
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Innovationpay Group Limited (the “Company”), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

 中国创新支付集团
CHINA INNOVATIONPAY GROUP
China Innovationpay Group Limited
中國創新支付集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 8083)

- (1) MAJOR TRANSACTION – ACQUISITION OF
51% EQUITY INTEREST IN YOUZAN;
(2) APPLICATION FOR WHITELASH WAIVER;
(3) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE;
(4) CONTINUING CONNECTED TRANSACTIONS; AND
(5) NOTICE OF SGM

Financial Adviser to the Company



Independent Financial Adviser to
the Independent Board Committee and to the Independent Shareholders



A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 50 to 51 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-57 of this circular.

A notice convening the SGM to be held at Function Room II, 1/F of City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on 10:00 a.m. on 26 January 2018 is set out on pages SGM-1 to SGM-5 of this circular. A form of proxy for use at the SGM is also enclosed. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to Computershare Hong Kong Investor Services Limited, the share registrar of the Company in Hong Kong, at 17/MF, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no less than 48 hours before the time schedule for holding the SGM (i.e. no later than 10.00 a.m. on Wednesday, 24 January 2018). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM (or any adjournment thereof) in person if you so wish. This circular will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and on the Company's website at www.innovationpay.com.hk.

2 January 2018

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Shares by the Company from the Sellers in accordance with the terms and conditions of the Sale and Purchase Agreement
“active registered merchants”	registered merchants who have completed at least one transaction on Youzan Group’s platform for the relevant year
“Announcement”	the announcement of the Company dated 28 March 2017 in relation to, among others, the Acquisition and the SM Placing
“Beijing Gaohuitong”	Beijing Gaohuitong Commercial Management Co., Ltd. (北京高匯通商業管理有限公司), an indirect wholly-owned subsidiary of the Company, principally engaged in the provision of prepaid card and related customer services in the PRC
“Board”	the board of Directors
“Business Day(s)”	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are open for the transaction of normal business
“CCTs Announcements”	the announcements of the Company dated 8 April 2017 and 29 November 2017 respectively in relation to, among others, the Continuing Connected Transactions
“Company”	China Innovationpay Group Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the GEM
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
“Completion Date”	the fifth Business Day after fulfilment of the conditions precedent (other than those have been waived) or such other date as the parties to the Sale and Purchase Agreement may agree in writing

DEFINITIONS

“Consideration”	the total consideration of HK\$2,096,100,000 payable by the Company for the Sale Shares
“Consideration Share(s)”	the 5,516,052,632 new Shares to be issued and allotted upon Completion
“Continuing Connected Transactions”	collectively, the Third Party Payment Services Framework Agreement and the Loan Agreement
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group as enlarged by the Acquisition upon Completion
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“General Mandate”	the general mandate granted to the Directors pursuant to an ordinary resolution of the Company passed at the annual general meeting of the Company held on 11 May 2016 to allot, issue and deal with new Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of such resolution
“GM Placee(s)”	person or entity procured by the Placing Agent or its agent(s) to subscribe for any GM Placing Shares pursuant to the GM Placing Agreement
“GM Placing”	the placing of 788,600,000 GM Placing Shares on and subject to the terms and condition set out in the GM Placing Agreement which was completed on 26 April 2017
“GM Placing Agreement”	the conditional placing agreement dated 17 March 2017 (as supplemented by the supplemental agreement dated 27 March 2017) and entered into between the Company and the Placing Agent in relation to the GM Placing, on a best effort basis, of up to 900,000,000 Shares

DEFINITIONS

“GM Placing Price”	HK\$0.5 per GM Placing Share (exclusive of any brokerage, SFC transaction levy and Stock Exchange trading fee as may be payable)
“GM Placing Share”	a total of 788,600,000 new Shares placed pursuant to the GM Placing Agreement and issued under the General Mandate, each a “GM Placing Share”
“GMV”	the total value of all confirmed transactions for products and services on Youzan Group’s E-Commerce platform, regardless of whether the goods are delivered or returned or how such orders are settled
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hangzhou Youzan”	杭州有贊科技有限公司, a company incorporated in the PRC and is indirectly wholly-owned by Youzan
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising Dr. Fong Chi Wah, Mr. Xu Yanqing and Mr. Gu Jiawang, each an independent non-executive Director
“Independent Financial Adviser”	SPDB International Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO which has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the Acquisition (including but not limited to the grant of the Specific Mandate for the allotment and issue of the Consideration Shares); (ii) the Whitewash Waiver; (iii) the Third Party Payment Services Framework Agreement and the transactions contemplated thereunder; (iv) the proposed annual caps in respect of the transactions contemplated under the Third Party Payment Services Framework Agreement; (v) the Loan Agreement and the transactions contemplated thereunder; and (vi) the proposed annual caps in respect of the transactions contemplated under the Loan Agreement

DEFINITIONS

“Independent Third Parties”	person(s) or company(s) who/which is/are not connected with the directors, chief executive or substantial shareholders (as defined under the GEM Listing Rules) of the Company and its subsidiaries, the Sellers or any of their respective associates
“Independent Shareholders”	the Shareholders other than (i) Mighty Advantage Enterprises Limited and parties acting in concert with it; (ii) the Sellers and their respective concert parties; (iii) the Directors; (iv) the Shareholders who are involved in or interested in the Sale and Purchase Agreement, the SM Placing Agreement and the GM Placing Agreement; and (v) the Shareholders who are involved in or interested in the Third Party Payment Services Framework Agreement or the Loan Agreement
“Last Trading Day”	17 March 2017, being the last day of trading of the Shares on the Stock Exchange prior to the signing of the Sale and Purchase Agreement
“Latest Practicable Date”	29 December 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Loan Agreement”	the loan agreement entered into between the Company and Youzan on 8 April 2017 (as supplemented by the supplemental loan agreement dated 29 November 2017)
“Loan Effective Date”	the date when the Loan Agreement shall take effect immediately after the satisfaction of the conditions precedent thereunder
“Long Stop Date”	31 March 2018
“MOU”	the memorandum of understanding dated 18 July 2016 and entered into between the Company, Youzan and the Sellers in relation to proposed acquisition of the entire shareholding of Youzan
“Placing Agent”	Oriental Patron Asia Limited
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

DEFINITIONS

“Relevant Period”	the period commencing 28 September 2016, being the date falling 6 months before the date of the Announcement, up to and including the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	621,038,809 ordinary shares in the issued share capital of Youzan, representing 51% of the issued share capital of Youzan as at the Latest Practicable Date, assuming all preference shares of Youzan having been converted into ordinary shares
“Sale and Purchase Agreement”	the sale and purchase agreement dated 17 March 2017 (as supplemented by the supplemental agreements dated 9 June 2017, 10 July 2017, 11 October 2017, 31 October 2017 and 29 December 2017 respectively) and entered into between the Sellers and the Company for the sale and purchase of the Sale Shares
“Sellers”	(1) Whitecrow Investment Ltd.; (2) Rory Huang Investment Ltd.; (3) V5.Cui Investment Ltd.; (4) Youzan Teamwork Inc.; (5) Xincheng Investment Limited; (6) Aves Capital, LLC; (7) Tembusu HZ II Limited; (8) Matrix Partners China III Hong Kong Limited; (9) Hillhouse KDWD Holdings Limited; (10) E&A Amigne Investments Limited; (11) Ralston Global Holdings Limited; and (12) Puhua Investment Ltd; each of them being shareholder of Youzan as at the Latest Practicable Date

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened on 26 January 2018 at 10 a.m. to approve (i) the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate for the allotment and issue of the Consideration Shares); (ii) the SM Placing Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate for the allotment and issue of the SM Placing Shares); (iii) the Whitewash Waiver; (iv) the Third Party Payment Services Framework Agreement and the transactions contemplated thereunder; (v) the proposed annual caps in respect of the transactions contemplated under the Third Party Payment Services Framework Agreement; (vi) the Loan Agreement and the transactions contemplated thereunder; and (vii) the proposed annual caps in respect of the transactions contemplated under the Loan Agreement
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“SM Placing Completion”	completion of the SM Placing in accordance with the terms and conditions of the SM Placing Agreement
“SM Placee(s)”	any person or entity procured by the Placing Agent or its agent(s) to subscribe for any SM Placing Shares pursuant to the SM Placing Agreement
“SM Placing”	the placing, on a best effort basis, of up to 460,000,000 SM Placing Shares subject to the terms and condition set out in the SM Placing Agreement

DEFINITIONS

“SM Placing Agreement”	the conditional placing agreement dated 17 March 2017 (as supplemented by the supplemental agreement dated 27 March 2017) and entered into between the Company and the Placing Agent in relation to the SM Placing
“SM Placing Shares”	a total of up to 460,000,000 new Shares to be placed pursuant to the SM Placing Agreement and to be issued under the Specific Mandate, each a “SM Placing Share”
“SM Placing Price”	HK\$0.5 to HK0.75 per SM Placing Share (exclusive of any brokerage, SFC transaction levy and Stock Exchange trading fee as may be payable), to be determined and agreed between the Company and the Placing Agent on the date of the SGM
“Specific Mandate”	the mandate to authorise the Directors to allot and issue the Consideration Shares and the SM Placing Shares to be sought from the Shareholders at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Contracts”	collectively, the exclusive business co-operation agreement, the transfer and licence agreement of the intellectual property rights, the exclusive purchase agreements, the equity pledge agreements, the power of attorney and spouse consent letter
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Third Party Payment Services Framework Agreement”	the framework agreement dated 8 April 2017 and entered into between Beijing Gaohuitong and Hangzhou Youzan in relation to the provision of various third party payment services
“Website Services Agreement”	the website services agreement dated 7 October 2017 entered into between Hangzhou Youzan and Hangzhou Qima pursuant to which Hangzhou Qima shall promote the E-commerce Applications on “youzan.com”

DEFINITIONS

“Whitewash Waiver”	a waiver pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Takeovers Code from the obligation of the Sellers to make a mandatory general offer for all the issued Shares other than those already owned or agreed to be acquired by the Sellers as a result of the allotment and issue of the Consideration Shares to the Sellers
“Youzan”	Qima Holdings Ltd., a company incorporated in the Cayman Islands with limited liability and is wholly owned by the Sellers as at the Latest Practicable Date and the parent company of Youzan Group
“Youzan Group”	Youzan and its subsidiaries
“%”	per cent

LETTER FROM THE BOARD

 中国创新支付集团
CHINA INNOVATIONPAY GROUP
China Innovationpay Group Limited
中國創新支付集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 8083)

Executive Directors:

Guan Guisen
Cao Chunmeng
Yan Xiaotian

Registered office:

Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

Independent non-executive Directors:

Fong Chi Wah
Wang Zhongmin (*suspended*)
Gu Jiawang
Xu Yanqing

Principal place of business

and head office in Hong Kong:
Unit 2708, 27/F
The Center
99 Queen's Road Central
Hong Kong

2 January 2018

To the Shareholders

Dear Sir or Madam,

- (1) MAJOR TRANSACTION – ACQUISITION OF
51% EQUITY INTEREST IN YOUZAN;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE; AND
(4) CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

Reference is made to the Announcement in which it was mentioned that on 17 March 2017 (after trading hours), the Company and the Sellers entered into the Sale and Purchase Agreement pursuant to which the Sellers have conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares for a total consideration of HK\$2,096,100,000. The Sale Shares represent 51% of the issued share capital of Youzan as at the Latest Practicable Date, assuming all preference shares of Youzan having been converted into ordinary shares. The Consideration shall be satisfied by the Company by way of allotment and issue of 5,516,052,632 Consideration Shares to the Sellers in proportion to their shareholding in Youzan at the issue price of HK\$0.38 per Consideration Share. The Consideration Shares will be allotted and issued under the Specific Mandate to be sought at the SGM.

LETTER FROM THE BOARD

Furthermore, as mentioned in the Announcement, on 17 March 2017 (after trading hours), the Company entered into the SM Placing Agreement with the Placing Agent, pursuant to which the Placing Agent agrees, as agent of the Company, to procure, on a best efforts basis, not less than six SM Placees who and whose ultimate beneficial owners shall be Independent Third Parties to subscribe for up to 460,000,000 SM Placing Shares at the SM Placing Price of HK\$0.5 to HK\$0.75 per SM Placing Share.

As mentioned in the Announcement, the Acquisition and the SM Placing are inter-conditional to each other.

Reference is also made to the CCTs Announcements in which it was mentioned that the Continuing Connected Transactions and their proposed annual caps are subject to Independent Shareholders' approval pursuant to the requirements under Chapter 20 of the GEM Listing Rules.

The purpose of this circular is to provide the Shareholders with, among other matters, (i) details of the Sale and Purchase Agreement; (ii) the financial information of the Group; (iii) the financial information of Youzan Group; (iv) further information on the SM Placing Agreement and the transactions contemplated thereunder (including the SM Placing and the Specific Mandate for the allotment and issue of the SM Placing Shares); (v) further information on the Whitewash Waiver; (vi) further information on the Third Party Payment Services Framework Agreement; (vii) further information on the Loan Agreement; (viii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in connection with the Sale and Purchase Agreement (including the issue of the Consideration Shares) and the Whitewash Waiver and the Continuing Connected Transactions; (ix) a letter of advice from the Independent Financial Adviser to both the Independent Board Committee and the Independent Shareholders in connection with the Sale and Purchase Agreement (including the issue of the Consideration Shares) and the Whitewash Waiver and the Continuing Connected Transactions and the proposed annual caps in respect of the transactions contemplated under the Continuing Connected Transactions; (x) the notice convening the SGM; and (xi) other information as required under the GEM Listing Rules.

I. THE ACQUISITION

Introduction

Reference is made to the announcement of the Company dated 18 July 2016 in relation to the entering into of the MOU between the Company, Youzan and the Sellers indicating, among others, their intention to enter into a definitive legally binding agreement in respect of a possible acquisition of 100% interest and the shareholders' loan (if applicable) of Youzan. Pursuant to subsequent further negotiation among the parties to the MOU, it was agreed that the Company shall acquire 51% of the issued share capital of Youzan.

LETTER FROM THE BOARD

After the trading hours on 17 March 2017, the Company and the Sellers entered into the Sale and Purchase Agreement pursuant to which the Sellers have conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares for a total consideration of HK\$2,096,100,000. The Sale Shares represent 51% of the issued share capital of Youzan as at the Latest Practicable Date, assuming all preference shares of Youzan having been converted into ordinary shares. Details of the Sale and Purchase Agreement are set out below:

The Sale and Purchase Agreement

Date: 17 March 2017

Parties

Purchaser: The Company

Sellers: Whitecrow Investment Ltd. (“**Whitecrow Investment**”)

Rory Huang Investment Ltd. (“**Rory Huang**”)

V5.Cui Investment Ltd. (“**V5.Cui Investment**”)

Youzan Teamwork Inc. (“**Youzan Teamwork**”)

Xincheng Investment Limited (“**Xincheng Investment**”)

Aves Capital, LLC (“**Aves Capital**”)

Tembusu HZ II Limited (“**Tembusu HZ**”)

Matrix Partners China III Hong Kong Limited
(“**Matrix Partners China III (HK)**”)

Hillhouse KDWD Holdings Limited (“**Hillhouse KDWD**”)

E&A Amigne Investments Limited (“**E&A Amigne**”)

Ralston Global Holdings Limited (“**Ralston Global**”)

Puhua Investment Ltd. (“**Puhua Investment**”)

Target company: Youzan

LETTER FROM THE BOARD

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Sellers and their respective ultimate beneficial owners are third parties independent of the Company and its connected person(s) (as defined under the GEM Listing Rules).

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Company conditionally agreed to purchase the Sale Shares, representing 51% of the issued share capital of Youzan as at the Latest Practicable Date, assuming all preference shares of Youzan having been converted into ordinary shares. Youzan is a company incorporated in the Cayman Islands, which is principally engaged in the e-commerce business providing a variety of online and offline solutions and services in relation to virtual wholesaling and retailing in the PRC.

	Number of ordinary shares of Youzan held by each Seller as at the Latest Practicable Date (assuming all preference shares have been converted into ordinary shares)	Respective number of the Sale Shares for each Seller	Respective percentage of the Sale Shares for each Seller
Whitecrow Investment	318,027,068	162,193,805	26.1%
Rory Huang	89,969,183	45,884,283	7.4%
V5.Cui Investment	53,398,533	27,233,252	4.4%
Youzan Teamwork	80,173,390	40,888,429	6.6%
Xincheng Investment	81,815,233	41,725,769	6.7%
Aves Capital	44,399,996	22,643,998	3.7%
Tembusu HZ	199,999,998	101,999,999	16.4%
Matrix Partners			
China III (HK)	86,503,996	44,117,039	7.1%
Hillhouse KDWD	154,719,230	78,906,808	12.7%
E&A Amigne	74,425,127	37,956,815	6.1%
Ralston Global	17,145,698	8,744,306	1.4%
Puhua Investment	17,145,698	8,744,306	1.4%

LETTER FROM THE BOARD

Consideration

The Consideration is HK\$2,096,100,000 and shall be satisfied by the Company by way of allotment and issue of 5,516,052,632 Consideration Shares to the Sellers in proportion to their shareholding in Youzan at the issue price of HK\$0.38 per Consideration Share. The Consideration Shares will be allotted and issued under the Specific Mandate to be sought at the SGM.

The 5,516,052,632 Consideration Shares, when all allotted and issued, will represent:

- (i) approximately 79.04% of the issued Shares as at the Latest Practicable Date; and
- (ii) approximately 42.57% of the issued Shares as enlarged by the allotment and issue of the Consideration Shares and the maximum number of the SM Placing Shares; and

The issue price of HK\$0.38 per Consideration Share represents:

- (i) a discount of approximately 30.91% to the closing price of HK\$0.55 per Share on the Last Trading Day;
- (ii) a discount of approximately 21.49% to the average closing price of HK\$0.484 per Share in the last five consecutive trading days immediately prior to the Last Trading Day;
- (iii) a discount of approximately 11.63% to the closing price per Share of HK\$0.43 as quoted on the Stock Exchange on the Latest Practicable Date; and
- (iv) a premium of approximately 111.11% over the net asset value per Share of approximately HK\$0.18 as at 30 June 2017 as extracted from the interim report of the Group for the six months ended 30 June 2017 and 6,978,955,197 issued Shares as at the Latest Practicable Date.

The Consideration was determined after arm's length negotiations between the Company and the Sellers, with reference to, among others, (i) the business operations and prospects of Youzan Group; and (ii) the price to GMV ratio of market comparable companies which are listed established e-commerce companies in the PRC, i.e. Alibaba Group Holding Limited and JD.com, Inc..

LETTER FROM THE BOARD

The price to GMV ratio of Youzan Group was computed with reference to the GMV records of Youzan Group and the consideration under the Sale and Purchase Agreement (i.e. the Consideration divided by the shareholding portion of Youzan to be acquired under the Acquisition, is then divided by the GMV records of Youzan Group for the year ended 30 June 2016). One of the key considerations in determining the Consideration is the price to GMV ratio of the market comparable companies. Similar to other financial ratios such as price to earnings ratio, the price to GMV ratio is a yardstick commonly applied for valuating companies of its kind irrespective of its absolute size and GMV, as the price to GMV ratio enables the measure of the valuation of e-commerce enterprises irrespective of the stages of their development (e.g revenue generating or profit generating) or revenue/pricing strategies (e.g value or number of trades or fixed price or Software as a Service) so long as they have generated a meaningful monetary value of merchandise sold consistently over a period of time. When searching for appropriate market comparable companies, the Company had set the following key criteria:

1. relevance of its principal business e.g. e-commerce which product offerings traded under its platform are mainly general merchandise, such as, electronic appliances, household goods, clothing and apparel, which is similar to Youzan Group;
2. location of its principal markets e.g. the PRC;
3. accessibility and availability of information e.g. GMV;
4. reliability of information e.g. published financial statements; and
5. being an aspiring industry e-commerce player e.g. market leaders.

Based on the abovementioned key criteria, the Company has identified two appropriate market comparable companies, i.e. Alibaba Group Holding Limited and JD.com, Inc.. As at the Latest Practicable Date, the price to GMV ratio of Alibaba Group Holdings Limited and JD.com, Inc., as computed by dividing the market capitalisation by GMV for the latest financial year, were 0.77 and 0.59, respectively.

In determining the Consideration, the Company has also considered lack of marketability of Youzan Group as well as a whole range of other minor factors, such as, significant growth of GMV of Youzan Group, control premium, infrastructure of the business, the ease of use, aftersales, uniqueness of the business opportunity, quality and reputation of key management and lack of profitable historical record. The Company is of the view that the positive and negative impact of the above factors on the Consideration would offset each other as a whole.

LETTER FROM THE BOARD

The Company has taken into account, among others, the following key considerations to determine the issue price of the Consideration Shares:

1. the market price of the Shares in the last 20 days prior to the signing of the MOU;
2. the trading volume of the Shares during the three months prior the signing of the MOU;
3. the financial results of the Company for (i) the year ended 31 December 2015 and (ii) the six months ended 30 June 2016;
4. the qualified opinion of the Company's auditors of its financial statements for the year ended 31 December 2015; and
5. the lock-up period of the Consideration Shares.

The Directors (other than the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" to this circular) consider that the Consideration is fair and reasonable and the Sale and Purchase Agreement is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole. Having considered the abovementioned factors, the Directors (other than the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" to this circular) consider that the issue price of the Consideration Shares is in the interests of the Company and the Shareholders as a whole.

The Consideration Shares will be allotted and issued under the Specific Mandate to be sought at the SGM. The Consideration Shares shall be issued as fully paid and shall rank *pari passu* in all respects with the Shares then in issue. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

LETTER FROM THE BOARD

Conditions precedent

Completion on the part of the Company is conditional upon the satisfaction or waiver (as the case may be) of the following conditions:

1. no material breaches in relation to any declarations, guarantees and undertakings provided in the Sale and Purchase Agreement (including representations and warranties set out in the Sale and Purchase Agreement) by the Sellers having been identified in the course of the legal and financial due diligence review by the Company on Youzan Group and its assets;
2. the Company having obtained the approvals from the Shareholders in general meeting by way of a poll in relation to (a) the Acquisition; (b) the allotment and issue of the Consideration Shares; (c) the Whitewash Waiver; and (d) the SM Placing;
3. the Sellers and/or Youzan Group having obtained all necessary approvals from the relevant regulatory authorities in the PRC (if required), including the following approvals and/or licenses:
 - (i) the business license and/or certificate of approval for operation of the relevant businesses;
 - (ii) the Registration of Customs Declaration Units of the PRC* (中華人民共和國海關報關單位注冊登記證書) issued for the import and export of goods;
 - (iii) the PRC Publications Business Permit* (中華人民共和國出版物經營許可證) issued for the retail of books, magazines, audio, video and electronic publications; and
 - (iv) the Food Distribution License* (食品流通許可證) and/or Food Business License* (食品經營許可證) issued for the retail of pre-packaged food and alcohol and/or engaging in the catering business;
4. the issue of the legal opinion or due diligence report by the legal advisers approved by the Company on, among others, the valid existence, the legality of operations of the Target Group and the legality of the reorganisation (the “**Reorganisation**”) (as described in the paragraph headed “Reorganisation” below);

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5. the shareholders of Youzan (i.e. the Sellers) having approved to amend the articles of association of Youzan in relation to the arrangement of preference shares of Youzan and to convert all preference shares of Youzan to ordinary shares;
6. there having been no material breaches in relation to any declarations, guarantees and undertakings provided in the Sale and Purchase Agreement by the Sellers;
7. there having been no indication from the Stock Exchange that the Acquisition will constitute a reverse takeover or new listing as defined under the GEM Listing Rules; and
8. completion of the Reorganisation where Hangzhou Qima shall transfer all of its business operation and relevant assets, including but not limited to software patents, copyrights and trademarks, in relation to the E-commerce Applications (as defined below) to Hangzhou Youzan.

To the best of the Directors' knowledge, information and belief, based on the opinion of the PRC legal advisers of the Company, the Directors confirmed that all necessary approvals from the relevant regulatory authorities in the PRC which are required by the Sellers and/or Youzan Group for operating their business have been listed out in paragraph (3) above and all approvals listed out in paragraph (3) above are required for the operation of Youzan Group.

The Company may waive the above conditions precedent (except for those referred to in paragraphs (2), (3), (5), (7) and (8) above) at any time by notice in writing to the Sellers.

As at the Latest Practicable Date, none of the above conditions precedent have been fulfilled (or waived).

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Completion on the part of the Sellers is conditional upon the satisfaction or waiver (as the case may be) of the following conditions:

1. trading of the Shares not having been suspended for more than 15 consecutive trading days (excluding the suspension of trading of the Shares due to the review of the Announcement and the relevant circular by the Stock Exchange and the SFC);
2. no events, changes or any other situations having been taken place which the Sellers are reasonably of the view that such event, change or any other situation may have a Material Impact (as defined below) on the Company;
3. the Executive having granted the Whitewash Waiver and the Whitewash Waiver remaining in full force and effect and not having been revoked;
4. the Company having complied with the requirements under applicable GEM Listing Rules and other applicable laws, regulations and guidelines (including but not limited to the Takeovers Code) in relation to the signing, completion of the Acquisition and other relevant arrangements under the Sale and Purchase Agreement;
5. the Company having obtained the approvals from the Shareholders in general meeting by way of a poll in relation to (a) the Acquisition; (b) the allotment and issue of the Consideration Shares; (c) the Whitewash Waiver; and (d) the SM Placing;
6. the receipt of the orders of subscription by the Placing Agent of not less than 300,000,000 SM Placing Shares;
7. the Company having obtained the approvals from the Stock Exchange and/or other relevant authorities (such as the SFC) in relation to the Acquisition (if required);
8. the Company having obtained the approvals from the Stock Exchange and/or the SFC in relation to the dealings of the Consideration Shares on the Stock Exchange (if required);
9. the Company and the Sellers having agreed on a new shareholders' agreement in relation to the Youzan which is satisfactory to both the Company and the Sellers;
10. there having been no indication from the Stock Exchange that the Acquisition would constitute a reverse takeover or new listing as defined under the GEM Listing Rules; and

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11. there having been no material breaches in relation to any declarations, guarantees and undertakings provided in the Sale and Purchase Agreement by the Company.

The Sellers may waive the above conditions precedent (except for those referred to in paragraphs (3), (4), (5), (7), (8) and (10) above) at any time by notice in writing to the Company.

As at the Latest Practicable Date, none of the above conditions precedent have been fulfilled (or waived). Regarding the condition precedent referred to in paragraph 9 above, the Company and the Sellers are currently in the process of finalising the terms of the shareholders' agreement in relation to Youzan which has not been signed as at the Latest Practicable Date.

Material Impact referred to events, changes or any other situations that would have a material impact on the operation, assets, liabilities, income, profits and conditions of the Group. The following situations would be deemed as having a Material Impact on the Group:

1. the material permits, licenses, registrations, approvals or consents ("**Permits**") currently held by the Group being cancelled, revoked, amended or being non-renewable or the happening of any events, changes or situations that may render the Permits being non-renewable;
2. any material fixed tangible assets of the Group with the value of more than US\$5,000,000 being damaged or impaired;
3. the occurrence (or the Company agreeing to such occurrence) of new liabilities in the nature of borrowing for the Group, except for those with prior written consent from the Sellers or in existence as at the date of the Sale and Purchase Agreement; and
4. the weighted average closing price of the Shares for any 15 consecutive trading days being lower than HK\$0.3 per Share.

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If any of the above conditions precedent have not been fulfilled or waived on or before the Long Stop Date, all rights and obligations of the parties under the Sale and Purchase Agreement shall cease and terminate, save and except for (i) the refund of the earnest money of RMB30,000,000 (the “**Earnest Money**”) paid to the Target Group on 25 July 2016 and the additional earnest money of RMB31,000,000 (the “**Additional Earnest Money**”) paid to the Target Group on 11 October 2017; and (ii) confidentiality and governing law of the Sale and Purchase Agreement.

Pursuant to the supplemental agreement entered into between the Company, the Sellers and the Target Company on 29 December 2017, the Long Stop Date was extended to 31 March 2018.

Completion

Completion shall take place on the Completion Date after all the conditions precedent to the Sale and Purchase Agreement have been fulfilled or waived. Upon Completion, Youzan will become a direct non wholly-owned subsidiary of the Company and the results, assets and liabilities of Youzan Group will be consolidated into the financial statements of the Group.

Other major terms

Each of the Company and Whitecrow Investment, Rory Huang, V5.Cui Investment and Youzan Teamwork has undertaken to ensure that core management members of each of the Company and Youzan Group will remain in the Company and Youzan Group for 24 months after Completion.

Sellers’ undertakings

On the date of the Sale and Purchase Agreement, each of Whitecrow Investment, Rory Huang, V5.Cui Investment, Youzan Teamwork and their respective ultimate shareholders has undertaken to the Company by way of a written undertaking that, unless with the written approvals from the Company, each of them shall not sell, grant any option or create any rights, interests or encumbrances in relation to the Consideration Shares held by each of them within 12 months from the Completion Date.

On the date of the Sale and Purchase Agreement, each of the Sellers (except for Whitecrow Investment, Rory Huang, V5.Cui Investment, Youzan Teamwork and their respective ultimate shareholders) has undertaken to the Company by way of a written undertaking that, unless with the written approvals from the Company, each of them shall not sell, grant any option or create any rights, interests or encumbrances in relation to the Consideration Shares held by each of them within 6 months from the Completion Date.

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Supplemental agreements to the Sale and Purchase Agreement

On 9 June 2017, the Company, the Sellers and the Target Company entered into a supplemental agreement (“**Supplemental Agreement**”) to the Sale and Purchase Agreement, pursuant to which each of the Sellers shall be independently and severally responsible for its obligations to report to the relevant tax authorities and pay the relevant taxes (“**Taxes**”) arising from the disposal of the interest of the Target Company pursuant to the Sale and Purchase Agreement according to the applicable taxation laws and regulations (“**Tax Regulations**”), including but not limited to the “Bulletin on Several Issues concerning the Enterprise Income Tax on Indirect Asset Transfer by Non-Resident Enterprise” promulgated by the State Administration of Taxation in the PRC (“**EIT Law**”) subject to the Company not being able to perform its withholding obligations under the EIT Law. If any of the Sellers does not comply with the relevant tax laws and regulations which lead to the Company being requested to pay such taxes and the relevant interest and/or penalty as a withholding agent under the EIT Law (“**Taxes and Penalties**”), such Seller shall be responsible to the Company for such Taxes and Penalties provided that such Taxes and Penalties are not more than three times of the Taxes. For the avoidance of doubt, each seller shall perform the obligations and undertake the liabilities pursuant to the Supplemental Agreement independently and severally.

Pursuant to the MOU and the Sale and Purchase Agreement, the Group had paid the Earnest Money to the Target Group as earnest money on 25 July 2016, which shall be returned to the Company by the Target Group within five working days from the later of (i) 18 March 2017, being the end of a eight-month period from the signing of the MOU; or (ii) the date of termination of the Acquisition by reason that any of the conditions precedent to the Sale and Purchase Agreement has not been fulfilled or waived on or before the Long Stop Date (i.e. 31 October 2017). In view of the unexpected delay in the despatch of this Circular and to demonstrate the Company’s commitment to proceed with the Acquisition, the Company, the Sellers and the Target Company entered into a further supplemental agreement on 11 October 2017, pursuant to which the Group paid to the Target Group the Additional Earnest Money. The Earnest Money and the Additional Earnest Money shall be returned to the Company by the Target Group within five working days from the date of termination of the Acquisition by reason that any of the conditions precedent to the Sale and Purchase Agreement has not been fulfilled or waived on or before the Long Stop Date (i.e. 31 October 2017).

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On 31 October 2017 and 29 December 2017, the Company, the Sellers and the Target Company entered into further supplemental agreements, pursuant to which the Earnest Money and the Additional Earnest Money (collectively, the “**Total Earnest Money**”) shall be returned to the Company by the Target Group within four months from the date of termination of the Acquisition (“**Return Period**”) by reason that any of the conditions precedent to the Sale and Purchase Agreement is not fulfilled or waived on or before the Long Stop Date (i.e. 31 March 2018). If the Total Earnest Money is not fully returned to the Company within the first calendar month of the Return Period, interest on the outstanding amount of the Total Earnest Money shall be payable by the Target Group to the Company. Interest shall accrue on the 1st day of the second calendar month of the Return Period at the rate of 2% above the Prime Rate per annum, whereas “Prime Rate” means the rate announced from time to time by The Hongkong and Shanghai Banking Corporation Limited as its prime rate for lending Hong Kong Dollars.

Information of the Group and Beijing Gaohuitong

The Group consists of the Company, Shenzhen Innovationpay Co., Limited and its subsidiaries, Country Praise Enterprises Limited and its subsidiaries. The Company is an investment holding company. Its subsidiaries are principally engaged in three business segments, namely (i) third party payment services and related business; (ii) Onecomm – provision of third party payment system solution and sales of integrated smart point of sales devices; and (iii) general trading.

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

Information of the Sellers

The Sellers comprised Whitecrow Investment, Rory Huang, V5.Cui Investment, Youzan Teamwork, Xincheng Investment, Aves Capital, Tembusu HZ, Matrix Partners China III (HK), Hillhouse KDWD, E&A Amigne, Ralston Global, Puhua Investment, each of them being a shareholder of Youzan as at the Latest Practicable Date. The Sellers collectively held 1,217,723,150 ordinary shares in the issued share capital of Youzan, assuming all preference shares of Youzan having been converted into ordinary shares, representing the entire issued share capital of Youzan as at the Latest Practicable Date.

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The details of the Sellers are set out below:

	Name of Seller	Description	Beneficial owner(s)
1.	Whitecrow Investment	An investment holding company established in the British Virgin Islands with limited liabilities.	Mr. Zhu Ning (朱寧) as to 100%
2.	Rory Huang	An investment holding company established in the British Virgin Islands with limited liabilities.	Mr. Huang Rongrong (黃榮榮) as to 100%
3.	V5.Cui Investment	An investment holding company established in the British Virgin Islands with limited liabilities.	Mr. Cui Yusong (崔玉松) as to 100%
4.	Youzan Teamwork	An investment holding company established in the British Virgin Islands with limited liabilities.	Mr. Zhu Ning (朱寧) and Mr. Huang Rongrong (黃榮榮) as to approximately 40% each; and Mr. Yu Tao and Ms. Ying Hangyan (each being a senior management employee of Youzan) as to approximately 10% each; and Mr. Cui Yusong (崔玉松) as to one share
5.	Xincheng Investment	An investment holding company established in the British Virgin Islands with limited liabilities.	Mr. Li Zhiguo (李治國) as to 100%
6.	Aves Capital	An investment holding company established in the Cayman Islands with limited liabilities.	Mr. Xiong Minghua as to 100%

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	Name of Seller	Description	Beneficial owner(s)
7.	Tembusu HZ	An investment holding company established in the British Virgin Islands with limited liabilities.	Matrix Chuangda (Hangzhou) Venture Investment Limited Partnership (經緯創達(杭州)創業投資合夥企業(有限合夥)), as to 100%, the general partner of which is Hangzhou Matrix Tengchuang Investment Management L.P. (杭州經緯騰創投資管理合夥企業(有限合夥))
8.	Matrix Partners China III (HK)	An investment holding company established in Hong Kong with limited liabilities.	Matrix Partners China III, L.P. as to 90%, the general partner of which is Matrix China Management III, L.P., and Matrix Partners III-A, L.P. as to 10%, the general partner of which is Matrix China Management III, L.P.
9.	Hillhouse KDWD	An investment holding company established in the British Virgin Islands with limited liabilities.	Hillhouse Fund II, L.P., as to 100% the general partner of which is Hillhouse Fund II GP, Ltd.
10.	E&A Amigne	An investment holding company established in the British Virgin Islands with limited liabilities.	Vipshop Holdings Limited (唯品會)(a company listed on The New York Stock Exchange with stock code VIPS) as to 100%
11.	Ralston Global	An investment holding company established in the British Virgin Islands with limited liabilities.	Ms. Wen Qun (聞群) as to 100%
12.	Puhua Investment	An investment holding company established in Samoa with limited liabilities.	Mr. Shen Qinhu (沈琴華) as to 100%

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Reasons and benefits of the Acquisition

The Directors regard the core competence of the Group being that Beijing Gaohuitong Commercial Management Co., Ltd., a wholly owned subsidiary of the Group, which is approved by The People's Bank of China to conduct the following third party payment services:

- (i) national wide online payment;
- (ii) issue and acceptance of prepaid cards in Beijing, Shanghai, Zhejiang, Guangdong and Liaoning Provinces; and
- (iii) offering virtual prepaid card designed for individual consumers for small value transaction on a pilot basis.

Mergers and acquisitions (“M&A”) have been an integral part of the Company's growth strategy. The following sets out the Group's major M&A activities and business collaborations in connection with third party payment services of the Group:

November 2010	The Group acquired 100% equity interest in Country Praise Enterprises Limited, a company principally engaged in the development and operation of electronic payment tools in the PRC.
June 2011	The Group was contracted to distribute and promote Yinsheng Prepaid Card, a prepaid card accredited and licensed by China Unionpay Co., Ltd..
September 2011	The Group was contracted to distribute and promote Gold Exchangeable Gift Card.
February 2013	The Group issued a co-brand prepaid card with China Construction Bank (Asia) Limited.
June 2013	高匯通 • 微樂付 virtual card, jointly issued by the Group and Tenpay, a third party payment platform operated by Tencent, was launched officially in the PRC.

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- October 2014 The Group acquired 51% equity interest in Beijing ONECOMM Technology Company Limited, a company principally engaged in the provision of total solution for third party payment system, and the sales of integrated smart point of sales (“POS”) device, including payment software development, application integration, software testing, construction and maintenance of business application platforms. Its management has extensive knowledge and expertise in the development of third party electronic payment platform in the PRC.
- The purpose of the investment was to enable the Group to leverage on the ONECOMM’s research capability and its expertise to develop different payment platforms like O2O (online-to-offline or offline-to-online) payment platform.
- November 2014 The Group acquired 10% equity interest in 海爾消費金融有限公司 (Haier Consumer Finance Co. Ltd.*), a company principally engaged in the lending of personal consumer loans.
- Through the development and launch of integrated intelligent POS, the operations and management of prepaid card system and the development of relevant payment software for Haier Consumer Finance Co. Ltd, the investment can (i) expand the Group’s payment business and improve the finance payment industrial chain; and (ii) accelerate the accumulation of individual users and expand the acceptance of the prepaid cards of the Group.
- June 2015 The Group acquired 51% equity interest in Moderntimes Payment Limited, a company principally engaged in (i) providing consultancy services in strategy and implementation in the traditional finance industry and the internet finance industry; (ii) the development, operation and promotion of innovative products in the internet and finance fields; and (iii) customer value management.
- The purpose of this investment was to accelerate the acquisition of the virtual prepaid card holders and stimulate the acceptance of the virtual prepaid cards, while at the same time bring in the management team with over 20 years’ experience in the finance and internet industries to the Group.

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June 2015	The Group proposed to invest in National Agricultural Holdings Limited, where the Group shall provide software and hardware payment solutions plans for the agricultural-related trading platform of National Agricultural Holdings Limited under the relevant cooperation agreement.
September 2015	The Group's online payment service and cross-border RMB payment service were launched officially in the PRC.

The above series of M&A demonstrated the continuous effort of the Group in its third party payment services business expansion strategy in (i) capturing technology, research and development capabilities, and experienced professionals; and (ii) expanding payment gateway for various businesses or industries in order to increase the number of contracted merchants/brands for its payment services, and in turn the transaction volume handled through its third party payment system.

Nevertheless, the Company is of the view that such expansion hinges on the Group's ability to capture a critical mass of merchants or stores using the Group's third party payment services; which the Group believes could contribute positively to the popularity and reputation of the Group's third party payment gateway and, in turn, could attract more consumers, enhance transaction volume, and thus increase transaction fee income for the Group's business segment.

The Acquisition, being one of the M&A examples in connection with third party payment services of the Group, coincides with the Group's business strategy. The Company believes that the Acquisition is strategically beneficial to the Company for the following reasons:

1. Benefits to the Group's business

As of 31 December 2016, Youzan Group's e-commerce platform has over 364,000 active registered merchants and a GMV of approximately RMB10 billion. As set out in the paragraph headed "Financial and trading prospects of the Enlarged Group" in this letter, Youzan Group is currently handling its daily transactions through multiple payment gateways provided by several third party payment service providers. As at the Latest Practicable Date, Youzan Group engaged six third party payment service providers servicing its e-commerce platforms. The intention of the Company is that upon Completion, Beijing Gaohuitong will replace the existing third party payment service providers of Youzan Group by substituting the applicable third party payment services currently provided by those existing third party payment service providers and gradually become the sole third party payment service provider of Youzan Group. Such an anticipated arrangement accounts for the Continuing Connected Transactions, including providing various third party payment services to

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Youzan Group, such as offline integrated payment transactions services, online payment services for “WeiMall”, cross-border RMB payment settlement services for “WeiMall” overseas merchants, physical and virtual prepaid cards services for merchants of Youzan Group and other payment related services. For further details, please refer to the paragraph headed “III. Continuing connected transactions” in this letter. Accordingly, the GMV of Youzan Group, representing the total value of all confirmed transactions for products and services on Youzan Group’s E-Commerce platform, regardless of whether the goods are delivered or returned or how such orders are settled, could be translated into the Group’s existing principal e-commerce business – third party payment service, through charging service fee for the third party payment services to be provided by the Group. The Acquisition could immediately contribute positively and expand the Group’s number of contracted merchants and increase the transaction volume using the Group’s third party payment services. The Group considers the Acquisition complements the Group’s development strategy regarding its third party payment services by expanding the number of merchants and consumers using the Group’s payment gateway and processing transaction volume via the Group’s payment system.

The expanded merchant and consumer base through the Acquisition could also be a pool of potential business for the Group’s other business segments, such as use of pre-paid cards, provision of consultancy services, payment solutions, use of cross-border payment gateway, big data analytics enabling etc., which, the Group considers complements and provides growth momentum for the Group’s existing business segments.

2. Benefits to Youzan Group’s business

With the Acquisition, the Group could enable Youzan Group to operate its own third party payment system. Youzan Group’s “WeiMall” and its other ancillary and specialised e-commerce platforms will integrate with the Group’s third party payment services infrastructure, where the Group’s third party payment services will be used on all online stores opened with “WeiMall” as the platform’s sole authorised payment service provider. The integration would also allow the streamlining of the management and process of the trade proceeds among WeiMall’s registered merchants, consumers and various payment channels. With an integrated complementary third party payment services, the development, profitability and competitiveness of Youzan Group could be enhanced.

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3. *Enhancing new business development potential of the Enlarged Group*

Through the Acquisition, the combination of Youzan Group's third party e-commerce platform and the Group's third party payment platform can allow the Enlarged Group to provide comprehensive one-stop services to the merchants, including opening and operating of their online stores, inventory management, consumer management, marketing management, online store management, coupled with the payment services support and capital management.

With the abovementioned synergetic effects with the existing businesses of the Group, it is also expected that both income from the principal businesses of the Group and the income from Youzan Group's operation of the E-commerce Applications related business (which mainly consists of (i) fees charged for use of applications and premium functions; and (ii) transaction fees based on consideration of relevant transactions) could be enhanced through providing a comprehensive one-stop service that will enrich the Enlarged Group's income stream, which the Group considers is beneficial to and in the interests of the Group and its shareholders as a whole.

Both the Company and the Sellers are committed to integrate the Group's third party payment services business and Youzan Group's third party e-commerce platform after the Acquisition. It is the common intention of the Company and the Sellers that the Company shall maintain the current management composition and its goal to integrate their respective business after the Acquisition.

Financial effects of the Acquisition on the Group

It should be noted that the following estimations are for illustration purposes only and do not purport to represent how the financial position of the Enlarged Group will be upon Completion.

1. *Earnings*

Upon Completion, Youzan will become a non wholly-owned subsidiary of the Company and its results will be consolidated with that of the Group. In light of prospects of the e-commerce industry in the PRC, the Directors are of the view that the Acquisition would widen the earnings base of the Group.

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2. *Intangible assets*

Upon Completion, the Group will recognise intangible assets of approximately HK\$2,221.0 million. The identifiable intangible assets mainly represent trademarks, e-commerce applications and distribution network. Intangible assets with finite useful lives are amortised over the expected useful economic lives and will be assessed for impairment whenever there is an indication that the intangible assets may be impaired.

3. *Goodwill*

Upon Completion, the Group will recognise a goodwill of approximately HK\$1,853.4 million. The goodwill represents the fair value of the Consideration of approximately HK\$2,592.5 million over the share of the net fair value of identifiable assets and liabilities of Youzan Group (51% equity interest) of approximately HK\$739.1 million.

The carrying amount of goodwill is also subject to impairment assessment at Completion and at the end of each reporting date. Based on the applicable accounting standards, there is no impairment of goodwill based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular.

4. *Net assets*

Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular, upon Completion, the Enlarged Group's net assets as at 30 June 2017 would be increased to approximately HK\$4,732.4 million. The increase in the net assets of approximately HK\$3,478.0 million is mainly due to an increase in intangible assets of approximately HK\$2,220.5 million, an increase in goodwill of approximately HK\$1,853.4 million, and offset by an increase in deferred tax liabilities of approximately HK\$555.1 million.

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5. Working capital

Based on the unaudited pro forma combined statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular, upon Completion, the Enlarged Group's net working capital as at 30 June 2017 would be decreased to approximately HK\$416.8 million. The decrease in net working capital of approximately HK\$6.1 million is mainly due to the effect of the net current liabilities position of Youzan Group of approximately HK\$216.8 million, but partially offset by the expected net proceeds of approximately HK\$182.7 million raised from the SM Placing (assuming that 300,000,000 SM Placing Shares have been placed at HK\$0.625 per SM Placing Share (i.e the mid-point of the price range) and decrease in accruals and other payables of approximately HK\$35.3 million due to the elimination of amount relating earnest money of approximately RMB30.0 million.

Financial and trading prospects of the Enlarged Group

Upon Completion, Youzan will become a non wholly-owned subsidiary of the Company and the financial results of Youzan Group will be consolidated into the Group. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma net assets of the Enlarged Group immediately upon Completion would be approximately HK\$4,732.4 million.

Youzan Group is currently handling its daily transactions through multiple payment gateways provided by several third party payment service providers. The intention of the Company is that upon Completion, Beijing Gaohuitong will replace the existing third party payment service providers of Youzan Group by substituting the applicable third party payment services currently provided by those existing third party payment service providers and gradually become the sole third party payment service provider of Youzan Group.

In addition, the Enlarged Group plans to (1) maintain and upgrade the system for (a) Youzan high volume merchants; (b) enhancing the payment channels with banks; and (c) the payment risk management system; (2) develop new products including (a) various software and systems supporting technologies including (i) new payment recognition functions, such as sound recognition, face recognition, fingerprint recognition and new two-dimensional barcodes; (ii) large capacity chip cards; and (iii) a platform supporting multi-currency settlement; and (b) e-commerce products catering for the specific needs of various industries, such as beauty industry and catering industry; and (3) promote products and services (a) through participating in exhibitions and activities organised by industry associations and sponsoring activities organised by the business partners of the Company; and (b) to offline and unbranded merchants for (i) brand building; (ii) advertising; and (iii) channels establishment.

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II. PLACING OF NEW SHARES UNDER SPECIFIC MANDATE

On 17 March 2017 (after trading hours), the Company entered into the SM Placing Agreement with the Placing Agent, pursuant to which the Placing Agent agrees, as agent of the Company, to procure, on a best efforts basis, not less than six SM Placees who and whose ultimate beneficial owners shall be Independent Third Parties to subscribe for up to 460,000,000 SM Placing Shares at the SM Placing Price of HK\$0.5 to HK\$0.75 per SM Placing Share. Details of the SM Placing Agreement are set out below:

The SM Placing Agreement

Date: 17 March 2017

Parties: The Company (as issuer); and

Oriental Patron Asia Limited (as placing agent).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owner(s) are Independent Third Parties.

Pursuant to the terms of the SM Placing Agreement, the Placing Agent will receive a placing commission of not more than 2.5% of the amount which is equal to the SM Placing Price multiplied by the number of SM Placing Shares actually placed by the Placing Agent. The placing commission in respect of the SM Placing was negotiated on arm's length basis between the Company and the Placing Agent and was determined with reference to, among other things, the prevailing commission rate charged by other placing agents and the price performance of the Shares.

The Directors (other than the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" to this circular) consider that the placing commission in respect of the SM Placing is fair and reasonable based on the current market conditions.

SM Placees

Pursuant to the SM Placing Agreement, the SM Placing Shares will be placed to not less than six SM Placees who shall be professional, institutional or other investors independent of and not connected with the Company, the Sellers, the connected persons of the Company and their respective associates, and who and whose ultimate beneficial owners are Independent Third Parties and shall not be existing shareholders of the Company. Upon the SM Placing Completion, it is expected that none of the SM Placees will become a substantial Shareholder. If any of the SM Placees will become a substantial Shareholder after the SM Placing Completion, further announcement will be made by the Company.

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SM Placing Shares

The maximum of 460,000,000 SM Placing Shares represents:

- (i) approximately 6.59% of the issued shares of the Company as at the Latest Practicable Date;
- (ii) approximately 3.55% of the issued shares of the Company as enlarged by the allotment and issue of the maximum number of the SM Placing Shares and Consideration Shares; and

The aggregate nominal value of the maximum of 460,000,000 SM Placing Shares is HK\$4,600,000.

Ranking of the SM Placing Shares

The SM Placing Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue on the date of allotment and issue of the SM Placing Shares.

SM Placing Price

The minimum SM Placing Price of HK\$0.5 per SM Placing Share represents: (i) a discount of approximately 9.09% to the closing price of HK\$0.55 per Share as quoted on the Stock Exchange on 17 March 2017, being the date of the SM Placing Agreement; and (ii) a premium of approximately 3.31% over the average closing price of approximately HK\$0.484 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the SM Placing Agreement.

The SM Placing is specifically used for the financing of the Group's operations to accommodate the additional third party payment services to be brought by Youzan Group upon Completion. As the Acquisition is subject to, among other matters, the approval by the Independent Shareholders at the SGM, the Company has sufficient time to gauge the level of demand from the investors before fixing the SM Placing Price. It is currently expected that the SM Placing Price will not be fixed prior to the results of the SGM.

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The SM Placing Price was arrived at after arm's length negotiations between the Company and the Placing Agent with reference to the prevailing market price and the recent trading performance of the Shares. The Company is of the view that the range from HK\$0.5 to HK\$0.75 of the SM Placing Price could provide flexibility to the Company and the Placing Agent to determine the final price during the book building process of the SM Placing after observing the investors' feedback in order to capture upside in the share price due to the Acquisition, if any. Also, in order to protect the Shareholders' interest, the minimum price of HK\$0.5 of the SM Placing Price, which equals the GM Placing Price, was set as the lowest price the Company was willing to accept for the SM Placing as it is comparable to the price of the Shares as at the date of the Announcement. The Directors (other than the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" to this circular) consider that the SM Placing Price and the terms of the SM Placing Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions of the SM Placing

The SM Placing is conditional upon the fulfillment of, among others, the following conditions:

- (i) the Listing Committee of the Stock Exchange granting the approval for the listing of, and the permission to deal in, the SM Placing Shares;
- (ii) the passing of the necessary resolutions by the Shareholders at the SGM to approve the SM Placing, the grant of the Specific Mandate, the SM Placing Agreement and all other transactions contemplated hereby;
- (iii) parties to the SM Placing Agreement both agreed on the SM Placing Price;
- (iv) the obligation of each of the parties to the Sale and Purchase Agreement becoming unconditional; and
- (v) the obligations of the Placing Agent under the SM Placing Agreement becoming unconditional and not being terminated.

In the event that any of the above conditions is not fulfilled on or before the 30th day after the date of the SGM (or such later date as may be agreed by the Parties to the SM Placing Agreement in writing), all rights, obligations and liabilities of the parties to the SM Placing Agreement shall cease and terminate and no parties to the SM Placing Agreement shall have any claim against the other in relation thereto save for antecedent breaches of the provisions of the SM Placing Agreement.

LETTER FROM THE BOARD

SM Placing Completion

SM Placing Completion shall take place on a business date falling within five Business Days after the day on which all the conditions set out in the SM Placing Agreement have been fulfilled.

Application for listing

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the SM Placing Shares.

Specific Mandate to issue the SM Placing Shares

The SM Placing Shares will be allotted and issued pursuant to the Specific Mandate to be sought at the SGM.

Termination

Unless otherwise agreed among the parties to the SM Placing Agreement, the Placing Agent's appointment shall terminate upon the earlier of (a) SM Placing Completion; and (b) termination of the SM Placing by the Placing Agent in accordance with the terms and conditions of the SM Placing Agreement, whereby the Company will be formally notified by the Placing Agent in writing in accordance with the terms of the SM Placing Agreement.

The Placing Agent reserves its right to terminate the arrangements set out in the SM Placing Agreement by notice in writing prior to 9:00 a.m. on the date of SM Placing Completion, if in the absolute opinion of the Placing Agent, the success of the SM Placing would be materially and adversely affected by any force majeure events (as defined in the SM Placing Agreement).

If, at or prior to date of SM Placing Completion;

- (a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed or assumed under the SM Placing Agreement; or
- (b) any suspension in the trading of the Shares on the Stock Exchange for more than ten consecutive trading days, other than the purposes of clearing of the announcement (if any) relating to the SM Placing Agreement; or

LETTER FROM THE BOARD

- (c) the Placing Agent shall become aware of the fact that any of the representations or warranties contained in the SM Placing Agreement was, when given, untrue or inaccurate in any material respect, the Placing Agent shall be entitled (but not bound) by notice in writing to the Company to elect to treat such matter or event as releasing and discharging the Placing Agent from its obligations under the SM Placing Agreement.

Upon giving of notice pursuant to the paragraph above, all obligations of the Placing Agent shall cease and determine and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the SM Placing Agreement, save for any antecedent breaches.

Reasons for and benefits of the SM Placing and use of proceeds

Assuming all the SM Placing Shares are fully placed at HK\$0.625 per SM Placing Share, which is the mid-point of the price range, the gross proceeds from the SM Placing will be approximately HK\$287,500,000. The net proceeds, after deduction of all relevant expenses (including but not limited to placing commission, legal expenses and disbursements) incidental to the SM Placing, assuming the placing commission is 2.5% of the gross proceeds from the SM Placing, of approximately HK\$7,307,500, are estimated to be approximately HK\$280,192,500, representing a net issue price of approximately HK\$0.6091 per SM Placing Share.

LETTER FROM THE BOARD

The intended use of net proceeds from the SM Placing are set out as follows:

	Existing business of the Group	Incoming business of Youzan Group (Note)
(a) Maintenance and upgrade of the system for (a) Youzan high volume merchants; (b) enhancing the payment channels with banks; and (c) payment risk management system	HK\$40,000,000	HK\$25,000,000
(b) New products development including (a) various software and systems supporting technologies including (i) new payment recognition functions, such as sound recognition, face recognition, fingerprint recognition and new two-dimensional barcodes; (ii) large capacity chip cards; and (iii) platform supporting multi-currency settlement; and (b) e-commerce products catering for the specific needs of various industries, such as beauty industry and catering industry	HK\$45,000,000	HK\$70,000,000
(c) Promotion of the products and services: (a) through participating in exhibitions and activities organised by industry associations and sponsoring activities organised by the business partners of the Company; and (b) to offline and unbranded merchants for (i) brand building; (ii) advertising; and (iii) channels establishment	HK\$30,000,000	HK\$60,000,000
(d) General working capital	<u>HK\$5,192,500</u>	<u>HK\$5,000,000</u>
Total	<u><u>HK\$120,192,500</u></u>	<u><u>HK\$160,000,000</u></u>

Note: The proceeds for incoming business of Youzan Group will be through the Loan Agreement.

LETTER FROM THE BOARD

The Directors (other than the independent non-executive Directors whose views are set out in the “Letter from the Independent Board Committee” to this circular) consider that the SM Placing Agreement is entered into following arm’s length negotiations between the Company and the Placing Agent and the terms of the SM Placing Agreement (including the SM Placing Price and the placing commission) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

In fact, the Directors have considered other ways of fund raising such as debt financing, bank borrowing, rights issue and open offer. Among the possible fund raising alternatives to the SM Placing available to the Company, the Board considers the SM Placing is the most appropriate fund raising method and beneficial to the Company as the Board considers that (a) debt financing, bank borrowings and issuance of bonds would increase the finance cost of the Group and more professional fees would also be expected to be incurred; and (b) more time and costs (including underwriting commission, documentation preparation costs and professional fees) will be involved for pre-emptive issues (including rights issue and open offer). Hence, the Board does not consider alternative ways of fund raising such as debt financing, bank borrowing and pre-emptive issues to be desirable alternatives to the SM Placing.

Effect of the Acquisition and the SM placing on the shareholding structure of the company

Assuming there being no other changes in the share capital of the Company from the Latest Practicable Date up to the date of issue of the Consideration Shares and the SM Placing Shares, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of all SM Placing Shares; (iii) immediately after the allotment and issue of the Consideration Shares; and (iv) immediately after the allotment and issue of the Consideration Shares and all the SM Placing Shares (the Consideration Shares will be issued after the issue of the SM Placing Shares), based on the disclosure of interest notices filed by the relevant Shareholders as at the Latest Practicable Date.

