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China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

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

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

This announcement, for which the directors (the “Directors”) of China Youzan Limited (the “Company”, together with its subsidiaries, the “Group”, “Youzan” or “We”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this 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 this announcement or any statement herein misleading.

HIGHLIGHTS

For the six months ended 30 June 2024, the Group recorded a revenue of approximately RMB686,329,000, representing a decrease of 5.2% compared to the same period of last year. Of which, the revenue from subscription solutions was approximately RMB377,489,000, representing a decrease of 10.6% compared to the same period of last year, and the revenue from merchant solutions was approximately RMB306,639,000, representing an increase of 2.2% compared to the same period of last year.

For the six months ended 30 June 2024, the Group recorded a gross profit of approximately RMB469,149,000, representing a decrease of 6.4% compared to the same period of last year. Of which, the gross profit of subscription solutions was approximately RMB295,593,000, representing a decrease of 14.2% compared to the same period of last year, and the gross profit of merchant solutions was approximately RMB172,258,000 representing an increase of 10.1% compared to the same period of last year.

For the six months ended 30 June 2024, the Group's gross profit margin decreased from 69.2% in the same period of last year to 68.4% for the current period. Of which, the gross profit margin of subscription solutions decreased from 81.5% in the same period of last year to 78.3% for the current period, and the gross profit margin of merchant solutions increased from 52.1% in the same period of last year to 56.2% for the current period.

The Group recorded a profit from operations of approximately RMB2,586,000 for the six months ended 30 June 2024, representing an increase of 123.0% compared to a loss from operations of approximately RMB11,265,000 for the same period of last year.

As at 30 June 2024, the Group had total cash and cash equivalents of approximately RMB839,499,000 and a current ratio of 1.07 times.

The board of directors (the "Board") did not recommend the payment of interim dividend for the six months ended 30 June 2024.

FINANCIAL RESULTS

The Board of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 June 2024 (the “reporting period”) together with the comparative unaudited figures for the corresponding periods in 2023 as set out below:

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

	Notes	Six months ended 30 June	
		2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Revenue	5	686,329	724,294
Cost of sales		<u>(217,180)</u>	<u>(222,898)</u>
Gross profit		469,149	501,396
Investment and other income	6	19,636	30,429
Other gains and losses, net		15,522	16,031
Selling and distribution expenses		(265,763)	(331,075)
Administrative expenses		(70,020)	(69,869)
Impairment losses on financial and contract assets, net		(9,939)	(5,253)
Equity-settled share-based payments		(21,704)	(6,452)
Amortisation of intangible assets		(40,467)	(40,563)
Other operating expenses	7	<u>(93,828)</u>	<u>(105,909)</u>
Profit/(loss) from operation		2,586	(11,265)
Finance costs		(9,350)	(13,736)
Fair value change in financial assets at fair value through profit or loss (“FVTPL”)		<u>–</u>	<u>2,482</u>
LOSS BEFORE TAX	8	(6,764)	(22,519)
Income tax credit	9	<u>2,469</u>	<u>4,103</u>
LOSS FOR THE PERIOD		<u>(4,295)</u>	<u>(18,416)</u>
Attributable to:			
Owners of the parent		(17,224)	18,114
Non-controlling interests		<u>12,929</u>	<u>(36,530)</u>
		<u>(4,295)</u>	<u>(18,416)</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted (RMB)	11	<u>(0.0005)</u>	<u>0.0010</u>

