separately entered into between the WFOE, the Domestic Company and each of the Domestic Company Registered Shareholders on 5 June 2020
“Exclusive Business Cooperation Agreement”	the exclusive business cooperation agreement entered into between the WFOE and the Domestic Company on 5 June 2020
“Exclusive Call Option Agreement(s)”	the exclusive call option agreement separately entered into among the WFOE, the Domestic Company and each of the Domestic Company Registered Shareholders on 5 June 2020
“GEM”	the GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Governmental Authority”	any federal, national, foreign, supranational, state, provincial, county, local or other government, governmental, regulatory, administrative or self-regulatory authority, agency, instrumentality or commission or any court, tribunal, or judicial or arbitral body of competent jurisdiction
“Group”	the Company together with its subsidiaries
“GuangFriends”	GuangFriends Limited, an exempted company incorporated under the laws of British Virgin Islands
“Guang Holdings”	Guang Holdings Limited, an exempted company incorporated under the laws of the Cayman Islands
“Hangzhou”	the provincial capital of China’s Zhejiang province
“Henan Dujian Network”	河南都建網絡科技有限公司, a company established under the laws of the PRC
“HK Co”	Guang (Hong Kong) Investment Limited, a limited liability company incorporated under the laws of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“ICP Licence”	internet content provider licence
“Independent Third Party”	any entity or person who is not a connected person of the Company or an associate of any such person within the meanings ascribed thereto under the Listing Rules
“Investors”	the Company and GuangFriends collectively
“Material Adverse Effect”	any (a) event, occurrence, fact, condition, change or development that has had, has, or could reasonably be expected to have a material adverse effect on the business, properties, assets, employees, operations, results of operations, condition (financial or otherwise), prospects or liabilities of the member companies of the Target Group taken as a whole, (b) material impairment of the ability of any member company of the Target Group to perform the material obligations of such entity hereunder or under any other Transaction Documents, as applicable, or (c) material impairment of the validity or enforceability of the Shares Purchase Agreement or any other Transaction Documents against any member company of the Target Group
“Mr. Zhu”	Zhu Ning (朱寧), a PRC individual and shareholder of the Domestic Company
“Negative List”	the Special Administrative Measures for the Admission of Foreign Investment (Negative List) (《外商投資准入特別管理措施(負面清單)》) as it may be amended from time to time
“Parties”	the Investors and Guang Holdings
“Power(s) of Attorney”	the powers of attorney separately granted by each of the Domestic Company Registered Shareholders in favour of Guang Holdings on 5 June 2020
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan

“PRC Legal Adviser”	Dentons Shenzhen Office, the legal adviser to the Company as to the PRC laws
“Purchase Price”	the Purchase Price of US\$5,000,000 for the Purchase Shares
“Purchase Shares”	the 10,000,000 new Class A Shares to be issued by Guang Holdings and purchased by the Company, representing 10% shareholdings in Guang Holdings (on an enlarged basis upon Closing)
“Restated Articles”	the first amended and restated articles of association of Guang Holdings, which shall have been adopted by the board of directors of Guang Holdings and the members of Guang Holdings and shall be in full force and effect upon Closing
“RMB”	Renminbi, the lawful currency of the PRC
“Shares Purchase Agreement”	the shares purchase agreement entered into on 5 June 2020, among Guang Holdings and the Investors
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Group”	Guang Holdings, the HK Co, the WFOE and the Domestic Group and any other direct or indirect subsidiary of Guang Holdings
“Transaction Documents”	the Shares Purchase Agreement, the Restated Articles and other ancillary documents the execution of which is contemplated in the Shares Purchase Agreement
“US\$”	United States dollars, the lawful currency of the United States

“VIE Agreements”	the Exclusive Business Cooperation Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement and the Powers of Attorney
“VIE Structure”	the variable interest entity structure constituted by the VIE Agreements
“WFOE”	杭州愛逛企業管理諮詢有限公司, a wholly-foreign owned enterprise established under the laws of the PRC

By order of the Board
China Youzan Limited
Guan Guisen
Chairman

Hong Kong, 5 June 2020

As at the date of this announcement, 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.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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

If there is any inconsistency in this announcement between the English and Chinese versions, the English version shall prevail.

* *For identification purpose only and should not be regarded as the official English translation of the Chinese names. In the event of any inconsistency, the Chinese name prevails.*