Name of the shareholders of the Company	As at the Latest Practicable Date (Note 4)		After the allotment and issue of all SM Placing Shares		After the allotment and issue of the Consideration Shares		After the allotment and issue of the Consideration Shares and all SM Placing Shares	
	Approximate		Approximate		Approximate		Approximate	
	Number of shares held	shareholding percentage	Number of shares held	shareholding percentage	Number of shares held	shareholding percentage	Number of shares held	shareholding percentage
Mighty Advantage Enterprises Limited (Note 1)	1,311,792,000	18.80%	1,311,792,000	17.63%	1,311,792,000	10.50%	1,311,792,000	10.13%
Cao Chunmeng (Note 2)	67,420,000	0.97%	67,420,000	0.91%	67,420,000	0.54%	67,420,000	0.52%
Yan Xiaotian (Note 2)	21,640,000	0.31%	21,640,000	0.29%	21,640,000	0.17%	21,640,000	0.17%
Fong Chi Wah (Note 3)	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%

LETTER FROM THE BOARD

Name of the shareholders of the Company	As at the Latest Practicable Date (Note 4)		After the allotment and issue of all SM Placing Shares		After the allotment and issue of the Consideration Shares		After the allotment and issue of the Consideration Shares and all SM Placing Shares	
	Approximate		Approximate		Approximate		Approximate	
	Number of shares held	shareholding percentage	Number of shares held	shareholding percentage	Number of shares held	shareholding percentage	Number of shares held	shareholding percentage
Wang Zhongmin (Note 3)	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%
Gu Jiawang (Note 3)	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%
Central Huijin Investment Limited (Note 1)	48,640,000	0.70%	48,640,000	0.65%	48,640,000	0.39%	48,640,000	0.38%
Sellers								
Whitecrow Investment	-	-	-	-	1,440,601,703	11.53%	1,440,601,703	11.12%
Rory Huang	-	-	-	-	407,543,167	3.26%	407,543,167	3.15%
V5.Cui Investment	-	-	-	-	241,885,127	1.94%	241,885,127	1.87%
Youzan Teamwork	-	-	-	-	363,170,101	2.91%	363,170,101	2.80%
Xincheng Investment	-	-	-	-	370,607,335	2.97%	370,607,335	2.86%
Aves Capital	-	-	-	-	201,123,478	1.61%	201,123,478	1.55%
Tembusu HZ	-	-	-	-	905,961,684	7.25%	905,961,684	6.99%
Matrix Partners China III	-	-	-	-	391,846,533	3.14%	391,846,533	3.02%
Hillhouse KDWD	-	-	-	-	700,848,478	5.61%	700,848,478	5.41%
Ed&A Amigne	-	-	-	-	337,131,570	2.70%	337,131,570	2.60%
Ralston Global	-	-	-	-	77,666,728	0.62%	77,666,728	0.60%
Puhua Investment	-	-	-	-	77,666,728	0.62%	77,666,728	0.60%
Sub-total	-	-	-	-	5,516,052,632	44.16%	5,516,052,632	42.57%
SM Placees	-	-	460,000,000	6.18%	-	-	460,000,000	3.55%
Other public shareholders (Note 4)	5,526,463,197	79.19%	5,526,463,197	74.31%	5,526,463,197	44.21%	5,526,463,197	42.65%
Sub-total	<u>5,526,463,197</u>	<u>79.19%</u>	<u>5,986,463,197</u>	<u>80.49%</u>	<u>5,526,463,197</u>	<u>44.21%</u>	<u>5,986,463,197</u>	<u>46.20%</u>
Total	<u><u>6,978,955,197</u></u>	<u><u>100.00%</u></u>	<u><u>7,438,955,197</u></u>	<u><u>100.00%</u></u>	<u><u>12,495,007,829</u></u>	<u><u>100.00%</u></u>	<u><u>12,955,007,829</u></u>	<u><u>100.00%</u></u>

Notes:

- Mighty Advantage Enterprises Limited (“**Mighty Advantage**”) is beneficially owned by Mr. Guan Guisen, who is an executive Director. Based on the best knowledge and information of the Directors as at the Latest Practicable Date, Mighty Advantage has a short position of 1,140,000,000 Shares under a legal charge in connection with certain financing provided by Chance Talent Management Limited to Mighty Advantage. Chance Talent Management Limited is a wholly owned subsidiary of the China Construction Bank Corporation which is in turn controlled by Central Huijin Investment Limited.

LETTER FROM THE BOARD

2. Each of Mr. Cao Chunmeng and Mr. Yan Xiaotian is an executive Director.
3. Each of Dr. Fong Chi Wah, Mr. Wang Zhongmin and Mr. Gu Jiawang is an independent non-executive Director.
4. As the GM Placing was completed on 26 April 2017, the total number of issued shares of the Company as at the Latest Practicable Date included the 788,600,000 GM Placing Shares. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the GM Placees was not an existing Shareholder immediately before the GM Placing. For further details in relation to completion of the GM Placing, please refer to the announcement of the Company dated 26 April 2017.

Equity fund raising activities in the past twelve months

Save for the GM Placing, the Company had not carried out any equity fund raising exercise in the 12-month period immediately preceding the Latest Practicable Date.

III. CONTINUING CONNECTED TRANSACTIONS

As mentioned in the CCTs Announcements, upon completion of the Sale and Purchase Agreement, Whitecrow Investment Ltd. and its ultimate shareholder will become a substantial shareholder of the Company, while Youzan would become a non wholly-owned subsidiary of the Company which is owned as to 51% by the Company and 12.8% by Whitecrow Investment Ltd. and its ultimate shareholder. Therefore, Youzan and its subsidiaries, including Hangzhou Youzan, will become connected subsidiaries and connected persons of the Company under Rule 20.07(5) of the GEM Listing Rules. At the same time, Hangzhou Qima, a company owned as to 54.41% by Mr. Zhu Ning, the ultimate shareholder of Whitecrow Investment Ltd., will become a connected person of the Company under Rule 20.07(4) of the GEM Listing Rules by virtue of it being an associate of Mr. Zhu Ning. For the avoidance of doubt, as at the Latest Practicable Date and upon completion of the Sale and Purchase Agreement, Hangzhou Qima was not and will not be a shareholder of the Company, respectively.

As such, the transactions which will be entered into between the Group with each of Youzan, Hangzhou Youzan and Hangzhou Qima upon or after completion of the Sale and Purchase Agreement will constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules.

1. Third Party Payment Services Framework Agreement

Date:

8 April 2017

Parties:

1. Beijing Gaohuitong; and
2. Hangzhou Youzan

LETTER FROM THE BOARD

Conditions precedent

The commencement of the Third Party Payment Services Framework Agreement is conditional upon (i) completion of the Acquisition; (ii) the obtaining of the approval from the Independent Shareholders by the Company in relation to the transactions contemplated under the Third Party Payment Services Framework Agreement and the related transactions contemplated thereunder in accordance with the GEM Listing Rules; and (iii) the obtaining of the approval from the board of directors of Youzan in relation to the Third Party Payment Services Framework Agreement and the related transactions contemplated thereunder within 60 days from the signing of the Third Party Payment Services Framework Agreement or any other duration as agreed between Beijing Gaohuitong and Hangzhou Youzan.

Term

The Third Party Payment Services Framework Agreement is of a term commencing from the date on which the above conditions precedent are fulfilled and ending on 31 December 2019 (both days inclusive).

Scope of services

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

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

LETTER FROM THE BOARD

Pricing policy and payment terms

The provision of the relevant payment services under the Third Party Payment Services Framework Agreement shall only commence upon fulfillment of the conditions precedent as stated above.

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

Proposed annual caps

The proposed annual caps in respect of the transactions contemplated under the Third Party Payment Services Framework Agreement for each of the three years ending 31 December 2019 is RMB50,000,000, RMB110,000,000 and RMB160,000,000 respectively.

Basis of the proposed annual caps

The proposed annual caps for the continuing connected transactions contemplated under the Third Party Payment Services Framework Agreement have been determined based on, among others, Youzan's estimate of its business growth for the three years ending 31 December 2019, in particular the expected gross merchandise volume of Youzan Group derived from the expected number of active registered merchants and expected transaction amount of the active registered merchants; and the Company's current estimation of the price for the provision of major relevant payment services under the Third Party Payment Services Framework Agreement.

LETTER FROM THE BOARD

Internal control and pricing policy

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

1. the Company will supervise the continuing connected transactions in accordance with the procedures set forth in the Company's internal control manual on continuing connected transactions. Designated personnel of the operation department of the Company will conduct regular checks to review and assess whether relevant transactions are conducted in accordance with the terms of the Third Party Payment Services Framework Agreement and monitor the changes in the relevant upstream channel costs. The Company will notify such changes in the upstream channel costs to Hangzhou Youzan as soon as practicable and the relevant service fees will be adjusted accordingly on a monthly basis;
2. the Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions;
3. the Company's Audit Committee will review at least twice a year the analysis reports and the improvement measures prepared by the Company's management based on the implementation of the continuing connected transactions by the Company; and
4. the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

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

As mentioned in the paragraph headed "Continuing connected transactions" in the Announcement, it is expected that upon completion of the Acquisition, Youzan Group's "WeiMall" and its other ancillary and specialised e-commerce platforms will integrate with the Group's third party payment services infrastructure, where the Group's third party payment services will be used on all online stores opened with "WeiMall" as the platform's sole authorised payment service provider.

LETTER FROM THE BOARD

Entering into the Third Party Payment Services Framework Agreement could immediately contribute positively and increase the transaction volume using the Group's third party payment services. The Group believes that entering into the Third Party Payment Services Framework Agreement complements the Group's development strategy regarding its third party payment services as it will expand the number of merchants and consumers using the Group's payment gateway and the processing transaction volume via the Group's payment system.

The Directors (other than the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" to this circular) are of the view that the Third Party Payment Services Framework Agreement has been entered into after arm's length negotiations on normal commercial terms and the terms thereof are fair and reasonable and in the interests of the Company and its shareholders as a whole.

2. Loan Agreement

Major terms

Date	8 April 2017 (as supplemented by the supplemental loan agreement dated 29 November 2017)
Lender	The Company
Borrower	Youzan
Loan amount	Not exceeding HK\$200,000,000 at any time, inclusive of the principal loan amount and interest
Terms	From the Loan Effective Date until 31 December 2020
Interest rate	Youzan shall pay interest on any outstanding principal of the loan at the interest rate of 2% per annum above the Prime Rate from time to time, which shall be calculated and charged on a monthly basis.
Repayment terms	Youzan shall fully repay any outstanding principal and any accrued but unpaid interest and any other monies due under the Loan Agreement on the expiry of the term of the Loan Agreement.

LETTER FROM THE BOARD

Conditions precedent The commencement of the Loan Agreement is conditional upon (i) completion of the Acquisition; (ii) the obtaining of the approval from the Independent Shareholders by the Company in relation to the transactions contemplated under the Loan Agreement and the related transactions contemplated thereunder in accordance with the GEM Listing Rules; and (iii) the obtaining of the approval from the board of directors of Youzan in relation to the Loan Agreement and the related transactions contemplated thereunder.

Reasons for and benefits of entering into the Loan Agreement

The Directors expect that the synergetic effect generated by the Acquisition shall bring new business to the Enlarged Group. Therefore, the Directors intended that the proceeds from the loan shall be used to support the business plan and development of Youzan upon completion of the Acquisition, which in turn is expected to benefit the Enlarged Group as a whole.

The Directors (other than the independent non-executive Directors whose views are set out in the “Letter from the Independent Board Committee” to this circular) are of the view that the Loan Agreement has been entered into after arm’s length negotiations on normal commercial terms and the terms thereof are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Proposed annual cap amounts for the Loan Agreement

No transactions were conducted in the past between the Company and Youzan in relation to the provision of loan and financing.

The proposed annual caps in respect of the transactions contemplated under the Loan Agreement for each of the three years ending 31 December 2020 is HK\$160,000,000, HK\$200,000,000 and HK\$200,000,000 respectively.

The abovementioned annual caps are determined with reference to, among others, the current business plan of Youzan Group.

LETTER FROM THE BOARD

IV. THE GEM LISTING RULES IMPLICATIONS

(i) Acquisition

As one or more applicable percentage ratios in respect of the Acquisition exceed 25%, but less than 100%, the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder constitute a major transaction for the Company and is therefore subject to reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

(ii) Continuing Connected Transactions

Upon completion of the Sale and Purchase Agreement, Whitecrow Investment Ltd. and its ultimate shareholder will become a substantial shareholder of the Company, while Youzan would become a non wholly-owned subsidiary of the Company which is owned as to 51% by the Company and 12.8% by Whitecrow Investment Ltd. and its ultimate shareholder. Therefore, Youzan and its subsidiaries, including Hangzhou Youzan, will become connected subsidiaries and connected persons of the Company under Rule 20.07(5) of the GEM Listing Rules.

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

V. THE TAKEOVERS CODE IMPLICATIONS

The issue of the Consideration Shares to the Sellers will result in the increase in shareholding of the Sellers (together with parties acting in concert with them) in the Company from nil to approximately 42.57% of the issued Shares as enlarged by the allotment and issuance of the Consideration Shares and the maximum number of the SM Placing Shares. Such an increase will give rise to an obligation under Rule 26 of the Takeovers Code for the Sellers to make a mandatory general offer for all the Shares and other securities issued by the Company not already held or agreed to be acquired by the Sellers (together with parties acting in concert with them) unless the Whitewash Waiver is obtained.

LETTER FROM THE BOARD

A formal application has been made by the Sellers to the Executive for the Whitewash Waiver pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Shareholders at the SGM by way of poll. It is a condition precedent to Completion that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive or if the conditions (if any) imposed thereon are not fulfilled, the Acquisition will not proceed.

As at the Latest Practicable Date, the Company does not believe that the Acquisition (including the proposed issue of the Consideration Shares) gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the GEM Listing Rules). The Company is not aware of any non-compliance with other applicable rules or regulations (including the GEM Listing Rules) given rise by the Acquisition (including the proposed issue of the Consideration Shares) as at the Latest Practicable Date. If a concern should arise after the release of this circular, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Acquisition (including the proposed issue of the Consideration Shares) does not comply with other applicable rules and regulations (including the GEM Listing Rules).

Save for the Sale and Purchase Agreement and the undertakings of each of the Sellers to the Company in relation to the non-disposal of the Consideration Shares, there is no agreement, arrangement or understanding existing between the Sellers or any parties acting in concert with each of them on one hand and the Company, Mighty Advantage Enterprises Limited or any parties acting in concert with it, any of the Directors, recent directors of the Company, Shareholders or recent shareholders of the Company on the other hand as at the Latest Practicable Date.

VI. SGM

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Mighty Advantage Enterprises Limited and parties acting in concert with it, the Sellers and their respective concert parties and the Directors are required to abstain from voting on the relevant resolution(s) at the SGM.

A notice of convening the SGM to be held at Function Room II, 1/F of City Garden Hotel, 9 City Garden Road, North Point, Hong Kong at 10:00 a.m. on 26 January 2018 is set out on page SGM-1 to SGM-5 of this circular. Ordinary resolutions will be proposed at the SGM to consider and if thought fit, approving the resolution(s) in respect of, among others, (i) the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the grant of the Specific Mandate for the allotment and issue of the Consideration Shares); (ii) the SM Placing Agreement and the transactions contemplated thereunder (including but not limited to the grant of the Specific Mandate for the allotment and issue of the SM Placing Shares); (iii) the

LETTER FROM THE BOARD

Whitewash Waiver; (iv) the Third Party Payment Services Framework Agreement and the transactions contemplated thereunder; (v) the proposed annual caps in respect of the transactions contemplated under the Third Party Payment Services Framework Agreement; (vi) the Loan Agreement and the transactions contemplated thereunder; and (vii) the proposed annual caps in respect of the transactions contemplated under the Loan Agreement.

The Company has established the Independent Board Committee comprising Dr. Fong Chi Wah, Mr. Xu Yanqing and Mr. Gu Jiawang, each an independent non-executive Director, to advise the Independent Shareholders in relation to the Acquisition (including but not limited to the grant of the Specific Mandate for the allotment and issue of the Consideration Shares), the Whitewash Waiver, the Third Party Payment Services Framework Agreement and the Loan Agreement and the proposed annual caps thereto, and to make recommendation to the Independent Shareholders on their voting on the proposed resolutions. SPDB International Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same. The appointment of SPDB International Capital Limited as the Independent Financial Adviser has been approved by the Independent Board Committee.

Whether or not you intend to attend the SGM in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited, the share registrar of the Company in Hong Kong, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no less than 48 hours before the time schedule for holding the SGM (i.e. no later than 10.00 a.m. on Wednesday, 24 January 2018). Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

VII. RECOMMENDATION

Your attention is drawn to the letter of the Independent Board Committee set out on pages 50 to 51 of this circular. Your attention is also drawn to the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement (including the issue of the Consideration Shares), the Whitewash Waiver, the Third Party Payment Services Framework Agreement and the Loan Agreement set out on pages IFA-1 to IFA-57 of this circular.

LETTER FROM THE BOARD

The Board (other than the independent non-executive Directors whose views are set out in the “Letter from the Independent Board Committee” to this circular) considers that the Acquisition, the terms of the Acquisition, the Whitewash Waiver, the terms of the Third Party Payment Services Framework Agreement and the Loan Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (other than the independent non-executive Directors whose views are set out in the “Letter from the Independent Board Committee” to this circular) recommend the Independent Shareholders to vote in favour of the resolutions to be proposed as set out in the notice of the SGM.

The Board (other than the independent non-executive Directors whose views are set out in the “Letter from the Independent Board Committee” to this circular) is aware of and have complied with the “guidance note on directors’ duties in the context of valuations in corporate transactions involving listed companies” issued by the SFC on 15 May 2017.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of
China Innovationpay Group Limited
Guan Guisen
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



- (1) MAJOR TRANSACTION – ACQUISITION OF
51% EQUITY INTEREST IN YOUZAN;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE;
(4) CONTINUING CONNECTED TRANSACTIONS; AND
(5) NOTICE OF SGM

2 January 2018

To the Shareholders

Dear Sir or Madam,

We refer to the circular issued by the Company to the Shareholders dated 2 January 2018 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you as to whether the terms of the Sale and Purchase Agreement, the transactions contemplated thereunder, the Whitewash Waiver, the Third Party Payment Services Framework Agreement and the Loan Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

SPDB International Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect thereof. We wish to draw your attention to the “Letter from the Board” and the “Letter from the Independent Financial Adviser” set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser set out in its letter of advice and the valuation report of the Target Group from Hong Kong Appraisal Advisory Limited as set out in Appendix IV to this circular, we consider that the terms of the Acquisition, the Whitewash Waiver, the terms on the Third Party Payment Services Framework Agreement and the Loan Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We also consider that the terms of the Sale and Purchase Agreement, the Third Party Payment Services Framework Agreement and the Loan Agreement are on normal commercial terms and that they were entered into in the ordinary and usual course of business of the Company. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed as set out in the notice of the SGM.

We are aware of and have complied with the “guidance note on directors’ duties in the context of valuations in corporate transactions involving listed companies” issued by the SFC on 15 May 2017.

Yours faithfully,

For and on behalf of the Independent Board Committee

Dr. Fong Chi Wah
Independent non-executive
Director

Mr. Xu Yanqing
Independent non-executive
Director

Mr. Gu Jiawang
Independent non-executive
Director

INFORMATION OF YOUZAN GROUP

INFORMATION OF YOUZAN GROUP

Youzan Group is principally engaged in the e-commerce business which provides a variety of online and offline solutions and services in relation to virtual wholesaling and retailing in the PRC. Youzan Group operates third party e-commerce platforms and offers comprehensive consumer management and online distribution solutions to help merchants build, operate, manage and promote their online stores.

I. KEY OPERATIONAL INFORMATION AND FINANCIAL INFORMATION OF YOUZAN GROUP

The following sets out the selected key operational information of Youzan Group.

	As at 31 December		
	2014	2015	2016
Active registered merchants	More than 26,000	More than 369,000	More than 364,000
	For the year ended 31 December		
	2014	2015	2016
Number of registered merchants' followers	More than 90 million	More than 520 million	More than 1.2 billion
GMV settled through Youzan Group's settlement system (Note 1)	approximately RMB99.1 million	approximately RMB2.8 billion	approximately RMB7.4 billion (Note 3)
GMV settled directly between consumer and merchant (Note 2)	approximately RMB160.5 million	approximately RMB1.3 billion	approximately RMB2.6 billion (Note 3)
GMV	approximately RMB259.6 million	Approximately RMB4.1 billion	approximately RMB10.0 billion (Note 3)

Note 1: GMV derived from transactions for which merchants and customers elected to settle the transactions through Youzan Group's settlement system.

Note 2: GMV derived from transactions for which merchants and consumers elected to settle the transactions directly between themselves without the involvement of Youzan Group.

Note 3: Please refer to Appendix VII to this circular for the independent reasonable assurance report with qualified opinion for the GMV of Youzan Group for the year ended 31 December 2016.

INFORMATION OF YOUZAN GROUP

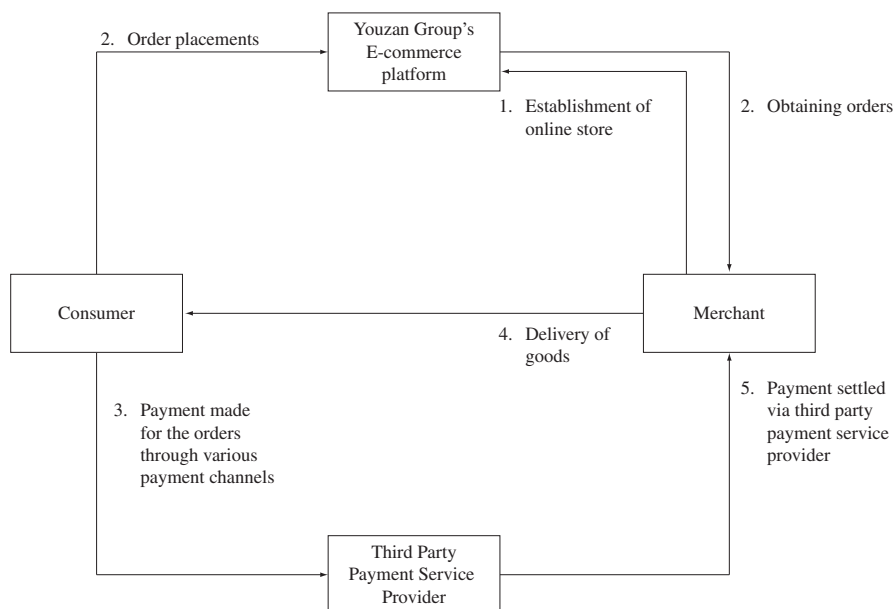
Set out below is the key financial information of Youzan Group based on its audited combined financial statements for the years ended 31 December 2014, 2015 and 2016 and for the ten months ended 31 October 2017 as set out in Appendix II to this circular:

	For the year ended 31 December			For the ten months ended 31 October	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	397	9,779	98,267	71,929	213,894
Net loss before change in fair value of contingently redeemable convertible preference shares and tax	46,542	185,655	155,662	130,446	113,598
Loss before tax	217,745	707,333	1,110,035	1,063,128	232,382
Loss after tax	217,745	707,333	1,110,035	1,063,128	232,382

The combined net liabilities of Youzan Group as at 31 December 2014, 31 December 2015, 31 December 2016 and 31 October 2017 was RMB225,495,000, RMB939,346,000, RMB2,011,329,000 and RMB2,243,711,000 respectively.

II. BUSINESS PROCESS OF YOUZAN GROUP

The following diagram illustrates the business process of Youzan Group's E-Commerce platform:



INFORMATION OF YOUZAN GROUP

1. Merchant registered on Youzan Group's E-Commerce platform to launch its online store to offer goods to consumers through the E-Commerce Applications.
2. Consumer places his/her order for selected items with transaction details e.g quantity, delivery address, contact details etc and selects the channel for payment e.g Alipay, Wechat Pay.
3. The transaction proceeds is authorized to be debited from the consumer's designated bank account registered with the selected payment channel and credited to the bank account established by the third party payment service provider engaged by Youzan Group on escrow.
4. Upon receipt of consumer's order, the merchant will arrange delivery of goods as instructed by the consumer.
5. The net transaction proceeds is released to the merchant's designated bank account if (i) confirmation of the acceptance of goods is received from the consumer and (ii) no objection or complaint is received from the consumer within seven days after the goods is delivered.

In order to capture the transaction flow of merchants who do not prefer to collect the transaction proceeds online or consumers who do not prefer to make payment online, Youzan Group's E-Commerce platform also accommodates transaction proceeds to be settled offline. For instance, merchants may collect sale proceeds in cash or by using its own third party payment channel such as Wechat Pay Official Account when the goods are physically delivered or service are rendered. In this circumstances, Youzan Group will not be responsible for the settlement of the sales proceeds between the merchants and the consumers.

III. REVENUE MODEL OF YOUZAN GROUP

Youzan Group derives its revenue from (i) transaction fee; (ii) licence fee; (iii) premium functions; (iv) membership; and (iv) others functions/services.

Transaction fee is a fee charged to registered merchants for conducting business and trade settlement via Youzan Group's E-Commerce platform since November 2015. The transaction fee is charged based on a certain percentage of the merchandise value processed.

License fee is a fee charged to registered merchants for subscribing standard functions on Youzan WeiMall since May 2016. The license fee is charged periodically and in advance.

Premium functions revenue is a licence fee charged to registered merchants for subscribing to additional advanced functions on Youzan WeiMall since May 2016. The premium function license fee is charged periodically and in advance.

INFORMATION OF YOUZAN GROUP

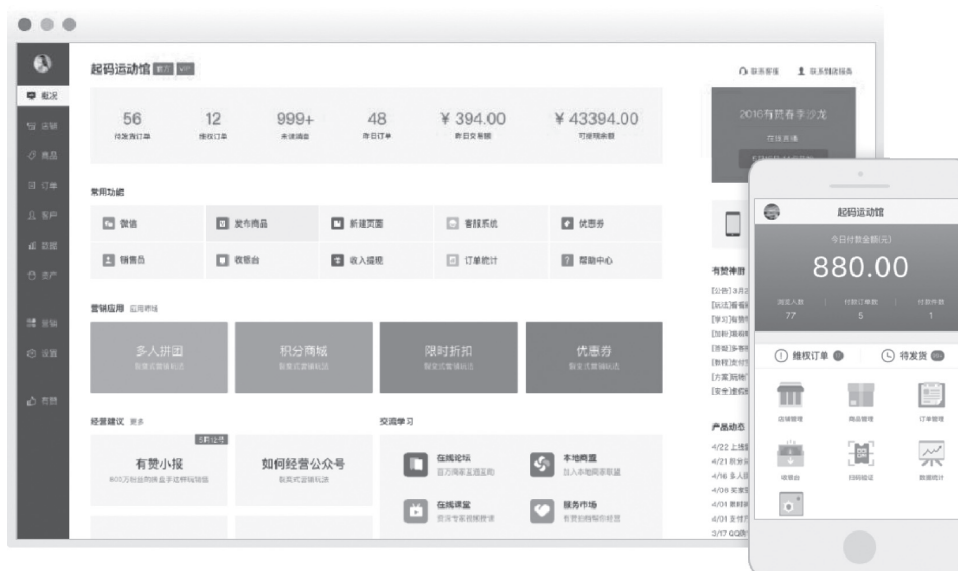
Membership revenue was charged to paid registered merchant for subscribing to both standard and selected advanced functions as well as offline services on Youzan Group's E-Commerce platform since March 2015. Membership fee was charged periodically and in advance. The offering of aforesaid membership service to new registered merchant has been suspended since April 2016. Other offerings relating to various advanced functions as well as offline services on Youzan Group's E-Commerce platform for premium accounts registered merchants have been launched in 2017.

Revenue from other functions/services represents revenue derived from licence specialized functions for particulars and offline services, such as distribution, training and promotion activities.

IV. PRODUCT OF YOUZAN GROUP

Youzan WeiMall (有赞微商城) is Youzan Group's principal product. Registered merchants of Youzan WeiMall are accessible to various functions to manage their online stores. Such basic functions include virtual storefront, consumer building, consumer relations, consumer retention, trade execution, repeated purchases distribution, payment channels and store data management and analytics.

Set out below is the interface of Youzan WeiMall:



INFORMATION OF YOUZAN GROUP

Youzan Group also operates other ancillary and specialised e-commerce platforms including but not limited to Micro Stores (微店), Youzan Wholesale (有赞批发) and Youzan Cashier (有赞收银):

(a) Micro Stores

Micro Stores is a smart phone application enabling individuals to open an online micro store. It can be considered a simplified version of Youzan WeiMall but more handy and easier to use. Merchants at Micro Stores do not have their own products, but instead they conduct marketing activities to promote products via WeChat, Microblog, QQ or mobile phone SMS. After a consumer places an order at a micro store, the system will automatically direct the supplier of the Micro Stores merchants to ship the product to the consumer. The Micro Stores merchants will profit from the price difference between the sales price and the cost paid to their suppliers. Set out below is the interface of Micro Stores:



INFORMATION OF YOUZAN GROUP

(b) Youzan Wholesale

Youzan Wholesale is a tablet/smart phone application designed specifically for (i) merchants who have physical offline wholesale stores at a wholesale market and want to do wholesale business online and (ii) consumers who would like to purchase a large quantity of products from wholesalers at one time. Currently the Target Group has cooperated with Zhengzhou wholesale market to launch online wholesale stores for wholesalers. Set out below is the interface of Youzan Wholesale:



INFORMATION OF YOUZAN GROUP

(c) Youzan Cashier

Youzan Cashier is a tablet/smart phone application designed specifically for merchants operating offline stores. With Youzan Cashier, offline merchants can receive payments from consumers using WeChat wallet or Alipay and such payments will be transferred directly to the WeChat wallet or Alipay account of the merchant. After merchants receive payments, Youzan Cashier will automatically document the payment details and generate an online payment record for the purpose of settlement. Set out below is the interface of Youzan Cashier:

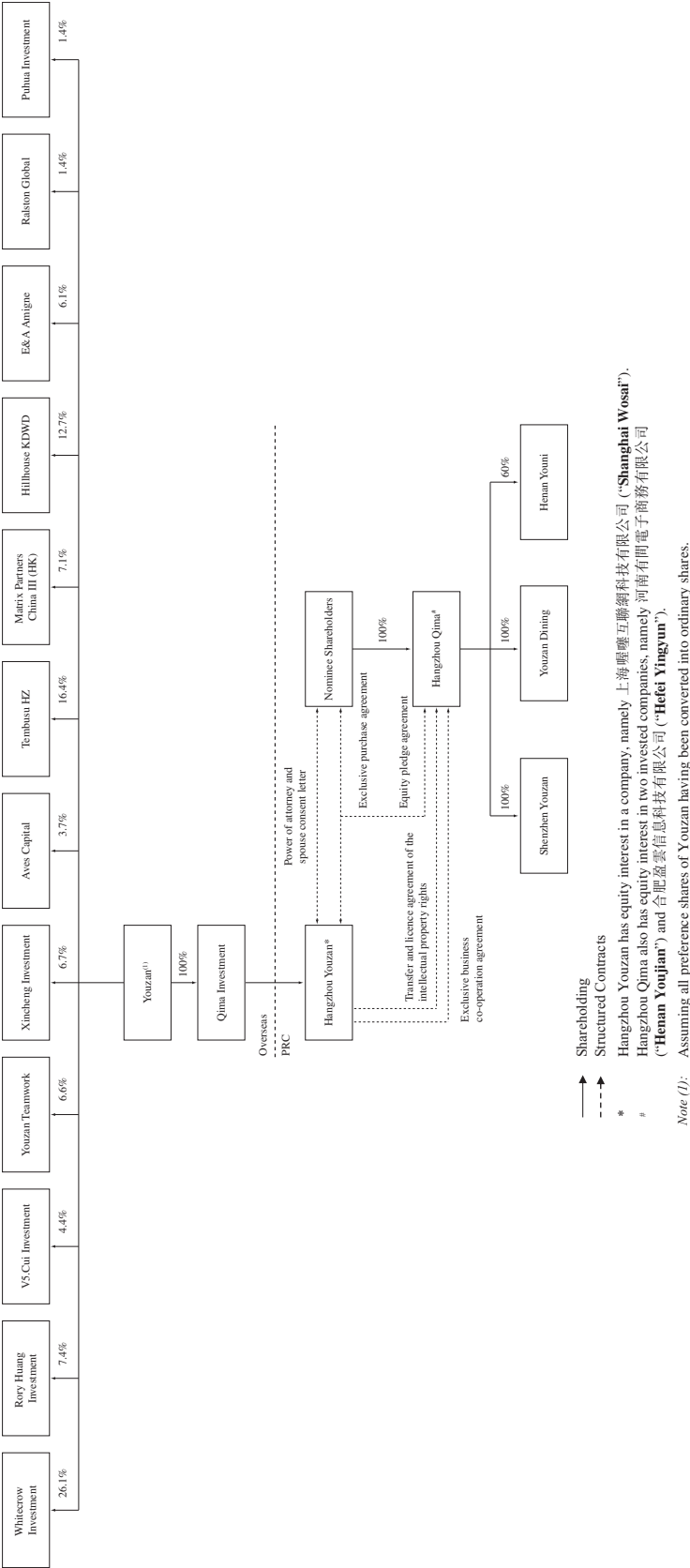


(d) Other Specialised E-Commerce Applications

Facilitation of transactions between merchants and consumers is the core competence of Youzan Group. It frequently launches new specialized E-Commerce Applications on its E-Commerce platform to cater for specific transaction scenarios such as B2B2C or hire purchase transactions. B2B2C transactions refer to those transactions under which one merchant purchases goods or services from another merchant and then sell the same to a consumer on an indirect basis while hire purchase transactions refer to the purchase of goods or services by consumers from a merchant which are financed by a financial institution.

V. SHAREHOLDING STRUCTURE OF YOUZAN GROUP

Set out below is the Shareholding Structure of Youzan Group before Reorganisation:



INFORMATION OF YOUZAN GROUP

(i) Youzan

Youzan was incorporated under the laws of the Cayman Islands on 11 August 2014. Youzan is an investment holding company which holds the entire issued share capital of Qima Investment Limited (“**Qima Investment**”), which in turn holds the entire equity interest of 杭州有贊科技有限公司 (“**Hangzhou Youzan**”), which through a series of Structured Contracts, has effective control over 杭州起碼科技有限公司 (“**Hangzhou Qima**”) and enjoys the economic interests and benefits of Hangzhou Qima. Hangzhou Qima held 100% equity interest of 深圳有贊信息技術有限公司 (“**Shenzhen Youzan**”), 100% equity interest of 杭州有贊餐飲管理有限公司 (“**Youzan Dining**”) and 60% equity interest in 河南有你互聯網信息服務有限公司 (“**Henan Youni**”) before Reorganisation. Please refer to the paragraph headed “Reorganisation” set out below for details of the shareholding structure of Youzan after the Reorganisation.

(ii) Qima Investment

Qima Investment was incorporated under the laws of Hong Kong on 15 August 2014 and is wholly owned by Youzan. Qima Investment is an investment holding company which holds the entire equity interest of Hangzhou Youzan.

(iii) Hangzhou Youzan

Hangzhou Youzan was incorporated under the laws of the People’s Republic of China (the “**PRC**”) on 23 September 2014 and is wholly owned by Qima Investment. Hangzhou Youzan is an investment holding company, which through the Structured Contracts, has effective control over Hangzhou Qima and enjoys the economic interests and benefits of Hangzhou Qima. Hangzhou Youzan also provides administrative supports and handles the employment matters for Youzan Group.

(iv) Hangzhou Qima

Hangzhou Qima was incorporated under the laws of the PRC on 18 January 2013 and is effectively controlled by Hangzhou Youzan through the Structured Contracts. Hangzhou Qima currently is owned as to 54.41% by Mr. Zhu Ning, 20% by Matrix Chuangda (Hangzhou) Venture Investment Partnership (Limited Partnership), 15.76% by Mr. Huang Rongrong, 7.61% by Mr. Li Zhiguo and 2.22% by Mr. Cui Yusong respectively (collectively, the “**Nominee Shareholders**”).

Mr. Zhu Ning, Mr. Huang Rongrong, Mr. Li Zhiguo and Mr. Cui Yusong are PRC citizens. Matrix Chuangda (Hangzhou) Venture Investment Partnership (Limited Partnership) is a limited partnership legally established and existed under the laws of PRC.

INFORMATION OF YOUZAN GROUP

Hangzhou Qima is principally engaged in the design, sale and operation of the software products for retail merchants in the PRC. Its software products provide comprehensive solutions and services for retail merchants, including online stores opening, clients' data management and marketing and promotion features.

(v) Shenzhen Youzan

Shenzhen Youzan was incorporated under the laws of the PRC on 11 January 2016 and was wholly owned by Hangzhou Qima before Reorganisation. Shenzhen Youzan mainly serves as the research and development center of Youzan Group.

(vi) Youzan Dining

Youzan Dining is incorporated under the laws of the PRC on 20 September 2016 and was wholly owned by Hangzhou Qima before Reorganisation. Youzan Dining is principally engaged in the provision of services and retailing in relation to restaurants, exhibitions, clothes, food and electronic products in the PRC.

(vii) Henan Youni

Henan Youni is incorporated under the laws of the PRC on 17 June 2015. Its 60% equity interest was owned by Hangzhou Qima, 20% equity interest is owned by Mr. Zhu Ning and the remaining 20% equity interest is owned by an individual investor before Reorganisation. Henan Youni is principally engaged in the development, sale and operation of software products for wholesale merchants in the PRC. Its software products are specially designed for local apparel wholesale merchants to manage their procurement.

(viii) Henan Youjian

Henan Youjian was incorporated under the laws of the PRC on 25 March 2015. Hangzhou Qima was the holder of 25% equity interest of Henan Youjian and the remaining 75% equity interest of Henan Youjian is held by Independent Third Parties of Hangzhou Qima before Reorganisation. Henan Youjian is principally engaged in sales and sourcing of import and export products, provision of mobile sales platforms, management of e-channel distributions and provision of services in relation to the same.

(ix) Hefei Yingyun

Hefei Yingyun was incorporated under the laws of the PRC on 26 March 2014. Hangzhou Qima was the holder of 9% equity interest of Hefei Yingyun and the remaining 91% equity interest of Hefei Yingyun is held by Independent Third Parties of Hangzhou Qima before Reorganisation. Hefei Yingyun is principally engaged in provision of consultation and software services for small- and medium-sized enterprises and sole proprietors in major business and trade sectors in the PRC.

INFORMATION OF YOUZAN GROUP

(x) Shanghai Wosai

Shanghai Wosai was incorporated under the laws of the PRC on 14 June 2013. Hangzhou Youzan is the holder of 0.9709% equity interest of Shanghai Wosai and the remaining 99.0291% equity interest of Shanghai Wosai is held by the Independent Third Parties of Hangzhou Youzan. Shanghai Wosai is principally engaged in provision of mobile cashier product and developing relevant operations.

Reorganisation

In order to comply with the draft Foreign Investment Laws published by the Ministry of Commerce in the PRC in January 2015, Youzan Group shall undergo internal reorganisation and terminate the Structured Contracts. After the Reorganisation, Hangzhou Qima, which is currently accounted for as a subsidiary of Youzan Group by virtue of the Structured Contracts, will be excluded from Youzan Group.

As at the Latest Practicable Date, Hangzhou Qima owns software or application library for the operation of, including but not limited to Youzan WeiMall (有贊微商城), Youzan Micro Store (有贊微小店), Youzan Wholesaler (有贊批發) and Youzan Cashier (有贊收銀) and offering of products and services thereunder (“**E-commerce Applications**”).

At the same time, Hangzhou Qima also owns and operates the website “youzan.com”, which serves as a platform to promote the E-commerce Applications to the public (“**Website Services**”). In view of the possible future expansion of the scope of the Website Services, Hangzhou Qima has applied for and currently holds the internet content provider (“**ICP**”) license.

Pursuant to the Reorganisation, the existing arrangement of the Structured Contracts shall be terminated. Hangzhou Qima shall transfer all of its business operation and relevant assets, including but not limited to software patents, copyrights and trademarks, in relation to the E-commerce Applications to Hangzhou Youzan (“**E-commerce Applications Transfer**”). After the E-commerce Applications Transfer, Hangzhou Youzan shall own and operate all the E-commerce Applications related business. Hangzhou Youzan shall be entitled to all revenue derived from operating the business in relation to the E-commerce Applications. On the other hand, Hangzhou Qima shall only be responsible for the operation of the Website Services.

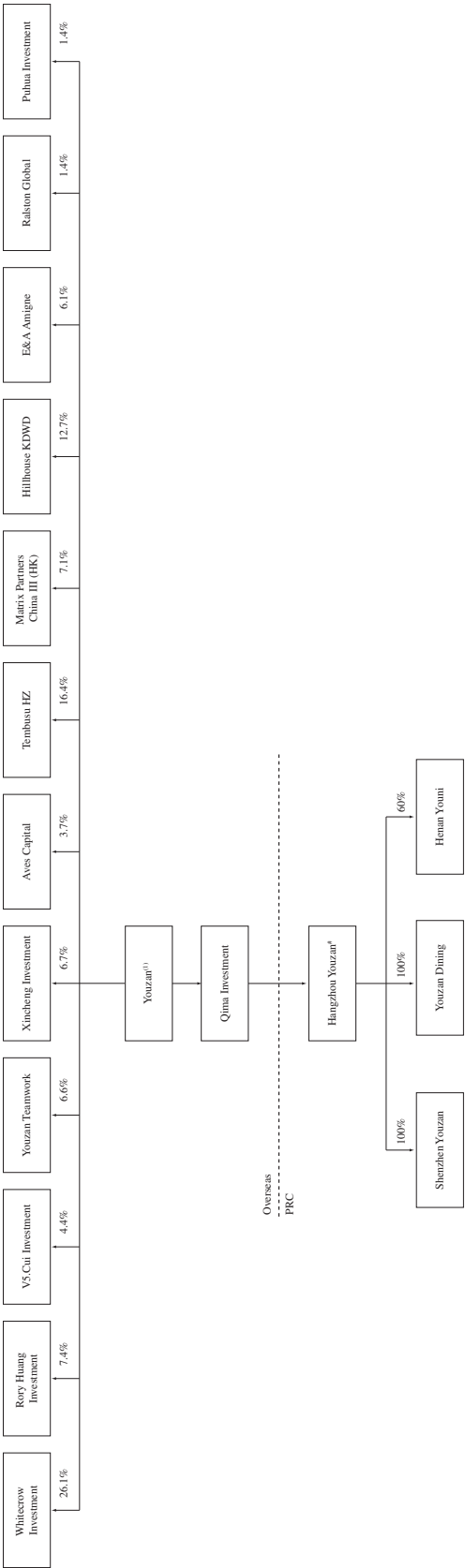
Hangzhou Qima shall also transfer its entire equity interest in each of its subsidiaries, namely, Shenzhen Youzan, Youzan Dining and Henan Youni, and its equity interest in two companies in which it has invested in to Hangzhou Youzan.

Hangzhou Qima and Hangzhou Youzan shall also enter into a service agreement in relation to the provision of Website Services by Hangzhou Qima to Hangzhou Youzan (“**Website Services Agreement**”). Pursuant to the Website Services Agreement, Hangzhou Qima shall continue to promote the E-commerce Applications on “youzan.com” in return for an annual fee paid by Hangzhou Youzan to Hangzhou Qima (“**Website Services Fees**”). The Website Services Agreement was signed on 7 October 2017.

INFORMATION OF YOUZAN GROUP

Effect on Shareholding structure

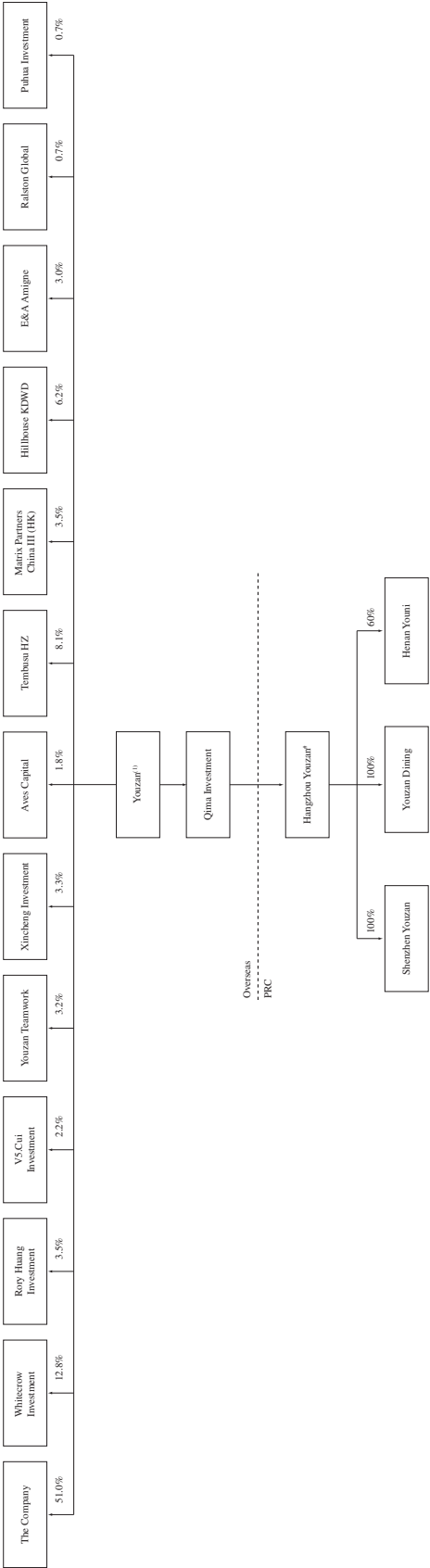
Set out below is the shareholding structure of Youzan Group after the Reorganisation and before Completion:



[#] Hangzhou Youzan holds the equity interest in three invested companies, namely Henan Youjian, Hefei Yingyun and Shanghai Wosai.

Note (1): Assuming all preference shares of Youzan having been converted into ordinary shares.

Set out below is the shareholding structure of Youzan Group after Completion:



Financial impact

Before the Reorganisation, Hangzhou Youzan entered into a series of Structured Contracts with Hangzhou Qima and/or the Nominee Shareholders to enable the financial results and the economic benefits of Hangzhou Qima to flow into Hangzhou Youzan.

After the Reorganisation, it is expected that the revenue previously derived from the products and services provided by Hangzhou Qima shall be derived from Hangzhou Youzan directly, while Hangzhou Qima would only continue to operate the Website Services related business and in turn receive the Website Services Fees from Hangzhou Youzan under the Website Services Agreement.

INFORMATION OF YOUZAN GROUP

Internal control measures

It would be detrimental to the operation of Hangzhou Youzan if Hangzhou Youzan is not able to receive the Website Services from Hangzhou Qima. Without an ICP license, Hangzhou Youzan may not be able to operate the business within the scope of the Website Services, which is required for the promotion of the E-commerce Applications.

The Company has discussed with one PRC company with ICP license, which is willing to provide similar services as the Website Services to Hangzhou Youzan under similar terms as the Website Services Agreement, e.g. scope of services and the Website Services fees. In addition, Hangzhou Qima has undertaken, in case of the termination of the Website Services, it shall use its best endeavours to assist Hangzhou Youzan in the transfer of ownership and operation of “youzan.com” to be hosted by a third party ICP designated by Hangzhou Youzan. Therefore, the Directors believe that the operation of Hangzhou Youzan would not be materially affected if Hangzhou Qima is not able to provide the Website Services to Hangzhou Youzan in future.

As confirmed by the PRC legal advisers of the Company, the protocol control under the draft Foreign Investment Laws refers to the controlling of domestic enterprises in the PRC by foreign investment enterprises through the entering into of a series of contractual arrangements.

According to the Reorganisation, Hangzhou Qima shall transfer the following business operations and assets to Hangzhou Youzan:

1. business operation and relevant assets required for the operation of the E-commerce Applications related business;
2. software patents, copyrights and trademarks required for the operation of the E-commerce Applications related business; and
3. the entire equity interest in each of its subsidiaries, namely, Shenzhen Youzan, Youzan Dining and Henan Youni, and its equity interest in two companies in which it has invested in.

Hangzhou Qima and Hangzhou Youzan shall also enter into the Website Services Agreement pursuant to which Hangzhou Qima shall continue to promote the E-commerce Applications on “youzan.com” in return for the Website Services Fees. The Website Services Agreement was signed on 7 October 2017.

INFORMATION OF YOUZAN GROUP

Considering the above, the PRC legal advisers of the Company are of the view that, as, after completion of the Reorganisation, Hangzhou Youzan will conduct the E-commerce Applications related business on its own while Hangzhou Qima will only be involved in the provision of the Website Services to Hangzhou Youzan, Hangzhou Youzan will not obtain control of Hangzhou Qima as the control of Hangzhou Qima will be vested in the board of directors and shareholders of Hangzhou Qima. At the same time, E-commerce Applications related business is not categorised as a value-added telecommunications service in the Catalogue of Telecommunications Business, thus foreign investments in E-commerce Applications related business is not prohibited or restricted under the relevant PRC laws. Therefore, the Reorganisation shall lead to compliance with the draft Foreign Investment Laws.

The PRC legal adviser of the Company has confirmed that the Reorganisation and the above arrangement regarding Website Services are in compliance with the relevant PRC laws and regulations.

MANAGEMENT DISCUSSION AND ANALYSIS OF YOUZAN GROUP

Set out below is the discussion and analysis of Youzan Group's results of operation for each of the three years ended 31 December 2014, 2015 and 2016 and the ten months ended 31 October 2017 (the "**Track Record Periods**"). The information set out below is principally extracted from the accountants' report of Youzan Group for the three years ended 31 December 2014, 2015 and 2016 and the ten months ended 31 October 2017 respectively, in order to provide further information relating to the financial condition and results of operations of the Group during the periods stated.

Financial Review

Revenue

For the years ended 31 December 2014, 2015 and 2016, Youzan Group recorded revenue of approximately RMB397,000, RMB9.8 million and RMB98.3 million, respectively. Revenue of approximately RMB9.8 million for the year ended 31 December 2015 represented an increase of approximately 2,368.5% from revenue of approximately RMB397,000 for the year ended 31 December 2014 while revenue of approximately RMB98.3 million recorded for the year ended 31 December 2016 represented an increase of approximately 903.1% from revenue of approximately RMB9.8 million for the year ended 31 December 2015. Such significant increase in revenue for the year ended 31 December 2015 and 2016 was mainly attributable to the commencement of charging of transaction fees since around November 2015 and licence fees for subscribing the E-commerce Applications since around May 2016.

INFORMATION OF YOUZAN GROUP

For the ten months ended 31 October 2016 and 2017, Youzan Group recorded revenue of approximately RMB71.9 million and RMB213.9 million respectively. Revenue of approximately RMB213.9 million for the ten months ended 31 October 2017 represented an increase of approximately 197.5% from revenue of approximately RMB71.9 million for the ten months ended 31 October 2016. Such significant increase in revenue for the ten months ended 31 October 2017 was mainly attributable to the increase in license fees for subscribing the E-commerce Applications since around May 2016.

Cost of sales

For the years ended 31 December 2014, 2015 and 2016, the cost of sales amounted to approximately RMB1.6 million, RMB18.4 million and RMB51.5 million respectively. Prior to November 2015, the cost of sales mainly comprised bandwidth and hardware cost and other cost of services provided. To match the transaction fees earned since around November 2015, cost of sales also included charges from third party payment vendors. The significant increase in cost of sales for the year ended 31 December 2015 over 2014 was mainly due to significant increase in (i) the cost of charges from third party payment vendors recognized; and (ii) the bandwidth and hardware and other cost of services provided to support the growth of data volume processed. The cost of sales of approximately RMB51.5 million in 2016 represented an increase of 179.9% from the amount of approximately RMB18.4 million in 2015. The significant increase in cost of sales was mainly due to the increase of charges from third party payment vendors, which was recognized to match the transaction fee revenue earned throughout the year ended 31 December 2016 while the same cost was only recognized in November and December of the year ended 31 December 2015.

For the ten months ended 31 October 2016 and 2017, the cost of sales amounted to approximately RMB43.6 million and RMB62.4 million respectively. The significant increase in cost of sales was mainly due to the increase of charges from third party payment vendors which was in line with the significant increase in revenue for the ten months ended 31 October 2017.

Gross (loss)/profit

For the years ended 31 December 2014, 2015 and 2016, the gross (loss)/profit amounted to approximately RMB(1.2) million, RMB(8.7) million and RMB46.8 million respectively. The gross loss position was because Youzan Group's business operation was still in its infancy stage in 2014 and in the early part of 2015, no significant revenue from its principal products and services was generated until November 2015 to cover cost of sales. For the year ended 31 December 2016, the recorded gross profit amounted to approximately RMB46.8 million. Since Youzan Group was able to charge (i) transaction fee for the year ended 31 December 2016; and (ii) licence fees and premium functions income during major part of the period for the year ended 31 December 2016, it was able to turn the gross loss position into a gross profit position.

INFORMATION OF YOUZAN GROUP

For the ten months ended 31 October 2016 and 2017, the gross profit amounted to approximately RMB28.3 million and RMB151.5 million respectively. The significant increase in gross profit position was because of a significant increase in revenue for the ten months ended 31 October 2017 attributable to the increase in licence fees for subscribing the E-commerce Applications since around May 2016.

Other income and gains

For the years ended 31 December 2014, 2015 and 2016, Youzan Group recorded other income and gains of approximately RMB378,000, RMB3.4 million and RMB5.2 million, respectively. Other income and gains of approximately RMB3.4 million for the year ended 31 December 2015 represented an increase of 799.5% from other income and gains of approximately RMB378,000 for the year ended 31 December 2014, which was mainly attributable to an exchange gain. Other income and gains of approximately RMB5.2 million recorded for the year ended 31 December 2016 represented an increase of 52.9% from other income and gains of approximately RMB3.4 million for the year ended 31 December 2015, which was mainly attributable to an increase in bank interest income and rental income.

For the ten months ended 31 October 2016 and 2017, Youzan Group recorded other income and gains of approximately RMB3.6 million and RMB5.0 million respectively. The increase in other income and gains from RMB3.6 million to RMB5.0 million was due to a significant increase in bank interest income, which is then partly offset by a drop in government grants, gains on disposal of items of property, plant and equipment, rental income and exchange gain.

Selling and distribution expenses

For the years ended 31 December 2014, 2015 and 2016, the selling and distribution expenses amounted to approximately RMB25.3 million, RMB92.4 million and RMB29.6 million respectively. Selling and distribution expenses mainly include advertising and promotion expense, relevant employee benefit expense (the “**sales and marketing payroll and welfare expenses**”), sales commission for product promotion and charges from third party payment channels until October 2015. The significant increase in selling and distribution expenses for the year ended 31 December 2015 over 2014 was mainly due to significant increase in (i) major advertising and promotion events conducted and (ii) charges from third party payment channels during the free use period until October 2015. The significant decrease in selling and distribution expenses for the year ended 31 December 2016 over 2015 was mainly due to the net effect of (i) most of the charges from third party payment channels being recognized as cost of sales in 2016 while the same cost was only recognized as selling and distribution expenses in most of the period in 2015; (ii) no major advertising and promotion event being conducted in 2016; and (iii) significant increase in the sales and marketing payroll and welfare expenses.

INFORMATION OF YOUZAN GROUP

For the ten months ended 31 October 2016 and 2017, the selling and distribution expenses amounted to approximately RMB19.7 million and RMB75.4 million respectively. The significant increase in selling and distribution expenses for the ten months ended 31 October 2017 over 2016 was mainly due to increase in sales and marketing payroll and welfare expenses and sales commission for product promotion.

Administrative expenses

Administrative expenses mainly include (a) relevant employee benefit expense (including directors' and chief executive's remuneration) (the “**administrative payroll and welfare expenses**”) and (b) office rental. Administrative expenses of Youzan Group amounted to approximately RMB20.1 million, RMB87.4 million and RMB176.7 million for the years ended 31 December 2014, 2015 and 2016, respectively. The growth of administrative expenses was mainly attributable to the increasing trend of administrative payroll and welfare expense during the Track Record Periods.

Administrative expenses of Youzan Group amounted to approximately RMB142.0 million and RMB194.0 million for the ten months ended 31 October 2016 and 2017, respectively. The increase of administrative expenses was mainly attributable to increase in administrative payroll and welfare expenses.

Change in fair value of contingently redeemable convertible preference shares

During the Track Record Periods, Youzan Group issued series of contingently redeemable convertible preference shares. For details of those contingently redeemable convertible preference shares, please refer to the note 21 of Accountants' Report of Youzan Group set out in the Appendix II of this circular. Change in fair value of contingently redeemable convertible preference shares amounted to approximately RMB171.2 million, RMB521.7 million and RMB954.4 million for the years ended 31 December 2014, 2015 and 2016, respectively. Also, change in fair value of contingently redeemable convertible preference shares amounted to approximately RMB932.7 million and RMB118.8 million for the ten months ended 31 October 2016 and 2017 respectively. It is one of the conditions precedent of the Sellers having approved to amend the articles of association of Youzan in relation to the arrangement of preference shares of Youzan and to convert all contingently redeemable convertible preference shares of Youzan into ordinary shares. Upon Completion, it is expected that all contingently redeemable convertible preference shares shall be converted into ordinary shares of Youzan.

Loss before tax

Loss before tax amounted to approximately RMB217.7 million, RMB707.3 million and RMB1,110.0 million for the years ended 31 December 2014, 2015 and 2016, respectively, which was mainly attributable to the change in fair value of contingently redeemable convertible preference shares.

INFORMATION OF YOUZAN GROUP

Loss before tax amounted to approximately RMB1,063.1 million and RMB232.4 million for the ten months ended 31 October 2016 and 2017 respectively, which was mainly attributable to the change in fair value of contingently redeemable convertible preference shares and the increase in selling and distribution expenses and administrative expenses.