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

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
LOSS FOR THE PERIOD	<u>(4,295)</u>	<u>(18,416)</u>
OTHER COMPREHENSIVE INCOME:		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	(2,778)	2,535
Fair value changes of financial assets at fair value through other comprehensive income ("FVTOCI")	<u>–</u>	<u>3,063</u>
Other comprehensive income for the period, net of tax	<u>(2,778)</u>	<u>5,598</u>
Total comprehensive income for the period	<u><u>(7,073)</u></u>	<u><u>(12,818)</u></u>
Attributable to:		
Owners of the parent	(20,002)	37,920
Non-controlling interests	<u>12,929</u>	<u>(50,738)</u>
	<u><u>(7,073)</u></u>	<u><u>(12,818)</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2024 (Unaudited) <i>RMB'000</i>	As at 31 December 2023 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	12	6,178	8,553
Right-of-use assets		8,187	10,227
Goodwill		341,326	341,326
Other intangible assets		652,255	692,819
Capitalised contract costs		41,094	35,482
Deferred tax assets		69,966	70,257
Financial assets at FVTPL		282,494	282,374
Financial assets at FVTOCI		66,367	66,298
Prepayments, other receivables and other assets		286	647
		<u>1,468,153</u>	<u>1,507,983</u>
Total non-current assets			
Current assets			
Inventories		889	670
Trade receivables	13	13,200	21,549
Factoring loan receivables		79,519	49,422
Prepayments, other receivables and other assets		491,804	212,315
Capitalised contract costs		113,284	120,771
Indemnification assets		179,797	179,797
Amounts due from related companies		591	338
Restricted bank balances		4,024	5,930
Balances with central bank		2,569,635	2,371,241
Cash and cash equivalents		839,499	924,998
		<u>4,292,242</u>	<u>3,887,031</u>
Total current assets			

		As at 30 June 2024 (Unaudited) <i>RMB'000</i>	As at 31 December 2023 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
Current liabilities			
Trade payables	14	7,873	2,571
Other payables and accruals		311,491	380,664
Amounts due to non-controlling shareholders of subsidiaries		787	1,200
Amount due to a related company		377	127
Contract liabilities		571,046	585,578
Lease liabilities		17,757	16,360
Settlement obligations		2,927,779	2,495,726
Tax payables		211	2,080
Withholding tax payable		179,797	179,797
Total current liabilities		<u>4,017,118</u>	<u>3,664,103</u>
Net current assets		<u>275,124</u>	<u>222,928</u>
Total assets less current liabilities		<u>1,743,277</u>	<u>1,730,911</u>
Non-current liabilities			
Contract liabilities		72,905	59,488
Lease liabilities		55,492	64,369
Interest-bearing bank and other borrowings		470,000	470,444
Deferred tax liabilities		121,359	127,720
Total non-current liabilities		<u>719,756</u>	<u>722,021</u>
NET ASSETS		<u><u>1,023,521</u></u>	<u><u>1,008,890</u></u>
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	286,938	286,938
Other reserves		736,094	734,392
		<u>1,023,032</u>	<u>1,021,330</u>
Non-controlling interests		<u>489</u>	<u>(12,440)</u>
TOTAL EQUITY		<u><u>1,023,521</u></u>	<u><u>1,008,890</u></u>

Notes:

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

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

The Company is an investment holding company. The Group is principally engaged in providing merchants with online and offline e-commerce solutions (also known as SaaS (software as a service)) and various payment services.

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

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2024 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2023.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2023, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> (the "2020 Amendments")
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants</i> (the "2022 Amendments")
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i>

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of HKFRS 16, the amendments did not have any impact on the financial position or performance of the Group.
- (b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

- (c) Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the interim condensed consolidated financial information.

4. OPERATING SEGMENT INFORMATION

For the six months ended 30 June 2024

	Third party payment services <i>RMB'000</i> (Unaudited)	Merchant services <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue (note 5)				
Sales to external customers	152,565	530,075	3,689	686,329
Intersegment sales	–	31,885	–	31,885
	<hr/>	<hr/>	<hr/>	<hr/>
Total segment revenue	152,565	561,960	3,689	718,214
 <i>Reconciliation:</i>				
Elimination of intersegment sales				<hr/> (31,885)
Revenue				<hr/> 686,329
Segment results	67,111	(41,826)	3,641	28,926
 <i>Reconciliation:</i>				
Equity-settled share-based payments				(21,704)
Corporate and other unallocated income and expenses, net				<hr/> (13,986)
Loss before tax				<hr/> <hr/> (6,764)

Six months ended 30 June 2023

	Third party payment services <i>RMB'000</i> (Unaudited)	Merchant services <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue (note 5)				
Sales to external customers	153,561	568,147	2,586	724,294
Intersegment sales	–	289	–	289
Total segment revenue	153,561	568,436	2,586	724,583
<i>Reconciliation:</i>				
Elimination of intersegment sales				(289)
Revenue				724,294
Segment results	61,168	(59,837)	1,482	2,813
<i>Reconciliation:</i>				
Equity-settled share-based payments				(6,452)
Fair value change in financial assets at FVTPL				2,482
Corporate and other unallocated income and expenses, net				(21,362)
Loss before tax				(22,519)

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2024 and 31 December 2023.