Loss for year/period

As there was no income tax expense during the Track Record Periods, the loss before tax of Youzan Group was the same as the loss for the year/period during the Track Record Periods.

Borrowing, Financing and Gearing Ratio

Youzan Group did not obtain any borrowings as at 31 December 2014, 2015 and 2016 and 31 October 2017, respectively.

Financial Position

As at 31 October 2017, the current assets and current liabilities of Youzan Group were approximately RMB862.7 million and approximately RMB1,046.9 million, respectively. The current assets of Youzan Group as at 31 October 2017 is comprised of inventories, receivables due from third-party payment vendors, prepayments, deposits and other receivables and cash and cash equivalents. Increase in the current assets of Youzan Group as at 31 October 2017 compared with that of 31 December 2016 was mainly attributable to an increase in cash and cash equivalents and due from third-party payment vendors. The current liabilities of Youzan Group as at 31 October 2017 is comprised of payables to merchants, deferred revenue and other payables and accruals. Increase in the current liabilities of Youzan Group as at 31 October 2017 compared with that of 31 December 2016 was mainly attributable to an increase in payables to merchants. The current ratio, which is calculated based on total current assets divided by total current liabilities, was approximately 0.82 as at 31 October 2017. As set out in the note 2.1 of Appendix II of the Circular, Youzan Group has combined net current liabilities of approximately RMB184.2 million as at 31 October 2017. The current portion of deferred revenue of RMB123.8 million, which represents the non-refundable advances received, is mainly license charges to merchants and would not result in cash outflow subsequently. Excluding the impact of the deferred revenue, the Target Group had adjusted combined net current liabilities of RMB60.5 million as at 31 October 2017.

INFORMATION OF YOUZAN GROUP

As at 31 December 2016, the current assets and current liabilities of Youzan Group were approximately RMB507.5 million and approximately RMB582.7 million, respectively. The current assets of Youzan Group as at 31 December 2016 is comprised of receivables due from third-party payment vendors, prepayments, deposits and other receivables and cash and cash equivalents. Increase in the current assets of Youzan Group as at 31 December 2016 compared with that of 31 December 2015 was attributable to an increase in cash and cash equivalents and slightly offset by the decrease in amount due from third-party payment vendors. The current liabilities of Youzan Group as at 31 December 2016 comprised of payables to merchants, deferred revenue and other payables and accruals. Increase in the current liabilities of Youzan Group as at 31 December 2016 compared with that of 31 December 2015 was mainly attributable to an increase in payables to merchants. The current ratio, which is calculated based on total current assets divided by total current liabilities, was approximately 0.87 as at 31 December 2016.

As at 31 December 2015, the current assets and current liabilities of Youzan Group were approximately RMB314.3 million and approximately RMB274.9 million respectively. The current assets of Youzan Group as at 31 December 2015 is comprised of receivables due from third-party payment vendors, prepayments, deposits and other receivables and cash and cash equivalents. Increase in the current assets of Youzan Group as at 31 December 2015 compared with that of 31 December 2014 was mainly attributable to an increase in amount due from third-party payment vendors, deposits and other receivables and cash and cash equivalents. The current liabilities of Youzan Group as at 31 December 2015 is comprised of payables to merchants, deferred revenue and other payables and accruals. Increase in the current liabilities of Youzan Group as at 31 December 2015 compared with that of 31 December 2014 was mainly attributable to increase in payables to merchants and trading deposit from merchants within other payables and accruals. The current ratio, which is calculated based on total current assets divided by total current liabilities, was approximately 1.14 as at 31 December 2015.

As at 31 December 2014, the current assets and current liabilities of Youzan Group were approximately RMB84.1 million and approximately RMB17.7 million respectively. The current assets of Youzan Group as at 31 December 2014 is comprised of receivables due from third-party payment vendors, prepayments, deposits and other receivables and cash and cash equivalents. Increase in the current assets of Youzan Group as at 31 December 2014 compared with that of 31 December 2013 was mainly attributable to an increase in cash and cash equivalents. The current liabilities of Youzan Group as at 31 December 2014 is comprised of payables to merchants, other payables, and accruals. Increase in the current liabilities of Youzan Group as at 31 December 2014 compared with that of 31 December 2013 was mainly attributable to an increase in payables to merchants and accrued payroll within other payables and accruals. The current ratio, which is calculated based on total current assets divided by total current liabilities, was approximately 4.75 as at 31 December 2014.

INFORMATION OF YOUZAN GROUP

Charges on Assets

Youzan Group had no asset charges for the ten months ended 31 October 2017 and the three years ended 31 December 2016.

Contingent Liability

Youzan Group had no significant contingent liabilities for the ten months ended 31 October 2017 and the three years ended 31 December 2016.

Capital Commitments

Youzan Group had no significant capital commitments for the ten months ended 31 October 2017 and the three years ended 31 December 2016.

Foreign Exchange Risk

Youzan Group was exposed to currency risk which mainly arises from bank and cash balances, denominated in USD, derived from financing activity. Cash and bank balances of Youzan Group denominated in US Dollar (“USD”) amounted to approximately RMB61.9 million, approximately RMB37.7 million, approximately RMB0.6 million and approximately RMB0.2 million, as of 31 December 2014, 2015, 2016 and 31 October 2017 respectively.

Significant investments held, their performance and their future prospects

There were no material financial investments held by Youzan Group for the ten months ended 31 October 2017 and the three years ended 31 December 2016.

Material acquisitions and disposals of subsidiaries

There were no material acquisitions and disposals of subsidiaries by Youzan Group for the ten months ended 31 October 2017 and the three years ended 31 December 2016.

INFORMATION OF YOUZAN GROUP

Remuneration and remuneration policies of the directors and employees of Youzan

Youzan Group had an average of 63, 200, 420 and 752 employees for the three years ended 31 December 2014, 2015 and 2016 and ten months ended 31 October 2017, respectively. There is an examination system measuring employees' performance and bonus will be offered to employees according to the result of the examination for each year end.

The total staff costs of Youzan Group were approximately RMB12.2 million, approximately RMB69.9 million, approximately RMB166.7 million and RMB193.5 million for the three years ended 31 December 2014, 2015 and 2016 and ten months ended 31 October 2017, respectively.

Litigation

As at the Latest Practicable Date, neither Youzan nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the directors of Youzan to be pending or threatened by or against Youzan or any of its subsidiaries.

Material Change

The directors of Youzan confirm that, after performing all the due diligence work which they considered appropriate, there had been no material change in the financial or trading position or outlook of Youzan Group since 31 October 2017, being the date to which the latest audited combined financial statements of Youzan Group were made up as presented in the accountants' report of Youzan Group in appendix II to this circular, and up to and including the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in the Circular.



2 January 2018

To: *The Independent Board Committee and the Independent Shareholders*

Dear Sir/Madam,

**(1) MAJOR TRANSACTION – ACQUISITION OF
51% EQUITY INTEREST IN YOUZAN;
(2) APPLICATION FOR WHITEWASH WAIVER; AND
(3) CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the Acquisition (including but not limited to the grant of the Specific Mandate for the allotment and issue of the Consideration Shares); (ii) the Whitewash Waiver; (iii) the Third Party Payment Services Framework Agreement and the transactions contemplated thereunder; (iv) the proposed annual caps in respect of the transactions contemplated under the Third Party Payment Services Framework Agreement; (v) the Loan Agreement and the transactions contemplated thereunder; and (vi) the proposed annual caps in respect of the transactions contemplated under the Loan Agreement, details of which are set out in the letter from the board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 2 January 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

References are made to the announcements of the Company dated 18 July 2016, 21 February 2017, 28 March 2017, 8 April 2017 and 29 November 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 17 March 2017, the Company entered into the Sale and Purchase Agreement with the Sellers, pursuant to which, the Company conditionally agreed to purchase and the Sellers conditionally agreed to sell the Sale Shares, representing 51% of the issued share capital of Youzan as at the Latest Practicable Date (assuming all preference shares of Youzan having been converted to ordinary shares) at the Consideration of HK\$2,096,100,000 in accordance with the terms of the Sale and Purchase Agreement. The Consideration shall be satisfied by the Company by way of allotment and issue of 5,516,052,632 Consideration Shares to the Sellers in proportion to their shareholding in Youzan at the issue price of HK\$0.38 per Consideration Share. The Consideration Shares will be allotted and issued under the Specific Mandate to be sought at the SGM.

Immediately after Completion and assuming there are no other changes to the issued share capital of the Company (apart from SM Placing as mentioned in the Letter from the Board) from the Latest Practicable Date to the Completion, the shareholding of the Sellers (together with parties acting in concert with them) in the Company will be increased from nil to approximately 42.57% of the issued Shares as enlarged by the allotment and issuance of the Consideration Shares and the maximum number of the SM Placing Shares. Such an increase will give rise to an obligation under Rule 26 of the Takeovers Code for the Sellers to make a mandatory general offer for all the Shares and other securities issued by the Company not already held or agreed to be acquired by the Sellers (together with parties acting in concert with them) unless the Whitewash Waiver is obtained.

A formal application has been made by the Sellers to the Executive for the Whitewash Waiver pursuant to Note 1 to the Notes on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver if granted by the Executive, would be subject to, among other things, the approval of the Shareholders at the SGM by way of poll. The granting of the Whitewash Waiver is a condition precedent to Completion and cannot be waived. If the Whitewash Waiver is not granted by the Executive or if the conditions (if any) imposed thereon are not fulfilled, the Acquisition will not proceed.

Reference is also made to the CCTs Announcements in which it was mentioned that the Continuing Connected Transactions and their proposed Annual Caps are subject to Independent Shareholders' approval pursuant to the requirements under Chapter 20 of the GEM Listing Rules.

The Company has established the Independent Board Committee comprising Dr. Fong Chi Wah, Mr. Xu Yanqing and Mr. Gu Jiawang, each an independent non-executive Directors to advise the Independent Shareholders in relation to the Acquisition (including but not limited to the grant of the Specific Mandate for the allotment and issue of the Consideration Shares), the Whitewash Waiver, the Third Party Payment Services Framework Agreement and the Loan Agreement and the proposed annual caps thereto, and to make recommendation to the Independent Shareholders on their voting on the proposed resolutions. We, SPDB International Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have not acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company for any transaction.

Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 17.96 of the GEM Listing Rules and the Takeovers Code respectively.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among other things, the Sale and Purchase Agreement, the annual reports of the Company for the two years ended 31 December 2016 (the “**2016 Annual Report**”) and 2015 (the “**2015 Annual Report**”), the third quarterly report of the Company for the nine months ended 30 September 2017 (the “**2017 Third Quarterly Report**”), the accountants’ reports of the Youzan Group for the three years ended 31 December 2016 and ten months ended 31 October 2017, valuation report on 100% equity interest in Youzan as of 31 October 2017 prepared by Hong Kong Appraisal Advisory Limited (the “**Valuation Report**”), the unaudited pro forma financial information of the Enlarged Group, the 2016 GMV of Youzan Group as included in the Circular, the announcement dated 28 March 2017 in relation to the Acquisition and the application of Whitewash Waiver and CCTs Announcements in relation to, among others, the Continuing Connected Transactions and the information as set out in the Circular. We have also discussed with the management of the Group and the Youzan Group regarding the business and future prospects of the Enlarged Group.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Company, the Directors, the management of the Company, the management of the Youzan Group and the Sellers. We have assumed that all statements, information and representations provided by the Company, the Directors, the management of the Company, the management of the Youzan Group and the Sellers, for which they are solely responsible, are true and accurate. We will notify the Independent Shareholders of any material changes of such statements, information and representations provided by the Company, the Directors, and the management of the Company, the management of the Youzan Group and the Sellers as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement contained in the Circular, including this letter, incorrect or misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group, or their respective subsidiaries or associates. We have not considered the taxation implication on the Group or the Shareholders as a result of the Sale and Purchase Agreement and the transactions contemplated thereunder. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independence Board Committee and the Independent Shareholders, we have taken into account the principal factors and reasons set out below:

1. Information of the Group

(a) Business of the Group

The Group consists of the Company, Shenzhen Innovationpay Co., Limited and its subsidiaries, Country Praise Enterprises Limited and its subsidiaries. The Company is an investment holding company. Its subsidiaries are principally engaged in three segments, namely (i) third party payment services and related business (the “**Third Party Payment Services**”); (ii) Onecomm-provision of third party payment system solution and sales of integrated smart point of sales devices (the “**Onecomm**”); and (iii) general trading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the 2016 Annual Report, with the payment licenses and permissions obtained by the Group and the businesses explored through years, the Group has developed four business sectors based on its core payment system, including:

1. Prepaid Card Service

Virtual prepaid card service is the main contributor to the business sector about volume of business. This sector's service products are co-operated by the Group's subsidiaries. Through the joint confirmed cooperation with the Group's distributors, the prepaid card operating platform establishes an online and offline payment service by a virtual prepaid card product to support the needs under various payment handling conditions, help the Group's distributors to develop and operate their own customers.

2. Internet Payment Service

The business sector of internet payment service is a major profit contributor in 2016. This sector's service provides a speedy B2C and B2B mobile payment gateway service to the Group's clients. All China popular payment paths, such as WeChat, AliPay and China Unionpay, have been built into the Group's payment gateway where the end user is not aware of using the Group's internet payment service. After its first launch in 2016, this service has contributed to the Group for over RMB22 billion of transaction volume.

3. Integrated Payment Service

The business sector of integrated Payment service can provide merchants with all-round membership management, full-channel, self-marketing services. At the end of December 2016, monthly transaction volume in this sector achieved approximate RMB420 million.

4. Cross-border Renminbi Payment Service

The business sector of cross-border Renminbi payment provides the Group's clients, from international trading, e-trading, tourism, to study abroad consultancy companies, with payment services for their businesses of cross-border trading in goods/services. Compared to the traditional bank, the Group is able to provide safe accounts with simpler procedure and shorter settlement cycle. By the end of 2016, the transaction volume from this business sector has reached RMB267.6 million. However, this business sector is very sensitive to the policy change which may involve policy risk caused by foreign exchange control in PRC and other risks related to terrorist financing and money laundering.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Financial results of the Group

The table below sets out the key financial information of the Group for the two years ended 31 December 2016 as extracted from the 2016 Annual Report and the nine months ended 30 September 2017 as extracted from the 2017 Third Quarterly Report:

	For the nine months ended 30 September		For the year ended 31 December	
	2017	2016	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	136,511	33,048	80,182	97,068
Gross profit	26,642	17,235	23,955	25,600
Loss for the period/year	(51,309)	(75,363)	(228,897)	(160,571)

	As at 31 December	
	2016	2015
	HK\$'000	HK\$'000
	(audited)	(audited)
Bank balances and cash	185,422	236,608
Total assets	1,081,293	1,181,047
Total liabilities	222,964	108,730
Net assets	858,329	1,072,317

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With reference to the 2017 Third Quarterly Report, the Group recorded an increase in revenue of approximately 313.6% from approximately HK\$33.0 million for the nine months ended 31 September 2016 to approximately HK\$136.5 million for the nine months ended 30 September 2017. The increase in revenue was mainly due to the increase in revenue generated from Third Party Payment Services of approximately 573.0% from approximately HK\$14.8 million for the nine months ended 31 March 2016 to approximately HK\$99.6 million for the nine months ended 30 September 2017. With reference to the 2016 Annual Report, the Group recorded revenue of approximately HK\$80.2 million and HK\$97.1 million for the year ended 31 December 2016 and 31 December 2015 respectively, which shows a decrease of approximately 17.4% year-on-year. The decrease in revenue was mainly attributable to (1) the decrease in revenue generated from general trading of approximately 56.3% from approximately HK\$77.1 million for the year ended 31 December 2015 to approximately HK\$33.7 million for the year ended 31 December 2016; and (2) the decrease in revenue generated from Onecomm of approximately 39.3% from approximately HK\$5.6 million for the year ended 31 December 2015 to approximately HK\$3.4 million for the year ended 31 December 2016, offset the increase in revenue generated by the Third Party Payment Services of approximately 198.6% from approximately HK\$14.3 million for the year ended 31 December 2015 to approximately HK\$42.7 million for the year ended 31 December 2016.

The Group recorded a decrease in gross profit of approximately 6.3% from approximately HK\$25.6 million for the year ended 31 December 2015 to approximately HK\$24.0 million for the year ended 31 December 2016. The Group recorded a net loss of approximately HK\$228.9 million for the year ended 31 December 2016, in which approximately HK\$63.3 million and approximately HK\$10.0 million were due to segment loss of Third Party Payment Services and general trading respectively, and approximately HK\$12.3 million (2015: approximately HK\$4.6 million) was attributable to the full impairment of goodwill of Onecomm due to the change of business strategy of the Group to focus on third party payment management service instead of selling POS device.

As set out in the 2016 Annual Report, total assets of the Group decreased by approximately 8.4%, from approximately HK\$1,181.0 million as at 31 December 2015 to approximately HK\$1,081.3 million as at 31 December 2016, while total liabilities of the Group increased by approximately 105.2%, from approximately HK\$108.7 million as at 31 December 2015 to approximately HK\$223.0 million as at 31 December 2016.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In summary, with continuous financial and investment focus on payment business, the Group has achieved significant growth of approximately 198.6% in revenue generated from Third Party Payment Services in 2016, among which the newly launched internet payment service which provides a speedy B2C and B2B mobile payment gateway service is a major profit contributor. With the payment licenses and permission obtained by the Group through years, the Company had established many payment businesses and been searching for the best positioned business model in the payment industry. As noted from the 2016 Annual Report that the competition of payment industry was intense and would become more and more fierce with increasingly frequent merger and acquisition, and restructuring activities taken by its peers. The fast growing industry and ever changing environment, especially the severe situation confronted by its traditional prepaid cards business put the Company under great pressure to take innovation to form a new business model or to acquire a platform for merchants and provide a comprehensive cashier services. According to the representation of the management of the Company, Youzan is one of the limited available candidates in this industry, the Acquisition appears to offer the Company an attractive opportunity to take a step ahead of its peers to form its core competitive edge. For further information on the benefits of the Acquisition, please refer to the section headed “4. Reasons and benefits for the Acquisition” in this letter below.

However, we noted from the 2016 Annual Report, RSM Hong Kong, the auditor of the Company, has issued a qualified opinion in relation to the goodwill with carrying amount of HK\$653,432,000, which was allocated to the cash-generating unit (“CGU”) of Third Party Payment Services due to the historical performance of Third Party Payment Services has not met the Group’s forecast revenues in the past. The shareholders should be minded that the goodwill recognized as the result of the Acquisition will be subject to impairment assessment at Completion and at the end of each reporting date, which may lead to further impairment loss on goodwill. Please refer to the “Financial effects of the Acquisition – (c) goodwill” for further information.

2. Background and information of the Sellers

Accordingly to the Letter from the Board, Sellers comprised Whitecrow Investment, Rory Huang, V5.Cui Investment, Youzan Teamwork, Xincheng Investment, Aves Capital, Tembusu HZ, Matrix Partners China III (HK), Hillhouse KDWD, E&A Amigne, Ralston Global and Puhua Investment, each of them being a shareholder of Youzan as at the Latest Practicable Date. The Sellers collectively held 1,217,723,150 ordinary shares in the issued share capital of Youzan, assuming all preference shares of Youzan having been converted into ordinary shares, representing the entire issued share capital of Youzan as at the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The details of the Sellers are set out below:

	Name of Sellers	Description	Beneficial owner(s)
1.	Whitecrow Investment	An investment holding company established in the British Virgin Islands with limited liabilities.	Mr. Zhu Ning (朱寧) as to 100%
2.	Rory Huang	An investment holding company established in the British Virgin Islands with limited liabilities.	Mr. Huang Rongrong (黃榮榮) as to 100%
3.	V5.Cui Investment	An investment holding company established in the British Virgin Islands with limited liabilities.	Mr. Cui Yusong (崔玉松) as to 100%
4.	Youzan Teamwork	An investment holding company established in the British Virgin Islands with limited liabilities.	Mr. Zhu Ning (朱寧) and Mr. Huang Rongrong (黃榮榮) as to approximately 40% each; and Mr. Yu Tao and Ms. Ying Hangyan (each being a senior management employee of Youzan) as to approximately 10% each; and Mr. Cui Yusong (崔玉松) as to one share
5.	Xincheng Investment	An investment holding company established in the British Virgin Islands with limited liabilities.	Mr. Li Zhiguo (李治國) as to 100%
6.	Aves Capital	An investment holding company established in the Cayman Islands with limited liabilities.	Mr. Xiong Minghua as to 100%
7.	Tembusu HZ	An investment holding company established in the British Virgin Islands with limited liabilities.	Matrix Chuangda (Hangzhou) Venture Investment Limited Partnership (經緯創達(杭州)創業投資合夥企業(有限合夥)), as to 100%, the general partner of which is Hangzhou Matrix Tengchuang Investment Management L.P. (杭州經緯騰創投資管理合夥企業(有限合夥))

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	Name of Sellers	Description	Beneficial owner(s)
8.	Matrix Partners China III (HK)	An investment holding company established in Hong Kong with limited liabilities.	Matrix Partners China III, L.P. as to 90%, the general partner of which is Matrix China Management III, L.P., and Matrix Partners III-A, L.P. as to 10%, the general partner of which is Matrix China Management III, L.P.
9.	Hillhouse KDWD	An investment holding company established in the British Virgin Islands with limited liabilities.	Hillhouse Fund II, L.P., as to 100%, the general partner of which is Hillhouse Fund II GP, Ltd.
10.	E&A Amigne	An investment holding company established in the British Virgin Islands with limited liabilities.	Vipshop Holdings Limited (唯品會)(a company listed on The New York Stock Exchange with stock code VIPS) as to 100%
11.	Ralston Global	An investment holding company established in the British Virgin Islands with limited liabilities.	Ms. Wen Qun (聞群) as to 100%
12.	Puhua Investment	An investment holding company established in Samoa with limited liabilities.	Mr. Shen Qinhua (沈琴華) as to 100%

3. Background information of Youzan

(a) *E-commerce business*

Youzan Group is principally engaged in the e-commerce business which provides a variety of online and offline solutions and services in relation to virtual wholesaling and retailing in the PRC. Youzan Group operates third party e-commerce platforms and offers comprehensive consumer management and online distribution solutions to help merchants build, operate, manage and promote their online stores.

Youzan WeiMall (有贊微商城) is Youzan Group's principal product. Registered merchants of Youzan WeiMall are accessible to various functions to manage their online stores. Such basic functions include virtual storefront, consumer building, consumer relations, consumer retention, trade execution, repeated purchases distribution, payment channels and store data management and analytics.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As mentioned in the Information of Youzan Group, Youzan Group also operates other ancillary and specialised e-commerce platforms including but not limited to Micro Stores (微小店), Youzan Wholesale (有贊批發) and Youzan Cashier (有贊收銀):

1. Micro Stores

Micro Stores is a smart phone application enabling individuals to open an online micro store. It can be considered a simplified version of Youzan WeiMall but more handy and easier to use. Merchants at Micro Stores do not have their own products, but instead they conduct marketing activities to promote products via WeChat, Microblog, QQ or mobile phone SMS. After a consumer places an order at a micro store, the system will automatically direct the supplier of the Micro Stores merchants to ship the product to the consumer. The Micro Stores merchants will profit from the price difference between the sales price and the cost paid to their suppliers. Set out below is the interface of Micro Stores:



LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Youzan Wholesale

Youzan Wholesale is a tablet/smart phone application designed specifically for (i) merchants who have physical offline wholesale stores at a wholesale market and want to do wholesale business online and (ii) consumers who would like to purchase a large quantity of products from the wholesalers at one time. Currently the Target Group has cooperated with Zhengzhou wholesale market to launch online wholesale stores for wholesalers. Set out below is the interface of Youzan Wholesale:



LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. *Youzan Cashier*

Youzan Cashier is a tablet/smart phone application designed specifically for merchants operating offline stores. With Youzan Cashier, offline merchants can receive payments from consumers using WeChat wallet or Alipay and such payments will be transferred directly to the WeChat wallet or Alipay account of the merchant. After merchants receive payments, Youzan Cashier will automatically document the payment details and generate an online payment record for the purpose of settlement. Set out below is the interface of Youzan Cashier:



4. *Other Specialised E-Commerce Applications*

Facilitation of transactions between merchants and consumers is the core competence of Youzan Group. It frequently launches new specialized E-Commerce Applications on its E-Commerce platform to cater for specific transaction scenarios such as B2B2C or hire purchase transactions. B2B2C transactions refer to those transactions under which one merchant purchases goods or services from another merchant and then sell the same to a consumer on an indirect basis while hire purchase transactions refer to the transactions under which the purchase of goods or services by consumers from a merchant which are financed by a financial institution.

(b) *The Reorganisation*

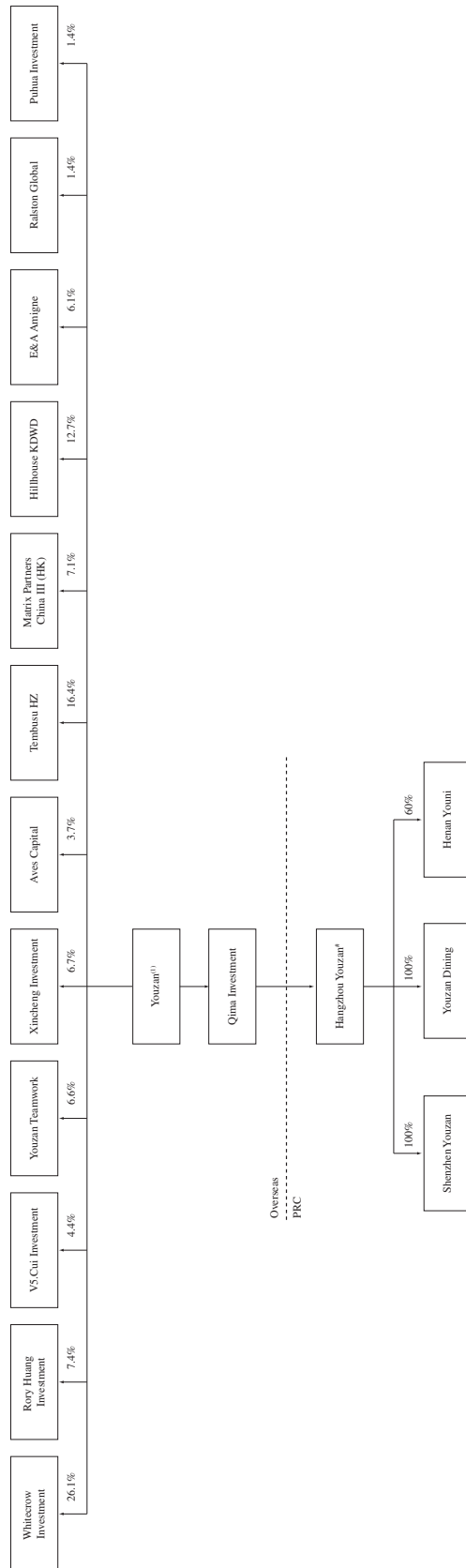
In order to comply with the draft Foreign Investment Laws published by the Ministry of Commerce in the PRC in January 2015, Youzan Group shall undergo internal reorganisation and terminate the Structured Contracts. After the Reorganisation, Hangzhou Qima, which is currently accounted for as a subsidiary of Youzan Group by virtue of the Structured Contracts, will be excluded from Youzan Group.

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As at the Latest Practicable Date, Hangzhou Qima owns software or application library for the operation of, including but not limited to Youzan WeiMall (有贊微商城), Youzan Micro Store (有贊微小店), Youzan Wholesaler (有贊批發) and Youzan Cashier (有贊收銀) and offering of products and services thereunder (“**E-commerce Applications**”). At the same time, Hangzhou Qima also owns and operates the website “youzan.com”, which serves as a platform to promote the E-commerce Applications to the public (“**Website Services**”). In view of the possible future expansion of the scope of the Website Services, Hangzhou Qima has applied for and currently holds the internet content provider (“**ICP**”) license. Pursuant to the Reorganisation, the existing arrangement of the Structured Contracts shall be terminated. Hangzhou Qima shall transfer all of its business operation and relevant assets and liabilities, including but not limited to software patents, copyrights and trademarks, in relation to the E-commerce Applications to Hangzhou Youzan (“**E-commerce Applications Transfer**”). After the E-commerce Applications Transfer, Hangzhou Youzan shall own and operate all the E-commerce Applications related business. Hangzhou Youzan shall be entitled to all revenue derived from operating the business in relation to the E-commerce Applications. On the other hand, Hangzhou Qima shall only be responsible for the operation of the Website Services. Hangzhou Qima shall also transfer its entire equity interest in each of its subsidiaries, namely, Shenzhen Youzan, Youzan Dining and Henan Youni, and its equity interest in two companies in which it has invested in to Hangzhou Youzan. Hangzhou Qima and Hangzhou Youzan shall also enter into a service agreement in relation to the provision of Website Services by Hangzhou Qima to Hangzhou Youzan (“**Website Services Agreement**”). Pursuant to the Website Services Agreement, Hangzhou Qima shall continue to promote the E-commerce Applications on “youzan.com” in return for an annual fee paid by Hangzhou Youzan to Hangzhou Qima (“**Website Services Fees**”). The Website Services Agreement was signed on 7 October 2017.

(c) *Structure of the Youzan Group*

Set out below is the shareholding structure of Youzan Group after the Reorganisation and before Completion:

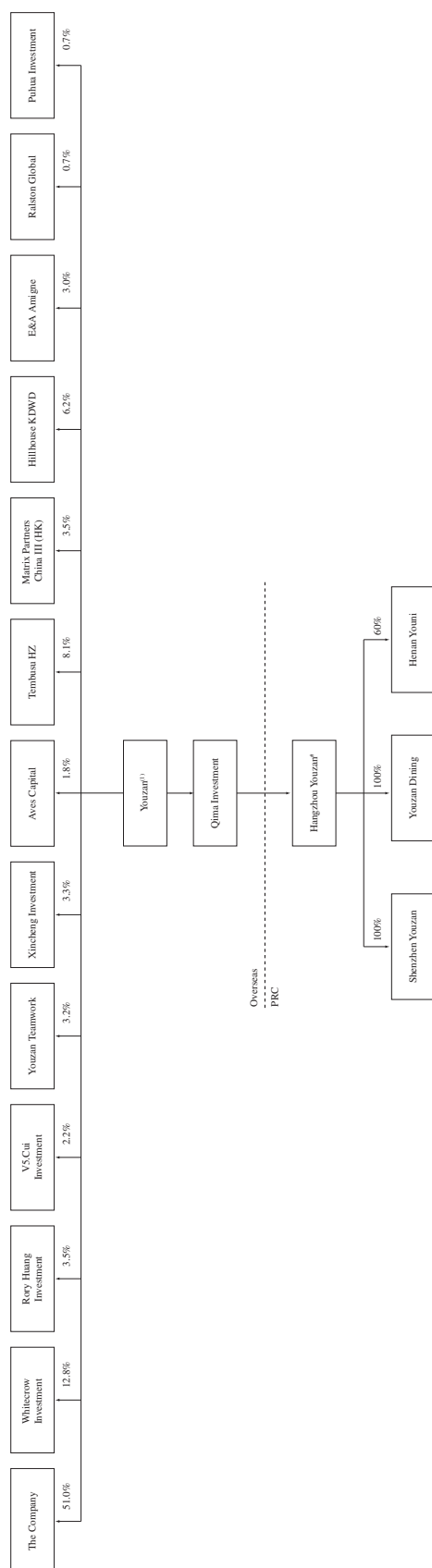


^a Hangzhou Youzan holds the equity interest in three invested companies, namely Henan Youjian, Hefei Yingyun and Shanghai Wossi.

Note (1): Assuming all preference shares of Youzan having been converted into ordinary shares.

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Set out below is the shareholding structure of Youzan Group after Completion:



* Hangzhou Youzan holds the equity interest in three invested companies, namely Henan Youjian, Hefei Yingyun and Shanghai Wosai.

Note (1): Assuming all preference shares of Youzan having been converted into ordinary shares.

Financial impact

Before the Reorganisation, Hangzhou Youzan entered into a series of Structured Contracts with Hangzhou Qima and/or the Nominee Shareholders to enable the financial results and the economic benefits of Hangzhou Qima to flow into Hangzhou Youzan.

After the Reorganisation, it is expected that the revenue previously derived from the products and services provided by Hangzhou Qima shall be derived from Hangzhou Youzan directly, while Hangzhou Qima would only continue to operate the Website Services related business and in turn receive the Website Services Fees from Hangzhou Youzan under the Website Services Agreement.

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(d) Financials Information of Youzan Group

The audited combined net liability value of the Youzan Group amounted to approximately RMB225.5 million, RMB939.3 million, RMB2,011.3 million and RMB2,243.7 million as at 31 December 2014, 31 December 2015, 31 December 2016 and 31 October 2017 respectively. Set out below are selected combined financial information of Youzan Group prepared in accordance with the Hong Kong Financial Reporting Standards for the 3 years ended 31 December 2016 and ten months ended 31 October 2017:

	Ten months ended 31 October 2017 RMB'000 (audited)	Ten months ended 31 October 2016 RMB'000 (unaudited)	For the year ended 31 December 2016 RMB'000 (audited)	For the year ended 31 December 2015 RMB'000 (audited)	For the year ended 31 December 2014 RMB'000 (audited)
Revenue	213,894	71,929	98,267	9,779	397
Gross profit/(loss)	151,491	28,321	46,772	(8,660)	(1,226)
Loss before tax	(232,382)	(1,063,128)	(1,110,035)	(707,333)	(217,745)
Loss after tax	(232,382)	(1,063,128)	(1,110,035)	(707,333)	(217,745)
Adjusted net loss*	(113,598)	(130,446)	(155,662)	(185,655)	(46,542)
		As at 31 October 2017 RMB'000 (audited)	As at 31 December 2016 RMB'000 (audited)	As at 31 December 2015 RMB'000 (audited)	As at 31 December 2014 RMB'000 (audited)
Net liabilities		2,243,711	2,011,329	939,346	225,495
Adjusted net assets/(liabilities) **		(183,713)	(70,115)	47,495	68,649

* Adjusted net loss = Loss after tax after excluding the amount of loss due to change in fair value of contingently redeemable convertible preference shares for the respectively period/year ended.

** Adjusted net assets/(liabilities) = net assets/(liabilities) after excluding the amount of contingently redeemable convertible preference shares

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For the year ended 31 December 2015, the Youzan Group recorded a revenue of approximately RMB9.8 million which representing an increase of approximately 2350% as compared to the approximately RMB0.4 million for the year ended 31 December 2014, was mainly due to (1) increase in transaction fee charged on GMV generated from Youzan online platform of approximately RMB6.4 million (2014: nil as Youzan Group has only begun to charge users for transaction fee since around November 2015); and (ii) membership fee of approximately RMB1.3 million (2014: nil) from paid users that are entitled to some privileges for the operation on Youzan online platform (e.g. discount on transaction fee charged and complimentary offline services) which had commenced for subscription since March 2015.

The Youzan Group recorded a revenue of approximately RMB98.3 million for the year ended 31 December 2016, which representing an increase of approximately 903.1% as compared to approximately RMB9.8 million of the previous year, which mainly due to (i) strong growth on transaction fee charged on GMV generated from Youzan online platform of approximately RMB55.7 million for the year ended 31 December 2016 (2015: RMB6.4 million); (ii) the increase of revenue generated from license fee of approximately RMB28.6 million (2015: nil) which is due to Youzan Weimall has commenced to charge its users for a subscription fee since 15 May 2016; and (iii) the increase of revenue generated from the premium functions of Youzan online platform paid by its users of approximately RMB4.3 million (2015: nil).

The Youzan Group recorded a revenue of approximately RMB213.9 million for the ten month ended 31 October 2017, which representing an increase of approximately 197.5% as compared to approximately RMB71.9 million for the corresponding period of the previous year, which mainly due to (i) the transaction fee charged on GMV generated from Youzan online platform of approximately RMB58.5 million for the ten months ended 31 October 2017 (ten months ended 31 October 2016: RMB46.6 million); (ii) the increase of revenue generated from license fee of approximately RMB113.9 million (ten months ended 31 October 2016: RMB13.5 million); and (iii) the increase of revenue generated from we-chat promotion ten months ended 31 October 2017 of approximately RMB16.6 million (ten months ended 31 October 2016: nil).

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The Youzan Group recorded net loss after tax amounted to (i) approximately RMB217.7 million, RMB707.3 million and RMB1,110.0 million for the years ended 31 December 2014, 2015 and 2016, and (ii) approximately RMB1,063.1 million and RMB232.4 million for the ten months ended 31 October 2016 and 31 October 2017 respectively, which was mainly attributable to the change in fair value of contingently redeemable convertible preference shares. The adjusted net loss was arrived after excluding the amount of loss due to change in fair value of contingently redeemable convertible preference shares, which would no longer has a financial impact on Youzan Group upon conversion of all preference shares of Youzan to ordinary shares before or upon Completion. The adjusted net loss increased by 299.4% from approximately RMB46.5 million for the year ended 31 December 2014 to approximately RMB185.7 million for the year ended 31 December 2015 was mainly due to the increase of selling and distribution expenses of approximately RMB67.1 million and administrative expenses of approximately RMB67.4 million. The decrease of adjusted net loss by 16.2% from approximately RMB185.7 million for the year ended 31 December 2015 to approximately RMB155.7 million for the year ended 31 December 2016 was mainly due to the turnaround of gross profit to approximately RMB46.8 million for the year ended 31 December 2016 from gross loss of approximately RMB8.7 million for the year ended 31 December 2015. The adjusted net loss decreased by approximately 12.9% from approximately RMB130.4 million for the ten months ended 31 October 2016 to approximately RMB113.6 million for the ten months ended 31 October 2017, which was mainly due to the strong increase in gross profit of approximately 435.3% from approximately RMB28.3 million for the ten months ended 31 October 2016 to approximately RMB151.5 million for the ten months ended 31 October 2017.

3. Industry overview

The Chinese online retail market has gradually stepped into a mature stage. With the continuously expanding scale, its overall growth rate are gradually slowing down and getting close to a reasonable range. According to an industry reports issued by iResearch, one of the most recognized big data brands among the internet, advertising and investment sectors in China, in 2017 named “2017 China’s Mobile E-commerce Report” and “2017 China’s E-commerce Shopping Guide Report” (the “**iResearch Reports**”), which contains information sourced from government authorities and renowned research institutes including the China Internet Network Information Center, iClick and mUserTracker. The iResearch Reports revealed that the GMV of e-commerce market in China in 2016 is estimated to be approximately RMB20.2 trillion with an increase of 23.2% as compared to the previous year. In particular, the transaction scale of Chinese online retail market in 2016 has reached RMB4.7 trillion with a year-on-year growth of approximately 23.7%, and accounted for 23.3% of the e-commerce market in China, slightly higher than the previous year.

(a) The growth of Chinese retail market is mainly driven by its online retail

The growth rate of physical retail stores has significantly declined amid the weak retail market condition and economic environment in China over the past five years. According to an industry report issued by Deloitte in 2016 named “China E-Retail Market Report 2016” (the “**Deloitte Report**”) which contains information sourced from government authorities and renowned research institutes including the China General Chamber of Commerce, China National Commercial Information Center, iResearch and eMarketer, the sales growth rate of China’s 100 major large-scale retailing enterprises have almost reached zero in 2014 and recorded a negative growth rate in sales volume in 2015. On the contrary, the growing online retail which had its market size doubled from RMB1.9 trillion in 2013 to RMB3.8 trillion in 2015, has a greater impact on the growth of Chinese retail market. With reference to the Deloitte Report, the online retail market contributed 34.7 percent to the growth of Chinese retail market in 2015, approximately doubling the growth contribution of 17.35% in 2013. The significant impact of the growing Chinese online market is expected to continue despite the overall retail market is shrinking slowly.

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(b) Composition of online retail market changes

The rapid growth of Chinese online retail market was catalyzed by the C2C model in early years, which has recently entered into the maturity phase as the market becomes more standardized and diversified. On the contrary, the transaction scale of B2C market has recorded an increasing proportion every year, exceeding that of C2C market in 2016. According to the statistics from iResearch Reports, in 2016 the transaction scale of B2C market rose by 31.6% year on year, while the C2C market only increased by 15.6%, far below the overall growth rate of online retail market. The portion of the B2C in the overall online retail market is expected to further increase as the difference in growth rates of B2C and C2C will sustain.

(c) Fast growth in mobile shopping

According to the data from iResearch Reports, the estimated transaction scale at mobile terminals of RMB3.2 trillion in 2016, has accounted for 68.1% in the overall online retail market and surpassed PC terminals in proportion for the second consecutive year and become the mainstream online consumption channel. Users have change their online shopping habit from using traditional PC terminal to Mobile terminal due to its popularity, technology, sociability and entertainment, with which smartphone has advanced beyond its simple communication and entertainment purposes and has become an indispensable part of people's lives nowadays.

(d) Leading retail enterprises cooperate to optimize business

Despite the pessimistic sentiment of the physical retail market, leading physical and online retailing enterprises has begun to actively look for cooperation opportunities in order to gain an edge over the competitive market environment. For example, In August 2015, JD Group and supermarket retailer Yonghui Supermarket announced an O2O strategic agreement under which JD Group will acquire a 10% stake in Yonghui Supermarket for RMB4.3 billion; and Alibaba Group Holding Ltd and retail giant Suning Commerce Group Co announced in June 2016 that they planned to invest RMB1 billion to set up an e-commerce firm in Chongqing, which operates and manages the stores opened by Suning on Alibaba's online platform, and expands business based on the C2B model to improve the brand's services. Frequent cooperation is expected to continue among leading enterprises in the market due to the synergistic effect it brings to their businesses.

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(e) Online and offline integration

According to the Deloitte Report, to succeed in today's competitive retail market, retail enterprise may switch from the traditional marketing models (targets all consumers) to a more precise marketing model which differentiate marketing strategies for different customer groups. Enterprises are suggested to focus on studying and monitoring the data of customers' behavior to make a breakthrough contributions to their sales or service provided. Based on these information, enterprise could possibly promote cross-selling by discovering various needs of customers and improve customer loyalty via client relationship management. Ultimately, the enterprises are encouraged to facilitate the integration of marketing channels and the connection online and offline data flows, in order to offer online-and-offline seamless services, and enhance the integrated shopping experience for customers.

Based on the factors mentioned above, despite the competitive environment, the prospect of the e-commerce industry in PRC is generally optimistic and it is an opportunity for an existing industry participant to tap into the market.

4. Reasons and benefits for the Acquisition

As mentioned in the Letter from the Board, throughout the past series M&A executed by the Company, the Company has been demonstrating a continuous effort in executing its third party payment services business expansion strategy in (i) capturing technology, research and development capabilities, and experienced professionals; and (ii) expanding payment gateway for various businesses or industries in order to increase the number of contracted merchants/brands for its payment services, and in turn the transaction volume handled through its third party payment system.

Nevertheless, the Company is of the view that such expansion hinges on the Group's ability to capture a critical mass of merchants or stores using the Group's third party payment services which the Group believes could contribute positively to the popularity and reputation of the Group's third party payment gateway and, in turn, could attract more consumers, enhance transaction volume, and thus increase transaction fee income for the Group's business segment.

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The Acquisition, being one of the M&A examples in connection with third party payment services of the Group, coincides with the Group's business strategy. The Company believes that the Acquisition is strategically beneficial to the Company for the following reasons:

(a) *Benefits to the Group's business*

As of 31 December 2016, Youzan Group's e-commerce platform has over 364,000 active registered merchants and a GMV of approximately RMB10 billion. As set out in the paragraph headed "Financial and trading prospects of the Enlarged Group" in this letter, Youzan Group is currently handling its daily transactions through multiple payment gateways provided by several third party payment service providers. As at the Latest Practicable Date, Youzan Group engaged six third party payment service providers servicing its e-commerce platforms. The intention of the Company is that upon Completion, Beijing Gaohuitong will replace the existing third party payment service providers of Youzan Group by substituting the applicable third party payment services currently provided by those existing third payment service providers and gradually become the sole third party payment service provider of Youzan Group. Such an anticipated arrangement accounts for the Continuing Connected Transactions, including providing various third party payment services to Youzan Group, such as offline integrated payment transactions services, online payment services for "WeiMall", cross-border RMB payment settlement services for "WeiMall" overseas merchants, physical and virtual prepaid cards services for merchants of Youzan Group and other payment related services. For further details, please refer to the paragraph headed "III. Continuing connected transactions" in this letter. Accordingly, the GMV of Youzan Group, representing the total value of all confirmed transactions for products and services on Youzan Group's E-Commerce platform, regardless of whether the goods are delivered or returned or how such orders are settled, could be translated into the Group's existing principal e-commerce business – third party payment service, through charging service fee for the third party payment services to be provided by the Group. The Acquisition could immediately contribute positively and expand the Group's number of contracted merchants and increase the transaction volume using the Group's third party payment services. The Group considers the Acquisition complements the Group's development strategy regarding its third party payment services by expanding the number of merchants and consumers using the Group's payment gateway and processing transaction volume via the Group's payment system.

The expanded merchant and consumer base through the Acquisition could also be a pool of potential business for the Group's other business segments, such as use of pre-paid cards, provision of consultancy services, payment solutions, use of cross-border payment gateway, big data analytics enabling etc., which, the Group considers complements and provides growth momentum for the Group's existing business segments.

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(b) Benefits to Youzan Group's business

With the Acquisition, the Group could enable Youzan Group to operate its own third party payment system. Youzan Group's "WeiMall" and its other ancillary and specialised e-commerce platforms will integrate with the Group's third party payment services infrastructure, where the Group's third party payment services will be used on all online stores opened with "WeiMall" as the platform's sole authorised payment service provider. The integration would also allow the streamlining of the management and process of the trade proceeds among WeiMall's registered merchants, consumers and various payment channels. With an integrated complementary third party payment services, the development, profitability and competitiveness of Youzan Group could be enhanced.

(c) Enhancing new business development potential of the Enlarged Group

Through the Acquisition, the combination of Youzan Group's third party e-commerce platform and the Group's third party payment platform can allow the Enlarged Group to provide comprehensive one-stop services to the merchants, including opening and operating of their online stores, inventory management, consumer management, marketing management, online store management, coupled with the payment services support and capital management.

With the abovementioned synergetic effects with the existing businesses of the Group, it is also expected that both income from the principal businesses of the Group and the income from Youzan Group's operation of the E-commerce Applications related business (which mainly consists of (i) fees charged for use of applications and premium functions; and (ii) transaction fees based on consideration of relevant transactions or number of payments) could be enhanced through providing a comprehensive one-stop service that will enrich the Enlarged Group's income stream, which the Group considers is beneficial to and in the interests of the Group and its shareholders as a whole.

Both the Company and the Sellers are committed to integrate the Group's third party payment services business and Youzan Group's third party e-commerce platform after the Acquisition. It is the common intention of the Company and the Sellers that the Company shall maintain the current management composition and its goal to integrate their respective business after the Acquisition.

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5. Key terms of the Sale and Purchase Agreement

Details of the terms of the Sale and Purchase Agreement, please refer to the paragraph headed “The Sale and Purchase Agreement” in the Letter from the Board. Principal terms of the Sale and Purchase Agreement are summarised as follows:

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Company conditionally agreed to purchase the Sale Shares, representing 51% of the issued share capital of Youzan as at the Latest Practicable Date assuming all preference shares of Youzan having been converted into ordinary shares.

Youzan is a company incorporated in the Cayman Islands, which is principally engaged in the e-commerce business providing a variety of online and offline solutions proposals and services in relation to virtual wholesaling and retailing in the PRC.

The Consideration

The Consideration is HK\$2,096,100,000 and shall be satisfied by the Company by way of allotment and issue of 5,516,052,632 Consideration Shares to the Sellers in proportion to their shareholding in Youzan at the issue price of HK\$0.38 per Consideration Share. The Consideration Shares will be allotted and issued under the Specific Mandate to be sought at the SGM.

The 5,516,052,632 Consideration Shares, when all allotted and issued, will represent:

- (i) Approximately 79.04% of the issued Shares as at the Latest Practicable Date;
- (ii) approximately 42.57% of the issued Shares as enlarged by the allotment and issuance of the Consideration Shares and the maximum number of the SM Placing Shares; and

The issue price of HK\$0.38 per Consideration Share represents:

- (i) a discount of approximately 30.91% to the closing price of HK\$0.55 per Share on the Last Trading Day;
- (ii) a discount of approximately 21.49% to the average closing price of HK\$0.484 per Share in the last five consecutive trading days immediately prior to the Last Trading Day;

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- (iii) a discount of approximately 11.63% to the closing price per Share of HK\$0.43 as quoted on the Stock Exchange on the Latest Practicable Date;
- (iv) a premium of approximately 216.67% over the net asset value per Share of approximately HK\$0.12 as at 31 December 2016 as extracted from the annual report of the Group for the year ended 31 December 2016 and 6,978,955,197 issued Shares as at the Latest Practicable Date; and
- (v) a premium of approximately 111.11% over the net asset value per Share of approximately HK\$0.18 as at 30 June 2017 as extracted from the interim report of the Group for the six months ended 30 June 2017 and 6,978,955,197 issued Shares as at the Latest Practicable Date;

The Consideration was determined after arm's length negotiations between the Company and the Sellers, with reference to, among others, (i) business operations and prospects of Youzan Group; and (ii) the price to GMV ratio of market comparable companies which are listed established e-commerce companies in the PRC, i.e. Alibaba Group Holding Limited and JD.com, Inc..

The Company has taken into account, among others, the following key considerations to determine the issue price of the Consideration Shares:

1. the market price of the Shares in the last 20 days prior to the signing of the MOU;
2. the trading volume of the Shares during the three months prior the signing of the MOU;
3. the financial results of the Company for (i) the year ended 31 December 2015 and (ii) the six months ended 30 June 2016;
4. the qualified opinion of the Company's auditors of its financial statements for the year ended 31 December 2015; and
5. the lock-up period of the Consideration Shares.

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The Directors (excluding the independent non-executive Directors whose views are set out in the “Letter from the Independent Board Committee” to the Circular) consider that the Consideration is fair and reasonable and the Sale and Purchase Agreement is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole. Having considered the abovementioned factors, the Board (excluding the independent non-executive Directors whose views are set out in the “Letter from the Independent Board Committee” to the Circular) consider that the issue price of the Consideration Shares is in the interest of the Company and the Shareholders as a whole.

The Consideration Shares will be allotted and issued under the Specific Mandate to be sought at the SGM. The Consideration Shares shall be issued as fully paid and shall rank *pari passu* in all respects with the Shares then in issue. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Conditions precedent

Completion is conditional upon the satisfaction or waiver (as the case may be) of the conditions precedent as stated in the Letter from the Board. For further details please refer to the section headed “THE ACQUISITION – Conditions precedent” of the Letter from the Board.

Completion

Completion shall take place on the Completion Date after all the conditions precedent to the Sale and Purchase Agreement have been fulfilled or waived. Upon Completion, Youzan will become a direct non-wholly owned subsidiary of the Company and the results, assets and liabilities of Youzan Group will be consolidated into the financial statements of the Group.

Other major terms

Each of the Company and Whitecrow Investment, Rory Huang, V5.Cui Investment and Youzan Teamwork has undertaken to ensure that core management members of each of the Company and Youzan Group will remain in the Company and Youzan Group for 24 months after Completion.

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Sellers' Undertakings

On the date of the Sale and Purchase Agreement, each of Whitecrow Investment, Rory Huang, V5.Cui Investment, Youzan Teamwork and their respective ultimate shareholders has undertaken to the Company by way of a written undertaking that, unless with the written approvals from the Company, each of them shall not sell, grant any option or create any rights, interests or encumbrances in relation to the Consideration Shares held by each of them within 12 months from the Completion Date.

On the date of the Sale and Purchase Agreement, each of the Sellers (except for Whitecrow Investment, Rory Huang, V5.Cui Investment, Youzan Teamwork and their respective ultimate shareholders) has undertaken to the Company by way of a written undertaking that, unless with the written approvals from the Company, each of them shall not sell, grant any option or create any rights, interests or encumbrances in relation to the Consideration Shares held by each of them within 6 months from the Completion Date.

6. Fairness and reasonableness of the Consideration

(a) Valuation of Youzan

As mentioned in the Letter from the Board, the Consideration of HK\$2,096,100,000 is determined after arm's length negotiations between the Company and the Sellers, with reference to, among others, (i) the business operations and prospects of Youzan Group; and (ii) the price to GMV ratio of market comparable companies which are listed established e-commerce companies in the PRC, i.e. Alibaba Group Holding Limited and JD.com, Inc.. The Company engaged Hong Kong Appraisal Advisory Limited ("**HK Appraisal**") to prepare the Valuation Report which set out an independent valuation on the 100% equity interest in Youzan (the "**Valuation**") as at 31 October 2017 (the "**Valuation Date**") for acquisition reference. The full text of the Valuation Report is set out in Appendix IV to the Circular. The Valuation Report has been prepared based on the International Valuation Standards issued by the International Valuation Standards Council.

Independent Shareholders' attention is drawn to the total appraised value of Youzan of RMB4,076.0 million (approximately HK\$4,728.2 million) as set out in the Valuation Report. Based on the Consideration of HK\$2,096.1 million in relation to the acquisition of 51% equity interest in Youzan, the implied valuation of the entire equity interest in Youzan Group is HK\$4,110.0 million ("**Implied Valuation**"), which is at a discount of approximately 13.1% to such total appraised value arrived by HK Appraisal.

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We have reviewed the Valuation Report and interviewed the relevant staff members of HK Appraisal with particular attention to (i) HK Appraisal's terms of engagement with the Company; (ii) HK Appraisal's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by HK Appraisal in performing the Valuation. From our review of the engagement letter between the Company and HK Appraisal, we are satisfied that the terms of engagement between the Company and HK Appraisal are appropriate to the opinion HK Appraisal is required to give. HK Appraisal has confirmed that it is independent from the Company, Sellers, Youzan and their related persons. We further understand that HK Appraisal is certified with the relevant professional qualifications required to perform the Valuation and the person in-charge of the Valuation has approximately 12 years' experience in conducting business valuation of various proposes. We note that HK Appraisal mainly carried out its due diligence through management interviews and conducted its own proprietary research and has relied on public information obtained through its own research as well as the financial and operational information provided by the management of the Group. We were advised by HK Appraisal that it has assumed such information to be true, complete and accurate and has accepted it without verification.

We note that the Valuation was primarily based on the market approach, which is one of the three generally accepted valuation approaches. The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable if necessary and appropriate. The market approach focuses on analyzing the data and valuation multiples of companies/transactions that can be considered comparable to Youzan to determine its appraised value. We have discussed with HK Appraisal the methodologies, bases and assumptions adopted during the course of conducting the market approach. As discussed with HK Appraisal, given the unique characteristics of the Youzan (i.e. engaged in the e-commerce business providing a variety of online and offline solutions and services in relation to virtual wholesaling and retailing in China), HK Appraisal considers the market approach to be the most appropriate valuation approach over the income approach and the asset-based approach as (i) the income approach relied heavily on a long term financial forecast, which requires subjective assumptions that are difficult to be justified to which the valuation is highly sensitive if lack of long enough historical financial data or comparable company's financial data; and (ii) the asset-based approach does not focus on the income the asset produces as a whole and is not powerful to appraise those unidentified intangibles' value of a business, hence the more intangibles in a business, the more irrelevant the asset-based approach and thus the more relevant the other approaches becomes. Considering (i) Youzan is in an early stage of development and its future revenue model is difficult to project; and (ii) its business involves a substantial portion of intangible assets, such as trademark, e-commerce applications, distribution network and assembled workforce, we therefore agree with HK Appraisal's adoption of the market approach as the primary valuation methodology.

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According to the Valuation Report, under market approach, guideline publicly traded company method (the “**GPTC Method**”) and guideline merged and acquired company method (the “**GMAC Method**”) were both considered to be applied by HK Appraisal.

According to the Valuation Report, HK Appraisal have selected GMV as the most relevant multiple being adopted in the valuation analysis. We have discussed with HK Appraisal about the appropriateness of the method adopted and were advised that the key performance indicator of these companies is commonly measured by the GMV since in their opinion the GMV is the main driver of the revenue of this type of companies. Significant growth in revenue could be driven by increasing GMV given the revenue positively associates with the GMV. Further, we have interviewed with Shanghai iResearch Co., Ltd. (“**iResearch**”) which is an independent third party as it has confirmed and has been appointed by us as industry expert to advise on business model of Youzan and its comparable companies, the comparability of the Guideline Companies and target companies involved in the Guideline Transactions to Youzan and the reliability of P/GMV method in valuing of e-commerce companies. As advised by iResearch, GMV is a widely used reference for valuation of e-commerce businesses based on its experience as GMV comprehensively reflects e-commerce business from perspectives of both current operation performance and future monetization potential, which means companies within e-commerce industry can be compared directly under P/GMV method as impacts from other factors, such as stages, size and monetization strategies, are not significant.

In addition, as discussed with HK Appraisal, in selecting appropriate multiples to be adopted in the valuation analysis, it has considered traditional multiples such as P/S ratio and P/E ratio but not P/B since P/B ratio is less useful for services and information technology companies with little tangible assets on their balance sheets. HK Appraisal have conducted researches on the P/S and P/E ratios of the comparable companies of Youzan, namely Alibaba Group Holding Ltd., JD.com, Inc., Baozun Inc. and Jumei International Holding Ltd. (the “**Guideline Companies**”), and found that the range of P/S ratios is widely spread, which commensurate to the fact that some of the comparable companies are not completely monetizing (i.e. generate revenue) their products and services or they are in progress of changing monetization strategies, for instance, Alibaba Group was under a transition progress from non-mobile monetization to mobile monetization in 2016. The P/E ratio is not applicable in this case since Youzan Group has not yet started to make profit. In addition, HK Appraisal has also considered valuation techniques based on forward-looking estimation, such as further earnings of Youzan, are not appropriate due to a high level of uncertainty is involved in formulating assumption relating to forward looking data to draw a reliable conclusion. We further taking into account that Youzan has just changed its business model in May 2016 from free subscription to charge license fee for subscribing of standard functions and premium functions by registered merchants, we therefore agree with the view of HK Appraisal that both the traditional valuation metrics such as P/S ratio and P/E ratio and the valuation techniques based on forward-looking estimation of Youzan are of less relevance to our valuation analysis.