	Third party payment services <i>RMB'000</i>	Merchant services <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets				
30 June 2024 (unaudited)	3,149,128	1,450,734	159,980	4,759,842
31 December 2023 (audited)	2,767,423	1,574,813	74,793	4,417,029
Segment liabilities				
30 June 2024 (unaudited)	3,035,860	1,401,372	3,599	4,440,831
31 December 2023 (audited)	2,504,885	1,550,915	3,588	4,059,388

5. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2024 <i>RMB'000</i> (Unaudited)	2023 <i>RMB'000</i> (Unaudited)
Revenue from contracts with customers		
Subscription Solutions	377,489	422,266
Merchant Solutions	306,639	300,029
Others	2,201	1,999
Total	<u>686,329</u>	<u>724,294</u>

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2024

Segments	Third Party payment services <i>RMB'000</i> (Unaudited)	Merchant services <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Geographical markets				
Chinese Mainland	152,565	526,438	3,689	682,692
Japan	–	210	–	210
North America	–	3,427	–	3,427
Total	<u>152,565</u>	<u>530,075</u>	<u>3,689</u>	<u>686,329</u>

Timing of revenue recognition

Goods transferred at a point in time	57	144,293	–	144,350
Services transferred over time	152,508	385,782	3,689	541,979
Total	<u>152,565</u>	<u>530,075</u>	<u>3,689</u>	<u>686,329</u>

For the six months ended 30 June 2023

Segments	Third Party payment services <i>RMB'000</i> (Unaudited)	Merchant services <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Geographical markets				
Chinese Mainland	153,561	566,911	2,586	723,058
Japan	–	890	–	890
North America	–	346	–	346
Total	<u>153,561</u>	<u>568,147</u>	<u>2,586</u>	<u>724,294</u>

Timing of revenue recognition

Goods transferred at a point in time	44	120,427	–	120,471
Services transferred over time	<u>153,517</u>	<u>447,720</u>	<u>2,586</u>	<u>603,823</u>
Total	<u>153,561</u>	<u>568,147</u>	<u>2,586</u>	<u>724,294</u>

6. INVESTMENT AND OTHER INCOME

	For the six months ended 30 June	
	2024 (Unaudited) <i>RMB'000</i>	2023 (Unaudited) <i>RMB'000</i>
Interest income	14,714	18,065
Government grants	1,100	4,858
VAT super-credit	–	1,983
Compensation income	–	1,893
Others	<u>3,822</u>	<u>3,630</u>
Total	<u>19,636</u>	<u>30,429</u>

7. OTHER OPERATING EXPENSES

	For the six months ended 30 June	
	2024	2023
	(Unaudited) RMB'000	(Unaudited) RMB'000
Research and development expenditures	93,828	105,840
Others	—	69
	<u> </u>	<u> </u>
Total	<u>93,828</u>	<u>105,909</u>

8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2024	2023
	(Unaudited) RMB'000	(Unaudited) RMB'000
Amortisation of intangible assets	40,467	40,563
Amortisation of capitalised contract costs	72,831	97,554
Impairment of trade receivable, net	8,941	5,944
Impairment of financial assets included in prepayments, other receivables and other assets, net	998	(691)
Cost of inventories sold	—	1,166
Depreciation of property, plant and equipment	3,767	5,122
Depreciation of right-of-use assets	2,703	6,656
Gain of disposal of items of property, plant and equipment	(139)	(297)
Gains on early termination of leases	(854)	—
Research and development expenditures (included in other operating expenses and equity-settled share-based payments)	<u>95,840</u>	<u>105,643</u>

9. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of Bermuda, the Group is not subject to any income tax in Bermuda.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2023: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

The provision for Chinese Mainland current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law, which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Chinese Mainland which are granted tax concession and are taxed at preferential tax rates.

Two subsidiaries of the Company are qualified as a High and New Technology Enterprise and were entitled to a preferential income tax rate of 15% (2023:15%) during the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Chinese Mainland		
Charge for the year	3,572	4,771
Current – Hong Kong		
Charge for the year	29	–
Deferred	(6,070)	(8,874)
Total tax credit for the period	<u>(2,469)</u>	<u>(4,103)</u>

10. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 32,916,593,000 (2023: 18,340,560,000) in issued during the period.