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As advised by iResearch, P/GMV is a sufficient method in valuing e-commerce business because GMV is a widely used reference for valuation of ecommerce business which comprehensively reflects e-commerce business from perspectives of both current operation performance and future monetization potential, companies within e-commerce industry can be compared directly under P/GMV method as impacts from other factors, such as stages, size and monetization strategies, are not significant. Given the Guideline Companies, being the only four comparable companies available upon exhaustive search, are widely spread in stage and size, P/GMV is preferable to other multiples (e.g. P/E and P/S) in this case, therefore it is appropriate to use P/GMV as the only multiple in valuing Youzan in this case.

Guideline Companies

According to the Valuation Report, HK Appraisal has conducted exhaustive search of comparable companies through internet and open market sources include but not limited to information disclosed in different website (i.e. Tencent Technology, Technode, TechCrunch, Yahoo! News, BBC News, CNET, Reuters, Bloomberg, TechNewsWorld, etc.), research conducted by different institutes (i.e. iResearch, China Galaxy Securities Research, Deloitte, White&Case, etc.) and news disclosed by different stock exchange (i.e. HKEX, Shenzhen Stock Exchange, Shanghai Stock Exchange, NASDAQ, NYSE, etc.), on best-effort basis and has identified the Guideline Companies with both sufficient similarity and sufficient data. We understand from the Valuation Report that HK Appraisal has considered business nature as the most determinant factor in selection of comparable companies. One of the considerations in determining the comparability of potential comparable companies by HK Appraisal is that the revenue of these companies are generated from its e-commerce trading platform. We have interviewed with iResearch about business model of the four Guideline Companies and their similarities with Youzan. As advised by iResearch, all of the four Guideline Companies are comparable to Youzan in business nature as (i) the four Guideline Companies and Youzan are all key participants in e-commerce industry aiming to help merchants to find and make deals with target customers which is exactly the core value of e-commerce; and (ii) the four Guideline Companies and Youzan all provide a variety of similar products and services to facilitate the deals (e.g. marketing tools, store management, merchandise management, order management, customer management and data statistics). Taking into consideration (i) consistent findings on the comparable companies based on an independent search and assessment conducted by us through Bloomberg; and (ii) same findings by iResearch after conducting its independent search for comparable companies of the same business nature as Youzan, we therefore agree that the list of four Guideline Companies selected by HK Appraisal is exhaustive and serve a good comparison for Youzan.

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In addition, HK Appraisal has also considered the difference of GMV components for the four Guideline Companies and has tried to make certain adjustments for the purpose of comparison. We understand that the adjustment may not be enough to cover all the differences due to lack of data, for example, as disclosed in the Valuation Report, surcharges and other taxes, value of the goods that are returned and deposits for purchases that have not been settled are not subject to adjustment to the GMV of Baozun Incorporation and surcharges, customer returns and cash coupons are not subject to adjustment to the GMV of Jumei International. Considering the nature of the aforesaid unadjusted items, the amounts not adjusted due to lack of data are not expected to be significant. Therefore, we considered the GMV of the four Guideline Companies after adjustment can be used for comparison.

In comparing the business of Youzan with the Guideline Companies, HK Appraisal has also considered their comparability in terms of size and profitability when applied them as the Guideline Companies under GPTC method and thus assigned more weighting (i.e. 30%) for Jumei International Holding Ltd. and Baozun Inc. due to their similar size of business with Youzan, and JD.com due to its similar profitability with Youzan as both are loss making. Then Alibaba Group Holding Ltd. is assigned for the remaining weighting of 10%. In this regard, considering companies within e-commerce industry can be compared directly under P/GMV method as impacts from other factors, such as stages, size and monetization strategies are not significant as advised by iResearch and abovementioned, therefore we take an even weighting of 25% being assigned to Guideline Companies instead. However, given (i) the percentage difference between the indicated multiple under GPTC method with an even weighting of 25% being assigned to the Guideline Companies of 0.56 and the indicated multiple calculated by HK Appraisal of 0.54 is only approximately 3.70%; and (ii) the indicated multiple under GPTC method calculated by HK Appraisal of 0.54 gives a more prudent valuation to Youzan as compared to an even weighting distribution, we therefore agree with the aforementioned weighting method adopted by HK Appraisal in calculated the relevant multiple.

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Further, HK Appraisal considered that due to market capitalisation acquired in the Guideline Companies was calculated based on a minority interest acquisition, whereas the Company proposed to acquire a majority interest of Youzan, a control premium should be considered for the transaction price according to the valuation theory. With reference to the independent study “Mergerstat Control Premium Study 2nd Quarter 2017” conducted by Mergerstat (the “**Mergerstat Report**”) (considered a commonly used and reliable source for valuation purpose as confirmed by HK Appraisal), a control premium of 10.6% is applied to the transaction prices in the Guideline Companies. Considering (i) we have reviewed valuation reference in other transactions provided by HK Appraisal which also confirmed in general practice, the independence studies conducted by Mergerstat is regarded as a widely adopted database reference of control premium based on its comprehensiveness and objectivity; and (ii) consistent findings based on our independent research on the independent studies conducted by Mergerstat for the first quarter of 2017, the third and fourth quarters of 2016 respectively, we therefore agree with the control premium of 10.6% to be applied in the calculation of the P/GMV of the Guideline Companies. For further information concerning the control premium, please refer to the Valuation Report in Appendix IV to the Circular. Subsequently, HK Appraisal also applied a discount for lack of marketability of 21.00% (“**DLOM**”) on the calculation of the P/GMV of the Guideline Companies to address the fact that the share of Youzan is not publicly traded. As discussed with HK Appraisal, the DLOM was determined and relied on the Black Scholes Option Pricing Model for a put option to determine the cost or price of the put option and the DLOM was defined as the cost of the put option divided by the market price. Considering that (i) the discount for lack of marketability are commonly adopted method for equity valuation and; (ii) we have not identified any major factors which cause us to doubt the fairness and reasonableness of the assumptions adopted by HK Appraisal in calculation of DLOM, we therefore agree with the DLOM of 21.0% to be applied in the calculation of the P/GMV of the Guideline Companies.

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Guideline Transactions

Under the GMAC Method, HK Appraisal has selected an exhaustive list of two comparable transactions to be guideline transactions (“**Guideline Transactions**”). We have discussed with HK Appraisal concerning its selection criteria as disclosed in the Valuation Report and assessed the appropriateness of the Guideline Transactions selected. We have also interviewed with iResearch about the business model of the two target companies of the comparable transactions and the comparability. Koudai is an e-commerce player specialized in micro-shop business and traffic direction. Weidai and Koudai Gouwu are its main business apps. Weidian serves as a platform for merchants and consumers to help them accomplish deals on Weidian or on other social media such as Wechat. Merchants with goods supply can open online stores through the app and sell them on social media or Weidian and for those who do not have goods supply, they can also sell goods already sold by other merchants as a sales agent and thus make profit. Koudai Gouwu is a traffic direction app which promotes sales on other e-commerce platforms by utilizing traffic attracted by UGC on the platform as well as customized recommendations of targeted products according to user’s personal style. Weimai is a mobile shopping software which helps merchants to set up and operate their online stores via the software and sell their goods mainly on social media such as Weibo and Wechat. Considering (i) Koudai’s Weidian and Weimai are similar to Youzan, as they all provide apps with various functions helping merchants with or without their own goods supply make deals with customers primarily on social media ; and (ii) no material changes in the macro-environment, including government policies specific to e-commerce industry, economic conditions (e.g. financial crisis) and social culture (e.g. trend of online shopping), that would lead to tremendous changes in the investor’s view and appetite on both capital market and technology within the past three years given the Guideline Transactions were entered into in 2014 and 2015 respectively as mentioned in the Valuation Report, we are therefore of the view that GMV derived from the 2 Guideline Transactions will serve good indication to the price of Youzan.

Based on our understanding with HK Appraisal, an equal weighting is also assigned to each of the Guideline Transactions after considering the size of business of the target companies and the date of transactions. In terms of the size of business, HK Appraisal considers Koudai Gouwu with an annualized GMV of RMB20 billion for the year the transaction take place is more comparable to Youzan Group whose GMV is approximately 10.0 billion for the year ended 31 December 2016 while the date of transaction of Weimai which is in June of 2015 is closer to the Appraisal Date than that of Koudai Gouwu. Further taking into account the similarity of the 2 Guideline Transactions and the Acquisition in terms of business model as abovementioned, it is therefore considered reasonable for the equal weighting adoption. Details of the 2 comparable guideline transactions are set out in Appendix IV.

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Further, HK Appraisal considered that due to each of the percentage acquired in the Guideline Transactions composes a minority interest acquisition, whereas the Company proposed to acquire a majority interest of Youzan, a control premium should be considered for the transaction price according to the valuation theory. Considering factors abovementioned in subsection headed “Guideline Companies”, it is therefore also appropriate for the control premium of 10.6% to be applied in the calculation of the P/GMV of the Guideline Transactions.

On this basis, HK Appraisal derived the weighted average of the control-premium-adjusted P/GMV multiple of the Guideline Transactions of approximately 0.37.

Prior transactions in the Youzan’s stock

HK Appraisal also consider prior transaction analysis of the Target Company (one method of the market approach) since the best comparable company to the Target Company should be itself. Therefore, HK Appraisal made an analysis for the most recent prior transaction of Series B-2 Preferred Shares. According to the Management, one of the conditions for the Company to acquire 51% equity interest in the Target Company is to treat all the Preferred Shares as Common Shares, therefore HK Appraisal have assumed these Preferred Shares are Common Shares as of the Valuation Date. HK Appraisal is of the view that given no compensation will be given for conversion of all preference shares to common shares of Youzan at the completion of the transaction, it indicates that the value of preferred shares and common shares of Youzan do not deviate materially. Further, we have reviewed test results conducted by HK Appraisal which showed that the per share value between common shares and preferred shares, which had taken into account of different scenarios, was only approximately 2%. As we have not identified any major factors which cause us to doubt the fairness and reasonableness of the assumptions adopted in the calculation performed by HK Appraisal, it is therefore reasonable to have assumed all the Preferred Shares as Common Shares in the valuation. As such, P/GMV in the Series B-2 Preferred Share transition is approximately 0.74. We agree that the most recent prior transaction can serve a good reference for valuation of Youzan.

Adjustment on the GMV of Youzan

According to Independent Reasonable Assurance Report as set out in appendix VII to the Circular, RMB 2.6 billion of the GMV were derived from transactions for which consumers elected direct settlements to merchants. As Youzan Group was not involved in the settlements of these transactions, no related documentary evidence has been maintained by the Youzan Group. Accordingly, the assurer is unable to obtain sufficient evidence to satisfy themselves that the GMV derived from these transactions have been reliably and properly compiled by the Directors in accordance with the criteria. Therefore, the RMB2.6 billion has been deducted in calculating P/GMV above by HK Appraisal. We agree that the RMB2.6 billion should be deducted from the GMV of Youzan for the year ended 31 December 2016 in arriving the P/GMV multiple.

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Weighing of GPTC Method, GMAC Method and Prior Transaction Analysis

According to the Valuation report, GPTC method is reasonable and appropriate when considering the comparability of those guideline companies (i.e. the differences in business size and profitability are observed). On the other hand, the indicated multiple under GMAC method is also reasonable and appropriate although exposed to limited guideline transactions identified in the market. The indicated GMV multiple from the Prior Transaction Analysis is based on the assumption that all the Preferred Shares are equal to Common Shares in value as of the Valuation Date, while normally a convertible preferred share will have a bottom value of a common share. HK Appraisal further assigned weighting of 40%, 30% and 30% to GPTC method, GMAC method and Prior Transaction Analysis respectively by taking into account factors such as data availability, timeliness of data and assumptions when conducting the valuation using GPTC, GMAC and Prior Transaction Analysis methods under market approach. Since the data adopted under GPTC method is relatively updated, a higher weighting is assigned to this method (i.e. 40%). Considering the P/GMV is also 0.55 if equal weighting was assigned, which is the same as the P/GMV ratio adopted by HK Appraisal, we therefore agree with HK Appraisal to apply the aforesaid weighting to multiples under GPTC, GMAC methods and Prior Transaction Analysis to achieve the concluded multiple of approximately 0.55 (“**Concluded P/GMV**”).

By taking into account of the Concluded P/GMV and the total GMV of the Youzan for the year ended 31 December 2016, HK Appraisal arrives at the appraised value of Youzan of RMB4,076.0 million (approximately HK\$4,728.2 million).

Taking into account that the appraised value of Youzan of RMB4,076.0 million (approximately HK\$4,728.2 million) pursuant to the Valuation Report as set out in Appendix IV to the Circular and above considerations regarding to the Valuation Report, we are of the view that the Consideration is fair and reasonable to the Company as a whole.

7. The Consideration Shares and the Issue Price Analysis

(a) Consideration Shares

According to the Sale and Purchase Agreement, the Consideration is HK\$2,096,100,000 and shall be satisfied by the Company by way of allotment and issue of 5,516,052,632 Consideration Shares to the Sellers in proportion to their shareholding in Youzan at the issue price of HK\$0.38 per Consideration Share.

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According to the representation of the management of the Company, the Company has also considered other settlement methods (including cash and promissory note) in respect of the Consideration. Having considered that the cash and cash equivalents of the Group as at 31 December 2016 was approximately HK\$185.4 million as stated in the 2016 Annual Report, the Directors are of the view that Company does not have sufficient cash to satisfy the Consideration and additional borrowings will be required. In addition, the Board considered it is difficult for the Company to obtain borrowings at commercially acceptable terms considering the nature of the Group's business and lack of collateral normally required by the financial institutions.

The allotment and issuance of the Consideration Shares to settle the Consideration was proposed and considered appropriate as it would not affect the liquidity position of the Group and would allow the Company to complete the Acquisition without any cash outlay. Further, the issue of the Consideration Shares to the Sellers would signify and facilitate the alignment of interests between the Company and the Sellers, which would further increase the realisation of the intended synergies and commercial benefits shared by the Company and the Shareholders as a whole. From the fact that the acceptance of payment in Consideration Shares by the Sellers also reflect their confidence in the prospects of the future cooperation of Youzan Group with the Group. Based on the above and despite a new substantial shareholder being introduced to the Company, the Directors consider and we concur that the allotment and issuance of Consideration Shares to settle the Consideration is in the best interest of the Company and the Shareholders as a whole.

(b) Issue Price

The issue price of HK\$0.38 per Consideration Share represents:

- a) a discount of approximately 3.80% to the closing price of HK\$0.395 per Share on the date of signing of the MOU;
- b) a discount of approximately 3.31% to the closing price of HK\$0.393 per Share in the last 5 days prior to the signing of the MOU;
- c) a discount of approximately 1.04% to the closing price of HK\$0.384 per Share in the last 20 days prior to the signing of the MOU;
- d) a discount of approximately 30.91% to the closing price of HK\$0.55 per Share on the Last Trading Day;
- e) a discount of approximately 21.49% to the average closing price of HK\$0.484 per Share in the last five consecutive trading days immediately prior to the Last Trading Day;

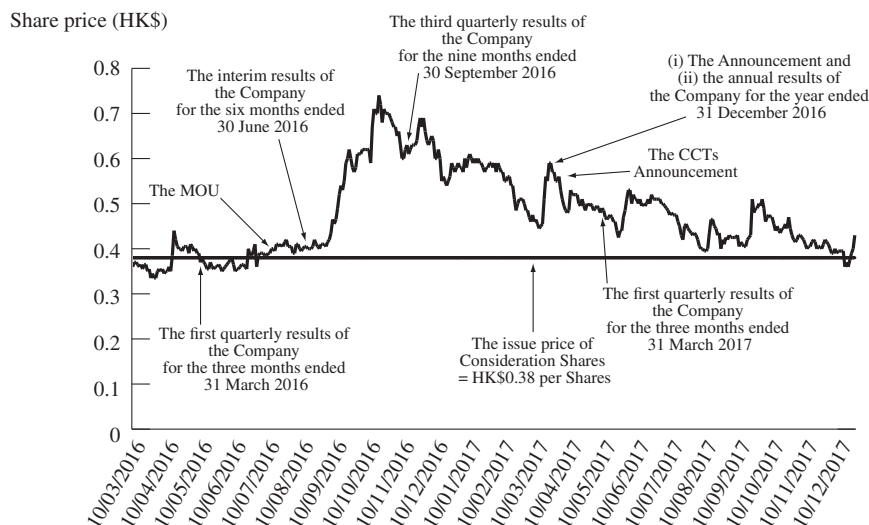
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- f) a discount of approximately 11.63% to the closing price per Share of HK\$0.43 as quoted on the Stock Exchange on the Latest Practicable Date; and
- g) a premium of approximately 111.11% over the net asset value per Share of approximately HK\$0.18 as at 30 June 2017 as extracted from the interim report of the Group for the six months ended 30 June 2017 and 6,978,955,197 issued Shares as at the Latest Practicable Date.

1. Review of historical price movement of the Shares

The following exhibit shows the historical price movement of the Shares from 10 March 2016 (being approximately one year prior to the date of the Acquisition Agreement) up to the Latest Practicable Date (the “**Review Period**”).

Exhibit 1: Comparison of the issue price to market Prices



Source: The website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the closing price of the Shares ranged from the lowest of HK\$0.335 per Share on 29 March 2016, 31 March 2016 and 1 April 2016 respectively to the highest closing price of HK\$0.740 per Share on 18 October 2016, with a simple arithmetic average closing price of approximately HK\$0.476 per Share. The issue price of Consideration Shares of HK\$0.38 represents a discount of approximately 48.7% to the highest closing price per Share and a premium of 13.4% over the lowest price per Share.

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2. *Company's Share trading liquidity*

	Total Volume of the Shares traded	Number of trading days	Average Daily Volume	Number of issued Shares as at the end of the period/ month	Approximately % of average daily trading volume to the total number of issued Shares as at the end of period/month
2016					
March	124,966,000	14	8,926,143	6,015,766,457	0.15%
April	267,223,500	20	13,361,175	6,062,062,753	0.22%
May	122,308,000	21	5,824,190	6,062,062,753	0.10%
June	216,022,457	21	10,286,784	6,062,062,753	0.17%
July	126,084,800	20	6,304,240	6,062,062,753	0.10%
August	129,067,621	22	5,866,710	6,062,062,753	0.10%
September	492,318,000	21	23,443,714	6,062,062,753	0.39%
October	483,561,200	19	25,450,589	6,099,310,753	0.42%
November	249,806,200	22	11,354,827	6,099,310,753	0.19%
December	238,738,000	20	11,936,900	6,099,310,753	0.20%
2017					
January	108,370,000	19	5,703,684	6,099,310,753	0.09%
February	225,450,400	20	11,272,520	6,099,310,753	0.18%
March	477,393,000	16	29,837,063	6,099,310,753	0.28%
April	218,663,000	17	12,862,529	6,888,910,753	0.18%
May	175,497,742	20	8,774,887	6,959,155,197	0.13%
June	269,396,961	22	12,245,316	6,978,955,197	0.18%
July	212,223,163	21	10,105,865	6,978,955,197	0.14%
August	252,785,308	22	11,490,241	6,978,955,197	0.16%
September	344,581,000	21	16,408,619	6,978,955,197	0.24%
October	287,517,200	20	14,375,860	6,978,955,197	0.21%
November	235,737,185	22	10,715,327	6,978,955,197	0.15%
December	274,184,000	19	14,430,737	6,978,955,197	0.21%

Notes:

1. The Review Period commenced on 10 March 2016
2. The Review Period ended on 29 December 2017

Regarding the liquidity of the Shares, as shown in the table above, the highest average daily volume was approximately 29.8 million Shares in March 2017, representing approximately 0.28% of the total number of Shares as at end of March 2017. We noted that the trading liquidity of the Shares was thin during the Review Period.

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3. Market comparable analysis on the Issue Price

To assess as to the fairness and reasonableness of the Issue Price, we have considered applying a comparable analysis to companies listed on the Main Board of the Stock Exchange that (i) with similar business of the Target Group and/or the Group in terms of principal business, operations and financial position; (ii) issue consideration shares for the purpose of acquiring a company with different business nature; and (iii) involving acquisition transactions by issuance of consideration shares during the three months period from 17 December 2016 up to the date of the Acquisition Agreement (the “**Comparable Period**”) which could represent the recent trend of the acquisition transactions in the prevailing market condition. However, we have reviewed all the companies listed on the Main Board and GEM Board of the Stock Exchange which have announced acquisitions by issuance of consideration shares during the Comparable Period and we have not been able to identify suitable comparable companies with the above selection criteria. We noted that the issue prices of the acquisitions of the companies may vary upon many factors, including but not limited to the business nature, the financial performance of the companies, the prevailing market conditions and the price and trading performance of the shares of the respective companies. Meanwhile, due to the unique business nature of the Youzan Group and/or the Group, we did not identify suitable comparable companies which are engaged in a business similar to the principal business of the Youzan Group and/or the Group. Thus, we consider a comparable analysis on similar principal business is not applicable and would not be able to give representative and comprehensive information to the Independent Shareholders for a fair comparison with the Issue Price proposed by the Group.

As stated in the Letter from the Board, the Issue Price of HK\$0.38 per Share was determined by taking into account (i) the market price of the Shares in the last 20 days prior to the signing of the MOU; (ii) the trading volume of the Shares during the three months prior to the signing of the MOU; (iii) the financial results of the Company for the year ended 31 December 2015 and the six months ended 30 June 2016; (iv) the qualified opinion of the Company’s auditors of its financial statements for the year ended 31 December 2015; and (v) the lock-up period of the Consideration Shares. In assessing the fairness and reasonableness of the Issue Price, we have reviewed the announcements published by the Company from 18 July 2016, the date of the MOU to 28 March 2017, the date of the Acquisition was announced.

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In assessing the fairness and reasonableness of the Issue Price, we have reviewed the Share price chart stated in Exhibit 1 above and noted that the Shares price of the Company maintained relatively stable after the announcement of the MOU for one and half month before it started to move up from September 2016 and peaked at HK\$0.74 per Share on 18 October 2016. During the period from the date of signing of the MOU to 18 October 2016, the Company announced interim results on 10 August 2016 that the Group's turnover for the six months ended 30 June 2016 decreased by 68% compared with the same period in 2015. On 28 March 2017, the same day of the Acquisition, the Company published annual results, according to which the Group's turnover for 2016 decreased by 17.4% compared with 2015 and a qualified audit opinion was issued by the Company's auditor. However, the Shares price had not adjusted in line with the financial performance of the Company. We compared the trend of the Share price with Hang Seng Index during the same period and noted no particular correlation. Moreover, we also have discussed with the management of the Company and noticed no particular reason related to the Company for the upward movement of the Shares price after the date of MOU. Therefore, we believe that the increase of the Shares price from the date of MOU may be attributable to the market reaction resulting from the Acquisition given (1) financial performance of the Company as disclosed in the interim report and annual report were not very appealing; (2) no particular correlation of the Share price with the Hong Kong stock market was indicated; and (3) the management of the Company is not aware of any particular reasons related to the Company.

Having considered (i) the Group's financial performance and financial situation have not been enhanced or improved after signing the MOU; (ii) the Share price maintained stable in the last 20 days prior to the signing of the MOU; (iii) the issue price of Consideration Shares of HK\$0.38 falls within the range of the closing prices of the Shares on the Stock Exchange during the Review Period; and (iv) the low average daily turnover of the Shares, we therefore concur with the Directors' view that the Issue Price of the Consideration Shares is fair and reasonable and is in the interests of the Company and Shareholders as a whole.

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8. Dilution effects on the Shareholders

Assuming there being no other changes in the share capital of the Company from the Latest Practicable Date up to the date of issue of the Consideration Shares and the SM Placing Shares, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issuance of all SM Placing Shares; (iii) immediately after the allotment and issuance of the Consideration Shares; and (iv) immediately after the allotment and issuance of the Consideration Shares and all the SM Placing Shares (the Consideration Shares will be issued after the issue of the SM Placing Shares), based on the disclosure of interest notices filed by the relevant Shareholders as at the Latest Practicable Date.

Name of the shareholders of the Company	As at the Latest Practicable Date (Note 4)		After the allotment and issue of all SM Placing Shares		After the allotment and issue of the Consideration Shares		After the allotment and issue of the Consideration Shares and all SM Placing Shares	
	Approximate		Approximate		Approximate		Approximate	
	Number of shares held	percentage	Number of shares held	percentage	Number of shares held	percentage	Number of shares held	percentage
Mighty Advantage Enterprises Limited (Note 1)	1,311,792,000	18.80%	1,311,792,000	17.63%	1,311,792,000	10.50%	1,311,792,000	10.13%
Cao Chunmeng (Note 2)	67,420,000	0.97%	67,420,000	0.91%	67,420,000	0.54%	67,420,000	0.52%
Yan Xiaotian (Note 2)	21,640,000	0.31%	21,640,000	0.29%	21,640,000	0.17%	21,640,000	0.17%
Fong Chi Wah (Note 3)	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%
Wang Zhongmin (Note 3)	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%
Gu Jiawang (Note 3)	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%	1,000,000	0.01%
Central Huijin Investment Limited (Note 1)	48,640,000	0.70%	48,640,000	0.65%	48,640,000	0.39%	48,640,000	0.38%
Sellers								
Whitecrow Investment	-	-	-	-	1,440,601,703	11.53%	1,440,601,703	11.12%
Rory Huang	-	-	-	-	407,543,167	3.26%	407,543,167	3.15%
V5.Cui Investment	-	-	-	-	241,885,127	1.94%	241,885,127	1.87%
Youzan Teamwork	-	-	-	-	363,170,101	2.91%	363,170,101	2.80%
Xincheng Investment	-	-	-	-	370,607,335	2.97%	370,607,335	2.86%
Aves Capital	-	-	-	-	201,123,478	1.61%	201,123,478	1.55%
Tembusu HZ	-	-	-	-	905,961,684	7.25%	905,961,684	6.99%
Matrix Partners China III	-	-	-	-	391,846,533	3.14%	391,846,533	3.02%
Hillhouse KDWD	-	-	-	-	700,848,478	5.61%	700,848,478	5.41%
E&A Amigne	-	-	-	-	337,131,570	2.70%	337,131,570	2.60%
Ralston Global	-	-	-	-	77,666,728	0.62%	77,666,728	0.60%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Name of the shareholders of the Company	As at the Latest Practicable Date (Note 4)		After the allotment and issue of all SM Placing Shares		After the allotment and issue of the Consideration Shares		After the allotment and issue of the Consideration Shares and all SM Placing Shares	
	Approximate		Approximate		Approximate		Approximate	
	Number of shares held	shareholding percentage	Number of shares held	shareholding percentage	Number of shares held	shareholding percentage	Number of shares held	shareholding percentage
Puhua Investment	-	-	-	-	77,666,728	0.62%	77,666,728	0.60%
Sub-total	-	-	-	-	5,516,052,632	44.16%	5,516,052,632	42.57%
SM Placees	-	-	460,000,000	6.18%	-	-	460,000,000	3.55%
Other public shareholders (Note 4)	5,526,463,197	79.19%	5,526,463,197	74.31%	5,526,463,197	44.21%	5,526,463,197	42.65%
Sub-total	<u>5,526,463,197</u>	<u>79.19%</u>	<u>5,986,463,197</u>	<u>80.49%</u>	<u>5,526,463,197</u>	<u>44.21%</u>	<u>5,986,463,197</u>	<u>46.20%</u>
Total	<u><u>6,978,955,197</u></u>	<u><u>100.00%</u></u>	<u><u>7,438,955,197</u></u>	<u><u>100.00%</u></u>	<u><u>12,495,007,829</u></u>	<u><u>100.00%</u></u>	<u><u>12,955,007,829</u></u>	<u><u>100.00%</u></u>

Notes:

1. Mighty Advantage Enterprises Limited (“**Mighty Advantage**”) is beneficially owned by Mr. Guan Guisen, who is an executive Director. Based on the best knowledge and information of the Directors as at the Latest Practicable Date, Mighty Advantage has a short position of 1,140,000,000 Shares under a legal charge in connection with certain financing provided by Chance Talent Management Limited to Mighty Advantage. Chance Talent Management Limited is a wholly owned subsidiary of the China Construction Bank Corporation which is in turn controlled by Central Huijin Investment Limited.
2. Each of Mr. Cao Chunmeng and Mr. Yan Xiaotian is an executive Director.
3. Each of Dr. Fong Chi Wah, Mr. Wang Zhongmin and Mr. Gu Jiawang is an independent non-executive Director.
4. As the GM Placing was completed on 26 April 2017, the total number of issued shares of the Company as at the Latest Practicable Date included the 788,600,000 GM Placing Shares. To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, each of the GM Placees was not an existing Shareholder immediately before the GM Placing. For further details in relation to completion of the GM Placing, please refer to the announcement of the Company dated 26 April 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown in the table above, the shareholding of the existing other public Shareholders in the Company will decrease from approximately 79.19% to approximately 42.65% immediately after the allotment and issuance of the Consideration Shares and all SM Placing Shares (representing a dilution by approximately 36.54%). The Sellers will become the controlling Shareholder and Mighty Advantage Enterprises Limited, the existing single largest Shareholder, will continue to be a substantial Shareholder upon the allotment and issuance of the Consideration Shares and all SM Placing Shares. Although the shareholding interest of the existing other public Shareholders will be diluted, having taken into account (i) the benefits and the synergistic effect with Youzan Group brought forth by the Acquisition; (ii) the fairness and reasonableness of the Consideration; and (iii) the fairness and reasonableness of the issue price of the Consideration Shares, we are of the opinion that the dilution effect on shareholding of the existing other public Shareholders are acceptable.

9. Financial effects of the Acquisition

(a) *Earnings*

Upon Completion, the Youzan will become a non-wholly owned subsidiary of the Company and its results will be consolidated with that of the Group. In light of prospects of the e-commerce industry in the PRC, the Directors are of the view that the Acquisition would widen the earnings base of the Group.

(b) *Intangible assets*

Upon Completion, the Group will recognize intangible assets of approximately HK\$2,221.0 million. The identifiable intangible assets mainly represent trademarks, e-commerce applications and distribution network. Intangible assets with finite useful lives are amortised over the expected useful economic lives and will be assessed for impairment whenever there is an indication that the intangible assets may be impaired.

(c) *Goodwill*

Upon Completion, the Group will recognize a goodwill of approximately HK\$1,853.4 million. The goodwill represents the fair value of the Consideration of approximately HK\$2,592.5 million over the share of the 51% attributable net fair value of identifiable assets and liabilities of Youzan Group of approximately HK\$739.1 million.

The carrying amount of goodwill is also subject to impairment assessment at Completion and at the end of each reporting date. Based on the applicable accounting standards, there is no impairment of goodwill based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(d) Net assets

Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to the Circular, upon Completion, the Enlarged Group's net assets at 30 June 2017 would be increased to approximately HK\$4,732.4 million. The increase in the net assets of approximately HK\$3,478.0 million is mainly due to an increase in intangible assets of approximately HK\$2,220.5 million, an increase in goodwill of approximately HK\$1,853.4 million and offset by an increase in deferred tax liabilities of approximately HK\$555.1 million.

(e) Working capital

Based on the unaudited pro forma combined statement of assets and liabilities of the Enlarged Group as set out in Appendix III to the Circular, upon Completion, the Enlarged Group's net working capital as at 30 June 2017 would be decreased to approximately HK\$416.8 million. The decrease in net working capital of approximately HK\$6.1 million is mainly due to the effect of the net current liabilities position of Youzan Group of approximately HK\$216.8 million, but partially offset by the expected net proceeds of approximately HK\$182.7 million raised from the SM Placing (assuming that 300,000,000 SM Placing Shares have been placed at HK\$0.625 per SM Placing Share (i.e the mid-point of the price range) and decrease in accruals and other payables of approximately HK\$35.3 million due to the elimination of amount relating earnest money of approximately RMB30.0 million. However, considering the current portion of deferred revenue of Youzan of approximately HK\$145.6 million, which represents the non-refundable advances received that is mainly license charges to merchants and would not result in cash outflow subsequently, by excluding the impact of such deferred revenue, the Enlarge Group would have an increase in adjusted net working capital of approximately HK\$139.5 million.

In light of: (i) the prospected positive effect on the earnings of the Group; (ii) the positive effect on the net assets of the Group; and (iii) the positive effect on the adjusted working capital mainly arising from the SM Placing which is inter-conditional to the Acquisition, we are of the view that the Acquisition will have an overall positive financial effect on the Group and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

10. The Whitewash Waiver

The issue of the Consideration Shares to the Sellers will result in the increase in shareholding of the Sellers (together with parties acting in concert with them) in the Company from nil to (i) approximately 42.57% of the issued Shares as enlarged by the allotment and issuance of the Consideration Shares and the maximum number of the SM Placing Shares. Such an increase will give rise to an obligation under Rule 26 of the Takeovers Code for the Sellers to make a mandatory general offer for all the Shares and other securities issued by the Company not already held or agreed to be acquired by the Sellers (together with parties acting in concert with them) unless the Whitewash Waiver is obtained. In this regard, the Sellers have applied to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. Independent Shareholders should note that the Acquisition is conditional on, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by the Independent Shareholders at the EGM. Such condition precedent cannot be waived under the terms of the Sale and Purchase Agreement. If the Whitewash Waiver is not granted by the Executive or the Whitewash Waiver is not approved by the Independent Shareholders, the Sale and Purchase Agreement will lapse and the Acquisition will not proceed. Taking into account of (1) information of the Group; (2) background and information of the Sellers; (3) background information of Youzan; (4) industry overview; (5) reasons and benefits for the Acquisition; (6) key terms of the Sale and Purchase Agreement; (7) fairness and reasonableness of the Consideration; (8) Consideration Shares and the Issue Price analysis; (9) dilution effects of the Shareholders; (10) financial effects of the Acquisition, we do not see the merit to be gained by the Independent Shareholders for not voting in favour of the resolution to approve the Whitewash Waiver. Failure to approve the resolution in relation to the Whitewash Waiver would cause the Sale and Purchase Agreement to lapse.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

11. The Continuing Connected Transactions

a) Third Party Payment Services Framework Agreement

Details of the terms of the Third Party Payment Services Framework Agreement, please refer to the paragraph headed “Third Party Payment Services Framework Agreement,” in the Letter from the Board. Principal terms of the Third Party Payment Services Framework Agreement, are summarized as follows:

Date

8 April 2017

Parties

1. Beijing Gaohuitong; and
2. Hangzhou Youzan

Conditions precedent

The commencement of the Third Party Payment Services Framework Agreement is conditional upon fulfillment of (i) completion of the Acquisition; (ii) the obtaining of the approval from the Independent Shareholders by the Company in relation to the transactions contemplated under the Third Party Payment Services Framework Agreement and the related transactions contemplated thereunder in accordance with the GEM Listing Rules; and (iii) the obtaining of the approval from the board of directors of Youzan in relation to the Third Party Payment Services Framework Agreement and the related transactions contemplated thereunder within 60 days from signing of the Third Party Payment Services Framework Agreement or any other duration as agreed between Beijing Gaohuitong and Hangzhou Youzan.

Term

The Third Party Payment Services Framework Agreement is of a term commencing from the date on which the above conditions precedent are fulfilled and ending on 31 December 2019 (both days inclusive).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Scope of services

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

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

Pricing policy and payment terms

The provision of the relevant payment services under the Third Party Payment Services Framework Agreement shall only commence upon fulfillment of the conditions precedent as stated above.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand from the Company that Company's current estimation of the price for the provision of major relevant payment services under the Third Party Payment Services Framework Agreement is 0.35%, being the estimated service rate (the "Service Fee Rate") to be charged on the estimated GMV of the transactions to be made by Hangzhou Youzan which shall require the third party payment services provided by Beijing Gaohuitong under the Third Party Payment Services Framework Agreement (the "GMV Transactions"). The Service Fee Rate is determined in accordance with the formula as follow:

Service Fee Rate = Service Costs + markup

We also understand from the Company that the estimated Service Fee Rate of 0.35%, as at the Last Practicable Date, (i) is higher than the corresponding service fee rates charged on similar payment services provided by Beijing Gaohuitong to independent third parties, which is approximately around 0.3% as confirmed by the Company, given the GMV of the relevant transactions made by those independent third parties is comparable to the GMV Transactions; and (ii) is not lower than the Service Costs plus a markup of 20%, which the margin itself is also higher than the corresponding margin charged and/or quoted on similar payment services provided by Beijing Gaohuitong to independent third parties as confirmed by the Company, given the GMV of the relevant transactions made by those independent third parties is comparable to the GMV Transactions, therefore we considered the current estimated Service Fee rate under the Third Party Payment Services Framework Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

Internal control

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

1. the Company will supervise the continuing connected transactions in accordance with the procedures set forth in the Company's internal control manual on continuing connected transactions. Designated personnel of the operation department of the Company will conduct regular checks to review and assess whether relevant transactions are conducted in accordance with the terms of the Third Party Payment Services Framework Agreement and monitor the changes in the relevant upstream channel costs. The Company will notify such changes in the upstream channel costs to Hangzhou Youzan as soon as practicable and the relevant service fees will be adjusted accordingly on a monthly basis;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. the Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions;
3. the Company's Audit Committee will review at least twice a year the analysis reports and the improvement measures prepared by the Company's management based on the implementation of the continuing connected transactions by the Company; and
4. the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

We have reviewed the procedures aforementioned to be implemented and are of the view that it can effectively ensure that the service fee charged under the Third Party Payment Services Framework Agreement shall not (i) be less favourable than those available to independent third parties for similar quotation arrangement of similar payment services provided by Beijing Gaohuitong or (ii) be lower than the upstream channel costs and operating costs incurred in relation to the provision of similar payment services by Beijing Gaohuitong plus a markup of 20%.

1. Basis of the proposed annual caps

The proposed annual caps in respect of the transactions contemplated under the Third Party Payment Services Framework Agreement for each of the three years ending 31 December 2019 is RMB50,000,000, RMB110,000,000 and RMB160,000,000 respectively.

With reference to the Letter from the Board, we understand from the Company that the annual caps of the Third Party Payment Services Framework Agreement for the three years ending 31 December 2019 as proposed by the Board are based on, among others, Youzan's estimate of its business growth for the three years ending 31 December 2019, in particular the expected GMV of Youzan Group derived from the expected number of active registered merchants and expected transaction amount of the active registered merchants; and the Company's current estimation of the price for the provision of major relevant payment services under the Third Party Payment Services Framework Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the annual caps of the Third Party Payment Services Framework Agreement, we have also discussed with the Directors regarding the basis of determination of the annual caps as set out above. In this regard, we have obtained the calculation of the annual caps by categories of the services for the three years ending 31 December 2019 (the “**Calculation**”) which is summarized as follows:

	For the financial year ending 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Expected service fee from the transaction of:			
(i) Youzan Wei Mall	41,252	101,384	139,368
(ii) Youzan Cashier	607	2,854	6,600
Total	41,859	104,238	145,968
Proposed annual caps	50,000	110,000	160,000

We understand from the Company that regarding the basis mentioned above, the Company has taken into account the following considerations during the course of preparation of the Calculation:

- the number of total registered merchants of Youzan Weimall is expected to increase with an annual growth of 2 million new registered merchants for the 3 years ending 31 December 2019, after an explosive growth of the 7.7 million new registered users recorded for the year ended 31 December 2015. As Youzan Group has commenced to charge its users an annual subscription fee since May 2016, we considered it is reasonable to expect the number of annual growth of new registered merchants for the 3 years ending 31 December 2019 to follow the relevant growth recorded for the year ended 31 December 2016 of approximately 2 million as suggested by the management of Youzan Group, which implied a decreasing annual growth rate for the 3 years ending 31 December 2019;

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2. the percentage of active merchants in total registered merchants of Youzan Weimall for the 3 years ending 31 December 2019 is expected to remain at 3.74%. As the percentage follows the previous year's percentage of approximately 3.74% and is below the average historical percentage of 4.08% since the commencement of business of Youzan Group as suggested by the management of Youzan Group, we considered it is reasonable to expect such percentage of active merchants in total registered merchants to remain the same for the 3 years ending 31 December 2019;
3. the average expected GMV per expected active registered merchant of Youzan Weimall is estimated to grow at the annual growth rates of 80%, 40% and 20% for the 3 years ending 31 December 2019 respectively, after the explosive annual growth rates of approximately 110% and 160% recorded for the two year ended 31 December 2016 respectively. As suggested by the management of Youzan Group, the relevant growth rate of approximately 37% for the three months ended 31 March 2017 as compared to three months ended 31 December 2016, we considered it is reasonable to expect such decreasing annual growth rates of the average expected GMV per expected active registered merchant of Youzan Weimall for the 3 years ending 31 December 2019; and
4. the current estimation of the Service Fee Rate for the provision of major relevant payment services under the Third Party Payment Services Framework Agreement of 0.35% which we considered is reasonable as mentioned above in the subsection headed "Pricing policy and payment terms".

In light of the above, we consider that the annual caps of the Third Party Payment Services Framework Agreement for the three years ending 31 December 2019 are fair and reasonable so far as the Independent Shareholders are concerned.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2019, and they do not represent forecasts of revenue/income/costs to be recognized/incurred from the transactions. Consequently, we express no opinion as to how closely the actual revenue/income/costs to be recognized/incurred from the continuing connected transaction will correspond with its proposed annual caps under the Third Party Payment Services Framework Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

As mentioned in the Letter from the Board, it is expected that upon completion of the Acquisition, Youzan Group's "WeiMall" and its other ancillary and specialised e-commerce platforms will integrate with the Group's third party payment services infrastructure, where the Group's third party payment services will be used on all online stores opened with "WeiMall" as the platform's sole authorised payment service provider.

Entering into the Third Party Payment Services Framework Agreement could immediately contribute positively and increase the transaction volume using the Group's third party payment services. The Group believes that entering into the Third Party Payment Services Framework Agreement complements the Group's development strategy regarding its third party payment services as it will expand the number of users and consumers using the Group's payment gateway and the processing transaction volume via the Group's payment system.

The Directors (excluding the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" to the Circular) are of the view that the Third Party Payment Services Framework Agreement has been entered into after arm's length negotiations on normal commercial terms and the terms thereof are fair and reasonable and in the interests of the Company and its shareholders as a whole.

b) Loan Agreement

On 8 April 2017, the Company entered into the Loan Agreement (as supplemented by the supplemented loan agreement dated 29 November 2017) with Youzan, pursuant to which the Company has conditionally agreed to grant to Youzan an unsecured loan facility up to HK\$200,000,000 (inclusive of the principal loan amount and interest) and subject to the terms and conditions set out therein. Principal terms of the loan agreement are as follows:

Lender	The Company
Borrower	Youzan
Loan amount	Not exceeding HK\$200,000,000 at any time, inclusive of the principal Loan amount and interest
Terms	From the Loan Effective Date until 31 December 2020

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Interest rate	Youzan shall pay interest on any outstanding principal of the loan at the interest rate of 2% per annum above the Prime Rate from time to time, which shall be calculated and charged on a monthly basis.
Repayment terms	Youzan shall fully repay any outstanding principal and any accrued but unpaid interest and any other monies due under the Loan Agreement on the expiry of the term of the Loan Agreement.
Conditions precedent	The commencement of the Loan Agreement is conditional upon (i) completion of the Acquisition; (ii) the obtaining of the approval from the Independent Shareholders by the Company in relation to the Loan Agreement and the related transactions contemplated thereunder in accordance with the GEM Listing Rules; and (iii) the obtaining of the approval from the board of directors of Youzan in relation to the Loan Agreement and the related transactions contemplated thereunder.

1. Reasons for and benefits of entering into the Loan Agreement

According to the Letter from the Board, the Directors expect that the synergetic effect generated by the Acquisition shall bring new business to the Enlarged Group. Therefore, the Directors intended that the proceeds from the loan shall be used to support the business plan and development of Youzan upon completion of the Acquisition.

The Directors (excluding the independent non-executive Directors whose views are set out in the “Letter from the Independent Board Committee” to the Circular) are of the view that the Loan Agreement has been entered into after arm’s length negotiations on normal commercial terms and the terms thereof are fair and reasonable and in the interests of the Company and its shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. *Interest rate and proposed annual cap for the Loan Agreement*

Pursuant to the Loan Agreement, the interest on the Loan payable by the Borrower to the Lender will be Prime Rate plus 2% per annum, with the Prime Rate being the Hong Kong dollar prime rate as quoted by the Hong Kong and Shanghai Banking Corporation Limited from time to time, which shall be calculated and charged on a monthly basis. As advised by the Directors and based on our understanding, it is a common practice for commercial banks in Hong Kong to charge interest on corporate loans (in Hong Kong Dollars) at rates with reference to the Hong Kong Interbank Offered Rate (HIBOR), or the Prime Rate (best lending rate). In addition, according to the web-site of the Hongkong and Shanghai Banking Corporation Limited (<https://www.personal.hsbc.com.hk/1/2/hk/investments/mkt-info/blr>), the current Hong Kong Dollars best lending rate was 5.0% as at the Latest Practicable Date. It has not fluctuated since 2008.

From our research over the web-site of the Stock Exchange at www.hkex.com.hk regarding provision of financial assistance to either independent third parties or connected persons by listed companies in Hong Kong, we noted that there were around 39 such announcements (the “**Interest Rate Comparables**”) dated from 8 March 2017 to 8 April 2017 (being the one-month period prior to and including the date of the Loan Agreement). As far as we are aware of, the Interest Rate Comparables are also exhaustive based on our best-effort basis. Out of the 46 Interest Rate Comparables, the interest rates ranged from 4.35% to 30.0% with an average interest rate of 12.24%. That is to say, the increment of 2% (making the interest rate 7% per annum as at the Latest Practicable Date) is within the range charged by other listed companies in Hong Kong and thus is justifiable based on market comparison. Taking into account all of the above and the Reasons for and benefits of entering into the Loan Agreement as set out in the Letter from the Board, we are of the opinion that the interest rate of 2% per annum above the Prime Rate is fair and reasonable.

No transactions were conducted in the past between the Company and Youzan in relation to the provision of loan and financing.

The proposed annual caps in respect of the transactions contemplated under the Loan Agreement for each of the three years ending 31 December 2020 is HK\$160,000,000, HK\$200,000,000 and HK\$200,000,000 respectively.

As disclosed in the Letter from the Board, the abovementioned annual caps are determined with reference to, among others, the current business plan of Youzan Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We refer to current business plan of Youzan Group as set out in the “Reasons for and benefits of the SM Placing and use of proceeds” of the Letter from the Board regarding the use of net proceeds from the SM Placing and noted HK\$160,000,000 will be used for the incoming business of Youzan Group through the Loan Agreement, which includes, among others, (i) maintenance and upgrade of the system; (ii) new products development; and (iii) promotion of the products and services (the “**Incoming Business**”). Considering (i) the total amount of HK\$155,000,000 to be spent on the Incoming Business (excluding general working capital) accounting for approximately 96.9%, 77.5% and 77.5% of the annual caps for the three years ending 31 December 2020 respectively; (ii) potential growth resulting from the synergetic effect generated by the Acquisition, we are of the opinion that the proposed annual caps in respect of the transactions contemplated under the Loan Agreement is fair and reasonable.

CONCLUSION AND RECOMMENDATION

Having taken into consideration of the following principal factors and reasons regarding the Acquisition and the Continuing Connected Transaction, including:

- a) the customer base and the prospect of the Youzan Group;
- b) the promising prospect of the e-commerce industry in the PRC;
- c) the Valuation Report prepared by HK Appraisal;
- d) the Independent Reasonable Assurance Report prepared by Ernst & Young as set out in THE 2016 GMV OF YOUZAN GROUP in the Circular;
- e) the synergetic effects shared between the third party payment platform of the Group and Youzan Group’s third party e-commerce platform;
- f) the entering and the terms of the Third Party Payment Services Framework Agreement and the Loan Agreement are fair and reasonable and would enhance the synergies with Youzan Group; and
- g) the basis of determining the proposed annual caps in respect of the transactions contemplated under the Third Party Payment Services Framework Agreement and the Loan Agreement are fair and reasonable respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are of the view that (i) the Acquisition (including but not limited to the grant of the Specific Mandate for the allotment and issue of the Consideration Shares); (ii) the Whitewash Waiver; (iii) the Third Party Payment Services Framework Agreement and the transactions contemplated thereunder; (iv) the proposed annual caps in respect of the transactions contemplated under the Third Party Payment Services Framework Agreement; (v) the Loan Agreement and the transactions contemplated thereunder; and (vi) the proposed annual caps in respect of the transactions contemplated under the Loan Agreement are entered in the ordinary and usual course of business of the Group upon the completion of the Acquisition and on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions (including the proposed caps).

We are aware of and have complied with both the “Circular to Financial Advisers in relation to their Advisory Work on Valuations in Corporate Transactions” issued by the Securities and Futures Commission on 15 May 2017 and the applicable requirements under the Corporate Finance Adviser Code of Conduct.

Yours faithfully,
For and on behalf of
SPDB International Capital Limited
Karlson Chan
Managing Director

Note: Mr. Karlson Chan is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of SPDB International Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 14 years of experience in corporate finance industry.

I. FINANCIAL SUMMARY OF THE GROUP

(i) Audited financial information of the Group

Set out below is a summary of the financial information of the Group for the three financial years ended 31 December 2014, 2015 and 2016, which is extracted from the annual report of the Company for the three financial years ended 31 December 2014, 2015 and 2016, respectively:

Consolidated Statement of Profit Or Loss and Other Comprehensive Income

	For the year ended 31 December		
	2014	2015	2016
	<i>(Represented)</i>		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	81,222	97,068	80,182
Cost of sales	<u>(46,173)</u>	<u>(71,468)</u>	<u>(56,227)</u>
Gross profit	35,049	25,600	23,955
Other income	4,461	15,021	24,946
Selling expenses	(31,181)	(27,378)	(16,917)
Administrative expenses	(60,675)	(100,621)	(125,040)
Equity-settled share-based payments	<u>(4,463)</u>	<u>(57,548)</u>	<u>(48,415)</u>
Loss from operations	(56,809)	(144,926)	(141,471)
Finance costs	(9,714)	(15)	–
(Loss)/gain on fair value change of contingent consideration payables	–	13,155	(70,984)
Impairment of goodwill	<u>(53,323)</u>	<u>(4,641)</u>	<u>(12,301)</u>
Loss before tax	(119,846)	(136,427)	(224,756)
Income tax credit/(expense)	(3,740)	(2,556)	242
Loss for the year from continuing operations	(123,586)	(138,983)	(224,514)
Discontinued operations			
Loss for the year from discontinued operations	<u>–</u>	<u>(21,588)</u>	<u>(4,383)</u>
Loss for the year	(123,586)	(160,571)	(228,897)

	For the year ended 31 December		
	2014	2015	2016
	(Represented)		
	HK\$'000	HK\$'000	HK\$'000
Loss for the year	(123,586)	(160,571)	(228,897)
Attributable to:			
Owners of the Company			
– Continuing operations	(122,724)	(132,536)	(210,128)
– Discontinued operations	<u>–</u>	<u>(21,282)</u>	<u>(4,294)</u>
	(122,724)	(153,818)	(214,422)
Non-controlling interests			
– Continuing operations	(862)	(6,447)	(14,386)
– Discontinued operations	<u>–</u>	<u>(306)</u>	<u>(89)</u>
	<u>(862)</u>	<u>(6,753)</u>	<u>(14,475)</u>
	<u>(123,586)</u>	<u>(160,571)</u>	<u>(228,897)</u>
Loss per share			
From continuing and discontinued operations			
Basic	<u>(2.37)</u>	<u>(2.71)</u>	<u>(3.53)</u>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
From continuing operations			
Basic	<u>(2.37)</u>	<u>(2.33)</u>	<u>(3.46)</u>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Consolidated Statement of Financial Position

	As at 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	8,122	15,308	12,882
Intangible assets	16,450	9,758	7,154
Long term deposits	28,281	24,531	3,978
Goodwill	686,451	707,508	653,432
Investments in associates	–	–	–
Available-for-sale financial assets	62,525	110,002	100,620
Deposits for investments	–	–	35,723
Deferred tax assets	<u>1,876</u>	<u>–</u>	<u>–</u>
	<u>803,705</u>	<u>867,107</u>	<u>813,789</u>
Current assets			
Inventories	6,770	1,941	3,153
Trade receivables	59,593	43,182	20,507
Prepayments, deposits and other receivables	72,873	31,994	54,218
Amount due from an associate	–	–	3,349
Amount due from non-controlling shareholders of subsidiaries	–	215	855
Bank and cash balances	<u>162,595</u>	<u>236,608</u>	<u>185,422</u>
	<u>301,831</u>	<u>313,940</u>	<u>267,504</u>
Current liabilities			
Trade payables	11,956	3,744	2,418
Accruals and other payables	49,870	38,787	120,033
Borrowings	625	–	–
Amounts due to non-controlling shareholders of subsidiaries	666	776	–
Amount due to a director	5	1,003	3
Current tax liabilities	2,904	2,639	2,453
Contingent consideration payables	10,110	19,667	40,278
Financial guarantee	<u>–</u>	<u>41,365</u>	<u>23,756</u>
	<u>76,136</u>	<u>107,981</u>	<u>188,941</u>

	As at 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Net current assets	<u>225,695</u>	<u>205,959</u>	<u>78,563</u>
Total assets less current liabilities	<u>1,029,400</u>	<u>1,073,066</u>	<u>892,352</u>
Non-current liabilities			
Contingent consideration payables	–	–	33,582
Deferred tax liabilities	<u>1,076</u>	<u>749</u>	<u>441</u>
	<u>1,076</u>	<u>749</u>	<u>441</u>
NET ASSETS	<u><u>1,028,324</u></u>	<u><u>1,072,317</u></u>	<u><u>858,329</u></u>
Capital and reserves			
Share capital	56,055	60,158	60,993
Reserves	<u>965,767</u>	<u>984,462</u>	<u>781,811</u>
Equity attributable to owners of the Company	1,021,822	1,044,620	842,804
Non-controlling interests	<u>6,502</u>	<u>27,697</u>	<u>15,525</u>
TOTAL EQUITY	<u><u>1,028,324</u></u>	<u><u>1,072,317</u></u>	<u><u>858,329</u></u>

The auditor of the Company has not issued any qualified opinion on the consolidated financial statements of the Group for the financial year ended 31 December 2014. The qualifications in the auditor's reports for the years ended 31 December 2015 and 2016 were set out on pages 50 to 53 of the annual report of the Company for the year ended 31 December 2015 and pages 80 to 87 of the annual report of the Company for the year ended 31 December 2016 respectively.

(ii) Unaudited financial information of the Group

Set out below is a summary of the unaudited financial information of the Group for the three months ended 31 March 2017 as extracted from the Group's first quarterly report published on 10 May 2017.

Condensed Consolidated Statement of Comprehensive Income

	For the three months ended 31 March	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover	24,635	8,287
Cost of sales	<u>(17,600)</u>	<u>(3,556)</u>
Gross profit	7,035	4,731
Other revenue	635	2,686
Selling and marketing expenses	(5,868)	(6,516)
General & administrative expenses	<u>(26,815)</u>	<u>(24,428)</u>
Loss from operations	(25,013)	(23,527)
Finance cost	<u>(129)</u>	<u>(936)</u>
Loss before taxation	(25,142)	(24,463)
Taxation	<u>(436)</u>	<u>—</u>
Loss for the period	<u>(25,578)</u>	<u>(24,463)</u>
Other comprehensive income/(loss) for the period, exchange difference on translation of foreign operations	<u>—</u>	<u>—</u>
Total comprehensive income/(loss) for the period, net of tax	<u>(25,578)</u>	<u>(24,463)</u>

	For the three months ended 31 March	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Attributable to:		
Owners of the Company	(22,224)	(21,091)
Minority Interest	<u>(3,354)</u>	<u>(3,372)</u>
	<u><u>(25,578)</u></u>	<u><u>(24,463)</u></u>
Total comprehensive income/(loss) for the period attributed to:		
Owners of the Company	(22,224)	(21,091)
Minority Interest	<u>(3,354)</u>	<u>(3,372)</u>
	<u><u>(25,578)</u></u>	<u><u>(24,463)</u></u>
Loss per share		
– basic	HK\$(0.36) cents	HK\$(0.35) cents
– diluted	<u><u>N/A</u></u>	<u><u>N/A</u></u>

Set out below is a summary of the unaudited financial information of the Group for the six months ended 30 June 2017 as extracted from the Group's interim report published on 7 August 2017.

Condensed Consolidated Statement of Comprehensive Income

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	48,355	9,142	72,990	17,429
Cost of sales	<u>(42,186)</u>	<u>(1,418)</u>	<u>(59,786)</u>	<u>(4,974)</u>
Gross profit	6,169	7,724	13,204	12,455
Other income	8,036	1,852	8,671	4,538
Selling expenses	(7,107)	(1,505)	(12,975)	(8,021)
Administrative expenses	<u>(40,400)</u>	<u>(24,300)</u>	<u>(67,215)</u>	<u>(48,728)</u>
Loss from operations	(33,302)	(16,229)	(58,315)	(39,756)
Gain on fair value change of contingent consideration payables	7,639	–	7,639	–
Loss of disposal of a subsidiary	–	(2,900)	–	(2,900)
Finance cost	<u>(194)</u>	<u>(498)</u>	<u>(323)</u>	<u>(1,434)</u>
Loss before taxation	(25,857)	(19,627)	(50,999)	(44,090)
Taxation	<u>(1)</u>	<u>(29)</u>	<u>(437)</u>	<u>(29)</u>
Loss for the period	(25,858)	(19,656)	(51,436)	(44,119)
Non-controlling interests	<u>3,354</u>	<u>1,062</u>	<u>6,359</u>	<u>(2,310)</u>
Loss attributable to shareholders	<u><u>(22,504)</u></u>	<u><u>(18,594)</u></u>	<u><u>(45,077)</u></u>	<u><u>(46,429)</u></u>

APPENDIX IA**FINANCIAL INFORMATION OF THE GROUP**

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss per share				
– basic	HK(0.34)	HK(0.38)	HK(0.70)	HK(0.73)
	cents	cents	cents	cents
– diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Dividend	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Loss for the period	<u>(25,858)</u>	<u>(19,656)</u>	<u>(51,436)</u>	<u>(44,119)</u>
Other comprehensive income for the period, net of tax	<u>8,198</u>	<u>–</u>	<u>8,198</u>	<u>–</u>
Total comprehensive income for the period, net of tax	<u>(17,660)</u>	<u>(19,656)</u>	<u>(43,237)</u>	<u>(44,119)</u>
Attributable to:				
Owners of the Company	(14,655)	(18,594)	(36,879)	(46,429)
Non-controlling Interests	<u>(3,005)</u>	<u>(1,062)</u>	<u>(6,359)</u>	<u>2,310</u>
	<u>(17,660)</u>	<u>(19,656)</u>	<u>(43,238)</u>	<u>(44,119)</u>

Set out below is a summary of the unaudited financial information of the Group for the nine months ended 30 September 2017 as extracted from the Group's third quarterly report published on 14 November 2017.

Condensed Consolidated Statement of Comprehensive Income

	For the three months ended 30 September		For the nine months ended 30 September	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continue operations				
Revenue	63,521	15,620	136,511	33,048
Cost of sales	<u>(50,082)</u>	<u>(10,839)</u>	<u>(109,869)</u>	<u>(15,813)</u>
Gross profit	13,439	4,781	26,642	17,235
Selling expenses	(6,646)	(5,989)	(19,622)	(14,010)
Administrative expenses	(32,997)	(19,239)	(100,210)	(67,966)
Other income/(expenses)	<u>17,036</u>	<u>(2,877)</u>	<u>25,707</u>	<u>1,660</u>
Loss from operations	(9,168)	(23,324)	(67,483)	(63,081)
Gain on fair value change of contingent consideration payables	–	–	7,639	–
Gain on disposal of subsidiaries	–	4,431	–	1,531
Finance cost	<u>(129)</u>	<u>(69)</u>	<u>(452)</u>	<u>(1,502)</u>
Loss before taxation	(9,297)	(18,962)	(60,296)	(63,052)
Taxation	<u>(5)</u>	<u>–</u>	<u>(443)</u>	<u>(29)</u>
Loss from continue operations	(9,302)	(18,962)	(60,739)	(63,081)
Minority interest	<u>3,070</u>	<u>(1,007)</u>	<u>9,430</u>	<u>(3,317)</u>
Loss attributable to shareholder	(6,232)	(19,969)	(51,309)	(66,398)

	For the three months ended 30 September		For the nine months ended 30 September	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Discontinued operations				
Loss from discontinued operations	<u>–</u>	<u>(1,603)</u>	<u>–</u>	<u>(8,965)</u>
Loss for the period	<u>(6,232)</u>	<u>(21,572)</u>	<u>(51,309)</u>	<u>(75,363)</u>
Attributable to:				
Owners of the Company				
Loss from continue operation	(9,302)	(18,962)	(60,739)	(63,081)
Loss from discontinued operation	<u>–</u>	<u>(1,603)</u>	<u>–</u>	<u>(8,965)</u>
Loss for the period attributable to owners of the Company	(9,302)	(20,565)	(60,739)	(72,046)
Minority Interest	<u>3,070</u>	<u>(1,007)</u>	<u>9,430</u>	<u>(3,317)</u>
	<u>(6,232)</u>	<u>(21,572)</u>	<u>(51,309)</u>	<u>(75,363)</u>
Loss per share				
– basic	HK(0.10)	HK(0.32)	HK(0.80)	HK(1.05)
	cents	cents	cents	cents
– diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

II. DIVIDEND OF THE COMPANY

The dividend per share for each of the three financial years ended 31 December 2014, 31 December 2015 and 31 December 2016 was Nil. No dividends have been paid or declared by the Company during the three financial years and the nine months ended 30 September 2017.

III. STATEMENTS OF INDEBTEDNESS**STATEMENT OF INDEBTEDNESS OF THE GROUP**

As at the close of business on 31 October 2017, being the date for the purpose of this statement of indebtedness prior to the publication of this circular, the Group had the following outstanding indebtedness:

1. Pledged available-for-sale financial assets

As at 31 October 2017, available-for-sale financial assets of the Group with carrying amount of HK\$105,771,000, representing the Group's investment in Haier Consumer Finance Co., Ltd. (海爾消費金融有限公司), were pledged as security in respect of loans granted to this investee company.

2. Contingent liabilities

As at the close of business on 31 October 2017, the Group had no material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills and other payables in the ordinary course of the business, as at the close of business on 31 October 2017, the Group did not have other material debt securities issued and outstanding or authorised or otherwise created but unissued, mortgage, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

STATEMENT OF INDEBTEDNESS OF THE ENLARGED GROUP

As at the close of business on 31 October 2017, being the date for the purpose of this statement of indebtedness prior to the publication of this circular, the Enlarged Group had the following outstanding indebtedness:

1. Pledged available-for-sale financial assets

As at 31 October 2017, available-for-sale financial assets of the Enlarged Group with carrying amount of HK\$105,771,000, representing the Enlarged Group's investment in Haier Consumer Finance Co., Ltd. (海爾消費金融有限公司), were pledged as security in respect of loans granted to this investee company.

2. Contingently redeemable convertible preference shares (“Preference Shares”)

As at the close of business on 31 October 2017, the outstanding number of Preference Shares issued by Youzan was 681,870,209. The carrying amount of Preference Shares as at 31 October 2017 was RMB2,059,998,000. As condition precedent of Completion, all Preference Shares will need to be converted into ordinary shares of Youzan, hence the Enlarged Group would not have any liabilities on Preference Shares upon Completion.

3. Contingent liabilities

As at the close of business on 31 October 2017, the Enlarged Group had no material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills and other payables in the ordinary course of the business, as at the close of business on 31 October 2017, the Enlarged Group did not have other material debt securities issued and outstanding or authorised or otherwise created but unissued, mortgage, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

IV. BUSINESS REVIEW

The management discussion and analysis of the Group for each of the three years ended 31 December 2014, 2015 and 2016 have been disclosed in the annual reports of the Company for the year ended 31 December 2014 (pages 5 to 12), 31 December 2015 (pages 6 to 17) and 31 December 2016 (pages 6 to 14) respectively. The said annual reports of the Company are available on the website of the Company (<http://www.innovationpay.com.hk>) and the website of the Stock Exchange (www.hkexnews.hk).

V. WORKING CAPITAL

Taking into account the completion of Acquisition, the capital requirement and the presently available financial resources of the Enlarged Group, including internally generated funds from operation of the Enlarged Group and placing proceeds from SM Placing, the Directors after due and careful enquiry, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

VI. MATERIAL CHANGE

As at the Latest Practicable Date, save for the completion of GM Placing and the third quarterly report of the Group for the nine months ended 30 September 2017 during which the Group recorded an unaudited revenue of approximately HK\$136.5 million and an unaudited loss after taxation of approximately HK\$51.3 million for the nine months ended 30 September 2017, the Directors confirm there is no material change in the financial or trading position and outlook of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

Set out below are the audited consolidated financial statements of the Group for the financial year ended 31 December 2016 extracted from the annual report of the Company for the year ended 31 December 2016.



**TO THE SHAREHOLDERS OF
CHINA INNOVATIONPAY GROUP LIMITED**

(Incorporated in Bermuda with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of China Innovationpay Group Limited and its subsidiaries (the “Group”) set out on pages 88 to 222, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraphs set out below, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

As set out in note 20 to the consolidated financial statements, goodwill with carrying amount of HK\$653,432,000 was allocated to the cash-generating unit (“CGU”) of Third Party Payment Services and the carrying amount of the CGU was assessed for impairment by management. The recoverable amount of the CGU was determined based on value in use calculations. The Group prepared cash flow forecasts for a five year period based on the assumption that the CGU would experience significant growth rates in revenues during the forecast period. Management considered that the forecast revenues would be achieved because, among other factors, the Group expected there would be a synergetic effect upon its strategic development of its Third Party Payment Services segment.

However, the historical performance of Third Party Payment Services has not met the Group's forecast revenues in the past. Although we have been provided with a business plan, we were unable to obtain sufficient appropriate audit evidence to assess the appropriateness of the assumptions related to the growth in revenues during the forecast period after considering the historical track record of Third Party Payment Services CGU and the absence of other supporting evidence. Any adjustments found to be necessary to the assumptions related to the growth in revenues during the forecast period would have a consequential effect on the recoverable amount of the CGU. Any impairment losses arising as a result of the revised assumptions would have an effect on the Group's net assets as at 31 December 2016, the net loss for the year then ended and the disclosure related to impairment losses in the consolidated financial statements.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

OTHER INFORMATION

The directors are responsible for the Other Information. The Other Information comprises all of the information included in the 2016 annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we are unable to obtain sufficient appropriate evidence about the carrying amount of goodwill and impairment losses on goodwill, if any. Accordingly, we are unable to conclude whether or not the Other Information is materially misstated with respect to this matter.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 in the consolidated financial statements, which indicates that the Group incurred loss from continuing operations attributable to owners of the Company amounted to HK\$210,128,000 and operating cash outflow before working capital changes of HK\$113,861,000 during the reporting period. As at 31 December 2016, the Group's bank balances included HK\$98,295,000 restricted bank balance for the purpose of settlement obligation. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion and Material Uncertainty Related to Going Concern sections, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key Audit Matter**How our audit addressed the Key Audit Matter****Valuation of contingent consideration payables**

Refer to notes 7, 32 and 39(c) to the consolidated financial statements

Our procedures in relation to valuation of contingent consideration payables included:

The Group has acquired certain businesses in prior periods. Part of the consideration payable for these businesses was contingent on the achievement of specified performance targets in future periods as detailed in note 39(c). The contingent consideration payables are measured at fair value with any changes in fair value recognised in profit or loss. The fair value measurement is categorised as level 3 as it uses significant unobservable inputs in particular estimates of future operating performance of the acquired businesses. Management has engaged an independent external valuer to assess the fair values of these consideration payables.

- Evaluating the independent external valuers' competence, capabilities and objectivity;
- Assessing, with the assistance of our in-house valuation experts, the appropriateness of the valuation methodology and the integrity of the calculations adopted in the valuation report; and

<u>Key Audit Matter</u>	<u>How our audit addressed the Key Audit Matter</u>
The valuation of contingent consideration payables involves significant management judgements including whether and to what extent the acquired businesses will meet the specified performance targets.	– Challenging the reasonableness of key assumptions based on our knowledge of the acquired businesses and their historic performance and future plans.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSRAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chris Wong Wo Cheung.

RSM Hong Kong

Certified Public Accountants

Hong Kong

28 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For The Year Ended 31 December 2016*

		2016	2015
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Represented)
Continuing operations			
Revenue	8	80,182	97,068
Cost of sales		<u>(56,227)</u>	<u>(71,468)</u>
Gross profit		23,955	25,600
Other income	9	24,946	15,021
Selling expenses		(16,917)	(27,378)
Administrative expenses		(125,040)	(100,621)
Equity-settled share-based payments		<u>(48,415)</u>	<u>(57,548)</u>
Loss from operations		(141,471)	(144,926)
Finance costs	11	–	(15)
(Loss)/gain on fair value change of contingent consideration payables	32	(70,984)	13,155
Impairment of goodwill	20	<u>(12,301)</u>	<u>(4,641)</u>
Loss before tax		(224,756)	(136,427)
Income tax credit/(expense)	12	<u>242</u>	<u>(2,556)</u>
Loss for the year from continuing operations	13	(224,514)	(138,983)
Discontinued operations			
Loss for the year from discontinued operations	16	<u>(4,383)</u>	<u>(21,588)</u>
Loss for the year		<u><u>(228,897)</u></u>	<u><u>(160,571)</u></u>

APPENDIX IB**FINANCIAL INFORMATION OF THE GROUP
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> (Represented)
Attributable to:			
Owners of the Company			
– Continuing operations		(210,128)	(132,536)
– Discontinued operations		<u>(4,294)</u>	<u>(21,282)</u>
		<u>(214,422)</u>	<u>(153,818)</u>
Non-controlling interests			
– Continuing operations		(14,386)	(6,447)
– Discontinued operations		<u>(89)</u>	<u>(306)</u>
		<u>(14,475)</u>	<u>(6,753)</u>
		<u>(228,897)</u>	<u>(160,571)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share	<i>17</i>		
From continuing and discontinued operations			
Basic		<u>(3.53)</u>	<u>(2.71)</u>
Diluted		<u>N/A</u>	<u>N/A</u>
From continuing operations			
Basic		<u>(3.46)</u>	<u>(2.33)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME***For the Year Ended 31 December 2016*

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> (Represented)
Loss for the year	(228,897)	(160,571)
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(64,323)	(42,459)
Exchange differences reclassified to profit or loss on disposals of foreign operations	<u>2,998</u>	<u>—</u>
Other comprehensive income for the year, net of tax	<u>(61,325)</u>	<u>(42,459)</u>
Total comprehensive income for the year	<u><u>(290,222)</u></u>	<u><u>(203,030)</u></u>
Attributable to:		
Owners of the Company		
– Continuing operations	(271,453)	(174,995)
– Discontinued operations	<u>(4,294)</u>	<u>(21,282)</u>
	<u>(275,747)</u>	<u>(196,277)</u>
Non-controlling interests		
– Continuing operations	(14,386)	(6,447)
– Discontinued operations	<u>(89)</u>	<u>(306)</u>
	<u>(14,475)</u>	<u>(6,753)</u>
	<u><u>(290,222)</u></u>	<u><u>(203,030)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

		2016	2015
	Note	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	18	12,882	15,308
Intangible assets	19	7,154	9,758
Long term deposits	26	3,978	24,531
Goodwill	20	653,432	707,508
Investments in associates	22	–	–
Available-for-sale financial assets	23	100,620	110,002
Deposits for investments	41, 45	<u>35,723</u>	<u>–</u>
		<u>813,789</u>	<u>867,107</u>
Current assets			
Inventories	24	3,153	1,941
Trade receivables	25	20,507	43,182
Prepayments, deposits and other receivables	26	54,218	31,994
Amount due from an associate	22	3,349	–
Amounts due from non-controlling shareholders of subsidiaries	27	855	215
Bank and cash balances	28	<u>185,422</u>	<u>236,608</u>
		<u>267,504</u>	<u>313,940</u>
Current liabilities			
Trade payables	29	2,418	3,744
Accruals and other payables	30	120,033	38,787
Amounts due to non-controlling shareholders of subsidiaries	31	–	776
Amount due to a director	31	3	1,003
Current tax liabilities		2,453	2,639
Contingent consideration payables	32	40,278	19,667
Financial guarantee	33	<u>23,756</u>	<u>41,365</u>
		<u>188,941</u>	<u>107,981</u>

APPENDIX IB**FINANCIAL INFORMATION OF THE GROUP
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Net current assets		<u>78,563</u>	<u>205,959</u>
Total assets less current liabilities		<u>892,352</u>	<u>1,073,066</u>
Non-current liabilities			
Contingent consideration payables	32	33,582	–
Deferred tax liabilities	34	<u>441</u>	<u>749</u>
		<u>34,023</u>	<u>749</u>
NET ASSETS		<u><u>858,329</u></u>	<u><u>1,072,317</u></u>
Capital and reserves			
Share capital	35	60,993	60,158
Reserves	37	<u>781,811</u>	<u>984,462</u>
Equity attributable to owners of the Company		842,804	1,044,620
Non-controlling interests		<u>15,525</u>	<u>27,697</u>
TOTAL EQUITY		<u><u>858,329</u></u>	<u><u>1,072,317</u></u>

APPENDIX IB

FINANCIAL INFORMATION OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2016

	Attributable to owners of the Company										
	Share capital	Share premium account	Capital reserve	Statutory reserve	Exchange reserve	Share option reserve	Warrant reserve	Retained loss	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015	56,055	991,322	(2,850)	9,877	69,775	8,402	139	(110,898)	1,021,822	6,502	1,028,324
Total comprehensive income for the year	-	-	-	-	(42,459)	-	-	(153,818)	(196,277)	(6,753)	(203,030)
Transfer to statutory reserve	-	-	-	21	-	-	-	(21)	-	-	-
Acquisition of subsidiaries (Note 39(c))	-	-	-	-	-	-	-	-	-	27,732	27,732
Acquisition of non-controlling interests (Note 39(d))	-	-	-	-	-	-	-	(228)	(228)	216	(12)
Issued from placing	3,000	118,191	-	-	-	-	-	-	121,191	-	121,191
Issued from warrants	-	-	-	-	-	-	1,000	-	1,000	-	1,000
Exercise of warrants	800	31,339	-	-	-	-	(139)	-	32,000	-	32,000
Exercise of share options	303	10,623	-	-	-	(3,362)	-	-	7,564	-	7,564
Share-based payments	-	-	-	-	-	57,548	-	-	57,548	-	57,548
Release upon lapse of share options	-	-	-	-	-	(982)	-	982	-	-	-
Changes in equity for the year	4,103	160,153	-	21	(42,459)	53,204	861	(153,085)	22,798	21,195	43,993
At 31 December 2015	60,158	1,151,475	(2,850)	9,898	27,316	61,606	1,000	(263,983)	1,044,620	27,697	1,072,317
At 1 January 2016	60,158	1,151,475	(2,850)	9,898	27,316	61,606	1,000	(263,983)	1,044,620	27,697	1,072,317
Total comprehensive income for the year	-	-	-	-	(61,325)	-	-	(214,422)	(275,747)	(14,475)	(290,222)
Deregistration of a subsidiary	-	-	1,733	-	-	-	-	(1,733)	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	544	544
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	1,759	1,759
Issued for contingent consideration shares	463	15,741	-	-	-	-	-	-	16,204	-	16,204
Exercise of share options	372	13,081	-	-	-	(4,141)	-	-	9,312	-	9,312
Share-based payments	-	-	-	-	-	48,415	-	-	48,415	-	48,415
Release upon lapse of share options	-	-	-	-	-	(2,442)	-	2,442	-	-	-
Changes in equity for the year	835	28,822	1,733	-	(61,325)	41,832	-	(213,713)	(201,816)	(12,172)	(213,988)
At 31 December 2016	60,993	1,180,297	(1,117)	9,898	(34,009)	103,438	1,000	(477,696)	842,804	15,525	858,329

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2016

		2016	2015
	Note	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax			
Continuing operations		(224,756)	(136,427)
Discontinuing operations		<u>(4,383)</u>	<u>(21,588)</u>
		(229,139)	(158,015)
Adjustments for:			
Interest income	9	(2,907)	(7,163)
Amortisation of financial guarantee contract	9	(15,592)	(6,762)
Amortisation of intangible assets	19	1,971	4,195
(Reversal of impairment)/ impairment of inventories	9	(137)	1,494
Finance costs	11	–	15
Loss/(gain) on fair value change of contingent consideration payables	7(b)	70,984	(13,155)
Depreciation	18	5,649	3,181
Gain on disposals of subsidiaries, net	13, 16	(3,633)	–
(Gain)/loss on disposals of property, plant and equipment	13	(1)	15
Equity-settled share-based payments		48,415	57,548
Property, plant and equipment written off	18	7	–
Intangible assets written off	19	–	308
Impairment of intangible assets	19	–	1,635
Impairment of goodwill	20	12,301	4,641
Allowance for trade receivables	25	–	3,522
Reversal of allowance for trade receivables	16, 25	(612)	(226)
(Reversal of allowance)/allowance for prepayment and other receivables	26	<u>(1,167)</u>	<u>25,067</u>

APPENDIX IB**FINANCIAL INFORMATION OF THE GROUP
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Operating loss before working capital changes		(113,861)	(83,700)
(Increase)/decrease in inventories		(994)	3,335
Decrease in trade receivables		21,432	13,115
(Increase)/decrease in prepayments, deposits and other receivables		(31,069)	13,754
Increase/(decrease) in trade payables		533	(8,212)
Increase/(decrease) in accruals and other payables		<u>86,837</u>	<u>(12,304)</u>
Cash used in operations		(37,122)	(74,012)
Interest received		2,610	1,685
Income tax paid		<u>(146)</u>	<u>(1,025)</u>
Net cash used in operating activities		<u>(34,658)</u>	<u>(73,352)</u>

**CASH FLOWS FROM INVESTING
ACTIVITIES**

Purchases of property, plant and equipment	<i>18</i>	(4,680)	(10,873)
Advance to an associate		(3,500)	–
Proceeds from disposals of property, plant and equipment		7	6
Proceeds from disposals of available-for-sale financial assets		464	–
Additions to intangible assets	<i>19</i>	(147)	–
Additions of available-for-sale financial assets		–	(2,453)
Acquisition of subsidiaries	<i>39(c)</i>	–	(6,206)
Disposal of subsidiaries	<i>39(a)&(b)</i>	(2,993)	–
Deposits for investments	<i>41, 45</i>	(35,723)	–
Decrease in long term deposits		20,553	3,750
Loans to third parties		(27,998)	(15,402)
Received from loans to third parties		<u>39,081</u>	<u>24,027</u>
Net cash used in investing activities		<u>(14,936)</u>	<u>(7,151)</u>

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		–	(15)
Acquisition of non-controlling interests	39(d)	–	(12)
(Payment to)/advance from non-controlling shareholders		(1,416)	110
Repayment of borrowings		–	(625)
Net proceeds from unlisted warrant		–	1,000
Net proceeds from placing		–	121,191
Net proceeds from exercise of warrants		–	32,000
Issue of shares upon the exercise of share options		9,403	7,564
(Payment to)/advance from directors		<u>(1,000)</u>	<u>998</u>
Net cash generated from financing activities		<u>6,987</u>	<u>162,211</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
		(42,607)	81,708
Effect of foreign exchange rate changes		(8,579)	(7,695)
CASH AND CASH EQUIVALENTS AT 1 JANUARY			
		<u>236,608</u>	<u>162,595</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER			
		<u><u>185,422</u></u>	<u><u>236,608</u></u>
ANALYSIS OF THE CASH AND CASH EQUIVALENTS			
Bank and cash balances		<u><u>185,422</u></u>	<u><u>236,608</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the Year Ended 31 December 2016***1. General Information**

The Company was incorporated in Bermuda with limited liability. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The address of its principal place of business is Unit 2708, 27/F, The Center, 99 Queen's Road Central, Hong Kong. The Company's shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 21 to the consolidated financial statements.

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed in note 4.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

During the reporting period, the Group incurred loss from continuing operations attributable to owners of the Company amounted to HK\$210,128,000 and operating cash outflow before working capital changes of HK\$113,861,000. As at 31 December 2016, the Group's bank balance included HK\$98,295,000 restricted bank balance for the purpose of settlement obligation. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis as the directors considered that the Group is able to generate sufficient cash flows from operations and fund raising in the foreseeable future to meet its current and future obligations. Having taken into account the above, the directors of the Company consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the carrying amounts of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

3. Adoption of New and Revised Hong Kong Financial Reporting Standards

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2016. Of these, the following new or revised HKFRSs are relevant to the Group.

Amendments to HKAS 1 Presentation of Financial Statements: Disclosure Initiative

The amendments to HKAS 1 clarify, rather than significantly change, existing HKAS 1 requirements. The amendments clarify various presentation issues relating to:

- Assessment of materiality versus minimum disclosure requirements of a standard.
- Disaggregation of specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position. There is also new guidance on the use of subtotals.
- Confirmation that the notes do not need to be presented in a particular order.
- Presentation of other comprehensive income items arising from equity-accounted associates and joint ventures.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2016. These new and revised HKFRSs included the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7 Statement of Cash Flows: Disclosure initiative	1 January 2017
Amendments to HKAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16 Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

HKFRS 9 Financial Instruments

The standard replaces HKAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from HKAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

HKFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in HKAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in HKAS 39 are carried forward largely unchanged.

HKFRS 9 substantially overhauls the hedge accounting requirements in HKAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The new expected credit loss impairment model in HKFRS 9 may result in the earlier recognition of impairment losses on the Group's trade receivables and other financial assets. The Group is unable to quantify the impact until a more detailed assessment is completed.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group is currently assessing the impacts of adopting HKFRS 15 on the consolidated financial statements but unable to estimate the impact of the new standard on the consolidated financial statements until a more detailed analysis is completed.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 42, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to HK\$30,175,000 as at 31 December 2016. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in HKFRS 16 and the effects of discounting.

4. Significant Accounting Policies

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. contingent consideration payables).

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated exchange reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (“CGUs”) or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(c) *Associates*

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder’s intention and financial ability to exercise or convert that right is not considered.

Investments in associates are accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group’s share of the net fair value of the associate’s identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated exchange reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) *Foreign currency translation*

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the exchange reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	Over the shorter of unexpired term of lease and estimated useful lives, being no more than 20 years after the date of completion
Furniture and office equipment	10% – 33%
Motor vehicles	20% – 25%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(f) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(g) Other intangible assets**(i) Internally-generated intangible assets – research and development expenditure of computer software**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's e-business development is recognised only if all of the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 3 to 10 years. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

(ii) Intangible assets acquired through acquisition of a subsidiary – technology know-how

Technology know-how is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 5 years.

(iii) Intangible assets acquired through acquisition of a subsidiary – customer relationship

Customer relationship is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 5 years.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(j) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss. Interest calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

(k) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(l) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

(m) Discontinued operations

A discontinued operation is a component of the Group (i.e. the operations and cash flows of which can be clearly distinguished from the rest of the Group) that either has been disposed of, or is classified as held for sale, and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the component meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the component is abandoned.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss, which comprises:

- The post-tax profit or loss of the discontinued operation; and
- The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(n) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out in notes (o) to (s) below.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(p) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair value and are subsequently measured at the higher of:

- the amount of the obligations under the contracts, as determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and
- the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

(q) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Contingent consideration payable

Contingent consideration payable is classified as a financial liability or equity according to the definitions in HKAS 32 Financial Instruments: Presentation. The amount is initially measured at fair value. Contingent consideration payable classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration payable classified as a liability is measured at fair value at each reporting date and changes in fair value are recognised in profit or loss.

(s) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Sales of goods

Revenues from the sales of finished goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

- (ii)*** Card transaction levies represent service fee charged by the Group to contracted merchants at specific rates on the monetary value of consumptions made by cardholder settled using the stored value cards in the merchants' stores. Card transaction levies are recognised as these transactions occur.

- (iii) Card handling and service charges consist of monthly maintenance fees on expired unused balances, new card handling charges, net of discount or waivers, and other customer services charges. The monthly maintenance fees are recognised when the fees are deducted from the unused balances at each month end. The new card handling charges are recognised when a card buyer purchases a new card. Other customer services are recognised when the services are rendered.
- (iv) Consultancy income is recognised when the service is rendered and on the basis of stage of completion of each individual project, provided that the costs involved can be measured reliably. The stage of completion of a transaction is established by reference to the costs incurred to date as compared to the estimated total costs under the transaction.
- (v) Commission income is recognised when the service is rendered.
- (vi) Interest income is recognised on a time-proportion basis using the effective interest method.

(u) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(v) Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(x) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

(y) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(z) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(aa) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered also to be objective evidence of impairment.

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

(bb) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(cc) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amount of property, plant and equipment as at 31 December 2016 was approximately HK\$12,882,000 (2015: HK\$15,308,000).

(b) Intangible assets and amortisation

The Group determines the estimated useful lives and related amortisation for the Group's intangible assets. The useful lives of intangible assets are assessed to be finite, based on the expected usage and technical obsolescence from the changes in the market demands or services output from the assets. Intangible assets with finite useful lives are amortised over the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for the intangible assets with a finite useful life are reviewed by the management at least at the end of each reporting period.

The carrying amount of intangible assets as at 31 December 2016 was approximately HK\$7,154,000 (2015: HK\$9,758,000).

(c) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, HK\$242,000 (2015: HK\$2,556,000 expense) of income tax credit was recognised in profit or loss based on the estimated profit from continuing operations.

(d) Recoverability of internally-generated intangible asset

During the year, the Group reconsidered the recoverability of its internally-generated intangible asset arising from the Group's e-business development, which is included in the consolidated statement of financial position at 31 December 2016 with carrying value of HK\$2,999,000 (2015: HK\$3,724,000). The project continues to progress in a very satisfactory manner, and customer reaction has reconfirmed the Group's previous estimates of anticipated revenues from the project. However, increased competitor activity has caused the Group to reconsider its assumptions regarding future market shares and anticipated margins on these products. This situation will be closely monitored, and adjustments would be made in future periods, if future market activity indicates that such adjustments are appropriate.

(e) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts, in particular of a loss event, requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

As at 31 December 2016, accumulated impairment loss for bad and doubtful debts amounted to HK\$25,017,000 from continuing operations (2015: HK\$28,577,000).

(f) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

As at 31 December 2016, accumulated allowance for slow-moving inventories amounted to HK\$1,223,000 (2015: HK\$1,448,000).

(g) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

The total carrying amount of goodwill at the end of the reporting period was HK\$653,432,000 (2015: HK\$707,508,000) and an impairment loss of HK\$12,301,000 (2015: HK\$4,641,000) was recognised during the year. Details of the impairment loss calculation are set out in note 20 to the consolidated financial statements.

6. Financial Risk Management

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities Hong Kong dollars and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2015 and 2016, the Group entities had no significant assets or liabilities denominated in currency other than respective functional currencies.

(b) Credit risk

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise credit risk, the directors have delegated senior management to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The largest two (2015: four) trade receivables represent approximately 46% (2015: 92%) of total trade receivables.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. To control the credit risk of receivables from factoring business, they were arranged as factoring with recourse.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Except for the financial guarantee given by a subsidiary as set out in note 33, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 33.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's financial liabilities is as follows:

	Less than 1 year HK\$'000	Between 2 to 5 years HK\$'000	Total HK\$'000
At 31 December 2016			
Trade payables	2,418	—	2,418
Accruals and other payables	115,531	—	115,531
Amount due to a director	3	—	3
Financial guarantee	<u>59,105</u>	<u>—</u>	<u>59,105</u>
At 31 December 2015			
Trade payables	3,744	—	3,744
Accruals and other payables	37,457	—	37,457
Amounts due to non-controlling shareholders of subsidiaries	776	—	776
Amount due to a director	1,003	—	1,003
Financial guarantee	<u>62,489</u>	<u>—</u>	<u>62,489</u>

Note:

Financial guarantee liabilities and borrowings with a repayment on demand clause are included in the 'on demand or less than 1 year' time band in the above maturity analysis. As at 31 December 2016, the aggregate undiscounted principal amounts of the financial guarantee amounted to RMB50,000,000 (equivalent to HK\$55,818,000 (2015: HK\$59,698,000)) for the year ended 31 December 2016. Taking into account the Group's financial position, the directors do not believe that it is probable that the lenders will exercise their discretionary rights to demand immediate repayment. The directors believe that such borrowings will be repaid one year after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreement. At that time, the aggregate principal and interest cash outflows of financial guarantee will amount to approximately RMB52,945,000 (equivalent to HK\$59,105,000 (2015: HK\$62,489,000)) for the year ended 31 December 2016.

(d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits. These deposits bear interests at variable rate varied with the then prevailing market condition.

At 31 December 2016, if interest rates at that date had been 100 basis points higher with all other variables held constant, consolidated loss after tax for the year would have been HK\$435,000 lower (2015: HK\$381,000 lower), arising mainly as a result of higher interest income on bank deposits. If interest rates had been 100 basis points lower, with all other variables held constant, consolidated loss after tax for the year would have been HK\$435,000 higher (2015: HK\$381,000 higher), arising mainly as a result of lower interest income on bank deposits.

(e) Categories of financial instruments at 31 December 2016

	2016 HK\$'000	2015 HK\$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	259,277	326,650
Available-for-sale financial assets	<u>100,620</u>	<u>110,002</u>
Financial liabilities:		
Financial liabilities at amortised cost	141,708	84,345
Financial liabilities at fair value through profit or loss:		
Held for trading	<u>73,860</u>	<u>19,667</u>

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs:	quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
Level 2 inputs:	inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 inputs:	unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December 2016:

	Fair value measurements using:			Total
	Level 1	Level 2	Level 3	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements:				
Financial liabilities				
Contingent consideration payables	<u>—</u>	<u>—</u>	<u>73,860</u>	<u>73,860</u>

	Fair value measurements using:			Total
	Level 1	Level 2	Level 3	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements:				
Financial liabilities				
Contingent consideration payables	<u>-</u>	<u>-</u>	<u>19,667</u>	<u>19,667</u>

(b) Reconciliation of liabilities measured at fair value based on level 3:*Contingent consideration payables*

	2016	2015
	HK\$'000	HK\$'000
At 1 January	(19,667)	(10,110)
Fair value recognised from acquisition of subsidiaries	-	(22,861)
Release upon issue of consideration shares	16,204	-
(Loss)/gain on fair value change recognised in profit or loss	(70,984)	13,155
Exchange difference	<u>587</u>	<u>149</u>
At 31 December	<u>(73,860)</u>	<u>(19,667)</u>

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016:

The Group's directors are responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The directors report directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the directors and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group engaged Hong Kong Appraisal Advisory Limited (2015: UniStand Appraisal Limited) with the recognised professional qualifications and recent experience to perform the valuations.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Possible change	Effect on fair value for increase of inputs	Positive/(negative) change on fair value	
					2016 HK\$'000	2015 HK\$'000
Contingent consideration payables – Onecomm	Discount cash flows	Profit after tax	N/A (2015: +/-700%)	The higher the profit after tax, the higher of fair value	N/A	18,297/-
– Moderntimes	Discount cash flows	The number of cumulative virtual prepaid cards sold	+/- 50% (2015: +/-50%)	The higher the cumulative number of virtual prepaid cards sold, the higher of fair value	-(33,866)	30,815/-
		The amount of cumulative virtual prepaid cards reloaded	+/- 50% (2015: +/-100%)	The higher the cumulative amount of virtual prepaid cards reloaded, the higher of fair value	-/-	16,539/-

During the two years, there were no changes in the valuation techniques used.

8. Revenue

An analysis of the Group's revenue for the year from continuing operations is as follows:

	2016 HK\$'000	2015 HK\$'000
Sale of goods	28,525	85,112
Rendering of services	<u>51,657</u>	<u>11,956</u>
	<u>80,182</u>	<u>97,068</u>

9. Other Income

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations		
Amortisation of financial guarantee contract	15,592	6,762
Exchange gain, net	1,907	599
Interest income	2,907	7,157
Government grant	–	259
Gain on disposals of subsidiaries, net	2,465	–
Reversal of allowance for trade receivables	–	226
Reversal of allowance for prepayment, deposits and other receivables	1,167	–
Reversal of impairment of inventories	137	–
Others	<u>771</u>	<u>18</u>
	<u><u>24,946</u></u>	<u><u>15,021</u></u>

10. Segment Information

The Group has three (2015: four) operating segments as follows:

General trading	– trading of watches and other goods
Third party payment services (Former name as “Prepaid card and related operations”)	– provision of third party payment services and related consultancy services in the People’s Republic of China (“the PRC”)
Onecomm	– provision of third party payment management services and sales of integrated smart point of sales (“POS”) devices

Travellers related services segment was discontinued in the current year. The segment information reported does not include any amounts for these discontinued operations, which is described in more detail in note 16 to the consolidated financial statements.

The Group’s reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The Group's other reportable segment includes certain inactive operations. None of the segments meets any of the quantitative thresholds for determining reportable segment. The information of the other operating segments is included in the 'others' column.

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include equity-settled share-based payment, amortisation of financial guarantee contract, fair value change of contingent consideration payables and impairment of goodwill. Segment assets do not include interests in associates, goodwill, available-for-sale financial assets, deposits for investments and other corporate assets. Segment non-current assets do not include financial instruments, goodwill and deposits for investments.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Information about operating segment profit or loss, assets and liabilities from continuing operations:

	General trading HK\$'000	Third party payment services HK\$'000	Onecomm HK\$'000	Others HK\$'000	Total HK\$'000
Year ended 31 December 2016					
Revenue from external customers	33,712	42,665	3,357	448	80,182
Interest income	2,383	520	2	2	2,907
Segment loss	(10,033)	(63,314)	(8,202)	(3,213)	(84,762)
Depreciation and amortisation	1,666	3,932	1,823	72	7,493
Income tax (expense)/credit	–	(30)	272	–	242
Other material items of non-cash items:					
– Reversal of allowance for prepayment, deposits and other receivables	1,167	–	–	–	1,167
Additions to segment non-current assets	2,197	12,118	86	315	14,716
As at 31 December 2016					
Segment assets	<u>46,303</u>	<u>188,373</u>	<u>11,108</u>	<u>601</u>	<u>246,385</u>

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	General trading	Third party payment services	Onecomm	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2015					
Revenue from external customers	77,127	14,277	5,646	18	97,068
Segment loss	(28,547)	(37,958)	(10,770)	(767)	(78,042)
Interest income	6,427	703	21	6	7,157
Depreciation and amortisation	(434)	(2,506)	(1,818)	(6)	(4,764)
Income tax (expense)/credit	–	(2,843)	287	–	(2,556)
Other material items of non-cash items:					
– Intangible assets written off	(308)	–	–	–	(308)
– Allowance for trade receivables	(2,192)	(683)	–	–	(2,875)
– Reversal of allowance for trade receivables	226	–	–	–	226
– Allowance for prepayment, deposits and other receivables	(24,752)	(315)	–	–	(25,067)
– Impairment for inventories	–	–	(1,494)	–	(1,494)
Additions to segment non-current assets	54	10,189	557	84	10,884
As at 31 December 2015					
Segment assets	<u>72,968</u>	<u>173,821</u>	<u>11,641</u>	<u>3,080</u>	<u>261,510</u>

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Reconciliations of segment revenue and profit or loss:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue		
Total revenue from continuing operations	<u>80,182</u>	<u>97,068</u>
Loss		
Total profit or loss of reportable segments	(84,762)	(78,042)
Elimination of intersegment profits	–	(32)
(Loss)/gain on fair value change of contingent consideration payables	(70,984)	13,155
Equity-settled share-based payment	(48,415)	(57,548)
Unallocated amounts:		
Corporate income and expenses, net	(23,886)	(16,081)
Amortisation of financial guarantee contract	15,592	6,762
Impairment of goodwill	<u>(12,301)</u>	<u>(4,641)</u>
Consolidated loss before income tax from continuing operations	<u>(224,756)</u>	<u>(136,427)</u>
Assets		
Total assets of reportable segments from continuing operations	246,385	261,510
Unallocated amounts:		
Investments in associates	–	–
Available-for-sale financial assets	100,620	110,002
Deposits for investments	35,723	–
Goodwill	653,432	707,508
Other corporate assets	<u>45,133</u>	<u>92,984</u>
Consolidated total assets	<u>1,081,293</u>	<u>1,172,004</u>

Geographical information:

No separate analysis of segment information by geographical information is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is the PRC.

Revenue from major customers:

	2016 HK\$'000	2015 HK\$'000
General trading segment		
Largest customer	28,038	44,701
Second largest customer	<u>–</u>	<u>14,616</u>

11. Finance Costs

	2016 HK\$'000	2015 HK\$'000
Continuing operations		
Interest on bank borrowings	<u>–</u>	<u>15</u>

12. Income Tax (Credit)/expense

Income tax relating to continuing operations has been recognised in profit or loss as following:

	2016 HK\$'000	2015 HK\$'000
Current tax – the PRC		
Provision for the year	–	702
Under-provision in prior years	<u>30</u>	<u>293</u>
	30	995
Deferred tax (<i>Note 34</i>)	<u>(272)</u>	<u>1,561</u>
	<u>(242)</u>	<u>2,556</u>

No provision for PRC Enterprise Income Tax and Hong Kong Profits Tax is required since the Group has no assessable profit for the year ended 31 December 2016.

PRC Enterprise Income Tax has been provided at a rate of 25% for the year ended 31 December 2015. However, one of the Group's subsidiaries has been recognised as a "New and High Technology Enterprise" in the PRC and was therefore subject to a preferential tax of 15% for the year ended 31 December 2015.

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

The reconciliation between the income tax (credit)/expense and the product of loss before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss before tax (from continuing operations)	<u>(224,756)</u>	<u>(136,427)</u>
Tax at the PRC Enterprise Income Tax rate of 25% (2015: 25%)	(56,189)	(34,107)
Tax effect of expenses that are not deductible	55,218	22,122
Tax effect of income that are not taxable	(11,887)	(3,313)
Tax effect of temporary differences not recognised	(278)	(357)
Tax effect of unused tax losses not recognised	11,722	17,612
Tax effect of utilisation of tax losses not previously recognised	(1,155)	(208)
Under-provision in prior years	30	293
Effect of different tax rates of subsidiaries	<u>2,297</u>	<u>514</u>
Income tax (credit)/expense (relating to continuing operations)	<u><u>(242)</u></u>	<u><u>2,556</u></u>

13. Loss for the year from Continuing Operations

The Group's loss for the year from continuing operations is stated after charging/ (crediting) the following:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Auditor's remuneration	1,450	1,400
Amortisation of intangible assets	1,955	2,112
Cost of inventories sold	33,407	71,432
(Reversal of impairment of)/ impairment of inventories	(137)	1,494
Depreciation of property, plant and equipment	5,538	2,777
(Gain)/loss on disposals of property, plant and equipment	(1)	15
Operating lease charges	2,146	9,122
Exchange gain, net	(1,907)	(599)
(Reversal of allowance)/allowance for prepayment and other receivables	(1,167)	25,067
Allowance for trade receivables	–	2,875
Reversal of allowance for trade receivables	–	(226)
Intangible assets written off	–	308
Property, plant and equipment written off	7	–
Impairment of intangible assets	–	1,635
Impairment of goodwill	12,301	4,641
Gain on disposal of subsidiaries, net (<i>note 39(b)</i>)	<u>(2,465)</u>	<u>–</u>

14. Employee Benefits Expense

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations		
Employee benefits expense:		
Salaries, bonuses and allowances	69,605	49,848
Equity-settled share-based payments	48,415	57,548
Retirement benefit scheme contributions	<u>3,746</u>	<u>2,604</u>
	<u><u>121,766</u></u>	<u><u>110,000</u></u>

Five highest paid individuals

The five highest paid individuals in the Group during the year included five (2015: five) directors whose emoluments are reflected in the analysis presented in note 15(a).

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15. Benefits and Interests of Directors**(a) Directors' emoluments**

The remuneration of every director is set out below:

	Fees	Salaries and allowances	Discretionary bonus	Equity-settled share-based payments	Retirement benefit scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors						
Guan Guisen	–	2,000	150	–	18	2,168
Cao Chunmeng	–	1,740	120	9,021	18	10,899
Yan Xiaotian	–	1,513	90	6,265	–	7,868
	–	5,253	360	15,286	36	20,935
Independent non-executive directors						
Wang Zhongmin	220	–	–	752	–	972
Gu Jiawang	220	–	–	752	–	972
Fong Chi Wah	220	–	–	752	–	972
	660	–	–	2,256	–	2,916
Total for 2016	660	5,253	360	17,542	36	23,851

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	Fees	Salaries and allowances	Discretionary bonus	Equity-settled share-based payments	Retirement benefit scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors						
Guan Guisen	–	1,800	150	–	18	1,968
Lei Chunxiong (Note)	–	563	100	–	9	672
Cao Chunmeng	–	1,380	100	10,579	18	12,077
Yan Xiaotian	–	1,080	68	7,242	–	8,390
	–	4,823	418	17,821	45	23,107
Independent non-executive directors						
Wang Zhongmin	120	–	–	877	–	997
Gu Jiawang	120	–	–	877	–	997
Fong Chi Wah	120	–	–	877	–	997
	360	–	–	2,631	–	2,991
Total for 2015	360	4,823	418	20,452	45	26,098

Note: resigned on 19 June 2015.

Neither the chief executive nor any of the directors waived any emoluments during the year (2015: nil).

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

16. Discontinued Operations

On 11 April 2016, the Group entered into a sale and purchase agreement to dispose of the Group's entire equity interest in Kopu (Beijing) Technology Co., Ltd. and its subsidiary (collectively referred to as "Kopu Group"). On 14 April 2016, the Group entered into another sale and purchase agreement to dispose of the Group's equity interest in Kanghui Financial (Beijing) E-Commerce Co., Ltd. ("Kanghui"). Kopu Group and Kanghui represented the travellers related services segment and were principally engaged in the provision of air-ticketing services and related customer services. Details of the assets and liabilities disposed of and the calculation of the profit or loss on disposal are disclosed in note 39(a).

The disposal of Kanghui and Kopu Group were completed on 29 April 2016 and 29 September 2016 respectively.

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the year from discontinued operations:		
Revenue	3,852	6,793
Cost of sales	<u>—</u>	<u>(296)</u>
Gross profit	3,852	6,497
Other income	8	6
Selling expenses	(4,535)	(13,815)
Administrative expenses	<u>(4,876)</u>	<u>(14,276)</u>
Loss before tax	(5,551)	(21,588)
Income tax expense	<u>—</u>	<u>—</u>
Loss after tax	(5,551)	(21,588)
Gain on disposal of discontinued operations (note 39(a))	<u>1,168</u>	<u>—</u>
Loss for the year from discontinued operations	<u><u>(4,383)</u></u>	<u><u>(21,588)</u></u>

Loss for the year from discontinued operations includes the following:

	2016 HK\$'000	2015 HK\$'000
Auditor's remuneration	–	–
Amortisation of intangible assets	16	2,083
Reversal of allowance for trade receivables	(612)	–
Operating leases charges of premises and facilities	2,146	9,122
Depreciation of property, plant and equipment	111	404
Staff costs		
Salaries and allowances	2,662	1,950
Retirement benefit scheme contribution	<u>236</u>	<u>988</u>
Cash flows from discontinued operations:		
Net cash outflows from operating activities	(5,584)	(15,452)
Net cash inflows from financing activities	<u>2,806</u>	<u>15,341</u>
	(2,778)	(111)
Effect of foreign exchange rate changes	<u>727</u>	<u>631</u>
Net cash (outflows)/inflows	<u>(2,051)</u>	<u>520</u>

17. Loss Per Share

(a) Basic loss per share

(i) From continuing and discontinued operations

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK\$214,422,000 (2015: HK\$153,818,000) and the weighted average number of ordinary shares of 6,070,965,000 (2015: 5,684,829,000) in issue during the year.

(ii) From continuing operations

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK\$210,128,000 (2015: HK\$132,536,000) and the weighted average number of ordinary shares of 6,070,965,000 (2015: 5,684,829,000) in issue during the year.

(iii) From discontinued operations

Basic loss per share from the discontinued operations is HK0.07 cent per share (2015: HK0.38 cent per share) based on the loss for the year from discontinued operations attributable to the owners of the Company of approximately HK\$4,294,000 (2015: HK\$21,282,000) and the denominator used is the same as those detailed above for basic loss per share.

(b) Diluted loss per share

As exercise of the Group's outstanding share options, warrants and contingent consideration payables for the years ended 31 December 2015 and 2016 would be anti-dilutive, no diluted loss per share was presented for the years ended 31 December 2015 and 2016.

18. Property, Plant and Equipment

	Leasehold improvements <i>HK\$'000</i>	Furniture and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1 January 2015	3,080	12,047	1,163	16,290
Additions	2,850	8,023	–	10,873
Acquisition of a subsidiary	5	116	–	121
Disposals/written off	–	(64)	–	(64)
Exchange differences	<u>(228)</u>	<u>(777)</u>	<u>(53)</u>	<u>(1,058)</u>
At 31 December 2015 and 1 January 2016	5,707	19,345	1,110	26,162
Additions	1,985	2,695	–	4,680
Disposal of subsidiaries	–	(1,720)	–	(1,720)
Disposals/written off	–	(143)	–	(143)
Exchange differences	<u>(456)</u>	<u>(1,262)</u>	<u>(72)</u>	<u>(1,790)</u>
At 31 December 2016	<u>7,236</u>	<u>18,915</u>	<u>1,038</u>	<u>27,189</u>

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	Leasehold improvements	Furniture and office equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accumulated depreciation				
At 1 January 2015	1,602	6,111	455	8,168
Charge for the year	576	2,441	164	3,181
Disposals/written off	–	(41)	–	(41)
Exchange differences	<u>(91)</u>	<u>(337)</u>	<u>(26)</u>	<u>(454)</u>
At 31 December 2015 and 1 January 2016	2,087	8,174	593	10,854
Charge for the year	2,256	3,319	74	5,649
Disposal of subsidiaries	–	(1,202)	–	(1,202)
Disposals/written off	–	(130)	–	(130)
Exchange differences	<u>(233)</u>	<u>(589)</u>	<u>(42)</u>	<u>(864)</u>
At 31 December 2016	<u>4,110</u>	<u>9,572</u>	<u>625</u>	<u>14,307</u>
Carrying amount				
At 31 December 2016	<u>3,126</u>	<u>9,343</u>	<u>413</u>	<u>12,882</u>
At 31 December 2015	<u>3,620</u>	<u>11,171</u>	<u>517</u>	<u>15,308</u>

19. Intangible Assets

	Customer relationship <i>HK\$'000</i>	Technology know-how <i>HK\$'000</i>	Computer software (internally generated) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1 January 2015	256	7,757	13,607	21,620
Written off	–	–	(1,625)	(1,625)
Exchange differences	<u>(12)</u>	<u>(351)</u>	<u>(565)</u>	<u>(928)</u>
At 31 December 2015 and 1 January 2016	244	7,406	11,417	19,067
Additions	–	–	147	147
Disposal of subsidiaries	(245)	–	(6,048)	(6,293)
Exchange differences	<u>1</u>	<u>(481)</u>	<u>(504)</u>	<u>(984)</u>
At 31 December 2016	<u>–</u>	<u>6,925</u>	<u>5,012</u>	<u>11,937</u>
Accumulated amortisation and impairment loss				
At 1 January 2015	90	–	5,080	5,170
Charge for the year	50	1,529	2,616	4,195
Written off	–	–	(1,317)	(1,317)
Impairment loss	–	–	1,635	1,635
Exchange differences	<u>(6)</u>	<u>(47)</u>	<u>(321)</u>	<u>(374)</u>
At 31 December 2015 and 1 January 2016	134	1,482	7,693	9,309
Charge for the year	16	1,447	508	1,971
Disposal of subsidiaries	(151)	–	(5,905)	(6,056)
Exchange differences	<u>1</u>	<u>(159)</u>	<u>(283)</u>	<u>(441)</u>
At 31 December 2016	<u>–</u>	<u>2,770</u>	<u>2,013</u>	<u>4,783</u>
Carrying amount				
At 31 December 2016	<u>–</u>	<u>4,155</u>	<u>2,999</u>	<u>7,154</u>
At 31 December 2015	<u>110</u>	<u>5,924</u>	<u>3,724</u>	<u>9,758</u>

The average remaining amortisation period of customer relationship, technology know-how and computer software are 2 years, 5 years and 6 years respectively (2015: 3 years, 4 years and 7 years).

The Group carried out reviews of the recoverable amount of its intangible assets in 2016, having regard to the market conditions of the Group's business. These assets are used in the CGUs of Onecomm and Third Party Payment Services.

For the year ended 31 December 2015, the review led to the recognition of an impairment loss of HK\$1,635,000 for computer software used in the segment of travellers related services that have been recognised in profit or loss. The recoverable amount of HK\$117,000 of the impaired assets has been determined on the basis of its value in use using discounted cash flow method. The discount rate used which assessed together with impairment testing of this CGU was 32.48%.

Details of the impairment testing of other intangible assets in other CGUs are set out in note 20.

20. Goodwill

	General trading operations ("CGU 1") HK\$'000	Third party payment services ("CGU 2") HK\$'000	Travellers related services ("CGU 3") HK\$'000	Onecomm ("CGU 4") HK\$'000	Total HK\$'000
Cost					
At 1 January 2015	214,458	894,302	4,710	13,186	1,126,656
Acquisition of a subsidiary	–	56,597	–	–	56,597
Exchange differences	(9,698)	(40,442)	(213)	(597)	(50,950)
At 31 December 2015 and 1 January 2016	204,760	910,457	4,497	12,589	1,132,303
Disposal of subsidiaries	–	–	(4,491)	–	(4,491)
Exchange differences	(13,308)	(55,496)	(6)	(818)	(69,628)
At 31 December 2016	191,452	854,961	–	11,771	1,058,184
Accumulated impairment losses					
At 1 January 2015	214,458	225,747	–	–	440,205
Impairment loss recognised in the current year	–	–	4,641	–	4,641
Exchange differences	(9,698)	(10,209)	(144)	–	(20,051)
At 31 December 2015 and 1 January 2016	204,760	215,538	4,497	–	424,795
Disposal of subsidiaries	–	–	(4,491)	–	(4,491)
Impairment loss recognised in the current year	–	–	–	12,301	12,301
Exchange differences	(13,308)	(14,009)	(6)	(530)	(27,853)
At 31 December 2016	191,452	201,529	–	11,771	404,752
Carrying amount					
At 31 December 2016	–	653,432	–	–	653,432
At 31 December 2015	–	694,919	–	12,589	707,508

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination.

The recoverable amounts of the CGUs have been determined on the basis of their value in use using discounted cash flow method. The key assumptions for the discounted cash flow method include those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the terminal growth rate of 3% (2015: 3%) for CGU 2 and 4 (2015: CGU 2, 3 and 4). This terminal growth rate does not exceed the average long-term growth rate for the relevant markets.

At 31 December 2016, the pre-tax rates used to discount the forecast cash flows in each CGU of the Group are as follows:

	2016	2015
CGU 2	20.75%	24.20%
CGU 3	N/A	32.25%
CGU 4	24.94%	29.07%

At 31 December 2015, the Group has revised its expectation about the future profitability of CGU 3 because the Group foresees difficulties in securing business with major customers and suppliers. The Group has revised its cash flow forecast for CGU 3. The directors have consequently determined to impair the goodwill allocated to CGU 3 amounting to HK\$4,641,000. No other impairment of the assets of the CGU 3 is considered necessary. As CGU 3 has been reduced to the recoverable amounts, any adverse change in the assumptions used in the calculation of recoverable amounts would result in further impairment losses.

At 31 December 2016, the Group changed its business strategy for CGU 4 to focus on third party payment management services and not sales of POS devices. The directors determined the recoverable amount of CGU 4 having regard to the revised business strategy and recognised a full impairment of goodwill of HK\$12,301,000. The recoverable amount of CGU 4 of HK\$12,384,000 was based on value in use. A discount rate of 24.94% was applied to the forecast future cash flows. No other impairment of the assets of the CGU 4 is considered necessary.

21. Investments in Subsidiaries

Particulars of major subsidiaries as at 31 December 2016 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
Country Praise Enterprises Limited ("Country Praise")	British Virgin Islands ("BVI")	769,231 ordinary shares of no par value	100%	–	Investment holding
Splendid Win Enterprise Limited	Hong Kong	HK\$10,000	–	100%	Investment holding
Bright Voyage Limited	BVI	US\$50,000	–	100%	Investment holding
Moderntimes Payment Limited	BVI	US\$102,041	–	51%	Investment holding
Essence Management Service Limited	Hong Kong	HK\$100,000	–	100%	Investment holding
Beijing Shangyin Investment Consultancy Co., Ltd.	The PRC	RMB123,330,000	–	100%	Trading of watches and computer equipments
Beijing Tiantongsaibo Information Technology Co., Ltd. ("TTSB")	The PRC	RMB101,000,000	–	100%	Information system maintenance and development services
Beijing Gaoहितong Commercial Management Co., Ltd.	The PRC	RMB150,000,000	–	100%	Provision of third party payment services
Hangzhou Saibo Information Technology Co., Ltd.	The PRC	RMB4,000,000	–	100%	Provision of prepaid card and related customer services
Beijing Zhixiang Chuangfu Commercial Co., Ltd.	The PRC	RMB10,000,000	–	100%	Provision of third party payment services
Shanghai Jinghui Commercial Co., Ltd.	The PRC	RMB1,000,000	–	100%	Provision of third party payment services
Shenzhen Shanglian Huitong Commercial Management Co., Ltd.	The PRC	RMB3,000,000	–	100%	Prepaid phone card distribution

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
Beijing Onecomm Technology Company Limited ("Onecomm")	The PRC	RMB23,000,000	–	51%	Provision of third party management services and sales of integrated smart point of sales ("POS") device
Yu Shun Investment Consultancy (Shanghai) Company Limited	The PRC	US\$7,340,000	–	100%	Provision of consultancy services, development, operation and promotion of innovative products and customer value management

The above list contains the particulars of major subsidiaries which principally affected the results, assets or liabilities of the Group.

As at 31 December 2016, the bank and cash balances of the Group's subsidiaries in the PRC denominated in Renminbi ("RMB") amounted to HK\$136,836,000 (2015: HK\$87,645,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

22. Investments In Associates

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Unlisted investment in the PRC:		
Share of net assets	<u>–</u>	<u>–</u>

The amount due from an associate was unsecured, interest free and repayable on demand.