The calculation of the diluted earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all dilutive potential ordinary shares into ordinary shares arising from awarded shares and share options granted by the Company.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	<u>(17,224)</u>	<u>18,114</u>
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>32,916,593,000</u>	<u>18,340,560,000</u>

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2024, the Group acquired assets at a cost of RMB1,282,000 (30 June 2023: RMB509,000).

Assets (other than those classified as held for sale) with a net book value of RMB57,000 were disposed of by the Group during the six months ended 30 June 2024 (30 June 2023: RMB7,574,000), resulting in a net gain on disposal of RMB139,000 (30 June 2023: RMB297,000).

13. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Within 3 months	13,200	21,549

14. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the date of receipt of goods, is as follows:

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Within 3 months	5,673	465
3 to 6 months	175	75
6 to 12 months	210	217
Over 12 months	1,815	1,814
Total	7,873	2,571

15. SHARE CAPITAL

Shares

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Issued and fully paid:		
32,978,308,752 (31 December 2023: 32,978,308,752) ordinary shares	286,938	286,938

16. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2024.

17. COMMITMENTS

The Group had the following contractual commitments at the end of the reporting period:

	As at 30 June 2024 (Unaudited) RMB'000	As at 31 December 2023 (Unaudited) RMB'000
Equity investment in a company	<u>4,537</u>	<u>4,537</u>

18. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the period:

	For the six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Revenue from a related company	1,054	1,546
Borrowing from a related company	470,000	–
Dividend income from an associate	369	369
Administrative expenses paid to a non-controlling shareholder	(162)	(372)
Commission paid to associates	<u>(773)</u>	<u>(822)</u>

(b) Outstanding balances with related parties:

	30 June	31 December
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Audited)
<u>Due from related parties</u>		
Related Company A	55	–
Related Company B	18	187
Related Company C	<u>518</u>	<u>151</u>
Total	<u>591</u>	<u>338</u>
<u>Due to related parties</u>		
Related Company A	–	127
Related Company C	<u>377</u>	<u>–</u>
Total	<u>377</u>	<u>127</u>
<u>Interest-bearing bank and other borrowings</u>		
Related Company A	<u>470,000</u>	<u>–</u>

(c) Compensation of key management personnel of the Group:

	For the six months	
	ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	7,980	7,502
Equity-settled share option expense	37	1,351
Post-employment benefits	<u>105</u>	<u>126</u>
Total compensation paid to key management personnel	<u>8,122</u>	<u>8,979</u>

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, balances with central bank, restricted bank balances, trade receivables, financial assets included in prepayments, other receivables and other assets, trade payables, financial liabilities included in other payables and accruals and amounts due from/to related parties, borrowings, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values of those financial assets and liabilities measured at fair value:

The fair values of non-current interest-bearing bank and other borrowings and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings and lease liabilities as at 30 June 2024 were assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2024

	Fair value measurements using			Total <i>RMB'000</i> (Unaudited)
	Quoted prices in active markets (Level 1) <i>RMB'000</i> (Unaudited)	Significant observable inputs (Level 2) <i>RMB'000</i> (Unaudited)	Significant unobservable inputs (Level 3) <i>RMB'000</i> (Unaudited)	
Financial assets at FVTPL	–	–	282,494	282,494
Financial assets at FVTOCI	–	–	66,367	66,367
Total	–	–	348,861	348,861

As at 31 December 2023

	Fair value measurements using			Total <i>RMB'000</i> (Unaudited)
	Quoted prices in active markets (Level 1) <i>RMB'000</i> (Unaudited)	Significant observable inputs (Level 2) <i>RMB'000</i> (Unaudited)	Significant unobservable inputs (Level 3) <i>RMB'000</i> (Unaudited)	
Financial assets at FVTPL	–	–	282,374	282,374
Financial assets at FVTOCI	–	–	66,298	66,298
Total	–	–	348,672	348,672

The movements in fair value measurements within Level 3 during the period are as follows:

	Financial assets at FVTOCI <i>RMB'000</i>	Financial assets at FVTPL <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2024	66,298	282,374	348,672
Exchange difference	69	120	189
At 30 June 2024	66,367	282,494	348,861
	Financial assets at FVTOCI <i>RMB'000</i>	Financial assets at FVTPL <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2023	70,993	285,642	356,635
Total gains recognised in the statement of profit or loss	–	2,482	2,482
Total gains recognised in other comprehensive income	3,063	–	3,063
Exchange difference	144	700	844
At 30 June 2023	74,200	288,824	363,024

20. EVENTS AFTER THE REPORTING PERIOD

There were no significant events that required additional disclosure or adjustments occurred after the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

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

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

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

Since 2024, Youzan has grown from providing “digital software” for small and medium-sized businesses to offering “intelligent consumer operation systems” for brand retailers. Starting from helping merchants to gain new customers through public domain content marketing, it then provides private domain operation and group purchase distribution systems to enhance merchants' customer repurchase rate and profit margin. At the same time, it also provides more intelligent solutions for final sales conversion, such as independent e-commerce stores, stores digitization, chain management, and multi-channel data, covering the entire business process from public domain to private domain and finally to sales conversion. Our intelligent consumer operation system comprises five core modules: Basic CRM Module, Customer Equity System Module, Content Operation Module, Customer Connection Module, and Scenario Marketing Module. These modules comprehensively assist brand retailers with a large number of long-term customers in enhancing customer repurchases and achieving profit growth.

In the first half of 2024, we fully embraced AGI (Artificial General Intelligence) and continued to strengthen our AI product, namely “Jarvis”, to support its use in a wider range of scenarios by merchants. Merchants can now utilize the AI assistant (Copilot) within the Youzan system’s backend to operate their online and offline businesses more conveniently. They can efficiently configure functions with automation (Agent), obtain targeted business strategy suggestions from business consultant (Insight), and generate better marketing ideas with AIGC (Artificial Intelligence Generated Content). Simultaneously, we leveraged the capabilities of AGI to empower our internal sales and service teams. This enables them to quickly access industry cases and solutions tailored to the specific industries of our merchants, thereby responding more promptly to their inquiries and providing support and services with enhanced efficiency.

In the first half of 2024, we continued to expand our brand influence. In June 2024, we held the “2024 Youzan Spring Conference” in Beijing, where we introduced our intelligent consumer operation system. Throughout the first half of the year, we organized over a dozen “Youzan New Retail Conferences” across the country, bringing Youzan’s new retail solutions to merchants into various regions and receiving positive feedback from businesses spanning diverse industries. Additionally, through various forms such as offline market events, public lectures, exhibitions, and more, we went to 19 cities including Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Xi’an, Nanjing, Chongqing, Zhengzhou, Hefei, Dalian, and Hohhot, hosting nearly a hundred events that reached thousands of merchants in industries like health and wellness, beauty and cosmetics, apparel, restaurant chains, sports and outdoors, coffee, cake baking, and more. At the same time, we focused on enhancing marketing and sales efficiency, continuously optimizing the process of lead generation and conversion, and achieved notable progress in this regard.

In the first half of 2024, we remained committed to deepening our reach into our core customer segments, further enhancing our solution capabilities while creating greater value for merchants. We served startup brands, emerging brands, and retail enterprises, focusing on consumer experience to assist them in leveraging social media and content platforms for social e-commerce, content-driven e-commerce, private domain e-commerce, cross-border e-commerce, and distribution businesses. Additionally, we optimized the operation of their brand flagship stores and customer management across all channels.

For retail and chain enterprises, we centered our service around a “consumer-centric” customer operation model, helping them establish a new retail consumer operation system, excel in customer management, empower sales associates in marketing and sales, and enhance overall online and offline performance through a combination of private domain retention and automated marketing.

For processing and mid-frequency retail enterprises, we provided store operation tools and services tailored to their needs in in-store operations, social and content platform marketing, group buying, food delivery, order placement, membership management, and other business scenarios involving both in-store and at-home experiences. We also offered unified management tools for these operations to chain headquarters.

For beauty industry chain brands, we offered solutions for digital store management, customer retention in-store, refined member operations, and converting public domain customers to private domain. These services encompassed chain brand management, store operations, customer management, and marketing activities.