Details of the Group's associates at 31 December 2016 were as follows:

Name	Place of incorporation/ registration and operation	Registered capital	Percentage of equity interest attributable to the Group	Principal activities
Shanghai Yu Chang Financial Information Services Co., Limited ("Yu Chang")	The PRC	RMB5,000,000	37%	Micro business lending
Shanghai Xueying Information & Technology Co., Ltd ("Xueying")	The PRC	RMB1,000,000	20%	Information technology development and consultancy services

The Group has not recognised loss for the year amounting to approximately HK\$45,000 (2015: approximately HK\$2,000) and HK\$114,000 (2015: Nil) for Yu Chang and Xueying respectively. The accumulated losses not recognised were approximately HK\$46,000 (2015: HK\$2,000) and HK\$114,000 (2015: Nil) for Yu Chang and Xueying respectively.

As at 31 December 2016, the bank and cash balances of the Group's associates in the PRC denominated in RMB amounted to approximately HK\$53,000 (2015: HK\$119,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

23. Available-for-sale Financial Assets

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Unlisted equity securities		
At cost	<u>100,620</u>	<u>110,002</u>

Unlisted equity securities with carrying amount of approximately HK\$100,620,000 (2015: HK\$110,002,000) were carried at cost as they do not have a quoted market price in an active market and their fair value cannot be reliably measured.

The carrying amounts of the Group's available-for-sale financial assets are denominated in RMB as at 31 December 2015 and 2016.

None of these financial assets is either past due or impaired.

As at 31 December 2016, available-for-sale financial assets were pledged as security in respect of loan of RMB250,000,000 granted to the underlying investee company.

24. Inventories

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Finished goods	4,376	3,389
Impairment losses	<u>(1,223)</u>	<u>(1,448)</u>
	<u>3,153</u>	<u>1,941</u>

25. Trade Receivables

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	23,863	47,398
Allowance for doubtful debts	<u>(3,356)</u>	<u>(4,216)</u>
	<u>20,507</u>	<u>43,182</u>

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The ageing analysis of trade receivables based on the invoice date, and net of allowance, is as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	10,688	31,889
91 to 180 days	4,662	2,807
181 to 365 days	<u>5,157</u>	<u>8,486</u>
	<u><u>20,507</u></u>	<u><u>43,182</u></u>

As at 31 December 2016, an allowance was made for estimated irrecoverable trade receivables for approximately HK\$3,356,000 (2015: HK\$4,216,000).

Reconciliation of allowance for trade receivables:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	4,216	1,070
Allowance for the year	–	3,522
Reversal of allowance for the year	(612)	(226)
Exchange difference	<u>(248)</u>	<u>(150)</u>
At 31 December	<u><u>3,356</u></u>	<u><u>4,216</u></u>

As of 31 December 2016, trade receivables of approximately HK\$9,862,000 (2015: HK\$11,421,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Up to 3 months	4,704	2,931
3 to 6 months	1	771
Over 6 months	<u>5,157</u>	<u>7,719</u>
	<u><u>9,862</u></u>	<u><u>11,421</u></u>

The carrying amounts of the Group's trade receivables are denominated in RMB as at 31 December 2015 and 2016.

26. Prepayments, Deposits and Other Receivables

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Prepayments	9,052	9,880
Deposits	12,357	29,747
Loans to independent third parties (<i>Note</i>)	3,349	13,730
Other receivables	<u>33,438</u>	<u>3,168</u>
	58,196	56,525
Long term deposits classified as non-current assets	<u>(3,978)</u>	<u>(24,531)</u>
	<u><u>54,218</u></u>	<u><u>31,994</u></u>

Note:

The carrying amounts of loans to independent third parties were denominated in RMB as at 31 December 2015 and 2016. The loans were arranged at fixed interest rates between 12% to 15% per annum (2015: 12% to 15% per annum).

At 31 December 2016, the loans are secured by the following:

- (a) Personal guarantee with unlimited amount given by the largest shareholder of the borrowing company;
- (b) Land located in the PRC owned by the borrowing company.

As at 31 December 2016, an allowance was made for estimated irrecoverable prepayment, deposits and other receivables of approximately HK\$21,661,000 (2015: HK\$24,361,000).

Reconciliation of allowance for prepayments, deposits and other receivables:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	24,361	75
Allowance for the year	–	25,067
Reversal of allowance for the year	(1,167)	–
Exchange difference	<u>(1,533)</u>	<u>(781)</u>
At 31 December	<u><u>21,661</u></u>	<u><u>24,361</u></u>

27. Amounts Due From Non-controlling Shareholders of Subsidiaries

Amounts due from non-controlling shareholders of subsidiaries are as follows:

	Balance at 31 December 2016 <i>HK\$'000</i>	Balance at 1 January 2016 <i>HK\$'000</i>	Maximum amount outstanding during the year <i>HK\$'000</i>
Mr. JOONG Chi-Wei	290	215	290
Mr. Sun Jiangning	<u>565</u>	<u>–</u>	<u>933</u>
	<u><u>855</u></u>	<u><u>215</u></u>	

The amounts were unsecured, interest free and repayable on demand.

28. Bank and Cash Balances

As at 31 December 2016, the bank and cash balances of the Group denominated in RMB amounted to HK\$136,836,000 (2015: HK\$87,645,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

As at 31 December 2016, bank balances of HK\$98,295,000 (2015: HK\$11,639,000) were restricted for the purpose of settlement obligation as set out in note 30.

29. Trade Payables

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 90 days	17	2,699
91 to 180 days	–	60
181 to 365 days	15	37
Over 365 days	<u>2,386</u>	<u>948</u>
	<u><u>2,418</u></u>	<u><u>3,744</u></u>

The carrying amounts of the Group's trade payables are denominated in RMB as at 31 December 2015 and 2016.

30. Accruals and Other Payables

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Settlement obligation (<i>Note</i>)	98,295	11,639
Receipt in advance	4,502	1,330
Accruals	5,985	5,793
Other payables	<u>11,251</u>	<u>20,025</u>
	<u><u>120,033</u></u>	<u><u>38,787</u></u>

Note:

The settlement obligations are recognised upon receipt of fund from end users and prepaid card holders of Third Party Payment Services. The amount represents the Group's obligations to remit the same to designated recipients or the contracted merchants. The settlement basis is normally the next business day of the transaction date, except for certain designated recipients and merchants.

31. Amount Due to A Director/non-controlling Shareholders of Subsidiaries

The amounts were unsecured, interest free and repayable on demand.

32. Contingent Consideration Payables

	2016 HK\$'000	2015 HK\$'000
As at 1 January	19,667	10,110
Fair value of contingent consideration payables arising from acquisition of subsidiaries	–	22,861
Release upon issue of consideration shares	(16,204)	–
Loss/(gain) on fair value change recognised for the year	70,984	(13,155)
Exchange differences	<u>(587)</u>	<u>(149)</u>
As at 31 December	<u><u>73,860</u></u>	<u><u>19,667</u></u>
Analysed as:		
Current liabilities	40,278	19,667
Non-current liabilities	<u>33,582</u>	<u>–</u>
	<u><u>73,860</u></u>	<u><u>19,667</u></u>

The contingent consideration payables as at year end date represented the present value of the contingent considerations for the acquisitions of subsidiaries, which were estimated based on level 3 measurement. Details of the above are set out in note 39(c) to the consolidated financial statements.

33. Financial Guarantee

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	41,365	–
Fair value of financial guarantee at grant date	–	48,686
Amortisation for the year (<i>note 9</i>)	(15,592)	(6,762)
Exchange difference	<u>(2,017)</u>	<u>(559)</u>
At 31 December	<u><u>23,756</u></u>	<u><u>41,365</u></u>

During the year ended 31 December 2015, the Group has issued a guarantee of RMB150,000,000 in respect of loans granted to an investee company. Under the guarantee, the Group is liable for the maximum liability of RMB150,000,000 (equivalent to HK\$179,093,000) of the investee company's borrowings from the investee company's major equity holder upon failure of the investee company making payments when due.

The maximum liability of the Group at the end of the reporting period under this guarantee is the aggregate of borrowings drawn at that date of RMB50,000,000 (2015: RMB50,000,000) (equivalent to approximately HK\$55,818,000 (2015: HK\$59,698,000)) and interest accrued up to that date of approximately RMB2,945,000 (2015: RMB607,000) (equivalent to approximately HK\$3,288,000 (2015: HK\$725,000)).

34. Deferred Tax

The followings are the deferred tax assets/(liabilities) recognised by the Group.

	Tax losses	Deferred tax liabilities of fair value gain on intangible assets by acquisition of a subsidiary	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2015	1,876	(1,076)	800
Charge to profit or loss for the year (Note 12)	(1,848)	287	(1,561)
Exchange differences	<u>(28)</u>	<u>40</u>	<u>12</u>
At 31 December 2015 and 1 January 2016	–	(749)	(749)
Credit to profit or loss for the year (Note 12)	–	272	272
Exchange differences	<u>–</u>	<u>36</u>	<u>36</u>
At 31 December 2016	<u>–</u>	<u>(441)</u>	<u>(441)</u>

At the end of the reporting period, the Group has unused tax losses of HK\$112,417,000 (2015: HK\$137,513,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. All unused tax losses will expire on or before 2021.

At the end of the reporting period, no temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities was recognised (2015: HK\$26,666,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

35. Share Capital

		2016		2015	
		Number of shares	Amount	Number of shares	Amount
<i>Note</i>		'000	HK\$'000	'000	HK\$'000
<i>Authorised:</i>					
Ordinary shares of HK\$0.01 each		<u>20,000,000</u>	<u>200,000</u>	<u>20,000,000</u>	<u>200,000</u>
<i>Ordinary, issued and fully paid:</i>					
At 1 January		6,015,766	60,158	5,605,506	56,055
Share issued under placing	(a)	–	–	300,000	3,000
Share issued under share option scheme	38	37,248	372	30,260	303
Share issued under contingent consideration	32	46,296	463	–	–
Share issued under exercise of warrants	37(b)(vii)	<u>–</u>	<u>–</u>	<u>80,000</u>	<u>800</u>
At 31 December		<u>6,099,310</u>	<u>60,993</u>	<u>6,015,766</u>	<u>60,158</u>

Note:

- (a) On 20 November 2015, the Company entered into a placing agreement with Oriental Patron Asia Limited (the “Placing Agent”) pursuant to which the Company has conditionally agreed to place, through the Placing Agent, up to 300,000,000 placing shares at a price of HK\$0.406 per placing share. The placing was completed on 9 December 2015 and the net proceeds from placing were approximately HK\$121,191,000.

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, retained loss and other reserves).

	2016 HK\$'000	2015 HK\$'000
Debts (a)	141,705	82,566
Less: cash and cash equivalents	<u>(185,422)</u>	<u>(236,608)</u>
Net debts	(43,717)	(154,042)
Equity (b)	842,804	1,044,620
Net debts to equity ratio	<u>N/A</u>	<u>N/A</u>

(a) Debt is defined as trade payables, accruals and other payables excluding receipt in advance, and financial guarantee as detailed in notes 29, 30 and 33 to the consolidated financial statements.

(b) Equity included all capital and reserves before non-controlling interests of the Group.

The externally imposed capital requirements for the Group is to have a public float of at least 25% of the Company's shares in order to maintain its listing on the Stock Exchange. Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public.

36. Statement of Financial Position and Reserve Movement of the Company

(a) *Statement of financial position of the Company*

		As at 31 December	
		2016	2015
	Note	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		2	32
Investments in subsidiaries		375,291	564,088
Amounts due from subsidiaries		261,701	261,701
Deposits for potential investment	45	<u>33,490</u>	<u>–</u>
		<u>670,484</u>	<u>825,821</u>
Current assets			
Prepayments, deposits and other receivables		834	832
Amounts due from subsidiaries		195,448	146,088
Bank and cash balances		<u>14,202</u>	<u>75,649</u>
		<u>210,484</u>	<u>222,569</u>
Current liabilities			
Accruals and other payables		2,388	1,783
Amounts due to subsidiaries		36,679	1,068
Amount due to a director	31	<u>–</u>	<u>1,000</u>
		<u>39,067</u>	<u>3,851</u>
Net current assets		<u>171,417</u>	<u>218,718</u>
NET ASSETS		<u>841,901</u>	<u>1,044,539</u>
Capital and reserves			
Share capital	35	60,993	60,158
Reserves	36(b)	<u>780,908</u>	<u>984,381</u>
TOTAL EQUITY		<u>841,901</u>	<u>1,044,539</u>

(b) Reserve movement of the Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Warrant reserve HK\$'000	Retained loss HK\$'000	Total HK\$'000
At 1 January 2015	991,322	70,121	8,402	139	(104,284)	965,700
Total comprehensive income for the year	–	–	–	–	(196,519)	(196,519)
Issued from placing	118,191	–	–	–	–	118,191
Issued of warrants	–	–	–	1,000	–	1,000
Exercise of warrants	31,339	–	–	(139)	–	31,200
Exercise of share options	10,623	–	(3,362)	–	–	7,261
Share-based payments	–	–	57,548	–	–	57,548
Release upon lapse of share options	–	–	(982)	–	982	–
Changes in equity for the year	160,153	–	53,204	861	(195,537)	18,681
At 31 December 2015	1,151,475	70,121	61,606	1,000	(299,821)	984,381
At 1 January 2016	1,151,475	70,121	61,606	1,000	(299,821)	984,381
Total comprehensive income for the year	–	–	–	–	(276,569)	(276,569)
Issued for contingent consideration shares	15,741	–	–	–	–	15,741
Exercise of share options	13,081	–	(4,141)	–	–	8,940
Share-based payments	–	–	48,415	–	–	48,415
Release upon lapse of share options	–	–	(2,442)	–	2,442	–
Changes in equity for the year	28,822	–	41,832	–	(274,127)	(203,473)
At 31 December 2016	1,180,297	70,121	103,438	1,000	(573,948)	780,908

37. Reserves**(a) Group**

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves**(i) Share premium account**

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be utilised in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(ii) Contributed surplus

The contributed surplus of the Group arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 2000 and represented the excess of the then consolidated net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

(iii) Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4(v) to the consolidated financial statements.

(iv) Capital reserve

The capital reserve represents the excess of the fair value of the Group's share of net assets over the purchase price. The amount is retained in the consolidated statement of financial position until the disposal of the subsidiaries.

(v) Statutory reserve

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

(vi) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with accounting policies set out in note 4(d) to the consolidated financial statements.

(vii) Warrant reserve

Warrant reserve represents the net proceeds received from the issue of warrants of the Company. The reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants.

During the year ended 31 December 2015, the remaining 80,000,000 unlisted warrants at HK\$0.001743 per warrant brought forward from previous year were converted.

On 6 February 2015, the Company issued 530,000,000 unlisted warrants at an issue price of HK\$0.002 per warrant pursuant to a subscription agreement. Each warrant entitles the holder to subscribe for one ordinary share of HK\$0.01 each at an initial subscription price of HK\$0.72 per share at any time within 5 years commencing from the date of issue of the warrants.

During the year ended 31 December 2016, 530,000,000 (2015: 530,000,000) unlisted warrants at HK\$0.002 per warrant are outstanding.

Movements in number of underlying shares of the warrants:

	2016	2015
	<i>'000</i>	<i>'000</i>
At 1 January	530,000	80,000
Issued during the year	–	530,000
Converted during the year	<u>–</u>	<u>(80,000)</u>
At 31 December	<u><u>530,000</u></u>	<u><u>530,000</u></u>

Terms of unexpired and unexercised warrants at the end of the reporting periods:

Date of issue	Exercisable period	Number of underlying shares of the warrants	
		2016	2015
6 February 2015	6 February 2015 to 5 February 2020	530,000,000	530,000,000

38. Share-Based Payments

At the annual general meeting of the Company held on 3 May 2012, shareholders of the Company approved the adoption of a New Share Option Scheme.

Concerning New Share Option Scheme, the Company operates it for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company's subsidiaries. The Scheme became effective on 3 May 2012 and, unless otherwise cancelled or amended, will remain in force for 5 years from that date.

Pursuant to the New Share Option Scheme, the Company may grant options to the participants to subscribe for ordinary share of HK\$0.01 each, subject to, when aggregated under this scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a connected person, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the New Share Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

The fair value of share options granted is recognised in profit or loss taking into account the probability that the options will vest over the vesting period. Upon the exercise of the options the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded in the share premium account. At the time when the share options are exercised, the amount previously recognised in share option reserve is transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve is transferred to retained profits. Lapsed options, prior to their exercise date, are deleted from the outstanding options. All equity-settled share-based compensation expense is settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The grantees may exercise the options in whole or in part by giving exercise notice to the grantor at any time during the option period provided that the grantees shall exercise the options to acquire the option shares in accordance with the following vesting schedule:

Vesting schedule

One year after the grant date	30%
Two years after the grant date	30%
Three years after the grant date	40%

The following table discloses details of the Company's share options under New Share Option Scheme and the movements during the year ended 31 December 2015:

			Number of share options				
			At 1 January 2015	Granted during the year	Expired/ lapsed during the year	Exercised during the year	At 31 December 2015
Date of grant	Exercise period	Exercise price					
New Share Option Scheme							
Directors and Chief Executives							
6 July 2012	6 July 2013 to 5 July 2017	HK\$0.25	6,240,000	–	–	–	6,240,000
	6 July 2014 to 5 July 2017	HK\$0.25	6,240,000	–	–	–	6,240,000
	6 July 2015 to 5 July 2017	HK\$0.25	9,120,000	–	–	(800,000)	8,320,000
11 June 2015	1 February 2016 to 10 June 2020	HK\$1.25	–	21,000,000	–	–	21,000,000
	1 February 2017 to 10 June 2020	HK\$1.25	–	21,000,000	–	–	21,000,000
	1 February 2018 to 10 June 2020	HK\$1.25	–	28,000,000	–	–	28,000,000
			21,600,000	70,000,000	–	(800,000)	90,800,000
Other employees							
6 July 2012	6 July 2013 to 5 July 2017	HK\$0.25	236,000	–	(21,000)	(215,000)	–
	6 July 2014 to 5 July 2017	HK\$0.25	298,000	–	(37,000)	(261,000)	–
	6 July 2015 to 5 July 2017	HK\$0.25	67,556,000	–	(524,000)	(28,984,000)	38,048,000
11 June 2015	1 February 2016 to 10 June 2020	HK\$1.25	–	39,814,200	(1,022,400)	–	38,791,800
	1 February 2017 to 10 June 2020	HK\$1.25	–	39,814,200	(1,022,400)	–	38,791,800
	1 February 2018 to 10 June 2020	HK\$1.25	–	53,085,600	(1,363,200)	–	51,722,400
			68,090,000	132,714,000	(3,990,000)	(29,460,000)	167,354,000
Total share options			89,690,000	202,714,000	(3,990,000)	(30,260,000)	258,154,000

The following table discloses details of the Company's share options under New Share Option Scheme and the movements during the year ended 31 December 2016:

			Number of share options				
			At	Granted	Expired/	Exercised	At
Date of grant	Exercise period	Exercise price	1 January 2016	during the year	lapsed during the year	during the year	31 December 2016
New Share Option Scheme							
Directors and Chief Executives							
6 July 2012	6 July 2013 to 5 July 2017	HK\$0.25	6,240,000	–	–	–	6,240,000
	6 July 2014 to 5 July 2017	HK\$0.25	6,240,000	–	–	–	6,240,000
	6 July 2015 to 5 July 2017	HK\$0.25	8,320,000	–	–	–	8,320,000
11 June 2015	1 February 2016 to 10 June 2020	HK\$1.25	21,000,000	–	–	–	21,000,000
	1 February 2017 to 10 June 2020	HK\$1.25	21,000,000	–	–	–	21,000,000
	1 February 2018 to 10 June 2020	HK\$1.25	28,000,000	–	–	–	28,000,000
			90,800,000	–	–	–	90,800,000
Other employees							
6 July 2012	6 July 2015 to 5 July 2017	HK\$0.25	38,048,000	–	–	(37,248,000)	800,000
11 June 2015	1 February 2016 to 10 June 2020	HK\$1.25	38,791,800	–	(1,442,400)	–	37,349,400
	1 February 2017 to 10 June 2020	HK\$1.25	38,791,800	–	(1,442,400)	–	37,349,400
	1 February 2018 to 10 June 2020	HK\$1.25	51,722,400	–	(1,923,200)	–	49,799,200
			167,354,000	–	(4,808,000)	(37,248,000)	125,298,000
Total share options			258,154,000	–	(4,808,000)	(37,248,000)	216,098,000

If the options remain unexercised after a period of 5 years from the date of grant, the options will expire. Options are forfeited if the employee leaves the Group.

Details of the share options outstanding during the year are as follows:

	2016		2015	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the year	258,154,000	1.022	89,690,000	0.250
Granted during the year	–	–	202,714,000	1.250
Exercised during the year	(37,248,000)	0.250	(30,260,000)	0.250
Lapsed during the year	<u>(4,808,000)</u>	1.250	<u>(3,990,000)</u>	1.104
Outstanding at the end of the year	<u>216,098,000</u>	1.150	<u>258,154,000</u>	1.022
Exercisable at the end of the year	<u>79,949,400</u>		<u>58,848,000</u>	

The weighted average share price at the date of exercise for share option exercised during the year ended 31 December 2016 was HK\$0.620 (2015: HK\$0.732). 37,248,000 (2015: 30,260,000) share options have been exercised during the year ended 31 December 2016. The options outstanding at the end of the year have a weighted average remaining contractual life of 3.18 years (2015: 3.80 years) and average exercise price of HK\$1.150 (2015: HK\$1.022).

Options under New Option Scheme were granted on 11 June 2015. The estimated fair value of the options granted on that date is HK\$129,751,000. The fair value was calculated using the Binomial Option pricing model. The inputs into the model are as follows:

	2015
Applicable share price	HK\$1.23
Exercise price per share	HK\$1.25
Expected volatility	72.26%
Expected life	5 years
Risk free rate	1.348%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model was the contractual life of the options.

39. Notes to the Consolidated Statement of Cash Flows

(a) Disposal of travellers related services segment

As mentioned in note 16 to the consolidated financial statements, the Group discontinued the travellers related services segment including Kopu Group and Kanghui during the year.

Net liabilities at the date of disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	308
Intangible assets	94
Trade receivables	1,843
Prepayments, deposit and other receivables	1,356
Bank and cash balances	2,164
Trade payables	(1,859)
Accruals and other payables	(1,631)
Amount due to the Group	(32,050)
Due to a director	<u>(465)</u>
Net liabilities disposed of	(30,240)
Release of foreign currency translation reserve	(2,920)
Amount due to the Group written off	32,050
Gain on disposal of the subsidiaries (<i>Note 16</i>)	<u>1,168</u>
Total consideration	<u><u>58</u></u>
Satisfied by:	
Cash consideration	<u><u>58</u></u>
Net cash outflow arising on disposal:	
Cash consideration	58
Cash and cash equivalents disposed	<u>(2,164)</u>
	<u><u>(2,106)</u></u>

(b) Disposal of subsidiaries

- (i) On 2 September 2016, the Group entered into a sale and purchase agreement with an independent third party to dispose of 51% equity interests of Beijing Meichuang Commercial Management Co., Limited (“Meichuang Commercial”) at a cash consideration of RMB1,545,000 (equivalent to HK\$1,797,000). Meichuang Commercial was principally engaged in provision of software development. The consideration was satisfied by cash and the completion date was 30 September 2016.

Net liabilities at the date of disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	139
Intangible assets	143
Prepayments, deposit and other receivables	509
Bank and cash balances	1,028
Accruals and other payables	(2,067)
Non-controlling interest	<u>121</u>
Net liabilities disposed of	(127)
Release of foreign currency translation reserve	(656)
Gain on disposal of the subsidiary	<u>2,580</u>
Total consideration	<u><u>1,797</u></u>
Satisfied by:	
Cash consideration	<u><u>1,797</u></u>
Net cash outflow arising on disposal:	
Cash consideration received	424
Cash and cash equivalents disposed	<u>(1,028)</u>
	<u><u>(604)</u></u>

- (ii) On 16 December 2016, the Group entered into a sale and purchase agreement with an independent third party to dispose of 100% equity interests of Shengyang Tonghui Technology Development Co., Limited (“Shengyang Tonghui”) at nil consideration. Shengyang Tonghui was inactive during the year. The completion date was 31 December 2016.

HK\$'000

Property, plant and equipment	71
Inventories	7
Prepayments, deposit and other receivables	295
Trade receivables	12
Bank and cash balances	283
Accruals and other payables	<u>(1,131)</u>
Net liabilities disposed of	(463)
Release of foreign currency translation reserve	578
Loss on disposal of subsidiaries	<u>(115)</u>
Total consideration	<u><u>—</u></u>
Satisfied by:	
Cash	<u><u>—</u></u>
Net cash outflow arising on disposal:	
Cash consideration received	—
Cash and cash equivalents disposed	<u>(283)</u>
	<u><u>(283)</u></u>

(c) Acquisition of Moderntimes and its subsidiaries

On 30 September 2015 (“Completion Date”), the Group obtained 51% of equity interest of Moderntimes Payment Limited (“Moderntimes”) and its subsidiaries (collectively referred to as “Moderntimes Group”). Moderntimes Group is principally engaged in (i) provision of consultancy services in strategy and implementation in the traditional finance industry and the internet finance industry; (ii) development, operation and promotion of innovative products in the internet and finance fields; and (iii) customer value management.

According to the subscription agreement, assignment of shareholder’s loan and incentive agreement dated 18 June 2015 entered into between the Group and the shareholders of Moderntimes, the consideration of the acquisition of 51% equity interest of Moderntimes will be settled by way of:

- (i) injection of HK\$49,510,000 to Moderntimes by way of cash on Completion Date as registered capital;
- (ii) settlement of outstanding amount of HK\$13,090,000 due to a former shareholder of Moderntimes Group;
- (iii) allotting and issuing up to 231,481,481 ordinary shares of the Company to the vendor, ModernTimes Information Co., Limited, depending on the number of cumulative virtual prepaid card sold for the period from 1 July 2015 to 31 December 2017 and the amount of cumulative virtual prepaid card reloaded for the period from 1 January 2016 to 31 December 2017 (“Guaranteed Period”). The number of ordinary shares to be issued (“Contingent Shares”) is subject to the adjustments below:

For the six months ended 31 December 2015

Scenario 1:	in the event that the number of cumulative virtual prepaid card sold for the period is less than 3,500,000, the Contingent Shares to be issued for the period shall be zero;
Scenario 2:	in the event that the number of cumulative virtual prepaid card sold for the period is 3,500,000 or more, the Contingent Shares to be issued for the period shall be 46,296,296.

For the year ended 31 December 2016

(i) Cumulative virtual prepaid card sold

Scenario 1: in the event that the number of cumulative virtual prepaid card sold for the period from 1 July 2015 to 31 December 2016 is less than 30,000,000, the Contingent Shares to be issued for the year ended 31 December 2016 shall be zero;

Scenario 2: in the event that the number of cumulative virtual prepaid card sold for the period from 1 July 2015 to 31 December 2016 is 30,000,000 or more, the Contingent Shares to be issued for the year ended 31 December 2016 shall be 115,740,740 less the number of any Contingent Shares issued for the six months ended 31 December 2016.

(ii) Cumulative virtual prepaid card reloaded

Scenario 1: in the event that the amount of cumulative virtual prepaid card reloaded for the period from 1 July 2015 to 31 December 2016 is less than RMB30,000,000,000, the Contingent Shares to be issued for the year ended 31 December 2016 shall be zero;

Scenario 2: in the event that the amount of cumulative virtual prepaid card reloaded for the period from 1 July 2015 to 31 December 2016 is RMB30,000,000,000 or more, the Contingent Shares to be issued for the year ended 31 December 2016 shall be 23,148,148.

For the year ending 31 December 2017

(i) Cumulative virtual prepaid card sold

- Scenario 1: in the event that the number of cumulative virtual prepaid card sold for the period from 1 July 2015 to 31 December 2017 is less than 43,750,000, the Contingent Shares to be issued for the year ending 31 December 2017 shall be zero;
- Scenario 2: in the event that the number of cumulative virtual prepaid card sold for the period from 1 July 2015 to 31 December 2017 is 43,750,000 or more but less than 70,000,000, the Contingent Shares to be issued for the year ending 31 December 2017 shall be 86,805,555 less the number of any Contingent Shares issued for the period from 1 July 2015 to 31 December 2016 under the scenarios of cumulative virtual prepaid card sold mentioned above;
- Scenario 3: in the event that the number of cumulative virtual prepaid card sold for the period from 1 July 2015 to 31 December 2017 is 70,000,000 or more but less than 87,500,000, the Contingent Shares to be issued for the year ending 31 December 2017 shall be 104,166,666 less the number of any Contingent Shares issued for the period from 1 July 2015 to 31 December 2016 under the scenarios of cumulative virtual prepaid card sold mentioned above;
- Scenario 4: in the event that the number of cumulative virtual prepaid card sold for the period from 1 July 2015 to 31 December 2017 is 87,500,000 or more, the Contingent Shares to be issued for the year ending 31 December 2017 shall be 173,611,111 less the number of any Contingent Shares issued for the period from 1 July 2015 to 31 December 2016 under the scenarios of cumulative virtual prepaid card sold mentioned above.

(ii) Cumulative virtual prepaid card reloaded

- Scenario 1: in the event that the amount of cumulative virtual prepaid card reloaded for the period from 1 July 2015 to 31 December 2017 is less than RMB43,750,000,000, the Contingent Shares to be issued for the year ending 31 December 2017 shall be zero;
- Scenario 2: in the event that the amount of cumulative virtual prepaid card reloaded for the period from 1 July 2015 to 31 December 2017 is RMB43,750,000,000 or more but less than RMB70,000,000,000, the Contingent Shares to be issued for the year ending 31 December 2017 shall be 28,935,185 less the number of any Contingent Shares issued for the year ended 31 December 2016 under the scenarios of cumulative virtual prepaid card reloaded mentioned above;
- Scenario 3: in the event that the amount of cumulative virtual prepaid card reloaded for the period from 1 July 2015 to 31 December 2017 is RMB70,000,000,000 or more but less than RMB87,500,000,000, the Contingent Shares to be issued for the year ending 31 December 2017 shall be 34,722,222 less the number of any Contingent Shares issued for the year ended 31 December 2016 under the scenarios of cumulative virtual prepaid card reloaded mentioned above;
- Scenario 4: in the event that the amount of cumulative virtual prepaid card reloaded for the period from 1 July 2015 to 31 December 2017 is RMB87,500,000,000 or more, the Contingent Shares to be issued for the year ending 31 December 2017 shall be 57,870,370 less the number of any Contingent Shares issued for the year ended 31 December 2016 under the scenarios of cumulative virtual prepaid card reloaded mentioned above.

Details of the Group's acquisition of Moderntimes Group were set out in the Company's announcements dated 18 June 2015 and 8 July 2015. The acquisition is for the purpose of strengthening the Group's third party payment services in the PRC.

For the six months ended 31 December 2015, the number of cumulative virtual prepaid card sold for the period from 1 July 2015 to 31 December 2015 is more than 3,500,000, therefore the Contingent Shares was 46,296,296.

For the year ended 31 December 2016, the number of cumulative virtual prepaid card sold for the period from 1 July 2015 to 31 December 2016 is more than 30,000,000, therefore the Contingent Shares was 69,444,444. The amount of cumulative virtual prepaid card reloaded for the period from 1 July 2015 to 31 December 2016 is less than RMB30,000,000, therefore the Contingent Shares was zero.

As at 31 December 2016, 115,740,741 (2015:185,185,185) Contingent Shares were yet issued and the issuance will depend on the outcome of future fulfillment of performance targets as set out above.

The fair value of the identifiable assets and liabilities of Moderntimes Group acquired as at its date of acquisition is as follows:

	<i>HK\$'000</i>
Net assets acquired:	
Property, plant and equipment	121
Investment in an associate	–
Prepayments, deposit and other receivables	1,087
Amount due from a non-controlling shareholder	215
Bank and cash balances	56,394
Accruals and other payables	<u>(1,221)</u>
	56,596
Non-controlling interests	<u>(27,732)</u>
	28,864
Goodwill allocated to third party payment services CGU (Note 20)	<u>56,597</u>
	<u><u>85,461</u></u>

HK\$'000

Satisfied by:

Cash consideration paid:

– Capital injection	49,510
– Settlement of loan	<u>13,090</u>

62,600

Contingent consideration payable (*Note 32*)22,86185,461

Net cash outflow arising on acquisition:

Cash consideration	(62,600)
Cash and cash equivalents acquired	<u>56,394</u>

(6,206)

Non-controlling interests are measured at their proportionate share in the recognised amounts of the acquiree's identifiable net assets.

The goodwill arising on the acquisition of Moderntimes Group is attributable to strengthen the third party payment services of the Group. Moderntimes Group contributed HK\$25,000 and HK\$3,402,000 to the Group's revenue and loss respectively for the period between the date of acquisition and 31 December 2015.

The fair value of contingent consideration payable at the Completion Date represents the present values of the Contingent Shares expected to be issued during the Guaranteed Period, which was estimated based on the expected cumulative virtual prepaid card sold and virtual prepaid card reload during the Guaranteed Period. The valuation was prepared by an independent valuer, UniStand Appraisal Limited.

Key inputs used in the fair value measurement of the contingent consideration payable are as follows:

Unobservable inputs	As at Completion Date
Expected number of cumulated virtual prepaid card sold as at 31 December 2017 (<i>Note i</i>)	30,533,248
Expected amount of cumulated virtual prepaid card reloaded as at 31 December 2017 (<i>Note ii</i>)	RMB23,534,728,767
Discount rate applied (<i>Note iii</i>)	5.02%
Average simulated share price under Monte Carlo Method (<i>Note iv</i>)	HK\$0.50

Note i: Expected number of cumulated virtual prepaid card sold for Contingent Shares is based on the Directors' best estimate and weighted probability analysis.

Note ii: Expected amount of cumulated virtual prepaid card reloaded for Contingent Shares is based on the Directors' best estimate and weighted probability analysis.

Note iii: Discount rate is derived by applying a risk-free interest rate plus the credit spread.

Note iv: Average simulated share price are estimated based on the historical volatility of the share price of the Company's ordinary shares listed on the Stock Exchange.

If the acquisition had been completed on 1 January 2015, total Group revenue for the year would have been HK\$104,134,000 and loss for the year would have been HK\$173,505,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is intended to be a projection of future results.

(d) Acquisition of interest in a subsidiary without change of control

During the year ended 31 December 2016, the Group acquired 5% equity interests in a 95% subsidiary at nil consideration. The effect of the acquisition on the equity attribution to the owners of the Company is as follows:

	<i>HK\$'000</i>
Carrying amount of non-controlling interests acquired	(544)
Consideration paid for non-controlling interests	<u>—</u>
Loss on acquisition recognised directly in equity	<u><u>(544)</u></u>

During the year ended 31 December 2015, the Group acquired 20% equity interests in a 80% subsidiary at a cash consideration of HK\$12,000. The effect of the acquisition on the equity attributable to the owners of the Company is as follows:

	<i>HK\$'000</i>
Carrying amount of non-controlling interests acquired	(216)
Consideration paid for non-controlling interests	<u>(12)</u>
Loss on acquisition recognised directly in equity	<u><u>(228)</u></u>

40. Contingent Liabilities

As at 31 December 2016, the Group did not have any significant contingent liabilities (2015: nil).

41. Capital Commitments

On 12 December 2016, the Group entered into a sale and purchase agreement to obtain 20% equity interest of an investee company by way of capital injection of RMB5,000,000. As at 31 December 2016, the Group paid RMB2,000,000. The remaining balance of RMB3,000,000 is a capital commitment.

As at 31 December 2015, the Group did not have any significant capital commitments.

42. Lease Commitments

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	11,970	12,381
In the second to fifth year inclusive	16,766	28,949
Over five years	<u>1,439</u>	<u>2,277</u>
	<u><u>30,175</u></u>	<u><u>43,607</u></u>

Operating lease payments represent rental payable by the Group for certain of its offices. Leases are negotiated for terms of one to four years (2015: one to nine years) and rentals are fixed over the lease terms and do not include contingent rentals.

43. Related Party Transactions

The key management personnel are the directors. The details of the remuneration paid to them are set out in note 15 to the consolidated financial statements.

44. Comparative Figures

Certain comparative figures have been restated or reclassified as a result of presentation of discontinued operations in the current year.

45. Events After Reporting Period

On 18 July 2016, the Company entered into a memorandum in respect of a possible acquisition of the 100% equity interest and shareholders' loan of a Company incorporated in the Cayman Islands (the "Target Group") which is principally engaged in the e-commerce business providing a variety of online and offline solutions proposals and services in relation to mobile retailing. Pursuant to the memorandum, the Group paid the Target Group RMB30,000,000 as earnest money.

According to the Company's announcement dated 21 February 2017, the Company changed to acquire 51% equity interest of the Target Group.

On 17 March 2017, the Company and the sellers entered into the Sale and Purchase Agreement pursuant to which the sellers have conditionally agreed to sell and the Company has conditionally agreed to purchase the 51% equity interest of the Target Group for a consideration of HK\$2,096,100,000, subject to the approval of independent shareholders of the Company and fulfillment of other conditions precedent. Details of the transaction are set out in the Company's announcement on 28 March 2017.

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Represented)				
RESULT					
CONTINUING OPERATIONS					
Revenue	80,182	97,068	81,222	142,896	212,805
Cost of sales	<u>(56,227)</u>	<u>(71,468)</u>	<u>(46,173)</u>	<u>(93,173)</u>	<u>(131,374)</u>
Gross profit	23,955	25,600	35,049	49,723	81,431
Other income	24,946	15,021	4,461	3,943	7,031
Selling expenses	<u>(16,917)</u>	<u>(27,378)</u>	<u>(31,181)</u>	<u>(19,911)</u>	<u>(5,353)</u>
Administrative expenses	<u>(125,040)</u>	<u>(100,621)</u>	<u>(60,675)</u>	<u>(52,025)</u>	<u>(45,681)</u>
Other operating expenses	–	–	–	–	(6,000)
Impairment of amount due from an associate	–	–	–	(4,733)	–
Impairment of investment in an associate	–	–	–	–	(822)
Impairment of goodwill	(12,301)	(4,641)	(53,323)	(228,787)	(160,499)
Impairment of intangible assets	<u>–</u>	<u>–</u>	<u>–</u>	<u>(933)</u>	<u>–</u>
Equity-settled share-based payment	(48,415)	(57,548)	(4,463)	(9,173)	(6,022)
Gain on fair value change of investment in an associate	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,273</u>	<u>–</u>
(Loss)/gain on fair value change of contingent consideration payables	<u>(70,984)</u>	<u>13,155</u>	<u>–</u>	<u>–</u>	<u>252,640</u>

APPENDIX IB**FINANCIAL INFORMATION OF THE GROUP
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Represented)				
Finance costs	<u>–</u>	<u>(15)</u>	<u>(9,714)</u>	<u>(13,187)</u>	<u>(12,371)</u>
(LOSS)/PROFIT BEFORE TAX	(224,756)	(136,427)	(119,846)	(273,810)	104,354
Income tax credit/(expenses)	<u>242</u>	<u>(2,556)</u>	<u>(3,740)</u>	<u>(4,927)</u>	<u>(12,757)</u>
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	<u>(224,514)</u>	<u>(138,983)</u>	<u>(123,586)</u>	<u>(278,737)</u>	<u>91,597</u>
DISCONTINUED OPERATIONS					
Loss for the year from a discontinued operation	<u>(4,383)</u>	<u>(21,588)</u>	<u>–</u>	<u>–</u>	<u>–</u>
(LOSS)/PROFIT FOR THE YEAR	<u>(228,897)</u>	<u>(160,571)</u>	<u>(123,586)</u>	<u>(278,737)</u>	<u>91,597</u>
Attributable to:					
Owners of the Company	(214,422)	(153,818)	(122,724)	(279,352)	91,362
Non-controlling interests	<u>(14,475)</u>	<u>(6,753)</u>	<u>(862)</u>	<u>615</u>	<u>235</u>
	<u>(228,897)</u>	<u>(160,571)</u>	<u>(123,586)</u>	<u>(278,737)</u>	<u>91,597</u>
ASSETS, LIABILITIES AND NON- CONTROLLING INTERESTS					
TOTAL ASSETS	1,081,293	1,181,047	1,105,536	987,578	1,251,850
TOTAL LIABILITIES	(222,964)	(108,730)	(77,212)	(163,593)	(190,100)
NON-CONTROLLING INTERESTS	<u>(15,525)</u>	<u>(27,697)</u>	<u>(6,502)</u>	<u>(707)</u>	<u>(88)</u>
	<u>842,804</u>	<u>1,044,620</u>	<u>1,021,822</u>	<u>823,278</u>	<u>1,061,662</u>

2 January 2018

The Directors

China Innovationpay Group Limited (the "Company")

Dear Sirs,

We report on the historical financial information of Qima Holdings Ltd. (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II-4 to II-63, which comprises the combined statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Group for each of the years ended 31 December 2014, 2015 and 2016 and for the ten months ended 31 October 2017 (the "Relevant Periods"), and the combined statements of financial position of the Target Group as at 31 December 2014, 2015, 2016 and 31 October 2017 and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-63 forms an integral part of this report, which has been prepared for inclusion in the circular of the Company dated 2 January 2018 (the "Circular") in connection with the proposed acquisition of the Target Group by the Company.

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Group as at 31 December 2014, 2015, 2016 and 31 October 2017 and of the financial performance and cash flows of the Target Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Target Group which comprises the combined statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the ten months ended 31 October 2016 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Target Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with

Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

No dividends have been paid by the Target Company in respect of the Relevant Periods.

Yours faithfully,
ERNST & YOUNG

Certified Public Accountants
Hong Kong

I HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(A) COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Section II Notes</i>	Years ended 31 December			Ten months ended 31 October	
		2014	2015	2016	2016	2017
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
REVENUE	5	397	9,779	98,267	71,929	213,894
Cost of sales		<u>(1,623)</u>	<u>(18,439)</u>	<u>(51,495)</u>	<u>(43,608)</u>	<u>(62,403)</u>
Gross (loss)/profit		(1,226)	(8,660)	46,772	28,321	151,491
Other income and gains	5	378	3,438	5,213	3,589	4,963
Selling and distribution expenses		(25,295)	(92,368)	(29,645)	(19,680)	(75,439)
Administrative expenses		(20,070)	(87,436)	(176,739)	(142,035)	(193,981)
Other expenses		(329)	(379)	(1,263)	(641)	(1,121)
Share of (loss)/gain of an associate		–	(250)	–	–	489
Change in fair value of contingently redeemable convertible preference shares	7	<u>(171,203)</u>	<u>(521,678)</u>	<u>(954,373)</u>	<u>(932,682)</u>	<u>(118,784)</u>
LOSS BEFORE TAX	6	(217,745)	(707,333)	(1,110,035)	(1,063,128)	(232,382)
Income tax expense		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD		<u>(217,745)</u>	<u>(707,333)</u>	<u>(1,110,035)</u>	<u>(1,063,128)</u>	<u>(232,382)</u>
Attributable to:						
– Owners of the parent		(217,745)	(706,928)	(1,108,996)	(1,062,577)	(231,205)
– Non-controlling interests		<u>–</u>	<u>(405)</u>	<u>(1,039)</u>	<u>(551)</u>	<u>(1,177)</u>
		<u>(217,745)</u>	<u>(707,333)</u>	<u>(1,110,035)</u>	<u>(1,063,128)</u>	<u>(232,382)</u>

(B) COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
	Section II	2014	2015	2016	31 October
	Notes	RMB'000	RMB'000	RMB'000	2017
					RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	10	1,951	5,378	9,160	10,221
Intangible assets	11	–	237	565	419
Investments in an associate	12	–	–	–	489
Available-for-sale investments	13	–	–	1,000	6,909
Prepayments, deposits and other receivables	14	262	2,490	2,451	2,721
Total non-current assets		2,213	8,105	13,176	20,759
CURRENT ASSETS					
Inventories	15	–	–	–	436
Prepayments, deposits and other receivables	14	2,162	14,237	9,514	14,527
Due from third-party payment vendors	16	1,137	160,586	45,640	112,977
Cash and cash equivalents	17	80,820	139,472	452,377	734,715
Total current assets		84,119	314,295	507,531	862,655
CURRENT LIABILITIES					
Payables to merchants	18	12,606	222,253	416,300	770,496
Deferred revenue	19	–	1,469	67,685	123,779
Other payables and accruals	20	5,077	51,183	98,693	152,629
Total current liabilities		17,683	274,905	582,678	1,046,904
NET CURRENT ASSETS/(LIABILITIES)		66,436	39,390	(75,147)	(184,249)
TOTAL ASSETS LESS CURRENT LIABILITIES		68,649	47,495	(61,971)	(163,490)
NON-CURRENT LIABILITIES					
Deferred revenue	19	–	–	8,144	20,223
Contingently redeemable convertible preference shares	21	294,144	986,841	1,941,214	2,059,998
Total non-current liabilities		294,144	986,841	1,949,358	2,080,221
Net liabilities		(225,495)	(939,346)	(2,011,329)	(2,243,711)
DEFICIT					
Deficit attributable to owners of the parent					
Share capital	22	31	31	31	31
Share premium	23	918	873	873	873
Reserves	24	(226,444)	(940,245)	(2,011,946)	(2,243,151)
		(225,495)	(939,341)	(2,011,042)	(2,242,247)
Non-controlling interest		–	(5)	(287)	(1,464)
Total deficit		(225,495)	(939,346)	(2,011,329)	(2,243,711)

(C) COMBINED STATEMENTS OF CHANGES IN EQUITY

	Section II Notes	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Accumulated deficit RMB'000	Total RMB'000	Non- controlling interest RMB'000	Total deficit RMB'000
At 1 January 2014		–	–	200	(8,699)	(8,499)	–	(8,499)
Total comprehensive loss for the year		–	–	–	(217,745)	(217,745)	–	(217,745)
Reorganization of the Target Group and issuance of shares	22	31	918	(200)	–	749	–	749
At 31 December 2014 and 1 January 2015		31	918	–	(226,444)	(225,495)	–	(225,495)
Total comprehensive loss for the year		–	–	–	(706,928)	(706,928)	(405)	(707,333)
Establishment of a subsidiary		–	–	–	–	–	400	400
Repurchase of common shares and deemed distribution	22	–	(45)	–	(22,067)	(22,112)	–	(22,112)
Equity-settled share option arrangements		–	–	15,194	–	15,194	–	15,194
At 31 December 2015 and 1 January 2016		31	873	15,194	(955,439)	(939,341)	(5)	(939,346)
Total comprehensive loss for the year		–	–	–	(1,108,996)	(1,108,996)	(1,039)	(1,110,035)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	600	600
Partial disposal of shares in a subsidiary to a non- controlling shareholder		–	–	–	–	–	157	157
Equity-settled share option arrangements		–	–	37,295	–	37,295	–	37,295
At 31 December 2016 and 1 January 2017		31	873	52,489	(2,064,435)	(2,011,042)	(287)	(2,011,329)
Total comprehensive loss for the period		–	–	–	(231,205)	(231,205)	(1,177)	(232,382)
At 31 October 2017		31	873	52,489	(2,295,640)	(2,242,247)	(1,464)	(2,243,711)
Ten months ended 31 October 2016 (unaudited)								
At 31 December 2015 and 1 January 2016		31	873	15,194	(955,439)	(939,341)	(5)	(939,346)
Total comprehensive loss for the period		–	–	–	(1,062,577)	(1,062,577)	(551)	(1,063,128)
Capital contribution from a non-controlling Shareholder		–	–	–	–	–	600	600
Partial disposal of shares in a subsidiary to a non-controlling shareholder		–	–	–	–	–	157	157
Equity-settled share option Arrangements		–	–	33,817	–	33,817	–	33,817
At 31 October 2016 (unaudited)		31	873	49,011	(2,018,016)	(1,968,101)	201	(1,967,900)

(D) COMBINED STATEMENTS OF CASH FLOWS

Section II Notes	Years ended 31 December			Ten months ended 31 October	
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2016 RMB'000 (unaudited)	2017 RMB'000
CASH FLOWS FROM					
OPERATING ACTIVITIES					
Loss before tax	(217,745)	(707,333)	(1,110,035)	(1,063,128)	(232,382)
Adjustments for:					
Share of loss/(gain) of an associate	–	250	–	–	(489)
Impairment of available-for-sale investments	–	–	–	–	1,000
Compensation expense to a director	–	–	157	157	–
Interest income	5 (47)	(219)	(2,652)	(1,618)	(4,899)
Loss/(gains) on disposal of items of property, plant and equipment	5 –	164	(310)	(310)	(2)
Depreciation	10 326	1,525	3,548	2,613	4,034
Amortisation of intangible assets	11 –	36	157	124	150
Unrealised exchange gain	(224)	(2,176)	(36)	–	(10)
Change in fair value of contingently redeemable convertible preference shares	7 171,203	521,678	954,373	932,682	118,784
Equity-settled share option expense	–	15,194	37,295	33,817	–
	(46,487)	(170,881)	(117,503)	(95,663)	(113,814)
Increase in inventories	–	–	–	–	(436)
(Increase)/decrease in due from third-party payment vendors	(1,137)	(159,449)	114,946	120,751	(67,337)
(Increase)/decrease in prepayments, deposits and other receivables	(204)	(14,303)	4,762	3,940	(4,593)
Increase in payables to merchants	12,606	209,647	194,047	162,274	354,196
Increase in deferred revenue	–	1,469	74,360	65,101	68,173
Increase in other payables and accruals	5,061	46,106	17,510	55,853	22,936
Net cash flows (used in)/generated from operating activities	(30,161)	(87,411)	288,122	312,256	259,125
CASH FLOWS FROM					
INVESTING ACTIVITIES					
Interests received	47	219	2,652	1,618	4,209
Purchases of items of property, plant and equipment	(2,265)	(5,116)	(7,477)	(5,802)	(5,175)
Proceeds from disposal of items of property, plant and equipment	–	–	457	457	82
Purchases of intangible assets	–	(273)	(485)	(481)	(4)
Investment in an associate	–	(250)	–	–	–
Purchases of available-for-sale investments	–	–	(1,000)	(1,000)	(6,909)
Net cash flows used in investing activities	(2,218)	(5,420)	(5,853)	(5,208)	(7,797)

APPENDIX II
ACCOUNTANTS' REPORT OF YOUZAN GROUP

Section II Notes	Years ended 31 December			Ten months ended 31 October	
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2016 RMB'000 (unaudited)	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of common shares	749	–	–	–	–
Proceeds from issue of contingently redeemable convertible preference shares	112,165	171,019	–	–	–
Proceeds from establishment of a subsidiary	–	400	–	–	–
Earnest money received	–	–	30,000	–	31,000
Capital contribution of a subsidiary	–	–	600	600	–
Repurchase of common shares and deemed distribution	–	(22,112)	–	–	–
Net cash flows from financing activities	<u>112,914</u>	<u>149,307</u>	<u>30,600</u>	<u>600</u>	<u>31,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS					
	<u>80,535</u>	<u>56,476</u>	<u>312,869</u>	<u>307,648</u>	<u>282,328</u>
Cash and cash equivalents at beginning of year/period					
	61	80,820	139,472	139,472	452,377
Effect of foreign exchange rate changes, net	<u>224</u>	<u>2,176</u>	<u>36</u>	<u>–</u>	<u>10</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD					
	<u>80,820</u>	<u>139,472</u>	<u>452,377</u>	<u>447,120</u>	<u>734,715</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	17 <u>80,820</u>	<u>139,472</u>	<u>452,377</u>	<u>447,120</u>	<u>734,715</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. Corporate Information

Qima Holdings Ltd. (the “Target Company”) is a limited liability company incorporated in the Cayman Islands on 12 August 2014. Its registered office is located at the offices of Maricorp Services Ltd., P.O. Box 2075, George Town, Grand Cayman KY1-1105, Cayman Islands.

The Target Company is a holding company and conducts its businesses primarily through its subsidiaries (The Target Company and its subsidiaries, collectively, the “Target Group”). The Target Group is principally engaged in the e-commerce business providing a variety of online and offline solutions and services in relation to mobile retailing in the People’s Republic of China (“PRC”).

The principal activities of the Target Group have not changed since incorporation.

As at the date of this report, the Target Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies, the particulars of which are set out below:

Name	Note	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Target Company		Principal activities
				Direct	Indirect	
Qima Investment Limited (“QMI”)		Hong Kong	HK\$0.01	100%	–	Investment holding
Hangzhou Youzan Technology Co., Ltd. (“Hangzhou Youzan”)	(a)/(b)	PRC	USD100,000,000	–	100%	Internet information service, wholesale and retail
Shenzhen Youzan Information Technology Co., Ltd. (“Shenzhen Youzan”)		PRC	RMB5,000,000	–	100%	Internet information service, wholesale and retail
Henan Youni Internet Information Service Co., Ltd. (“Henan Youni”)		PRC	RMB1,000,000	–	60%	Internet information service, wholesale and retail
Hangzhou Youzan Dining Co., Ltd. (“Youzan Dining”)		PRC	RMB100,000	–	100%	Restaurant management and retail

- (a). Hangzhou Youzan Technology Co., Ltd. is registered as a wholly-foreign-owned enterprise under PRC law.
- (b). The statutory financial statements of Hangzhou Youzan for the years ended 31 December 2014, 2015 and 2016 prepared under PRC GAAP were audited by IPO (Shanghai) Certified Public Accountants (上海德義致遠會計師事務所), registered certified public accountants.

2.1 Basis of Presentation

As more fully explained in the paragraph headed “Reorganisation” in the Circular, the Target Group will terminate the structured contracts between Hangzhou Qima Technology Co., Ltd. (“Hangzhou Qima”) and Hangzhou Youzan. Hangzhou Qima will transfer all its assets, including equity investments in Shenzhen Youzan, Henan Youni and Youzan Dining, and liabilities except for the Internet Content Provider licence (“ICP licence”) to Hangzhou Youzan prior to the completion of the acquisition by the Company (“the Reorganisation”). The companies now comprising the Target Group were under the common control of Qima Holdings Ltd. (“the ultimate holding company”) before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The combined statements of profit or loss other comprehensive income, statements of changes in equity and statements of cash flows of the Target Group for the Relevant Periods include the results and cash flows of all companies now comprising the Target Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the ultimate holding company, where this is a shorter period. The combined statements of financial position of the Target Group as at 31 December 2014, 2015 and 2016 and 31 October 2017 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the ultimate holding company’s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on combination.

Notwithstanding the Target Group has combined net current liabilities of RMB184,249,000 at 31 October 2017, the Historical Financial Information has been prepared by the directors on a going concern basis. The current portion of deferred revenue of RMB123,779,000, which represents the non-refundable advances received, mainly related to license charges to merchants will not result in cash outflow subsequently. Excluding the impact of the deferred revenue, the Target Group had adjusted combined net current liabilities of RMB60,470,000 as at 31 October 2017.

In the opinion of the directors of the Target Company, the Target Group is considered as a going concern in the next twelve months taking into account the cash flow to be generated by it. Therefore, the directors of the Target Company are satisfied that the Target Group will have sufficient financial resources to meet its financial liabilities as they fall due for the foreseeable future. Accordingly, the Historical Financial Information have been prepared on a going concern basis.

2.2 Basis of Preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards, and Interpretations, collectively, “HKFRSs”) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2017, together with the relevant transitional provisions, have been early adopted by the Target Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention except for the contingently redeemable convertible preference shares which have been measured at fair value.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts¹</i>
HKFRS 9	<i>Financial Instruments¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers¹</i>
HKFRS 16	<i>Leases²</i>
HKFRS 17	<i>Insurance Contract³</i>
HK (IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration¹</i>
HK (IFRIC)-Int 23	<i>Uncertainty over Income Tax treatments²</i>
Amendments to HKAS 40	<i>Transfer of Investment Property¹</i>
Annual Improvements 2014-2016 Cycle	<i>Amendments to the following two Standards HKFRS 1 First-time Adoption of International Financial Reporting Standards¹ HKAS 28 Investments in Associates and Joint Ventures¹</i>

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

The Target Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Target Group considers that these new and revised HKFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Target Group's results of operations and financial position.

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 16 Leases

In May 2016, the HKICPA issued HKFRS 16, which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. The new standard maintains substantially the lessor accounting requirements in the current standard.

A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. For lessors, there is little change to the existing accounting in HKAS 17 Leases. The Target Group expects to adopt HKFRS 16 on 1 January 2019.

As set out in note 25 to the Financial Information, The Target Group's total future minimum lease payments under non-cancelable operating leases as at 31 December 2014, 2015 and 2016 and 31 October 2017 are RMB4,818,000, RMB25,407,000 and RMB19,961,000 and RMB35,450,000, respectively. The Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Target Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the combined statement of financial position as right-of-use assets and lease liabilities.

2.4 Summary of Significant Accounting Policies

Investments in an associate

An associate is an entity in which the Target Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Associates are stated in the combined statement of financial position at the Target Group's share of net assets under the equity method of accounting, less any impairment losses.

The Target Group's share of the post-acquisition results and other comprehensive income of associates is included in the combined statement of profit or loss and combined other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Target Group recognises its share of any changes, when applicable, in the combined statement of changes in equity. Unrealised gains and losses resulting from transactions between the Target Group and its associates or are eliminated to the extent of the Target Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred.

Fair value measurement

The Target Group measures its contingently redeemable convertible preference shares at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Target Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, (only if there are revalued assets in the financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Target Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Target Group;
 - (ii) has significant influence over the Target Group; or
 - (iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;
- or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Target Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

- (iii) the entity and the Target Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the parent of the Target Group.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for “Non-current assets and disposal groups held for sale”. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Electronic devices	19.40% to 31.67%
Office equipment	19.40% to 31.67%
Leasehold improvements	Over the lease terms

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets include purchased software, and registered trademark. Registered trademark are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years. The cost is expenditure during register process.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Group is the lessor, assets leased by the Target Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Target Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as financial assets at loans and receivables and available-for-sale investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Target Group evaluates whether the ability and intention to sell its available-for-sale assets in the near term are still appropriate. When, in rare circumstances, the Target Group is unable to trade these financial assets due to inactive markets, the Target Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Group's combined statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

Impairment of financial assets

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Target Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Target Group's financial liabilities include payables to merchants, other payables and accruals, and contingently redeemable convertible preference shares.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

The Target Company has designated the contingently redeemable convertible preference shares at fair value through profit or loss.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Group and when the revenue can be reliably measured, on the following bases:

1. Transaction fees, when a transaction via the on-line platform is complete.
2. License fees, revenue from sales of premium functions, and membership is recognized over the term of membership on a straight-line basis.
3. We-chat promotion revenue and distribution commission are recognized when related services are provided.

Cash and cash equivalents

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the combined statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Target Company using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the retranslation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Equity-settled share option arrangements

The Target Group operates an equity-settled, share-based compensation plan for the purpose of providing incentives and rewards to eligible participants including certain employees (including directors) of the Target Group. Employees (including directors) of the Target Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period, with a corresponding increase in equity. At the end of each reporting period, the Target Group revises its estimates of the number of options that are expected to become vested. The impact of the revision of original estimates is recognised in profit or loss and a corresponding adjustment is made to the contribution from the holding company over the remaining vesting period.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 23 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Target Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Target Group’s best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Target Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

3. Significant Accounting Judgements and Estimates

The preparation of the Target Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

Fair value of contingently redeemable convertible preference shares

The contingently redeemable convertible preference shares have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Target Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the contingently redeemable convertible preference shares at 31 December 2014, 2015, and 2016, and 31 October 2017 were RMB294,144,000, RMB986,841,000, RMB1,941,214,000 and RMB2,059,998,000, respectively. Further details are included in note 21 and 29 to the financial statements.

4. Operating Segment Information***Segment information***

The Target Group is principally engaged in e-commerce business providing a variety of online and offline solutions and services in relation to mobile retailing during the Relevant Periods. Management considers that it is not meaningful to prepare segment information regarding the Target Group for the purpose of its resource allocation and performance assessment. Accordingly, no operating segment information is presented.

Geographical information

All of the Target Group's operations are located in the PRC. The Target Group's revenue from external customers and all of its non-current assets are located in the PRC based on geographical location of assets.

Information about major customers

No revenue from the Target Group's sales to a single customer amounted to 10% or more of the Target Group's revenue for the Relevant Periods.

5. Revenue, Other Income and Gains

An analysis of revenue, other income and gains from continuing operations is as follows:

	Years ended 31 December			Ten months ended 31 October	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue					
Licence fees	–	–	28,649	13,460	113,942
Transaction fees	–	6,351	55,690	46,595	58,528
We-chat promotion	–	–	–	–	16,567
Premium functions	–	–	4,334	4,101	8,613
Distribution commission	–	–	2,658	1,808	6,133
Membership	–	1,305	4,093	2,237	4,313
Others	397	2,123	2,843	3,728	5,798
	<u>397</u>	<u>2,123</u>	<u>2,843</u>	<u>3,728</u>	<u>5,798</u>
	<u>397</u>	<u>9,779</u>	<u>98,267</u>	<u>71,929</u>	<u>213,894</u>
Other income and gains					
Bank interest income	47	219	2,652	1,618	4,899
Government grants*	331	–	727	727	–
Gain on disposal of items of property, plant and equipment	–	–	310	310	2
Rental income	–	–	832	832	–
Exchange gain	–	3,219	692	102	62
	<u>–</u>	<u>3,219</u>	<u>692</u>	<u>102</u>	<u>62</u>
	<u>378</u>	<u>3,438</u>	<u>5,213</u>	<u>3,589</u>	<u>4,963</u>

* Government grants mainly consist of subsidy for encouragement of foreign investment in Mainland China. There are no unfulfilled conditions or contingencies attached to these grants.

6. Loss Before Tax

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

	Years ended 31 December			Ten months ended 31 October	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Charges from third party payment vendors	–	4,452	32,809	27,917	44,923
Bandwidth and hardware cost	1,307	8,407	12,174	9,462	9,855
Other cost	316	5,580	6,512	6,229	7,625
Office rental	1,872	7,918	10,724	9,070	9,295
Advertising and promotion expense	24,109	87,273	3,586	2,490	5,259
Professional service fee	1,587	2,224	674	667	2,771
Depreciation	326	1,525	3,548	2,613	4,034
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):					
Wages and salaries	7,879	38,072	98,698	75,672	145,386
Equity-settled share option expense	–	11,151	31,101	27,623	–
Social insurance	2,009	10,079	19,703	15,067	33,287
Welfare and other expense	950	4,833	8,393	6,252	12,095
	10,838	64,135	157,895	124,614	190,768
Bank interest income	(47)	(219)	(2,652)	(1,618)	(4,899)
Loss/(gain) on disposal of items of property, plant and equipment	–	164	(310)	(310)	(2)
Impairment of available-for-sale investments	–	–	–	–	1,000
Foreign exchange differences, net	325	(3,219)	(692)	(102)	(62)

7. Change in Fair Value of Contingently Redeemable Convertible Preference Shares

	Years ended 31 December			Ten months ended 31 October	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Change in fair value	<u>171,203</u>	<u>521,678</u>	<u>954,373</u>	<u>932,682</u>	<u>118,784</u>

It represents change in fair value of contingently redeemable convertible preference shares. Refer to Note 21 for details.

8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year/period, disclosed pursuant to the Listing Rules, is as follows:

	Years ended 31 December			Ten months ended 31 October	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	1,121	1,452	2,312	1,875	2,503
Equity-settled share option expense	–	4,043	6,194	6,194	–
Social insurance	<u>203</u>	<u>248</u>	<u>260</u>	<u>216</u>	<u>232</u>
	<u>1,324</u>	<u>5,743</u>	<u>8,766</u>	<u>8,285</u>	<u>2,735</u>

During the Relevant Periods, certain directors were granted share options, in respect of their services to the Target Group, under the share option scheme of the Target Group, further details of which are set out in note 23 to the Historical Financial Information. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the Historical Financial Information and in the above directors' and chief executive's remuneration disclosures.

	Fees	Salaries, allowances and benefits in kind	Equity- settled share option expense	Social insurance	Total remuneration
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
2014					
Executive directors:					
Mr. ZHU	–	336	–	61	397
Mr. HUANG	–	336	–	61	397
Mr. CUI	–	336	–	61	397
Ms. YING	–	113	–	20	133
	<u>–</u>	<u>1,121</u>	<u>–</u>	<u>203</u>	<u>1,324</u>
2015					
Executive directors:					
Mr. ZHU	–	336	–	62	398
Mr. HUANG	–	336	–	62	398
Mr. CUI	–	336	3,080	62	3,478
Ms. YING	–	444	963	62	1,469
	<u>–</u>	<u>1,452</u>	<u>4,043</u>	<u>248</u>	<u>5,743</u>

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity- settled share option expense RMB'000	Social insurance RMB'000	Total remuneration RMB'000
2016					
Executive directors:					
Mr. ZHU	–	516	–	65	581
Mr. HUANG	–	496	–	65	561
Mr. CUI	–	576	4,719	65	5,360
Ms. YING	–	724	1,475	65	2,264
	<u>–</u>	<u>2,312</u>	<u>6,194</u>	<u>260</u>	<u>8,766</u>

Ten months ended 31 October 2017

Executive directors:					
Mr. ZHU	–	540	–	58	598
Mr. HUANG	–	523	–	58	581
Mr. CUI	–	710	–	58	768
Ms. YING	–	730	–	58	788
	<u>–</u>	<u>2,503</u>	<u>–</u>	<u>232</u>	<u>2,735</u>

9. Five Highest Paid Employees

An analysis of the headcounts of the five highest paid employees within the Target Group for the Relevant Periods is as follows:

	Years ended 31 December			Ten months ended 31 October	
	2014	2015	2016	2016 (unaudited)	2017
Directors	4	4	2	1	1
Non-director and non-supervisor	<u>1</u>	<u>1</u>	<u>3</u>	<u>4</u>	<u>4</u>
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

Details of director's remuneration for the Relevant Periods are set out in note 8 above. Details of the remuneration for the Relevant Periods of employees who are neither a director nor a supervisor of the Target Group are as follows:

	Years ended 31 December			Ten months ended 31 October	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries, allowances and benefits in kind	355	770	2,074	2,229	3,904
Equity-settled share option expense	–	–	802	802	–
Social insurance	96	124	195	215	410
	<u>451</u>	<u>894</u>	<u>3,071</u>	<u>3,246</u>	<u>4,314</u>

10. Property, Plant and Equipment

	Electronic devices	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2014					
At 31 December 2013 and 1 January 2014:					
Cost	15	–	–	–	15
Accumulated depreciation	<u>(3)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(3)</u>
Net carrying amount	<u>12</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>12</u>
At 1 January 2014,					
net of accumulated depreciation	12	–	–	–	12
Additions	1,379	102	784	–	2,265
Depreciation provided during the year	<u>(87)</u>	<u>(26)</u>	<u>(213)</u>	<u>–</u>	<u>(326)</u>
At 31 December 2014,					
net of accumulated depreciation	<u>1,304</u>	<u>76</u>	<u>571</u>	<u>–</u>	<u>1,951</u>
At 31 December 2014:					
Cost	1,394	102	784	–	2,280
Accumulated depreciation	<u>(90)</u>	<u>(26)</u>	<u>(213)</u>	<u>–</u>	<u>(329)</u>
Net carrying amount	<u>1,304</u>	<u>76</u>	<u>571</u>	<u>–</u>	<u>1,951</u>

	Electronic devices <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2015					
At 31 December 2014 and 1 January 2015:					
Cost	1,394	102	784	–	2,280
Accumulated depreciation	<u>(90)</u>	<u>(26)</u>	<u>(213)</u>	<u>–</u>	<u>(329)</u>
Net carrying amount	<u>1,304</u>	<u>76</u>	<u>571</u>	<u>–</u>	<u>1,951</u>
At 31 December 2014, net of accumulated depreciation	1,304	76	571	–	1,951
Additions	2,391	888	1,837	–	5,116
Disposals	(147)	(17)	–	–	(164)
Depreciation provided during the year	<u>(739)</u>	<u>(232)</u>	<u>(554)</u>	<u>–</u>	<u>(1,525)</u>
At 31 December 2015, net of accumulated depreciation	<u>2,809</u>	<u>715</u>	<u>1,854</u>	<u>–</u>	<u>5,378</u>
At 31 December 2015:					
Cost	3,598	969	2,621	–	7,188
Accumulated depreciation	<u>(789)</u>	<u>(254)</u>	<u>(767)</u>	<u>–</u>	<u>(1,810)</u>
Net carrying amount	<u>2,809</u>	<u>715</u>	<u>1,854</u>	<u>–</u>	<u>5,378</u>

	Electronic devices <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2016					
At 31 December 2015 and 1 January 2016:					
Cost	3,598	969	2,621	–	7,188
Accumulated depreciation	<u>(789)</u>	<u>(254)</u>	<u>(767)</u>	<u>–</u>	<u>(1,810)</u>
Net carrying amount	<u>2,809</u>	<u>715</u>	<u>1,854</u>	<u>–</u>	<u>5,378</u>
At 31 December 2015, net of accumulated depreciation	2,809	715	1,854	–	5,378
Additions	3,980	1,750	1,658	89	7,477
Disposals	(60)	–	(87)	–	(147)
Depreciation provided during the year	<u>(1,620)</u>	<u>(697)</u>	<u>(1,231)</u>	<u>–</u>	<u>(3,548)</u>
At 31 December 2016, net of accumulated depreciation	<u>5,109</u>	<u>1,768</u>	<u>2,194</u>	<u>89</u>	<u>9,160</u>
At 31 December 2016:					
Cost	7,493	2,531	3,315	89	13,428
Accumulated depreciation	<u>(2,384)</u>	<u>(763)</u>	<u>(1,121)</u>	<u>–</u>	<u>(4,268)</u>
Net carrying amount	<u>5,109</u>	<u>1,768</u>	<u>2,194</u>	<u>89</u>	<u>9,160</u>

APPENDIX II

ACCOUNTANTS' REPORT OF YOUZAN GROUP

	Electronic devices <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 October 2017					
At 31 December 2016 and 1 January 2017:					
Cost	7,493	2,531	3,315	89	13,428
Accumulated depreciation	<u>(2,384)</u>	<u>(763)</u>	<u>(1,121)</u>	<u>–</u>	<u>(4,268)</u>
Net carrying amount	<u>5,109</u>	<u>1,768</u>	<u>2,194</u>	<u>89</u>	<u>9,160</u>
At 31 December 2016, net of accumulated depreciation	5,109	1,768	2,194	89	9,160
Additions	2,108	1,825	496	746	5,175
Disposal	(80)	–	–	–	(80)
Depreciation provided during the period	(2,051)	(883)	(1,100)	–	(4,034)
Transfers	<u>–</u>	<u>–</u>	<u>89</u>	<u>(89)</u>	<u>–</u>
At 31 October 2017, net of accumulated depreciation	<u>5,086</u>	<u>2,710</u>	<u>1,679</u>	<u>746</u>	<u>10,221</u>
At 31 October 2017:					
Cost	9,403	4,356	3,900	746	18,045
Accumulated depreciation	<u>(4,317)</u>	<u>(1,646)</u>	<u>(2,221)</u>	<u>–</u>	<u>(8,184)</u>
Net carrying amount	<u>5,086</u>	<u>2,710</u>	<u>1,679</u>	<u>746</u>	<u>10,221</u>

11. Intangible Assets

	Trademarks <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2014:			
Cost	–	–	–
Accumulated amortisation	<u>–</u>	<u>–</u>	<u>–</u>
Net carrying amount	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>
31 December 2015			
At 1 January 2015:			
Cost	–	–	–
Accumulated amortisation	<u>–</u>	<u>–</u>	<u>–</u>
Net carrying amount	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>
Cost at 1 January 2015, net of accumulated amortisation	–	–	–
Additions	25	248	273
Amortisation provided during the year	<u>(2)</u>	<u>(34)</u>	<u>(36)</u>
At 31 December 2015	<u><u>23</u></u>	<u><u>214</u></u>	<u><u>237</u></u>
At 31 December 2015:			
Cost	25	248	273
Accumulated amortisation	<u>(2)</u>	<u>(34)</u>	<u>(36)</u>
Net carrying amount	<u><u>23</u></u>	<u><u>214</u></u>	<u><u>237</u></u>

	Trademarks RMB'000	Software RMB'000	Total RMB'000
31 December 2016			
At 1 January 2016:			
Cost	25	248	273
Accumulated amortisation	<u>(2)</u>	<u>(34)</u>	<u>(36)</u>
Net carrying amount	<u>23</u>	<u>214</u>	<u>237</u>
Cost at 1 January 2016, net of accumulated amortisation	23	214	237
Additions	375	110	485
Amortisation provided during the year	<u>(34)</u>	<u>(123)</u>	<u>(157)</u>
At 31 December 2016	<u>364</u>	<u>201</u>	<u>565</u>
At 31 December 2016:			
Cost	400	358	758
Accumulated amortisation	<u>(36)</u>	<u>(157)</u>	<u>(193)</u>
Net carrying amount	<u>364</u>	<u>201</u>	<u>565</u>

	Trademarks RMB'000	Software RMB'000	Total RMB'000
31 October 2017			
At 1 January 2017:			
Cost	400	358	758
Accumulated amortisation	<u>(36)</u>	<u>(157)</u>	<u>(193)</u>
Net carrying amount	<u>364</u>	<u>201</u>	<u>565</u>
Cost at 1 January 2017, net of accumulated amortisation	364	201	565
Additions	4	–	4
Amortisation provided during the period	<u>(32)</u>	<u>(118)</u>	<u>(150)</u>
At 31 October 2017	<u>336</u>	<u>83</u>	<u>419</u>
At 31 October 2017:			
Cost	404	358	762
Accumulated amortisation	<u>(68)</u>	<u>(275)</u>	<u>(343)</u>
Net carrying amount	<u>336</u>	<u>83</u>	<u>419</u>

12. Investment in an Associate

	As at 31 December			As at
	2014	2015	2016	31 October
	RMB'000	RMB'000	RMB'000	2017
				RMB'000
Investment in an associate	<u>–</u>	<u>–</u>	<u>–</u>	<u>489</u>

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Target Group	Principal activity
Henan Youjian E-commerce Co., Ltd. ("Henan Youjian")	Ordinary shares	PRC	25%	Online trading

The financial year of the above associate is coterminous with that of the Target Group. The Target Group discontinued the recognition of its share of losses of associate Henan Youjian because the share of losses of the associate exceeded its investment of RMB250,000 in the associate as at 31 December 2015 and 31 December 2016. The amounts of the Target Group's unrecognised share of losses of this associate cumulatively were RMB247,000 as of 31 December 2016. The share of profit in the associate during 10 month ended 31 Oct 2017 was amounted to RMB736,000.

13. Available-for-sale Investments

	As at 31 December			As at
	2014	2015	2016	31 October
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted equity investment, at cost	–	–	1,000	7,909
Less: Impairment	–	–	–	1,000
	<u>–</u>	<u>–</u>	<u>1,000</u>	<u>6,909</u>

As at 31 October 2017, certain unlisted equity investments with a carrying amount of RMB6,909,000 (31 December 2016: RMB1,000,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Target Group does not intend to dispose of them in the near future.

14. Prepayments, Deposits and Other Receivables

	As at 31 December			As at 31 October
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	1,869	9,189	7,237	11,210
Deposits and other receivables	442	7,223	4,334	5,671
Due from directors	–	250	–	–
Due from employees	113	65	394	367
	2,424	16,727	11,965	17,248
Portion classified as non-current assets (i)	(262)	(2,490)	(2,451)	(2,721)
	2,162	14,237	9,514	14,527

- (i). The non-current portion mainly represents the rental deposits of the Target Group at the end of each of the Relevant Periods.

15. Inventories

	As at 31 December			As at 31 October
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Finished goods	–	–	–	436

16. Due from Third-party Payment Vendors

	As at 31 December			As at 31 October
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Due from third-party payment vendors	1,137	160,586	45,640	112,977

Due from third-party payment vendors represents the amounts deposited in accounts under third-party payment vendors, such as Alipay and Baifupay.

17. Cash and Cash Equivalents

	As at 31 December			As at
	2014	2015	2016	31 October
	RMB'000	RMB'000	RMB'000	2017
				RMB'000
Cash and bank balances	<u>80,820</u>	<u>139,472</u>	<u>452,377</u>	<u>734,715</u>
Cash and cash equivalents	<u>80,820</u>	<u>139,472</u>	<u>452,377</u>	<u>734,715</u>

Cash and bank balances of the Target Group denominated in US Dollar ("USD") amounted to RMB61,885,984, RMB37,716,388 and RMB566,819 and RMB219,327 as of 31 December 2014, 2015, 2016 and 31 October 2017, respectively.

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

18. Payables to Merchants

	As at 31 December			As at
	2014	2015	2016	31 October
	RMB'000	RMB'000	RMB'000	2017
				RMB'000
Payables to merchants	<u>12,606</u>	<u>222,253</u>	<u>416,300</u>	<u>770,496</u>

Payables to merchants represent amounts collected on behalf of the merchants and owed to the merchants. It is non-interest bearing and payable on demand.

19. Deferred Revenue

	As at 31 December			As at
	2014	2015	2016	31 October
	RMB'000	RMB'000	RMB'000	2017
				RMB'000
Deferred revenue	<u>–</u>	<u>1,469</u>	<u>75,829</u>	<u>144,002</u>
Portion classified as non-current liabilities	<u>–</u>	<u>–</u>	<u>(8,144)</u>	<u>(20,233)</u>
Current portion	<u>–</u>	<u>1,469</u>	<u>67,685</u>	<u>123,779</u>

Deferred revenue mainly represents the deferred membership and license fees revenue.

20. Other Payables and Accruals

	As at 31 December			As at
	2014	2015	2016	31 October
	RMB'000	RMB'000	RMB'000	2017
				RMB'000
Trading deposit from merchants	–	38,001	39,249	43,845
Earnest money received from a subsidiary of the Company	–	–	30,000	61,000
Accrued payroll	3,102	8,728	21,385	27,067
Commission payables	–	–	3,181	8,662
Advances	390	–	258	4,363
Other tax payable	98	677	2,217	4,081
Accruals	1,487	3,051	1,798	1,061
Others	<u>–</u>	<u>726</u>	<u>605</u>	<u>2,550</u>
	<u>5,077</u>	<u>51,183</u>	<u>98,693</u>	<u>152,629</u>

21. Contingently Redeemable Convertible Preference Shares

On 18 January 2013 and 22 September 2013, Hangzhou Qima issued angel preference shares to two third-party investors for RMB4,000,000. On 7 October 2014, the Target Group issued 120,499,996 (adjusted for share split of 1:11.875 in December 2014) Series Seeds contingently redeemable convertible preference shares ("Series Seed Preference Shares") to replace the angel preference shares.

On 7 October 2014, the Target Group issued 199,999,998 (adjusted for share split of 1:11.875 in December 2014) Series A contingently redeemable convertible preference shares ("Series A Preference Shares") to a third-party investor for RMB20,000,000.

On 14 October 2014, the Target Group issued 187,500,004 (adjusted for share split of 1:11.875 in December 2014) Series B contingently redeemable convertible preference shares ("Series B Preference Shares") to third-party investors for RMB92,165,002.

On 18 March 2015, the Target Group issued 94,999,999 Series B1 contingently redeemable convertible preference shares ("Series B1 Preference Shares") to third-party investors for RMB83,456,920.

On 21 October 2015, the Target Group issued 78,870,212 Series B2 contingently redeemable convertible preference shares ("Series B2 Preference Shares") to third-party investors for RMB87,562,170.

Voting

The holders of each class of Series Seed, Series A, Series B, Series B1 and Series B2 Preference Shares (collectively "Preference Shares") are entitled to the number of votes into which such Series Seed, Series A, Series B, Series B1 and Series B2 Preference Shares could be converted into ordinary shares.

Dividends

The holders of the Preference Shares shall be entitled to receive dividends at an annual rate of 10%, when as and if declared by the board of directors of the Target Company on a non-cumulative basis.

Liquidation

In the event of any liquidation, i) the holders of the Series B2, Series B1 and Series B Preference Shares shall be entitled to receive a liquidation preference amount of 100% of the original issuance price plus all declared but unpaid dividends; ii) the holders of the Series A Preference Shares is entitled to an amount equal to 200% of purchase price, plus all declared but unpaid dividends in the event that a liquidation event occurs within eighteen (18) months after March 12, 2014; iii) the holders of the Series A Preference Shares is entitled to an amount equal to 100% of purchase price, plus an amount that would accrue on the Series A Preference Shares purchase price at a rate of twelve percent (12%) per annum, compounding annually, during the period commencing from the date of issuance of such Series A Preference Shares and ending on the date when any amounts due and payable in respect of such Series A Preference Shares under this clause shall be paid in full, plus all declared but unpaid dividends in the event that a liquidation event occurs after eighteen (18) months following March 12, 2014; iv) the holders of Series Seed Preference Shares is entitled to receive for each issued and outstanding Series Seed Preference Shares held, an amount equal to 100% of the applicable Series Seed Preference Shares purchase price, plus an amount that would accrue on the respective Series Seed Preference Shares purchase price at a rate of ten percent (10%) per annum, compounding annually, during the period commencing from the issue date of Series Seed Preference Shares and ending on the date when any amounts due and payable in respect of such Series Seed Preference Shares under this clause shall be paid in full, minus all paid dividends.

According to the seniority of the Preference Shares, prior to any distribution to the holders of the ordinary shares, Series B2 Preference Shares has the highest seniority, followed by Series B1 Preference Shares, Series B Preference Shares, Series A Preference Shares and Series Seed. If the then valuation of the Target Group is no less than US\$600,000,000 in a liquidation event, then all the assets and funds of the Target Group legally available for distribution to the shareholders (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed rateably among all the shareholders of the Target Group according to the number of ordinary shares held by such shareholders on an as-converted basis.

Conversion

Each Preferred Share may, at the option of the holder thereof, be converted at any time after the date of issuance of such Preferred Share into ordinary shares based on the then-effective conversion price. Each Preferred Share shall automatically be converted into ordinary shares based on the then-effective conversion price for such Preferred Share in effect at the time immediately upon the closing of a qualified Initial Public Offering (“IPO”).

The agreed conversion rate for the Preference Shares shall be determined by dividing the total aggregate proceeds for each of the Preference Shares by its conversion price. The initial conversion price and conversion ratio for each series of the Preference Shares shall be their respective original issuance price and one-for-one, respectively.

In the event the Target Group shall at any time after the Series B2 issue date issue new securities, without consideration or for a consideration per share less than the conversion price for any series of Preferred Shares in effect immediately prior to such issue, then the conversion price for such series of Preferred Shares shall be reduced according to an agreed upon formula. The above conversion prices are also subject to adjustments on a proportional basis upon other dilution events.

Redemption

The holders of Preference Shares have the option to demand redemption upon the earlier of (i) if no qualified IPO has been consummated by certain dates (from 31 December 2018 to 21 October 2020), (ii) any material breach by the Target Group or any common shareholders of the Target Group of any of its/his respective warranties and undertakings set forth in the purchase agreement, or (iii) any redemption requests made by any shareholders of earlier series of the Preference Shares.

The holders of Series Seed Preference Shares have the option to demand redemption in the event that the holders of Series A Preference Shares request a redemption.

Reconciliation of fair value measurement of contingently redeemable convertible preference shares is as follows:

	Series Seeds Preference Shares RMB'000	Series A Preference Shares RMB'000	Series B Preference Shares RMB'000	Series B1 Preference Shares RMB'000	Series B2 Preference Shares RMB'000	Total RMB'000
As at January 1, 2013	10,776	–	–	–	–	10,776
Issuance of Preference Shares	–	20,000	92,165	–	–	112,165
Change in fair value (note 7)	<u>53,166</u>	<u>90,634</u>	<u>27,403</u>	<u>–</u>	<u>–</u>	<u>171,203</u>
As at December 31, 2014	63,942	110,634	119,568	–	–	294,144
Issuance of Preference Shares	–	–	–	83,457	87,562	171,019
Change in fair value (note 7)	<u>105,915</u>	<u>173,230</u>	<u>152,361</u>	<u>58,254</u>	<u>31,918</u>	<u>521,678</u>
As at December 31, 2015	169,857	283,864	271,929	141,711	119,480	986,841
Change in fair value (note 7)	<u>167,963</u>	<u>279,280</u>	<u>262,917</u>	<u>133,486</u>	<u>110,727</u>	<u>954,373</u>
As at December 31, 2016	337,820	563,144	534,846	275,197	230,207	1,941,214
Change in fair value (note 7)	<u>21,141</u>	<u>35,032</u>	<u>32,649</u>	<u>16,402</u>	<u>13,560</u>	<u>118,784</u>
As at October 31, 2017	<u>358,961</u>	<u>598,176</u>	<u>567,495</u>	<u>291,599</u>	<u>243,767</u>	<u>2,059,998</u>

22. Share Capital

Shares

	As at 31 December			As at
	2014	2015	2016	31 October
	RMB'000	RMB'000	RMB'000	RMB'000
Issued and fully paid:				
535,852,941				
(2015: 535,852,941;				
2014: 47,242,105) ordinary shares	<u>949</u>	<u>904</u>	<u>904</u>	<u>904</u>

A summary of the movements in the Target Group's share capital is as follows:

	Number of shares in issue '000	Share capital RMB'000	Share premium RMB'000
At 1 January 2014	–	–	–
Re-organization of the Target Group and issuance of shares	<u>47,242</u>	<u>31</u>	<u>918</u>
At 31 December 2014	<u><u>47,242</u></u>	<u><u>31</u></u>	<u><u>918</u></u>
At 1 January 2015	47,242	31	918
Share split	513,758	–	–
Repurchase of common shares and deemed distribution	<u>(25,147)</u>	<u>–</u>	<u>(45)</u>
At 31 December 2015, 31 December 2016 and 31 October 2017	<u><u>535,853</u></u>	<u><u>31</u></u>	<u><u>873</u></u>

Share options

Details of the Target Group's share option scheme and the share options issued under the scheme are included in note 23 to the Historical Financial Information.

23. Share Option Scheme

The Target Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Target Group's operations. Eligible participants of the scheme include the Target Group's directors, other employees of the Target Group and consultants who are engaged by the Target Group or any related entity to render consulting or advisory services to the Target Group or such related entity. The scheme became effective on 31 December 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years after date of award. The exercise or purchase price, if any, for an award shall be determined by the administrator, who is appointed by the board of directors to administer the scheme. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The exercise period of the share options granted commences after a vesting period of four years and ends on a date which is not later than ten years from the date of offer of the share options or the expiry date of the scheme, if earlier.

According to a board resolution dated on 18 July 2016, the share option scheme is cancelled effective on 18 July 2016.

	2016		2015		2014	
	Weighted average exercise price (USD per share)	2016 Number of share options '000	Weighted average exercise price (USD per share)	2015 Number of share options '000	Weighted average exercise price (USD per share)	2014 Number of share options '000
Outstanding at the beginning of the year/period	0.01	81,497	0.01	62,885	-	-
Granted during the year/period	0.01	5,669	0.01	18,612	0.01	62,885
Forfeited during the year/period	-	(2,795)	-	-	-	-
Cancelled during the year/period	-	<u>(84,371)</u>	-	<u>-</u>	-	<u>-</u>
Outstanding at the end of the year/period	-	<u>-</u>	0.01	<u>81,497</u>	0.01	<u>62,885</u>

The weighted average fair value of each share option granted on 31 December 2014, 1 January 2015, 1 April 2015, 1 July 2015, 1 October 2015, 1 January 2016 and 1 April 2016 was RMB0.49, RMB0.49, RMB0.79, RMB0.93, RMB0.95, RMB1.37 and RMB2.09 per share, respectively.

The fair value of equity-settled share options granted during the Relevant Periods was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

2014

31 December 2014

Dividend yield (%)	0.00
Volatility (%)	68.00
Risk-free interest rate (%)	3.68
Expected life of options (year)	10.00
Weighted average share price (USD per share)	0.09

2015

	1 January 2015	1 April 2015	1 July 2015	1 October 2015
Dividend yield (%)	0.00	0.00	0.00	0.00
Volatility (%)	67.90	64.17	63.02	64.19
Risk-free interest rate (%)	3.69	3.64	3.64	3.37
Expected life of options (year)	10.00	10.00	10.00	10.00
Weighted average share price (USD per share)	0.09	0.14	0.16	0.16

2016

	1 January 2016	1 April 2016
Dividend yield (%)	0.00	0.00
Volatility (%)	64.19	63.54
Risk-free interest rate (%)	2.92	2.85
Expected life of options (year)	10.00	10.00
Weighted average share price (USD per share)	0.22	0.32

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The Target Group recorded a share option expense of RMB15,194,000 for year ended 31 December 2015 and due to the cancellation of the scheme, it recognized a share option expense of RMB37,295,000 for year ended 31 December 2016, including RMB25,781,000 related to unvested share options, which are treated as if they had vested on the date of cancellation.

24. Reserves

The amounts of the Target Group's reserves and the movements therein for the current and prior years are presented in the combined statement of changes in equity on page II-6 of the Historical Financial Information.

25. Operating Lease Arrangements***As lessor***

The Target Group leases its offices under operating lease arrangements from 18 December 2015 to 17 September 2016.

At the end of the Relevant Periods, the Target Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December			As at
	2014	2015	2016	31 October
	RMB'000	RMB'000	RMB'000	2017
				RMB'000
Within one year	<u>-</u>	<u>832</u>	<u>-</u>	<u>-</u>

As lessee

The Target Group leases certain of its offices and equipments under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to seven years.

At the end of the Relevant Periods, the Target Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at
	2014	2015	2016	31 October
	RMB'000	RMB'000	RMB'000	2017
				RMB'000
Within one year	3,510	10,469	11,614	14,471
In the second to fifth years, inclusive	1,308	14,938	8,347	18,371
After five years	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,608</u>
	<u>4,818</u>	<u>25,407</u>	<u>19,961</u>	<u>35,450</u>

26. Commitments

At the end of each of the Relevant Periods, the Target Group had no significant capital commitments.

27. Related Party Transactions

The following is a summary of the significant transactions carried out between the Target Group and its related parties in the ordinary course of business during the Relevant Periods. The transaction with related parties are presented on Note 8.

Name	Relationship
Mr. ZHU	Shareholder and key management
Mr. HUANG	Shareholder and key management
Mr. CUI	Shareholder and key management
Ms. YING	Shareholder and key management

Balance with related parties

	As at 31 December			As at
	2014	2015	2016	31 October
	RMB'000	RMB'000	RMB'000	2017
				RMB'000
Receivables from directors	–	250	–	–

Transactions with related parties

On 31 August 2016, the Target Group transferred 20% shares of Henan Youni as compensation to Mr. ZHU and is recorded as administrative expenses in the combined statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

28. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2014

Financial assets

	Loans and receivables	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Due from third-party payment vendors	1,137	1,137
Financial assets included in prepayments, deposits and other receivables	555	555
Cash and cash equivalents	<u>80,820</u>	<u>80,820</u>
	<u><u>82,512</u></u>	<u><u>82,512</u></u>

Financial liabilities

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payables to merchants	–	12,606	12,606
Contingently redeemable convertible preference shares	<u>294,144</u>	<u>–</u>	<u>294,144</u>
	<u><u>294,144</u></u>	<u><u>12,606</u></u>	<u><u>306,750</u></u>

2015

Financial assets

	Loans and receivables	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Due from third-party payment vendors	160,586	160,586
Financial assets included in prepayments, deposits and other receivables	7,538	7,538
Cash and cash equivalents	<u>139,472</u>	<u>139,472</u>
	<u>307,596</u>	<u>307,596</u>

Financial liabilities

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payables to merchants	–	222,253	222,253
Financial liabilities included in other payables and accruals	–	38,727	38,727
Contingently redeemable convertible preference shares	<u>986,841</u>	<u>–</u>	<u>986,841</u>
	<u>986,841</u>	<u>260,980</u>	<u>1,247,821</u>

2016

Financial assets

	Available- for-sale investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Available-for-sale investments	1,000	–	1,000
Due from third-party payment vendors	–	45,640	45,640
Financial assets included in prepayments, deposits and other receivables	–	4,728	4,728
Cash and cash equivalents	–	452,377	452,377
	<u>1,000</u>	<u>502,745</u>	<u>503,745</u>

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Payables to merchants	–	416,300	416,300
Financial liabilities included in other payables and accruals	–	73,035	73,035
Contingently redeemable convertible preference shares	<u>1,941,214</u>	<u>–</u>	<u>1,941,214</u>
	<u>1,941,214</u>	<u>489,335</u>	<u>2,430,549</u>

2017.10.31

Financial assets

	Available- for-sale investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Available-for-sale investments	6,909	–	6,909
Due from third-party payment vendors	–	112,977	112,977
Financial assets included in prepayments, deposits and other receivables	–	6,038	6,038
Cash and cash equivalents	–	734,715	734,715
	<u>6,909</u>	<u>853,730</u>	<u>860,639</u>

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Payables to merchants	–	770,496	770,496
Financial liabilities included in other payables and accruals	–	116,057	116,057
Contingently redeemable convertible preference shares	<u>2,059,998</u>	<u>–</u>	<u>2,059,998</u>
	<u>2,059,998</u>	<u>886,553</u>	<u>2,946,551</u>

29. Fair Value Hierarchy of Financial Liabilities

Management has assessed that the fair value of cash and cash equivalents, due from third-party payment vendors, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables and accruals, and payables to merchants approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Target Group with the assistance of an external appraiser, measures financial instruments such as contingently redeemable convertible preference shares at each balance sheet date. Fair value related disclosures for financial instrument measured at fair value are disclosed in this note.

When the fair value of financial assets and financial liabilities recorded in the combined statements of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Option Pricing model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments and is discussed further below. These financial instruments are at level 3 in the fair value hierarchy.

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

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2014, 2015, 2016 and 31 October 2017.

2014

Significant unobservable input	Sensitivity of fair value to the input
Long term growth rate of 3%	1% increase/(decrease) in long term growth rate would result in increase/(decrease) in fair value by RMB11,394,038/(10,979,843)
Time to liquidity event is 4 years	1 year increase in time to liquidity event would result in decrease in fair value by RMB555,304
Volatility of 70%	10% increase/(decrease) in volatility would result in (decrease)/increase in fair value by RMB(1,481,073)/1,272,069
Risk free rate of 3.52%	1% increase/(decrease) in risk free rate would result in (decrease)/increase in fair value by RMB(562,939)/577,782
WACC of 24%	1% increase/(decrease) in WACC would result in (decrease)/increase in fair value by RMB(24,505,159)/26,996,019

2015

Significant unobservable input	Sensitivity of fair value to the input
Long term growth rate of 3%	1% increase/(decrease) in long term growth rate would result in increase/(decrease) in fair value by RMB40,988,711/(36,439,814)
Time to liquidity event is 3 years	1 year increase in time to liquidity event would result in decrease in fair value by RMB1,044,908
Volatility of 66.8%	10% increase/(decrease) in volatility would result in (decrease)/increase in fair value by RMB(830,963)/609,478
Risk free rate of 2.68%	1% increase/(decrease) in risk free rate would result in (decrease)/increase in fair value by RMB(420,122)/429,591
WACC of 21%	1% increase/(decrease) in WACC would result in (decrease)/increase in fair value by RMB(72,379,085)/81,465,742

2016**Significant unobservable input****Sensitivity of fair value to the input**

Long term growth rate of 3%

1% increase/(decrease) in long term growth rate would result in increase (decrease) in fair value by RMB75,162,407/(66,143,760)

Time to liquidity event is 2 years

1 year increase in time to liquidity event would result in decrease in fair value by RMB705,015

Volatility of 62.1%

10% increase/(decrease) in volatility would result in (decrease)/increase in fair value by RMB(135,988)/46,173

Risk free rate of 2.75%

1% increase/(decrease) in risk free rate would result in (decrease)/increase in fair value by RMB(362,018)/369,060

WACC of 18.5%

1% increase/(decrease) in WACC would result in (decrease)/increase in fair value by RMB (142,310,462)/163,351,880

2017.10.31

Significant unobservable input	Sensitivity of fair value to the input
Long term growth rate of 3%	1% increase/(decrease) in long term growth rate would result in increase/(decrease) in fair value by RMB80,073,765/(70,781,151)
Time to liquidity event is 2 years	1 year increase in time to liquidity event would result in decrease in fair value by RMB81,935,107
Volatility of 45.5%	10% increase/(decrease) in volatility would result in (decrease)/increase in fair value by RMB(131,074,087)/134,160,493
Risk free rate of 3.61%	1% increase/(decrease) in risk free rate would result in increase/(decrease) in fair value by RMB27,680,108/(28,406,244)
WACC of 20%	1% increase/(decrease) in WACC would result in (decrease)/increase in fair value by RMB(160,329,548)/182,828,261

30. Financial Risk Management Objectives and Policies

The Target Group's principal financial instruments are cash and bank balances and financial assets included in prepayments, deposits and other receivables. The main purpose of these financial instruments is to support the Target Group's operations. The Target Group has various other financial liabilities such as trade payables which arise directly from its operations.

The main risks arising from the Target Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Target Group is exposed to currency risk which mainly arises from bank and cash balances, denominated in USD, derived from financing activity.

The Target Group does not have a foreign currency hedging policy. However, management of the Target Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Target Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. A 5% is the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each of the Relevant Periods if RMB weakens 5% against the relevant foreign currencies. A 5% strength in RMB against the relevant foreign currencies would have an equal and opposite impact on profit or loss.

	As at 31 December			As at
	2014	2015	2016	31 October
	RMB'000	RMB'000	RMB'000	2017
USD				
Sensitivity rate	5%	5%	5%	5%
Decrease in loss after tax	3,094	1,886	28	11

Credit risk

The credit risk of the Target Group's other financial assets, which comprise cash and cash equivalents, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Target Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The maturity profile of the Target Group's financial liabilities as at the end of each period, based on the contractual undiscounted payments, is as follows:

Year ended 31 December 2014

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 to 12 months <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Payables to merchants	12,606	–	–	–	12,606
Contingently redeemable convertible preference shares	–	–	–	121,965	121,965
	<u>12,606</u>	<u>–</u>	<u>–</u>	<u>121,965</u>	<u>134,571</u>

Year ended 31 December 2015

	On demand <i>RMB</i>	Less than 3 months <i>RMB</i>	3 to 12 months <i>RMB</i>	1 to 5 years <i>RMB</i>	Total <i>RMB</i>
Payables to merchants	222,253	–	–	–	222,253
Other payables and accruals	38,001	726	–	–	38,727
Contingently redeemable convertible preference shares	–	–	–	321,228	321,228
	<u>260,254</u>	<u>726</u>	<u>–</u>	<u>321,228</u>	<u>582,208</u>

Year ended 31 December 2016

	On demand <i>RMB</i>	Less than 3 months <i>RMB</i>	3 to 12 months <i>RMB</i>	1 to 5 years <i>RMB</i>	Total <i>RMB</i>
Payables to merchants	416,300	–	–	–	416,300
Other payables and accruals	72,430	605	–	–	73,035
Contingently redeemable convertible preference shares	–	–	–	362,990	362,990
	<u>488,730</u>	<u>605</u>	<u>–</u>	<u>362,990</u>	<u>852,325</u>

Period ended 31 October 2017

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Payables to merchants	770,496	–	–	–	770,496
Other payables and accruals	113,507	2,550	–	–	116,057
Contingently redeemable convertible preference shares	<u>–</u>	<u>–</u>	<u>–</u>	<u>397,678</u>	<u>397,678</u>
	<u>884,003</u>	<u>2,550</u>	<u>–</u>	<u>397,678</u>	<u>1,284,231</u>

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may issue new shares on contingently redeemable convertible preference shares. The Target Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

31. Events after the Reporting Period

There is no significant event after reporting period.

32. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 2 January 2018.

**A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE
ENLARGED GROUP**

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group (the “Statement”) has been prepared to illustrate the effect of (a) the proposed acquisition (the “Acquisition”) of 51% equity interest in Qima Holdings Ltd. after Reorganisation and (b) placing of SM Placing Shares under Specific Mandate, that might have affected the financial position of the Group as at 30 June 2017, as if the Acquisition had been taken place at 31 October 2017.

The Statement has been prepared based on (i) the unaudited consolidated statement of financial position of the Company as at 30 June 2017 as extracted from the published interim report of the Company for the six months period ended 30 June 2017; and (ii) the audited combined statement of financial position of Youzan Group as at 31 October 2017 as extracted from the Accountants’ Report set out in Appendix II of the Circular, after making certain pro forma adjustments resulting from the Acquisition and placing of SM Placing Shares under Specific Mandate. It has been prepared on the basis of the notes set out below and is consistent with the accounting policies adopted by the Group.

The Company’s consolidated financial statements for the year ended 31 December 2016 had a qualified audit opinion and emphasis of matter on the auditor’s report which might affect the reliability of the unaudited consolidated statement of financial position of the Company as at 30 June 2017. The Company has issued an announcement on 14 July 2017 to provide further information in relation to the qualified audit opinion and emphasis of matter as mentioned above, and the unaudited consolidated statement of financial position of the Company as at 30 June 2017 has been reviewed by the Audit Committee.

The Statement has been prepared by the Directors based on certain assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Statement, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition actually occurred on 31 October 2017 or at any future dates. Furthermore, the Statement does not purport to predict the Group’s future financial position.

The Statement should be read in conjunction with the financial information of the Group as set out in Appendices IA and IB of the Circular, the Accountants’ Report of Youzan Group as set out in Appendix II of the Circular, the unaudited interim financial information of the Group for the six months ended 30 June 2017 as included in the published interim report of the Company and other financial information included elsewhere in the Circular.

For the purpose of presenting the Statement, the audited combined statement of financial position of Youzan Group is translated at the exchange rate of HK\$1 = RMB0.8499.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group HK\$'000	Youzan Group HK\$'000	Total HK\$'000	Pro forma Adjustments HK\$'000	Notes	Adjusted Balance HK\$'000
Non-current assets						
Property, plant and equipment	12,943	12,026	24,969			24,969
Intangible assets	8,669	493	9,162	2,220,519	3	2,229,681
Long term deposits	254	–	254			254
Goodwill	653,432	–	653,432	1,853,438	3	2,506,870
				–	4	
Investments in associates	5,750	575	6,325			6,325
Available-for-sale financial assets	115,596	8,129	123,725			123,725
Prepayments, deposits and other receivables	35,723	3,202	38,925	(35,298)	6	3,627
	<u>832,367</u>	<u>24,425</u>	<u>856,792</u>			<u>4,895,451</u>
Current assets						
Inventories	3,782	513	4,295			4,295
Trade receivables	20,470	–	20,470			20,470
Due from third-party payment vendors	–	132,930	132,930			132,930
Prepayments, deposits and other receivables	101,249	17,093	118,342			118,342
Indemnification asset	–	–	–	244,735	10	244,735
Amount due from an associate	3,450	–	3,450			3,450
Amounts due from non-controlling shareholders	1,038	–	1,038			1,038
Bank and cash balances	503,237	864,472	1,367,709	182,693	2	1,506,601
				(7,326)	5	
				(36,475)	7	
	<u>633,226</u>	<u>1,015,008</u>	<u>1,648,234</u>			<u>2,031,861</u>
Current liabilities						
Trade payables	2,418	–	2,418			2,418
Accruals and other payables	155,814	179,585	335,399	(35,298)	6	263,626
				(36,475)	7	
Payables to merchants	–	906,573	906,573			906,573
Deferred revenue	–	145,639	145,639			145,639
Amount due to a director	3	–	3			3
Current tax liabilities	2,509	–	2,509			2,509
Withholding tax payable	–	–	–	244,735	10	244,735
Contingent consideration payables	33,582	–	33,582			33,582
Financial guarantee	15,960	–	15,960			15,960
	<u>210,286</u>	<u>1,231,797</u>	<u>1,442,083</u>			<u>1,615,045</u>
Net current assets/(liabilities)	<u>422,940</u>	<u>(216,789)</u>	<u>206,151</u>			<u>416,816</u>
Non-current liabilities						
Deferred revenue	–	23,795	23,795			23,795
Contingently redeemable convertible preference shares	–	2,423,812	2,423,812	(2,423,812)	1	–
Deferred tax liabilities	898	–	898	555,130	3	556,028
	<u>898</u>	<u>2,447,607</u>	<u>2,448,505</u>			<u>579,823</u>
Net assets/(liabilities)	<u>1,254,409</u>	<u>(2,639,971)</u>	<u>(1,385,562)</u>			<u>4,732,444</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Notes to the Statement:

1. The adjustment represents the fulfilment of condition precedent of Completion that all contingently redeemable convertible preference shares of Qima Holdings Ltd. shall be converted into ordinary shares.
2. The adjustment represents the fulfilment of condition precedent of Completion that not less than 300,000,000 SM Placing Shares subscription orders shall be received by the Placing Agent. The net proceeds is estimated by assuming 300,000,000 SM Placing Shares being subscribed at HK\$0.625 per SM Placing Share (i.e. the mid-point of the price range), placing commission of 2.5% and other legal expenses.
3. The adjustments represent the recognition of goodwill, intangible assets and deferred tax liabilities related to the Acquisition. Details of the adjustments are set out below:

	Carrying amounts of the identifiable assets and liabilities of Youzan Group as at 31 October 2017 HK\$'000	Fair value adjustments HK\$'000	Fair values of the identifiable assets and liabilities of Youzan Group as at 31 October 2017 HK\$'000
Property, plant and equipment	12,026		12,026
Intangible assets	493	2,220,519	2,221,012
Available-for-sale financial assets	8,129		8,129
Investment in an associate	575		575
Prepayments, deposits and other receivables	3,202		3,202
Net working capital	(216,789)		(216,789)
Non-current deferred revenue	(23,795)		(23,795)
Deferred tax liabilities	—	(555,130)	(555,130)
Net assets identified/(liabilities assumed)	<u>(216,159)</u>		<u>1,449,230</u>
			HK\$'000
Consideration of the Acquisition			2,592,545
Less: Share of net fair value of identifiable assets and liabilities of Youzan Group			<u>739,107</u>
Goodwill allocated to Youzan CGU			<u>1,853,438</u>

Intangible assets, namely, trademarks, E-commerce Applications and distribution network with total fair value of approximately HK\$2,221,012,000 are identified and recognised in accordance with Hong Kong Financial Reporting Standard 3 (revised) "Business Combinations" ("HKFRS 3"). The estimated fair values are based on a purchase price allocation report of an independent professional valuer with appraisal date of 31 October 2017. Trademarks with fair value of HK\$831,594,000 are assessed to have indefinite useful life. E-commerce applications with fair value of HK\$1,079,223,000 are assessed to have useful life of 7.2 years. Distribution network with fair value of HK\$310,195,000 is assessed to have useful life of 3.2 years.

Deferred tax liabilities related to intangible assets is estimated by applying PRC enterprise income tax rate of 25% to the amount of fair value adjustment on intangible assets.

Goodwill represents the excess of the Consideration transferred by the Group over the Group's share of net fair value of identifiable assets and liabilities of Youzan Group. The fair value of Consideration is estimated by the closing price of the Company's Share of HK\$0.47 as at 31 October 2017 and 5,516,052,632 Consideration Shares deemed to be allotted and issued upon Completion. Since the net fair value of the assets and liabilities of Youzan Group and the fair value of Consideration as at actual Completion may be different from their fair values used in the preparation of the Statement presented above, the actual goodwill arising from the Acquisition, if any, may be different from the estimated amount as presented above.

4. For the purpose of the Statement, the Directors have performed impairment assessment of property, plant and equipment, intangible assets and goodwill of Youzan Group in accordance with the Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36"), which defines recoverable amount of a cash generating unit to be the higher of value in use and fair value less costs of disposal.

Youzan Group is identified as a cash generating unit ("Youzan CGU") that goodwill is allocated to. The recoverable amount of Youzan CGU has been determined on the basis of its value in use using discounted cash flow method. Youzan Group cash flow forecasts were based on most recent financial budgets of the next 5 years with terminal growth rate of 3%. The pre-tax discount rate used to discount the forecast cash flows of Youzan CGU was 22%. Based on this impairment assessment, the Directors concluded that there is no impairment of goodwill under Youzan CGU. As the Consideration is in form of Consideration Shares with changing fair values at different time, the amount of impairment of goodwill for the purpose of this Statement is calculated and largely dependent on the market price of the Company's shares at the deemed Completion Date of 31 October 2017 and other factors. The actual amount of impairment of goodwill (if any) at Completion would depend on the valuation results of intangible assets of Youzan Group, value in use of Youzan CGU and the market price of the Company's shares at actual Completion Date.

The Company will adopt consistent accounting policies and principal assumptions as used in the Statement to assess the impairment of goodwill and intangible assets of Youzan CGU in future financial period ends, provided that the effects of subsequent events or circumstances that did not exist when the current assumptions used in this Statement were made make this appropriate.

5. The Directors estimated that the acquisition-related costs (including professional fees to legal advisors, financial advisors, reporting accountants, valuer, printer and other expenses) shall be HK\$14.1 million in which HK\$6.8 million has already been reflected in the Group's unaudited consolidated financial statements as at 30 June 2017. The remaining balance of HK\$7,326,000 is provided for in the Statement as pro forma adjustment.
6. On 18 July 2016, the Group paid RMB30,000,000 Earnest Money to Youzan Group. For the purpose of this Statement, this amount is eliminated.
7. On 11 October 2017, the Group paid RMB31,000,000 Additional Earnest Money to Youzan Group. For the purpose of this Statement, this amount is eliminated.

8. For fulfilment of condition precedent of Completion, Youzan Group is required to complete the Reorganisation such that Hangzhou Qima shall transfer its business operation, the relevant assets including software patents, copyrights and trademarks required for the E-commerce Application related business, and equity interests in certain subsidiaries and investee companies to Hangzhou Youzan. The Directors have assessed that there will be no tax provision required for the Enlarged Group due to the abovementioned transfers, therefore no pro forma adjustment is made in the Statement.
9. Pursuant to the Sale and Purchase Agreement, the Company has committed to compensate the Sellers if the Group has less than HK\$400 million of bank and cash balance that is free to use (“Minimum Cash Level Requirement”) just before the date of Completion. The amount of compensation payable by the Company, if any, would be treated as cash consideration in accordance with HKFRS 3 “Business Combinations” and is calculated by the amount of shortfall in Minimum Cash Level Requirement times the ratio of the number of Consideration Shares (i.e. 5,516,052,632) to the number of then outstanding Shares (after GM Placing, SM Placing and allotment of Consideration Shares). Having considered the Group’s available bank balances at 31 October 2017 and net proceeds from SM Placing as set out in note 2 above, the Directors estimated that the Group will meet the Minimum Cash Level Requirement, therefore no pro forma adjustment is made to the Statement.
10. According to Guoshuihan [2009] No. 698 and Public Notice [2015] No. 7 of the State Administration of Taxation (the “SAT”), the indirect equity transfer of Hangzhou Youzan Technology Co., Ltd. (“Hangzhou Youzan”) shall be re-characterised as a direct transfer and subject to PRC Enterprise Income Tax (“EIT”). The Company should act as the EIT withholding agent and report the indirect equity transfer and settle the EIT to the tax authority within 30 days after the relevant equity transfer agreement is concluded. An estimated withholding tax amount of HK\$244,735,000 based on 10% of estimated capital gain (“Estimated Capital Gain”) on indirect equity transfer of Hangzhou Youzan is provided as pro forma adjustment to the Statement. Estimated Capital Gain is the difference of market value of Consideration Shares at 31 October 2017 and 51% registered capital of Hangzhou Youzan.

On 9 June 2017, the Company, the Sellers and the Target Company entered into a supplemental agreement (“Supplemental Agreement”) to the Sale and Purchase Agreement, pursuant to which each of the Sellers shall be independently and severally responsible for its obligations to report and pay the respective EIT to the relevant tax authorities in accordance with applicable taxation laws and regulations, subject to the Company not being able to perform its withholding obligations. If any of the Sellers does not comply with the relevant tax laws and regulations which lead to the Company being requested to pay such EIT and relevant interest and/or penalty (“Taxes and Penalties”) as an EIT withholding agent, such Seller shall be responsible to the Company for such Taxes and Penalties provided that such Taxes and Penalties are not more than three times of the withholding tax. An indemnification asset with fair value of HK\$244,735,000 which equals to the carrying amount of the estimated withholding tax payable is recognised as pro forma adjustment to the Statement.

Should the Sellers report the indirect equity transfer and settle the EIT fully to the PRC tax authorities within 7 days after the relevant equity transfer agreement being concluded, the withholding responsibility of the Company can be reasonably relieved accordingly and the indemnification asset and withholding tax payable shall be derecognised.

**B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON
UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.



29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

2 January 2018

The Board of Directors
China Innovationpay Group Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Innovationpay Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma statement of assets and liabilities as at 30 June 2017 (the “Statement”) and related notes as set out on pages III-1 to III-5 of the circular dated 2 January 2018 issued by the Company (the “Circular”). The applicable criteria on the basis of which the Directors have compiled the Statement are described in pages III-1 to III-5 of the Circular.

The Statement has been compiled by the Directors to illustrate the effect of the proposed acquisition of the 51% equity interest in Qima Holdings Ltd. on the Group’s financial position as at 30 June 2017 as if the Acquisition had been taken place at 31 October 2017, and the placing of SM Placing Shares under Specific Mandate before Completion. As part of this process, information about the Group’s assets and liabilities has been extracted by the Directors from the Company’s unaudited consolidated statement of financial position as at 30 June 2017. We draw your attention to the fact that the audited consolidated financial statements of the Company for the year ended 31 December 2016 had a qualified opinion and emphasis of matter on the auditor’s report.

Directors' Responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Statement in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Statement in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Statement, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Statement.

The purpose of the Statement included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 October 2017 would have been as presented.

A reasonable assurance engagement to report on whether the Statement has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Statement provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Statement reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Statement has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Statement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Statement has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

RSM Hong Kong

Certified Public Accountants

Hong Kong

The following is the text of a business valuation report prepared for the purpose of incorporation in this circular received from Hong Kong Appraisal Advisory Limited, an independent valuer, in connection with its opinion of value of Qima Holdings Ltd. as at 31 October 2017.

Hong Kong Appraisal Advisory Limited
Unit 1902, 19/F
OfficePlus@Wan Chai
303 Hennessy Road, Hong Kong



2 January 2018

China Innovationpay Group Limited
Unit 2708, 27/F., The Center
99 Queen's Road Central
Hong Kong

Dear Sirs/Madams,

In accordance with your instruction, we have performed an appraisal of the market value of 100% equity interest in the business enterprise of Qima Holdings Ltd. (“Youzan” or the “Target Company”).

China Innovationpay Group Limited (Stock Code: 8083.HK) (the “Company”) entered into a Sales and Purchase Agreement in which the Company shall acquire a 51% of the issued share capital of the Target Company at a total consideration of HK\$2,096,100,000, assuming all preference shares of Youzan having been converted into common shares. The Target Company, and its subsidiaries (collectively the “Youzan Group”), is principally engaged in the e-commerce business providing a variety of online and offline solutions and services in relation to virtual wholesaling and retailing through operating e-commerce platforms in China.