Moreover, through our sub-brand AllValue, we served overseas Chinese merchants, helping them create online stores that cater to the aesthetics and habits of Chinese consumers. We provided overseas versions of WeChat Mini Programs, Little Red Book overseas stores, and e-commerce website setups, supporting multi-language and multi-currency operations globally, as well as local delivery services for overseas physical stores.

Over the past few years, with our accumulation of core customer segments, enhancement of solution capabilities, and penetration and innovation in value-added services, we have continuously optimized the structure of our paying merchants, resulting in a steady improvement in our ability to realize value.

In the first half of 2024, the gross merchandise volume generated by the merchants through Youzan's solutions reached approximately RMB49.9 billion, increased by approximately 2% year-on-year. The gross merchandise volume of store SaaS business was approximately RMB25.0 billion, accounting for 50% of the gross merchandise volume, representing an increase of approximately 7% year-on-year. The average sales of a single merchant were approximately RMB840,000 in the first half of 2024, representing an increase of approximately 25% year-on-year.

As of 30 June 2024, we had 59,541 paying merchants, of which approximately 66% were those subscribing for e-commerce SaaS; approximately 34% were those subscribing for store SaaS, including Youzan Store, Youzan Chain, Youzan Beauty, Youzan Education and WowShop etc.

The number of new paying merchants in the first half of 2024 was 9,116, of which the new paying merchants of e-commerce SaaS accounted for 62% of the total new paying merchants and the new paying merchants of store SaaS accounted for 38% of the total new paying merchants.

As of 30 June 2024, Youzan had a total of 1,582 employees.

Business Development Strategies

1. To fully embrace AGI and develop an “intelligent consumer operation system” to help merchants increase profit growth.
2. To achieve sustained and stable profit growth.

Financial Review

Revenue

The Group’s revenue for the period was approximately RMB686,329,000 (six months ended 30 June 2024: approximately RMB724,294,000), representing a decrease of approximately 5.2% compared with the same period in 2023, which was mainly attributable to the decrease in revenue from subscription solutions, partially offset by the increase in revenue from merchant solutions.

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

	For the six months ended 30 June		Changes %
	2024 (Unaudited) RMB’000	2023 (Unaudited) RMB’000	
Subscription solutions	377,489	422,266	(10.6)
Merchant solutions	306,639	300,029	2.2
Others	2,201	1,999	10.1
Total	<u>686,329</u>	<u>724,294</u>	<u>(5.2)</u>

Subscription Solutions

Revenue from subscription solutions primarily include subscription fees for SaaS products and a per-transaction cloud service fee for each extra order beyond a pre-specified order number threshold that consumers made to such merchants through SaaS products. Revenue generated from subscription solutions decreased by 10.6% from approximately RMB422,266,000 for the six months ended 30 June 2023 to approximately RMB377,489,000 for the reporting period, mainly attributable to the decrease in the number of paying merchants.

Merchant Solutions

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

Revenue from merchant solutions for the reporting period was approximately RMB306,639,000 (six months ended 30 June 2023: approximately RMB300,029,000), representing an increase of 2.2%, which was increased inline with GMV.

Others

Revenue from other businesses for the reporting period was approximately RMB2,201,000 (six months ended 30 June 2023: approximately RMB1,999,000), representing an increase of 10.1%.

Cost of Sales

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

	For the six months ended 30 June				Changes
	2024		2023		
	(Unaudited)		(Unaudited)		
	<i>Percentage</i>		<i>Percentage</i>		
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>%</i>
Staff costs	52,510	24.2	59,962	26.9	(12.4)
Server and SMS costs	21,636	10.0	20,351	9.1	6.3
Transaction costs	77,146	35.5	85,963	38.6	(10.3)
Technology services expenses	10,282	4.7	9,625	4.3	6.8
Contracted operation services costs	10,730	4.9	15,350	6.9	(30.1)
Taxes and surcharges	3,179	1.5	3,798	1.7	(16.3)
Insurance premium costs	10,269	4.7	9,410	4.2	9.1
Others	31,428	14.5	18,439	8.3	70.4
Total	<u>217,180</u>	<u>100.0</u>	<u>222,898</u>	<u>100.0</u>	<u>(2.6)</u>

The Group's costs of sales in the reporting period were approximately RMB217,180,000 (six months ended 30 June 2023: approximately RMB222,898,000), representing a decrease of 2.6%, due to (i) staff costs decreased by 12.4% from approximately RMB59,962,000 in the same period of last year to approximately RMB52,510,000 for the reporting period, mainly due to the decrease in headcount as a result of the optimization of organization structure, (ii) transaction costs decreased by 10.3% from approximately RMB85,963,000 for the same period of last year to approximately RMB77,146,000 for the reporting period, mainly due to the Group's continuing optimization on cost structure of transaction service, partially offset by an increase of 80.6% in logistic costs from RMB11,810,000 to RMB21,333,000.

Gross Profit and Gross Profit Margin

The Group recorded a gross profit for the reporting period of approximately RMB469,149,000 (six months ended 30 June 2023: approximately RMB501,396,000), representing a decrease of 6.4%, due to the decrease of gross profit from subscription solutions.

The Group's gross profit margin decreased from 69.2% for the same period of 2023 to 68.4% for the reporting period, which was mainly due to the decrease of gross profit margin of subscription solutions.

	For the six months ended 30 June			
	2024		2023	
	(Unaudited)		(Unaudited)	
	Gross profit		Gross profit	
	RMB'000	margin	RMB'000	margin
		%		%
Subscription solutions	295,593	78.3	344,344	81.5
Merchant solutions	172,258	56.2	156,446	52.1
Others	1,298	59.0	606	30.3
Total	469,149	68.4	501,396	69.2

Subscription Solutions

The gross profit of subscription solutions for the reporting period was approximately RMB295,593,000 (six months ended 30 June 2023: approximately RMB344,344,000), representing a decrease of 14.2%. The decrease was mainly due to the decrease of revenue of subscription solutions. The gross profit margin decreased from 81.5% for the six months ended 30 June 2023 to 78.3% for the reporting period, mainly due to the decrease of revenue of subscription solutions.

Merchant Solutions

The gross profit of merchant solutions for the reporting period was approximately RMB172,258,000 (six months ended 30 June 2023: approximately RMB156,446,000), representing an increase of 10.1%, which was mainly due to the optimization of cost structure of transaction service. The gross profit margin increased from 52.1% for the six months ended 30 June 2023 to 56.2% for the six months ended 30 June 2024, mainly due to the increase in gross profit margin of transaction service contributed by the optimization of cost structure.

Others

Other gross profit for the reporting period was approximately RMB1,298,000 (six months ended 30 June 2023: approximately RMB606,000).

Expenses and Others

The Group recorded a 19.7% decrease compared with the same period in 2023 in selling and distribution expenses to approximately RMB265,763,000 (six months ended 30 June 2023: approximately RMB331,075,000). It was mainly due to the decrease in sales personnel which led to the decrease in sales staff costs and the decrease in channel commission expenses.

The Group recorded a slight increase by 0.2% compared with the same period in 2023 in administrative expenses to approximately RMB70,020,000 (six months ended 30 June 2023: approximately RMB69,869,000), mainly contributed to the relatively stable personnel and expense control in administrative departments since the optimization of the organizational structure during the first half of 2022.

The Group recorded a 11.4% decrease compared with the same period in 2023 in other operating expenses to approximately RMB93,828,000 (six months ended 30 June 2023: approximately RMB105,909,000). The decrease was mainly attributable to the reduction in research and development expenses as a result of the rational arrangement of research and development investment and the optimization of the organizational structure to reduce the research and development staff costs by the Group.

The Group recorded a 236.4% increase compared with the same period in 2023 in equity-settled share-based payment to approximately RMB21,704,000 (six months ended 30 June 2023: approximately RMB6,452,000), due to a new grant of total of 42,176,288 Awarded Shares under the Share Award Scheme during the six months ended 30 June 2024.

The Group recorded a 35.5% decrease compared with the same period in 2023 in investment and other income to approximately RMB19,636,000 (six months ended 30 June 2023: approximately RMB30,429,000). It was mainly due to the decrease in bank interest income and the VAT super-credit refund policy no longer applies to the Group.

The Group recorded other net gains of approximately RMB15,522,000 (six months ended 30 June 2023: other net gains of approximately RMB16,031,000).

The Group recorded a 31.9% decrease compared with the same period in 2023 in finance costs to approximately RMB9,350,000 (six months ended 30 June 2023: approximately RMB13,736,000), which was mainly due to the decrease in interest as a result of the repayment of the bank borrowings in April 2024.

Non-HKFRS measures

	For the six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit/(loss) from operations	2,586	(11,265)
– Equity-settled share-based payments	21,704	6,452
– Depreciation of property, plant and equipment	3,767	5,122
– Depreciation of right-of-use assets	2,703	6,656
– Amortization of intangible assets	40,467	40,563
– One-off severance packages	5,211	–
– Other gains and losses, net	(15,522)	(16,031)
– Investment and other income	(19,636)	(30,429)
– Impairment losses on financial and contract assets	9,939	5,253
Adjusted earnings before interest, tax, depreciation and amortization	51,219	6,321
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Loss for the period	(4,295)	(18,416)
– Equity-settled share-based payments	21,704	6,452
– Amortization of intangible assets	40,467	40,563
– One-off severance packages	5,211	–
– Adjusted for tax on non-HKFRS adjustments	(6,070)	(6,084)
Adjusted non-HKFRS earnings for the period	57,017	22,515

Note: These unaudited non-HKFRS measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with HKFRS. In addition, these non-HKFRS financial measures may be defined differently from similar terms used by other companies.

Dividends

The Board did not recommend the payment of dividend for the six months ended 30 June 2024 (for the six months ended 30 June 2023: Nil).

Gearing Ratio

As at 30 June 2024, the gearing ratio of the Group, which is calculated by dividing total debt (all bank and other borrowings) by total assets as of the end of the period, was 8.1%, as compared with 8.7% as at 31 December 2023. The decrease was primarily due to the increase of total assets.

Pledge of Assets

As at 30 June 2024, the Group had no pledge of assets.

Financial Resources and Liquidity

As at 30 June 2024, the Group had cash and cash equivalents of approximately RMB839,499,000 (As at 31 December 2023: approximately RMB924,998,000).

As at 30 June 2024, the Group had bank and other borrowings of approximately RMB470,000,000 (As at 31 December 2023: approximately RMB470,444,000).

Foreign Exchange Exposure

Since the Group's operations are mainly located in the PRC, its transactions, monetary assets and liabilities are primarily denominated in Renminbi. The Group monitors its foreign currency risks and will consider hedging significant currency exposures should the need arises.

Employees

As at 30 June 2024, the Group has approximately 1,582 employees (As at 31 December 2023: 1,750). Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus, share options and share awards etc.. The Directors believe that good quality of its employees is a company asset which affects growth and improves profitability. The Group recognizes the importance of staff training and thus regularly provides internal and external training for its staff to enhance their skills and knowledge.

Significant Investment

Save as disclosed above, the Group did not have any other significant investments during the six months ended 30 June 2024.

Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures

During the six months ended 30 June 2024, the Group did not have any other material acquisitions and disposals of subsidiaries, associates and joint ventures.

Future Plans for Material Investments or Acquisition of Capital Assets

As at 30 June 2024, the Group has no specific plans for any material investments or acquisition of capital assets.

Contingent Liabilities

As at 30 June 2024, the Group has no material contingent liabilities.

Event After the Reporting Period

There were no significant events occurred after the reporting period.

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

During six months ended 30 June 2024, there were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Company's specific enquiry, each director has confirmed that during the six months ended 30 June 2024, he/she had complied with the required standard of dealings and the code of conduct.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. The Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code ("Code") in Appendix C1 to the GEM Listing Rules.

The Company has complied with the provisions of the Code during the six months ended 30 June 2024, except for the deviation from code provision C.2.1 of the Code, details of which are set out below.

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

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

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

AUDIT COMMITTEE

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

The Audit Committee has reviewed the Company's unaudited condensed consolidated interim results announcement for the six months ended 30 June 2024 and is of the opinion that such results have complied with the applicable accounting standards and the requirements under the GEM Listing Rules.

By order of the Board
China Youzan Limited
Zhu Ning
Chairman

Hong Kong, 12 August 2024

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

Executive Directors

Mr. Zhu Ning

Mr. Cui Yusong

Mr. Yu Tao

Ms. Ying Hangyan

Independent Non-executive Directors

Dr. Fong Chi Wah

Mr. Deng Tao

Mr. Li Shaojie

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