This appraisal report identifies the assets appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value.

Business enterprise is defined as the combination of all tangible assets (buildings, machinery and equipment), long term investment, net working capital and intangible assets of a continuing business. Alternatively, the business enterprise is equivalent to the investment capital of the business, that is, the combination of the value of shareholder's equity and long-term debt.

Market value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

The *market value* of the business enterprise is derived through the market approach which includes the application of the Guideline Merged/Acquired Company method (the "GMAC method") and the Guideline Publicly Traded Company method (the "GPTC method") as well as the analysis of prior transactions in the Target Company's stock (the "Prior Transaction Analysis").

The purpose of this appraisal is to express an independent opinion of the *market value* of the 100% equity interest in the business enterprise of Youzan as of 31 October 2017 (the "Valuation Date"). It is our understanding that this appraisal will be used for acquisition purposes only.

This opinion of value is contingent upon the assumptions and limiting conditions and the normal service conditions presented in this report. We have not investigated the title to or any liabilities against the property appraised.

The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

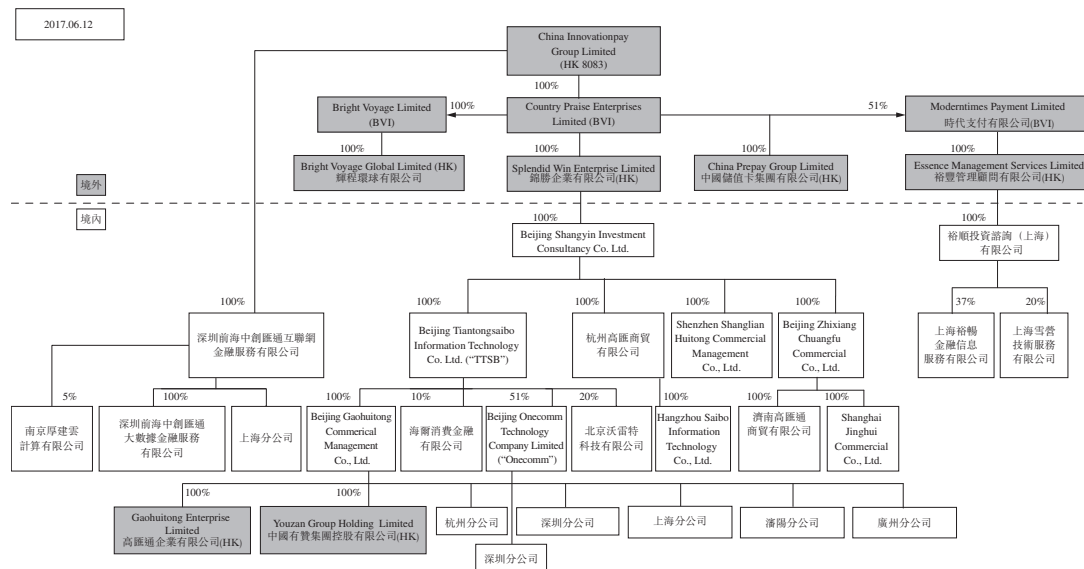
INTRODUCTION

China Innovationpay Group Limited

China Innovationpay Group Limited, an investment holding company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The Company, along with its subsidiaries, operates four business sectors based on three business systems, namely the virtual prepaid card service, internet payment service, merchant integrated invoicing service, and cross-border Renminbi payment service.

The following Exhibit 1 represents the group chart of China Innovationpay Group Limited.

Exhibit 1: Group Chart of China Innovationpay Group Limited



Source: the Company

On 17 March 2017, the Company entered into a Sales and Purchase Agreement in which the Company shall acquire 51% equity interest in Youzan, assuming all preference shares of Youzan having been converted into common shares.

Youzan Group

Youzan, through its wholly owned subsidiaries, is principally engaged in the e-commerce business providing a variety of online and offline solutions and services in relation to virtual wholesaling and retailing through operating e-commerce platforms in China.

Youzan Group operates third party e-commerce platforms and offers with comprehensive consumers' management and online distribution solutions to help merchants to build, operate, manage and promote their online stores.

Products and Services

Youzan WeiMall (有贊微商城) is Youzan Group's principal product. Registered merchants of Youzan WeiMall are accessible to various functions to manage their online stores. Such functions include virtual storefront, consumer building, consumer relations, consumer retention, trade execution, repeated purchases distribution, payment channels and store data management and analytics.

Besides, Youzan Group also operates other ancillary and specialized e-commerce platforms including but not limited to Micro Stores (微小店), Youzan Wholesale (有贊批發) and Youzan Cashier (有贊收銀).

Revenue Model

Youzan Group derives its revenue from (i) transaction fee; (ii) license fee; (iii) premium functions; (iv) membership; and (iv) others services.

Exhibit 2: Revenue Streams

Transaction	Youzan Group			
	Youzan WeiMall		Membership	Others services
Transaction fee	License fee	Premium functions fee	Membership fee	Other revenue
Since November 2015	Since May 2016		Since March 2015	
Based on merchandise value processed via E-Commerce platform	Standard functions on Youzan WeiMall subscription	Additional advanced functions on Youzan WeiMall subscription	E-Commerce platform services and functions subscription	License specialized functions such as, training, promotion activities

Transaction fee is charged to registered merchants based on a certain fee rate of the merchandise value processed via Youzan Group's E-Commerce platform since November 2015.

License fee is charged to registered merchants for subscribing standard functions on Youzan WeiMall since May 2016. Premium functions fee is a license fee charged to registered merchants for subscribing additional advanced functions on Youzan WeiMall since May 2016.

Membership fee was charged to registered merchant for subscribing both standard and selected advanced functions as well as offline services on Youzan Group's E-Commerce platform since March 2015.

License fee, premium functions fee, and membership fee are charged periodically and in advance.

Revenue from other services represents revenue derived from license specialized functions for particulars and offline services, such as, training, promotion activities.

Transaction fee is charged for transactions conducted on Youzan E-Commerce platform while the licence fee, premium functions, membership and other services are charged for various e-commerce solutions offering to merchants with aim to enhance their future transactions. Transaction fee accounted for approximately 55.3% of the total revenue of Youzan for the year ended 31 December 2016 while total revenue from the licence fee, premium functions, membership and other services representing approximately 44.7% of the total revenue of Youzan.

Key Operational Data in 2016

As of 31 December 2016, Youzan Group has more than 364,000 active registered merchants, and more than 1.2 billion registered merchants' followers. For the year ended 31 December 2016, Youzan Group has approximately RMB10.0 billion gross merchandise volume (the "GMV") and its revenue is around RMB98 million.

Nature and Source of Information relied upon

We relied on the following information in performing this appraisal:

The financial data of guideline companies/guideline transactions from Bloomberg and public sources including:

- Technode;
- Tencent Technology news;
- Research report issued by China Galaxy Securities;
- Shenzhen Stock Exchange announcements; and
- Annual reports.

The consolidated financial statements of Youzan provided by the management of the Target Company (the "Management").

We also obtained information on the general economy and e-commerce industry of the People's Republic of China (the "PRC") from public sources including the iResearch Consulting Group.

INDUSTRY OVERVIEW**China Economic Conditions**

Economic growth of China has been outstanding during the past few decades. When the country's economic reforms started in 1978, its nominal gross domestic product (GDP) was USD214 billion and ranked ninth in the world.¹ Now, it has rallied to second place with a nominal GDP of USD11,000 billion in 2016.²

The economic growth of China is supported by two main developments. First, removing restrictions on international trade which capped China's growth before the reform started. The second factor is capital deepening (i.e. an increase in the capital per labour hour). Capital deepening increases average productivity of Chinese labours through new technology which makes capital more productive, and thus total output of the country. This is how the emerging markets are required to transform into developed economies.

However, there are several consequences of rapid economic growth, including over-urbanization, social inequality, environmental sustainability problems and etc. Moreover, demographic pressures like again population and internal migration of labour are also faced by the country.

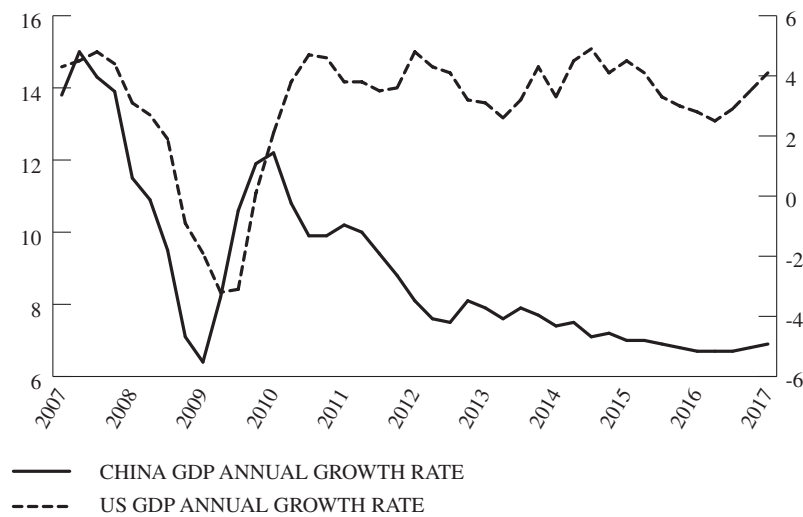
In order to address these issues, China's 13th Five-Year Plan (2016-2020) highlighted the development of services and measures to relief social and environmental imbalances, pollution reduction, improving energy efficiency, access to education, healthcare and social protections. The reviewed annual GDP growth target of 6.5%-7% suggested the Government's focus on enhancing quality of life rather than the pace of growth.³

Moreover, deepening in the country's capital continuously increases its production over years. However, importing countries of China's products have been saturated in recent years. Domestic market of China is suggested to be the most practical way to absorb the extra capacity. Therefore, China is shifting from an investment based economy to the consumption based.

¹ China Economic Outlook, <http://www.focus-economics.com/countries/china>

² China Nominal GDP, <https://www.ceicdata.com/en/indicator/china/nominal-gdp>

³ China's National People's Congress, 13th Five-Year Plan

Exhibit 3: Economic growth in the past decade

Source: Trading Economics

On 11th August 2015, central bank of China decided to devalue the yuan which shocked markets around the globe. Daily mid-point trading price of the currency was lowered 1.87% against USD. Hence, the second devaluation occurred a day later which pushed down the price by another 1.62% against USD. A day later, the central bank sent shockwaves again with a second devaluation, pushing down the price by another 1.62% against the USD. A potential regional currency war caused fears in markets since the China's currency devaluation came after the softening of Japanese Yen and Korean Won the year before. The currency devaluation is suggested to enhance China's competitiveness of its exports. It is also one important step of the internationalization of the RMB, which may cause capital outflows.⁴

⁴ China yuan devaluation 2015 | South China Morning Post

Exhibit 4: Nominal exchange rate (RMB per USD): 2012 – 2017

Source: Trading Economic

Customers Spending in China

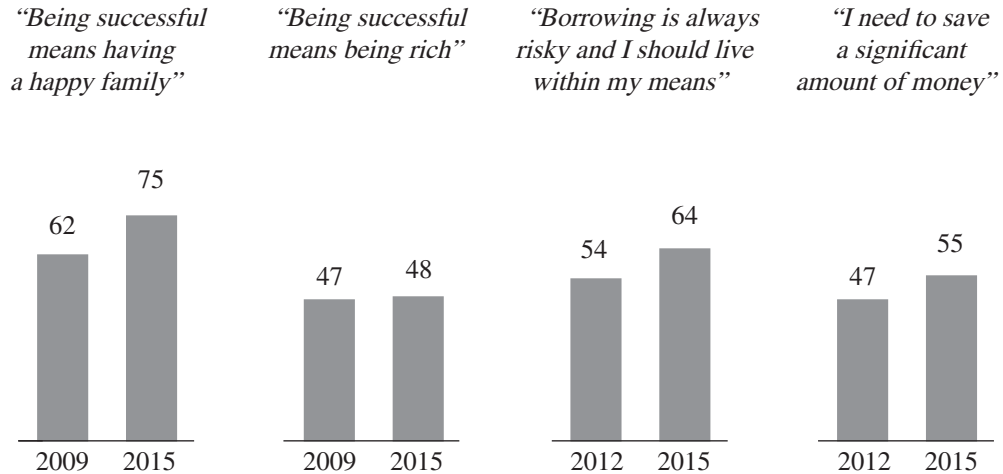
China has an awesome consumer story and Chinese consumers are going to continue to increase in wealth and complexity.

According to McKinsey's research⁵, consumers are becoming more selective about where they spend their money, shifting from products to services and from mass to premium segments. They are seeking a more balanced life where health, family, and experiences take priority (Exhibit 5). The popularity of international travel is astounding among Chinese consumers, as is their adoption of trends such as mobile payments. And despite many similarities, consumer behavior can vary significantly among the country's 22 city clusters.

⁵ McKinsey & Company, <http://www.mckinsey.com/industries/retail/our-insights/here-comes-the-modern-chinese-consumer>

Exhibit 5: China Customer's Behavior Survey

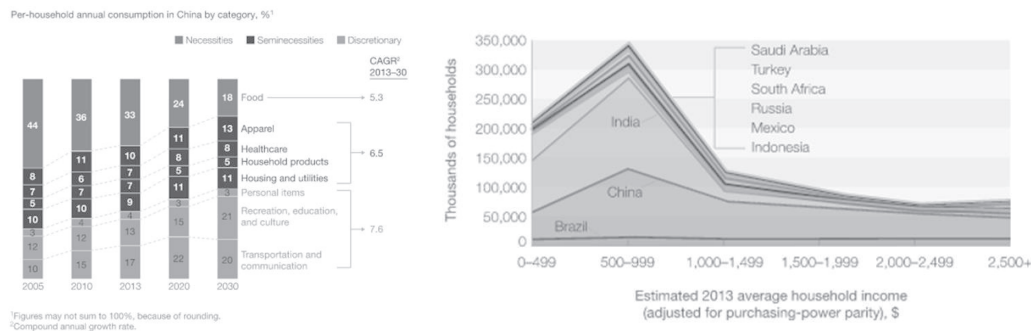
% agreeing with statement



Source: McKinsey & Company

Savings creates capital formation and it further leads to technical innovation and progress which helps with the economies of large-scale production and increases specialization, which helps to accelerate the productivity of labour, it further resulting increased GDP. Thus, savings leads to utilization of available resources in an efficient way, increases in the size of national output, income and employment, thereby solving the problems of inflation, unemployment and balance of payment, poverty, inequality; and making the economy free from the burden of foreign debt and leads to state of better welfare. With an enhanced economic status, savings indirectly stimulate the future consumption of the residents. Increase in savings implies that monetary wealth can be accumulated in the society which is positively correlated to the potential purchasing power of Chinese consumers.

Household income is critical in customer spending, as people cannot have consumption without income. And here's where it gets really awesome. China's household income is huge. It is now likely above RMB5 trillion a year. Plus, lots of income is unreported, so this is really the lower boundary for true household income. Developing economies – especially the BRIC nations of Brazil, Russia, India, and China – are frequently grouped together, but Chinese consumers dwarf all the others in terms of household income (Exhibit 6).

Exhibit 6: China total household income dwarfs other emerging markets

Source: McKinsey & Company

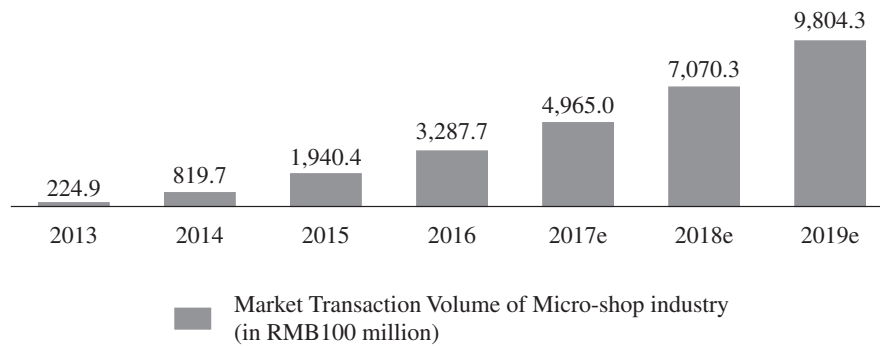
In addition, discretionary spending is another driver of Chinese customer spending. Chinese citizens are now moving beyond being able to only afford the basics of life, and their discretionary spending is taking off. Growth in spending on annual discretionary categories in China is forecasted to exceed 7.0% between 2010 and 2020, and growth of 6.0% to 7.0% annually is expected in a second category of “semi necessities.” Both of these categories are growing faster than spending on actual necessities, which are expected to grow around 5.0% a year, about the same as expected GDP growth.

The Micro-shop Business in China

In 2014, Alibaba Group, whose online retail platforms have been dominating China’s e-commerce market for years, created mobile payment capability, a public account system for businesses to interact with consumers, and then a mobile shop system, after being challenged by WeChat, the mobile messaging app of Tencent Holdings Ltd.

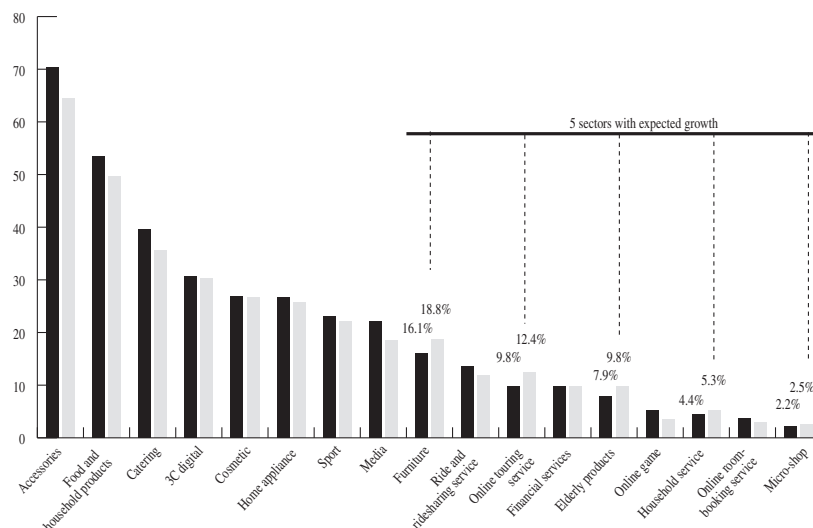
In the past years, an increasing number of WeChat users have begun operating Micro-shops as a part-time job, sharing what they sell onto “Moment”, the content sharing platform within WeChat, as well as directly to their WeChat contacts. Products they selling are ranged from regional food specialties to cosmetics. A survey conducted in earlier 2015 by Beijing News and Top Think Tank, a local research firm, shows that 85% of those surveyed saw their WeChat contacts selling beauty products such as facial masks.

The Micro-shop business in China had reached a transaction volume of RMB328.7 billion in 2016 and is estimated to grow to RMB980.4 billion in 2019 by iResearch. Since the Micro-shop is a relatively new concept to the e-commercial industry, the base of market transaction volume was small and contributed to a high growth rate year to year. The cumulative annual growth rate (CAGR) for the period from 2016 to 2019 is estimated at 44%.

Exhibit 7: Market Transaction Volume of Micro-shop in China, 2013 – 2019

Source: iResearch

According to iResearch, Micro-shop has occupied 2.2% of total eCommercial expenditure in 2016 and is expected to grow by 0.3% to 2.5% in 2017.⁶ The penetration rate of Micro-shop business among the whole Chinese consumer networking is still low and is under a rapid growth stage. Since the Government policies and the consumer behaviour are promoting a standardized and systematic Micro-shop business in China, the development of Micro-shop business is optimistic in the foreseen future.

Exhibit 8: Expenditure of Consumer Network in China for 2016 and 2017

Source: iResearch

⁶ iResearch, <http://report.iresearch.cn/report/201705/2985.shtml>

BASIS OF VALUATION AND ASSUMPTIONS**Market Value**

Market value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

For this appraisal, *market value* is established on the premise of continued use. Under the continued use premise, it is assumed that the buyer and the seller would be contemplating retention of the assets as part of the current operations. An estimate of *market value* derived on the premise of continued use does not represent the amount that might be realized from piecemeal disposition of the assets in the marketplace or from an alternative use of the assets. The premise of continued use is generally appropriate when:

- The assets are fulfilling an economic demand for the service they provide or which they house;
- The assets have a significant remaining useful life expectancy;
- Responsible ownership and competent management may be expected;
- Diversions of the assets to an alternative use would not be economically feasible or legally permitted;
- Continuation of the existing use by present or similar users is practical;
- Due consideration is given to the assets' functional utility for their present use; and
- The assets' economic utility is duly considered.

We were furnished, for the purpose of this appraisal, with audited and unaudited financial data as well as other records and documents. We have reviewed and examined the financial information and have no reason to doubt the truth and accuracy of the information contained therein. We do not provide assurance on the achievability of the results forecasted by the Target Company because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of forecasted results is dependent on actions, plans, and assumptions of the Target Company.

General Assumption – Valuation of Business Enterprise

Our investigation includes an on-site visit to Youzan, discussions with the Management in relation to the history, nature of businesses and future operation of Youzan Group, a study of the financial forecast and a review of its historical and also other similar companies' financial information, as well as other relevant documents. We have discussed with the Management the information related to the Target Company. We have no reason to doubt about the truth and accuracy of the information provided by the Management and hence assumed that such information provided to us are true and accurate. We have also consulted statistics, related government policies, articles and other public information related to the related business to supplement the information provided by the Management. In arriving at our opinion of value, we have relied to a very considerable extent on the above-mentioned information.

The valuation procedures we employed were based on the *International Valuation Standards* issued by the International Valuation Standards Council. The issues considered in this appraisal include, but not limited to, the following:

- Identification and recognition of the business subject to the appraisal;
- The rights, privileges, or conditions that attach to the ownership interest;
- The nature and prospect of the business operating by the Target Company;
- The existence of guideline transactions and guideline companies in the public markets and prior transactions in the Target Company's stock;
- The economic outlook and national policies that may affect the business;
- The potential of the target markets to be served;
- The financial conditions and profitability of the similar business;
- The ability to generate future economic benefits and the measurability of such future economic benefits;
- The business risks related to the operation of the business;
- The audited and unaudited financial statements and other information provided by the Management;
- The current stage of proposed development of the business; and
- The business risks of the business and inherent uncertainties in its operation.

Due to the changing environment in which the Target Company is operating, a number of assumptions have to be established in order to sufficiently support our concluded value of the business enterprises. The major assumptions adopted in this appraisal are:

- There will be no major changes in the existing political, legal, fiscal and economic conditions in which the Target Company carries on its business;
- There will be no major changes in the current taxation law in the PRC, that the rates of tax payable will remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no material changes in the e-commerce industry and its sub-industry of micro-shop in which the Target Company involved that would materially affect the revenues, profits, cash flows attributable to the business;
- Exchange rates and interest rates will not differ materially from those presently prevailing;
- The Target Company will maintain the validity of all necessary permits, license, certificates and approvals, include but not limited to “互聯網藥品信息服務資格證書”, “出版物經營許可證”, “食品經營許可證”, “煙草專賣零售許可證”, “增值電訊業務許可證”, and “食品流通許可證” to carry out its businesses; and
- All preference shares of Youzan have been converted into common shares as of the Valuation Date since this is one of the conditions for the Company to acquire a 51% equity interest in the Target Company.

Note: We have assumed all the preferred shares have been converted into common shares. This assumption is consistent with one of the conditions of the Sale and Purchase Agreement and has not yet been fulfilled as at the Latest Practicable Date. We are of the view that given no compensation will be given for conversion of all preference shares to common shares of Youzan at the completion of the transaction, it indicates that for Youzan’s preferred shares investors, the value of preferred shares and common shares shall not deviate materially.

We understand that preferred shares are having different rights and features to those of common shares. We have conducted a test to the per share price of preferred shares and common shares as of the valuation date through option-pricing method which treats common stock and preferred stock as call options on the enterprise’s equity value, with exercise prices based on the liquidation preference of the preferred stock. The test result showed that the per share value, which had taken into account the IPO scenario, liquidation scenario and redemption scenario between common shares and preferred shares, was around 2% which is very close to each other. Hence, we are of the opinion that the assumption made in the valuation that based on the above-mentioned condition of the Sale and Purchase Agreement is appropriate.

VALUATION METHODOLOGY

In arriving at our opinion of value of the Target Company, we have considered to use three generally accepted approaches, namely income approach, market approach and asset-based approach.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk. Following is a list of the common methods under this approach and their major parameters:

- Conventional discounted cash flow analysis (cash flow forecast, WACC, optimal capital structure, terminal) (the “DCF method”);
- Adjusted present value method (all-equity financing base scenario, tax shield, cost of financial distress) (the “APV method”); and
- Capitalized earnings/cash flow method (adjusted earnings/cash flows, required rate of return, stabilized growth).

Market Approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach. Listed below are the common methods under this approach and their major parameters:

- Guideline publicly traded company method (local players vs regional players, choice of multiples, time horizon of economic variables) (the “GPTC method”); and
- Guideline merged and acquired company method (searching relevant transactions, timing adjustment, control premium/discount for lack of marketability) (the “GMAC method”).

Asset-based Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. Actual costs incurred for upgrading of the assets to be appraised will also be considered in this approach.

Selection of Valuation Approach

Given the unique characteristics of the business nature of the Target Company, there are substantial limitations for the income approach and the asset-based approach for valuing the underlying asset. The *market value* of 100% equity interest in Youzan is hence developed through the application of the market approach.

Asset-based Approach is useful for holding company and for company which is to be liquidated. This approach does not focus on the income the asset produces as a whole and is not powerful to appraise those unidentified intangibles' value of a business. Hence, the more intangibles in a business, the more irrelevant the asset-based approach and thus the more relevant the other approaches becomes. In this case, the asset based approach is considered not appropriate due to the business of Target Company involving a lot of intangible assets, such as trademark, e-commerce applications, distribution network and assembled workforce. In addition, the asset-based approach does not directly incorporate information about the economic benefits contributed by the business enterprise.

Income Approach is closest to pure theory, as the *market value* is derived from the present value of all future benefits. This approach implies that there is a direct relationship between the amount of income a property will earn and its value. Income approach relied heavily on a long term financial forecast, which requires subjective assumptions that are difficult to be justified to which the valuation is highly sensitive if lack of long enough historical financial data or comparable company's financial data. Therefore income approach is not adopted as a preferred approach in our case given a very limited historical financial data of the Target Company.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable if necessary and appropriate. Assets for which there is an established secondary market may be valued by this approach. According to the selection criteria set out under the paragraph headed "Selection of Guideline Transactions and Guideline Companies" in this appraisal, four guideline publicly traded companies and two guideline transactions are identified to be comparable to the Target Company. Based on this observation, we are of the opinion that there is an established secondary market, and the chosen guideline transactions and guideline companies are comparable.

Benefits of using this approach include its simplicity, clarity, speed and the need for fewer assumptions. It also introduces objectivity in application as publicly available/disclosable inputs are used.

Market Approach

The *Market Approach* is based upon the principle of substitution premise that a prudent buyer will pay no more for a property that it would cost to acquire a substitute property with the same utility. Therefore, we analyzed prices at which the equity or invested capital in similar business changed hands. To do this we analyzed guideline company transaction data from sources of publicly traded companies (i.e. the GPTC method) and merged/acquired companies (i.e. the GMAC method), and prior transactions in the Target Company's stock (i.e. the Prior Transaction Analysis).

The GPTC, GMAC methods and Prior Transaction Analysis are considered to be applied to estimate the *market value* of the Target Company. In these three methods, the *market value* is based on prices at which stocks or share interests of similar companies are trading in a public market.

Assumptions under the GPTC and GMAC methods include but not limited to:

- Good guideline transactions/companies exist; and
- The market is efficient.

Under the GPTC method, a “value measure” is usually a multiple computed by dividing the enterprise value (the “EV”) or market value of Invested Capital (the “MVIC”) of the guideline companies as of the Valuation Date by some relevant economic variables observed or calculated from the guideline company's financial statements.

Under the GMAC method, a “value measure” is usually a multiple computed by dividing the announced consideration of the guideline transaction by some relevant economic variables observed or calculated from the acquired company's financial statements. Relevant economic variables usually refer to sales, profit, book value and other industry specific metrics.

According to the valuation theory, the GMAC method concerns more about the comparability of transactions and the sufficiency of relevant information rather than the sample size. When applying the GMAC method, it is often difficult to obtain sufficient data on a sufficient number of transactions, which leads to a central tendency not observable in this method. However, despite the limited number of comparable transaction and relevant market data available, according to American Society of Appraisers (ASA), even one good transaction in this method may provide a reasonable check on other methods. Therefore, in this appraisal, the GMAC method and GPTC method as well as the Prior Transaction Analysis of the Target Company have been also applied to draw the concluded multiple.

Screening of Potential Comparable Companies under GPTC Method

A search of e-commerce companies in the PRC has been conducted based on the database of Bloomberg. A list of 38 candidates were identified based on keyword searching, country and domicile filtering, as well as business classification.

Among those 38 candidates, 13 companies were excluded as potential comparable companies since their business is not related to e-commerce whilst “e-commerce” or related wordings are mentioned in their descriptions; 9 companies were not applicable because their GMV data are not disclosed; 11 companies were excluded since their core businesses are irrelevant to Youzan; and another one was not selected due to its changing business model. For the 9 companies whose GMV data are not disclosed, we are unable to include them as comparable companies in conducting the valuation of our Target Company unless their GMV data can be obtained from their management as each of them would have its own GMV. As a result, only 4 of those 38 candidates are selected as comparable companies at the end. We, however, are of the view that in valuation practice, the number of 4 guideline companies alone will not materially affect the reasonableness of a business valuation, given the 4 guideline companies are comparable to the Target Company.

Adjustment for other specific company risk factor under the Market Approach is considered a matter of professional judgement. In empirical studies, adjustments are made based upon the correlation between performance and multiple. E-commerce company featuring light assets which leads to the existence of heavy intangible assets, such as goodwill, reputation, brand name, customer base, distribution network, payment network etc. Unfortunately, there is lack of empirical data to show the correlation between company performance and intangible multiples so far.

Selection of Multiples

In selecting appropriate multiples to be adopted in our valuation analysis, we have considered traditional multiples such as price-to-sales (“P/S”) ratio and price-to-earnings (“P/E”) ratio, and another important multiple for e-commerce business, i.e. price-to-GMV (“P/GMV”) ratio.

Exhibit 9: Selection of Multiples

Company Name	P/GMV Ratio	P/S Ratio	P/E Ratio
Alibaba Group Holding Ltd. (BABA US Equity)	0.83	19.83	71.89
JD.com, Inc. (JD US Equity)	0.54	1.37	Not applicable
Baozun Inc. (BZUN US Equity)	0.90	3.27	128.12
Jumei International Holding Ltd. (JMEI US Equity)	0.36	0.45	19.69
Koudai Gouwu (口袋購物)	0.44	Not available	Not available
Weimai (微賣)	0.23	Not available	Not available
Youzan Group*	0.55	35.58	Not available

* for illustrational purpose

Note: Prior to initial public offering of Alibaba Group Holding Ltd., JD.com, Inc., Baozun Inc. and Jumei International Holding Ltd., there have been no public market for their common shares or American Depositary Shares (the “ADSs”). For Alibaba Group Holding Ltd. and Jumei International Holding Ltd., the initial public offering price, at the time of listing, were determined by negotiations between them and their respective representatives of underwriters. Among the factors to be considered in determining the initial public offering price of the ADSs, in addition to prevailing market conditions, were their historical performance, estimates of their business potential and earnings prospects, assessments of their management and the consideration of the abovementioned factors in relation to market valuation of companies in related business. For JD.com, Inc. and Baozun Inc., the initial public offering price, at the time of listing, were determined by negotiations between them and the representatives. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price for JD.com, Inc. are the valuation multiples of publicly traded companies that the representatives believe to be comparable to them; their financial information; the history of and the prospects for their company and the industry in which they compete; an assessment of their management towards their past and current operations; the prospects for and timing of their future revenues; the current state of their development; and above factors in relation to market value and various valuation measures of other companies engaged in activities similar to them. Among the factors considered in determining the initial public offering price of Baozun Inc. are their future prospects and those of their industry in general, their sales, earnings, certain other financial and operating information in recent periods, the P/E ratios, P/S ratios and market prices of securities and certain financial and operating information of companies engaged in activities similar to them, the general condition of the securities markets at the time of the offering, the recent market prices of, and demand for, publicly traded common shares of generally comparable companies, and other factors deemed relevant by the representatives and them. We, based on the prospectuses of the selected comparable companies, have not noticed that GMV was being mentioned specifically as a factor for considering their initial public offering price. However, according to the prospectuses of the selected comparable companies, (1) in determining the initial public offering price, the comparable companies have taken into account the estimates of their business potential; and (2) GMV was frequently mentioned and regarded as operating data in the prospectuses of the selected comparable companies. We are of the opinion that GMV is one main component attributed to the business potential for e-commerce companies.

For transaction of Koudai Gouwu, no information were disclosed officially on how they conduct valuation to support the consideration. For transaction of Weimai, the consideration was based on mutual negotiation between buyer and seller after considering the expected operating results, potential development and prospectus at the time of transaction.

Given share price is the common component forming valuation multiples (e.g. P/E, P/S) and that an efficient market is an assumption under market approach valuation methodology, we are of the view that the risk level relating to the age and market standing has been factored in share price by willing investors. For instance, with a higher risk level relating to age and market standing, the investors are only willing to invest at a lower share price in compensating the higher risk level they are taking. In addition, we are of the view that the timing for monetizing is a matter of business strategy of different e-commerce companies regardless the age and market standing, rather than a factor affecting comparability between the e-commerce companies. Therefore, when the share price is applied in a valuation multiple, so long the comparable companies are of similar nature, share price related multiples are comparable and relevant in valuing a company in the same business sector.

We have conducted researches on the P/S and P/E ratios of the target companies of the selected guideline transactions/guideline companies based on available data and found that the range of P/S ratios is widely dispersed, which commensurate to the fact that some of the comparable companies are not completely monetizing (i.e. generate revenue) their products and services or they are in progress of changing monetization strategies, for instance, Alibaba Group was under a transition progress from non-mobile monetization to mobile monetization in 2016. Based on audited financial information for the financial year ended 31 December 2016 of Youzan and pro-rated consideration of 100% equity which was calculated based on the consideration of HK\$2,096,000,000 for 51% equity interest in the Target Company assuming all preference shares have been converted into common shares, its implied P/S ratio of Youzan is 35.58. We do not consider the P/S ratio as the appropriate yardstick to be applied for assessing the relative valuation for the comparable companies. This is because (1) Youzan only started meaningfully monetizing its GMV since May 2016 and therefore revenue did not reflect monetization performance fairly for a full financial year; (2) revenue figure used under P/S ratio mainly depends on the business and pricing strategies of when and how to monetize GMV for the e-commerce companies which are unique for each of the comparable companies; and (3) the fact that P/S ratios were dispersed significantly confirms that investors seem showing limited interest in the P/S ratio to price the comparable in the equity market. On the other hand, profitability relates to monetization strategies employed by different e-commerce companies, i.e. different e-commerce companies have different strategies on when and how to monetize their GMV. For example, Alibaba recorded a profit for the year ended 31 March 2017, whereas JD.com recorded a loss for the year ended 31 December 2016. This may merely demonstrate the monetization strategies employed by the two companies were different, rather than an objective conclusion that the two companies are not comparable to each other just because they have profitability. Accordingly, the P/S ratio is considered as not appropriate yardstick to be applied when comparing comparable companies. However, the P/E ratio is not applicable in this case purely because Youzan Group has not yet started to make profit as of the Valuation Date. As such, it is considered that traditional valuation metrics such as P/S ratio and P/E ratio are of less relevance to our valuation analysis. Another reason behind is that they may not reflect the actual intrinsic value of e-commerce companies given that the e-commerce is still emerging.

We are of the opinion that there is always a variety of valuation techniques and methods that we may apply to draw a professional conclusion. Aside from the abovementioned P/S and P/E ratios, we have also considered to look for the forward looking data such as the future earnings. However, given Youzan Group is operating in a stage in which creative monetizing strategy and revenue models are being developed and tested in order to maximize the generation of GMV, and therefore a high level of uncertainty is involved in formulating assumption relating to forward looking data to draw a reliable conclusion. We are of the opinion these valuation techniques based on forward-looking estimation of Youzan Group are not appropriate in this circumstance.

We are of the opinion that the performance of the e-commerce companies is commonly measured by the GMV since the GMV, although not proportionate to the revenue generated and not the only viable valuation method in conducting valuation, represents monetization potentials thus the main driver of the revenue for this type of companies. Significant growth in revenue could be driven by increasing GMV given the revenue positively associates with the GMV.

GMV enables the comparison between different e-commerce companies regardless the stage of development. When GMV is applied in a valuation multiple, as long as the comparable companies are of similar nature, their GMV multiples are comparable and relevant in valuing a company in the same business sector. It's our opinion that GMV generated by early stage e-commerce companies is directly comparable with GMV generated by developed e-commerce companies since GMV is an integrated key performance indicator which has reflected some business attributes such as brand name, market standing, market share, distribution channel and customer network of e-commerce companies. For example, an e-commerce company at a developed stage with a larger market share, better brand name, stronger customer network and more distribution channels would attract merchants and consumers to transact more on its platform, thus resulting in a higher GMV. Accordingly, the development stage has been disregarded as the criteria for selecting guideline transactions and guideline companies. In addition, from the perspective of investors, share price, has factored in the size difference.

However, we note that GMV data has not yet been regulated for public disclosure by the government/regulatory body. However, from an investor's perspective, they are concerned about those creditable indicators such as GMV, irrespective whether it is from government source or regulated by the government/regulatory body.

Consequently, we have applied the GMV multiple to determine the value of the Target Company that is on a freely-traded basis. Specifically, we applied the P/GMV ratio to both the GPTC and GMAC methods in valuing the Target Company.

Selection of Guideline Transactions and Guideline Companies

In selection of comparable companies, business nature is the most determinant factor. One of the considerations in determining the comparability of potential comparable companies is that the revenue of these companies are generated from its e-commerce trading platform. When applying the GPTC and GMAC methods, we have considered the transaction or company to be a guideline transaction or guideline company if the target company is principally engaged in the e-commerce business providing a variety of online and offline solutions and services in relation to virtual wholesaling and retailing through their e-commerce trading platform in China and facilitation of transactions etc. These companies are typically involved in the operation of an online platform which enables consumers to purchase products or services online from third party vendors or service providers. Their business acts as an agent between the consumers and vendors or service providers.

Among the guideline transactions and guideline companies, our identifiable selection criteria are listed below:

1. The target companies in the guideline transactions/guideline companies derive most, if not all, of their revenues from the similar business of Youzan Group, i.e., principally engaged in the e-commerce business providing a variety of online and offline solutions and services in relation to virtual wholesaling and retailing through its e-commerce platform in China;
2. Relevant information about the target companies in the guideline transactions/guideline companies are available and publicly disclosed;
3. Sufficient data, including transaction amount, percentage of stake in transaction, and GMV, market capitalization can be obtained from public sources;
4. The transaction dates of the guideline transactions are reasonably close to the Valuation Date, which means the market does not change a lot between these two dates; and

Note: The selection period of guideline transactions in this valuation is broadened to around three years since transactions with sufficient data are rare in the public source. We agree that the micro-environment such as investor's view and appetite is changing from day to day in the world of both capital market and technology. However, we are not aware of any material changes in the macro-environment that would lead to tremendous changes in the investor's view and appetite on both capital market and technology. Those changes in macro-environment may refer to as government policies specific to e-commerce industry, economic conditions (e.g. financial crisis) and social culture (e.g. trend of online shopping) within the past 3 years. We, therefore, consider the adoption of transactions within three years are applicable as we do not aware of any remarkable issues in the industry rendering the transactions within the selection period no longer relevant.

5. The target companies in the guideline transactions/guideline companies are located in PRC, as many factors including not limited to political, legal, fiscal and economic conditions in which the e-commerce company carries on its business will significantly affect how investors price e-commerce companies located in different geographical location. Especially, geographical characteristics such as market size, customer behaviours, government policies and taxation would significantly affect the financial performance of the companies. This, in particular, holds true for e-commerce companies whose business success essentially depends on the market size they service. In addition, there are sufficient number of candidates being identified in the PRC region in which Youzan Group carries on its business, hence the e-commerce companies in countries other than the PRC are not considered.

Note: According to the “Principles of Valuation” published by the American Society of Appraiser, “rarely are the guideline public traded companies strictly comparable to the subject. Since the appraiser is interested in comparability from an investment perspective, we need to find similar companies”. In valuation practice, business nature is the most determinant factor that a valuer should consider in selecting guideline companies and we are not aware of any valuation standard against such selection criteria set out above. In valuation practice, companies of same business nature which do not share identical business attributes, does not preclude its comparability with its peers. We are of the view that there are no perfect comparable companies in the market offering homogenous products/services or having the exact same business attributes. Valuation is a case-by-case practice which often requires a high degree of expert judgement from the engaging professional valuer based on an imperfect set of information. Therefore, despite there are one or more differences amongst the guideline companies, it is appropriate to treat the guideline companies as comparable to Target Company. Valuation theories suggest that such difference among guideline companies could be accommodated by applying weighting or appropriate adjustments, without affecting the comparability among the comparable companies.

After exhaustive searching, we have seven potential guideline transactions. We have, to our best effort, double checked that there are no hidden or missing guideline transactions, which are publicly available for making a comparison to the Target Company. We are conducting the valuation on a market participant perspective that relied heavily on open market information, instead of internal information. The seven potential guideline transactions are listed below:

Exhibit 10: Potential Guideline Transactions

Company Name	Transaction Date	Acquired equity interest	Reported investment amount of transaction (in million)	GMV (in million)
Koudai Gouwu (口袋購物)	23/10/2014	10%	USD145.00	RMB15,000 for Q1 to Q3 2014
Source: http://technode.com/2014/10/23/koudai-gouwu-raises-series-c-funding-led-tencent/ http://tech.qq.com/a/20141023/028241.htm				
Diandianke (點點客)	2/2/2015	Not available	RMB220.00	Not available
Source: http://tech.sina.com.cn/it/2015-02-02/doc-icczmvun5678964.shtml				
Weimob (微盟)	22/7/2017	60%	RMB1,199.72	Not available
Source: http://disclosure.szse.cn/finalpage/2017-07-22/1203727172.pdf				
Weimai (微賣)	6/2015	30%	RMB82.53	RMB3.28 daily for 2015
Source: http://disclosure.szse.cn/finalpage/2015-07-07/1201249015.pdf http://technole.com/2014/10/23/koudai-gouwu-raises-series-c-funding-led-tencent/				
Mengdian (萌店)	9/11/2015	Not available	RMB500.00	RMB500 monthly for 2015
Source: http://www.cnra.org.tw/edm/1-20160602.pdf https://www.itjuzi.com/investevents/12754				
Yunjiweidian (雲集微店)	12/12/2016	Not available	RMB228.00	RMB300 monthly for 2016
Source: http://www.sohu.com/a/121418701_135566				
Global Scanner (環球捕手)	2016	Not available	Not available	RMB1 daily for 2016
Source: http://news.163.com/16/1113/00/C5N9F2O200014SEH.html http://n.cztv.com/health/12077151.html				

Seven guideline transactions incurred from the year 2014 to the year 2017 were identified which included both listed and unlisted companies and mainly have their business operated in China; however, the guideline transactions incurred during the year 2016 and 2017 all suffered data problems which neither transaction prices nor GMVs not publicly disclosed. Among them, Koudai Gouwu and Weimai satisfied the above criteria and be selected as guideline transactions. The two comparable transactions selected are the only available transactions closest to the valuation date, and which transactions' multiples reflected actual payment for real-life deals and provide guidance as to what value a buyer may be willing to pay for a business similar to Youzan.

Note: Regarding the Company's previous acquisition of Moderntimes Payment Limited ("Moderntimes Payment"), we have confirmed with the management of the Company that the business nature and business model of Moderntimes Payment is mainly focusing on operating prepaid card payment system, rather than trading platform. Therefore, Moderntimes Payment does not fit in the business nature adopted (i.e. e-commerce trading platform operating in the PRC) in selecting comparable companies.

Exhibit 11: Selected Guideline Transactions

Company Name	Pro-rated	
	100% Equity (RMB million)	Annualized GMV (RMB million)
Koudai Gouwu (口袋購物)	8,874	20,000
Weimai (微賣)	275	1,197

(1) Koudai Gouwu (口袋購物)

Koudai Gouwu is an intelligent mobile shopping platform for merchants to promote and deliver their products to consumers. The products include clothing, electronic devices, digital equipment, home appliances, cosmetics, food, etc. Under Koudai Gouwu, one of the platform features is precision marketing which allows the platform to recommend products to users based on their personal style. Given that the platform feature of Koudai Gouwu would not lead to a distinctive business nature as compared to other e-commerce companies, HK Appraisal is of the opinion that Koudai Gouwu is comparable to Youzan. Also, the company has established a mobile e-commerce platform namely WeiDian (微店) where small vendors can open stores online and promote their products through various social net-working platforms like WeChat. The Technode reported that Koudai Gouwu raised a USD350 million Series C funding led by Tencent and Tiger Fund with the participation of H Capital, Vy Capital, Falcon Edge, DST. Of the total, Tencent has invested USD145 million for a 10% stake in the company. (Source: <http://technode.com/2014/10/23/koudai-gouwu-raises-series-c-funding-led-tencent/>). According to Bloomberg, the exchange rate as of the report date was USDRMB: 6.1197. As reported by Tencent Technology news, the GMV of Koudai Gouwu in the first three quarters of 2014 had reached RMB15 billion. (Source: <http://tech.qq.com/a/20141023/028241.htm>) We annualized the reported GMV.

(2) Weimai (微賣)

Weimai is a mobile shopping software which helps individuals to set up and operate their online stores via the software. According to the research report issued by China Galaxy Securities, Huasi Holding Co Ltd (002494.SZ) paid RMB82.53 million for 30% equity and the average daily GMV of Weimai throughout 2015 is RMB3.28 million. (Source: http://pg.jrj.com.cn/acc/Res/CN_RES/STOCK/2016/2/29/30e38d07-a6d1-4ebb-9dcc-641d8c8233a9.pdf) We annualized the reported GMV. The 30% equity in Weimai can also be witnessed in announcement of Huasi Holding Co Ltd on Shenzhen Stock Exchange. (Source: <http://disclosure.szse.cn/finalpage/2015-07-07/1201249015.PDF>)

The guideline companies under GPTC method satisfying the selection criteria are listed as below:

Exhibit 12: Selected Guideline Companies

Company Name	Financial Year (“FY”)*	Market	Last FY GMV (RMB million)
		Capitalization (RMB million)	
Alibaba Group Holding Ltd. (BABA US Equity)	1 April to 31 March next year	3,138,900	3,767,000
JD.com, Inc. (JD US Equity)	1 January to 31 December	355,244	658,200
Baozun Inc. (BZUN US Equity)	1 January to 31 December	11,095	11,265
Jumei International Holding Ltd. (JMEI US Equity)	1 January to 31 December	2,680	7,300

* The financial years of the selected guideline companies are different according to their respective financial reporting period

(1) Alibaba Group Holding Ltd. (BABA US Equity)

Alibaba Group Holding Ltd., incorporated on June 28, 1999, operates as a holding company. The company provides internet infrastructure, e-commerce, online financial, and internet content services through its subsidiaries. Alibaba Group Holding Ltd. offers its products and services worldwide. The major revenue stream of Alibaba Group was contributed by its core commerce segment which is mainly comprised of platforms operating in retail and wholesale commerce such as Taobao, T-mall and 1688.com. Those platforms, with the aid of functions set inside the platforms, are for merchants to deliver their products to the public. As disclosed in the prospectus of Alibaba Group, the revenue they generated on their retail marketplaces is highly correlated to the amount of GMV transacted as well as to the monetization rate achieved on such GMV. Also, Alibaba Group disclosed that one of the factors affecting their results of operation was the number and engagement of buyers and sellers and GMV transacted on their marketplaces. We had considered that although Alibaba Group is developing new business initiatives like cloud computing, digital media, entertainment, innovation initiatives and others, however, based on the latest Annual Report of Alibaba Group, the abovementioned new business initiatives are occupying less than 20% of the total revenue. Consequently, Alibaba Group and the Target Company were regarded as similar and comparable in business nature. According to Bloomberg, the market capitalization of Alibaba Group Holding Ltd. as of the Valuation Date was RMB3,138,900 million. The revenue for the fiscal year 2015 and 2016 were RMB101,143 million and RMB158,273 million respectively, and the profit for the fiscal year 2015 and 2016 were RMB71,460 million and RMB43,675 million respectively.

(2) JD.com, Inc. (JD US Equity)

JD.com, Inc., incorporated in January 2014, is an online direct sales company in China. The company offers a wide selection of products through its website and mobile applications. JD.com sells appliances, computers, digital products, communication products, garments, books, and household items to consumers and vendors. JD.com provides transaction processing and billing services on all orders on their platform, and offers them additional value-added services. In addition, JD.com had expanded partnership with Tencent International Limited to provide their merchants with innovative mobile marketing solutions. According to JD.com, the collaboration offers businesses advanced online tools to more precisely reach their target customer groups, build brand recognition and increase return on investment on marketing by providing brands access to Tencent users. According to Bloomberg, the market capitalization of JD.com, Inc. as of the Valuation Date was RMB355,244 million. The revenue of JD.com for the year 2015 and 2016 were RMB181,275 million and RMB260,122 million respectively and the net loss of JD.com for the year 2015 and 2016 were RMB9,108 million and RMB3,807 million respectively.

(3) Baozun Inc. (BZUN US Equity)

Baozun Inc., incorporated in 2006, provides e-commerce solutions. The company's services include website design, development and hosting, information technology infrastructure, customer service, warehousing, and logistics services, as well as digital marketing. Baozun serves customers in China. Baozun Inc. generated revenues from two revenue streams: (i) product sales and (ii) services. They derive product sales revenues primarily through selling products on behalf of brand partners to consumers, and derive services revenue primarily through charging brand partners and other customer fees. According to Bloomberg, the market capitalization of Baozun Inc. as of the Valuation Date was RMB11,095 million. The revenue of Baozun Inc. for the year 2015 and 2016 were RMB2,598 million and RMB3,390 million respectively and the profit of Baozun Inc. for the year 2015 and 2016 were RMB22.6 million and RMB86.6 million respectively.

(4) Jumei International Holding Ltd. (JMEI US Equity)

Jumei International Holding Ltd., incorporated in 2010, is an online retailer of beauty products. Jumei International Holding Ltd. generates its revenue through its own platform. Jumei launches its Jumei Global sales channel in 2014, which is an internet platform allowing Chinese consumers to directly purchase diversified products including beauty products, baby, children and maternity products as well as fashionable apparel and other lifestyle products. According to Jumei's annual report 2016, it regards other e-commerce platform operated by Alibaba Group, Amazon China, JD.com, etc as its competitors. According to Bloomberg, the market capitalization of Jumei International Holding Ltd. as of the Valuation Date was RMB2,680 million. The revenue of Jumei International Holding Ltd. for the year 2015 and 2016 were USD1,134 million and USD904 million respectively and the profit of Jumei International Holding Ltd. for the year 2015 and 2016 were USD19 million and USD20.5 million respectively.

Definition of GMV for Comparable Companies and Respective Adjustments

Alibaba reports "GMV" as a measure of the volume of e-Commerce enabled by its platform. GMV is defined as the total value of confirmed orders or closed transactions over their marketplace platforms, regardless of whether the buyer and the seller actually complete or settle the transaction.

For JD.com, "GMV" are defined as the total value of all orders for products and services placed in the online direct sales business and on the online marketplaces, regardless of whether the goods are sold or delivered or whether the goods are returned, excluding orders on Paipai.com.

For Baozun Inc., “GMV” are defined as gross merchandise volume, and when used in connection with their business, include (i) the full value of all purchases transacted and settled on the stores operated by them (including the Maifefeng platform but excluding stores for the operations of which they only charge fixed fees) and (ii) the full value of purchases for which consumers have placed orders and paid deposits on such stores and which have been settled offline. Their calculation of GMV includes value added tax and excludes (i) shipping charges, (ii) surcharges and other taxes, (iii) value of the goods that are returned and (iv) deposits for purchases that have not been settled.

For Jumei International, “GMV” is defined as the sum of (i) net revenues generated from merchandise sales, and (ii) net revenues generated from marketplace services and adding back corresponding payables to our third-party merchants. Net GMV can be obtained from GMV by deducting value-added tax and surcharges, customer returns and cash coupons, and adding delivery fees charged to our customers.

Among these 4 comparable companies, the GMV of “Alibaba and JD.com” to Youzan is “Apple to Apple” based on their definitions. However, the GMV components of Baozun Inc. and Jumei International are not exactly the same as Youzan since there are different treatments in their GMV calculation mainly toward (i) shipping charges (delivery fees), (ii) other taxes and surcharges, and (iii) goods returned. In calculating Baozun Inc. GMV, shipping charges is excluded, while for Jumei International, value-added tax and surcharges are deduced from the GMV calculation.

We have tried to adjust the shipping charges to GMV of Baozun Inc. and value-added tax to GMV of Jumei International. With reference to data searched from the internet, online shipping charges/logistics fee is assumed at 10% of the value of the goods, and the percentage is added back to the GMV of Baozun Inc.. Surcharges and other taxes, value of the goods that are returned and deposits for purchases that have not been settled are not subject to adjustment to the GMV of Baozun Inc. due to lack of data. The tax payable of RMB79.78 million is added back to the GMV of Jumei International (It is mainly comprised of the value-added tax and surcharges according to notes of its financial statements), while surcharges, customer returns and cash coupons are not subject to adjustment to the GMV of Jumei International due to lack of data.

Additional Consideration in Valuation***Control Premium***

A control premium is defined as the additional consideration that an investor would pay over a marketable minority equity value (i.e., current, publicly traded stock prices) in order to own a controlling interest in the common stock of a company. It is the amount an investor will pay to acquire control of a company, typically an amount higher than the current market value of the company. An investor seeking to acquire control of a company is highly motivated, and is typically willing to pay more; this often comes into play when one company is trying to acquire another, and is trying to convince the second company to agree the deal. In this appraisal, a control premium of 10.6% is applied to the transaction prices in the guideline transactions based on the study conducted by Mergerstat.⁷ The FactSet Mergerstat/BVR Control Premium Study is an online searchable database that provides empirical support for quantifying control premiums, implied minority discounts, and public company valuation multiples. According to Mergerstat, the research has covered 10,780 transactions, most of which are mergers and acquisitions for 100% interest as well as takeovers and buyouts for controlling stake. The selection process of a representative control premium to be applied to the valuation includes two steps. In the first step, we assigned industry name under “Retail Trade” and “Miscellaneous Retail” since these are most relevant category provided to be chosen. We observed that there were 6 transactions, with control premium ranged from 10.6% to 50.1% and a median of 33.9% (transaction with negative control premium are excluded by the study) jumped out. In the second step, we conducted research on the 6 transactions and concluded the transaction of E-Commerce China Dangdang, Inc. with a control premium of 10.6% to be most reasonable, relevant and prudent control premium to be applied to the valuation of the Target Company. It is observed that the study has been used in numerous valuation reports set out in circulars issued by Hong Kong listed companies. The database has taken into account prior 19 years detailed transaction data across different industries, thus we consider the database as comprehensive and appropriate in providing empirical support for quantifying control premiums, implied minority discounts, and public company valuation multiples.

⁷ Mergerstat Control Premium Study 4th Quarter 2016

Discount for Lack of Marketability (“DLOM”)

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. Discount for lack of marketability reflects the fact that there is no ready market for shares/one share in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. Although the marketability discount is always observed and studied based on minority interest, its impact on the controlling equity interest valuation may be also substantial.

David Chaffe authored a DLOM option pricing study in 1993 in which he related the cost to purchase a European put option to the DLOM. In Chaffe’s estimation, “if one holds restricted or non-marketable stock and purchases an option to sell those shares at the free market price, the holder has, in effect, purchased marketability for those shares. The price of that put is the discount for lack of marketability.” We relied on the Black-Scholes Option Pricing Model for a put option to determine the cost or price of the put option, and defined the DLOM as the cost of the put option divided by the market price.

In this appraisal, the discount for lack of marketability is regarded as a put option of which the stock price equal to exercise price. The time-to-maturity is replicated by the expected time to IPO and lock-up period assumed by the Management and the volatility is replicated by the historical volatilities, respectively. The major parameters adopted in the Black-Scholes Model are: i) annualized 2-year stock price volatility of the guideline companies, with a median of 45.45%; and ii) 3.61% yield to maturity of two year CNY China sovereign bond. In this case, a lack of marketability discount of 21.00% for the Target Company.

Comparability and Concluded Multiples***Comparability Analysis***

Comparability is important in application of the market approach. Factors to be considered in judging whether a reasonable basis for comparison exists include a sufficient similarity of investment characteristics, sufficient data about the similar investment and whether or not the similar investment is an arm’s-length transaction or a forced or distress sale.

In our case, similarity from an investor's point of view includes nature and prospects of the industry (whether or not with Micro-shop business), general type of goods or services provided (whether or not provide product/services to facilitate transactions between merchants and customers), quality of management and level of technology employed (whether or not with similar level of management skill and technology), past growth and stability of GMV (whether or not with reliable GMV), business model (whether or not with similar business model with Youzan), business size (whether or not with similar size of GMV) and financial performance (whether or not with revenue and profitable).

According to our selection criteria, the guideline companies/transactions and Youzan are to certain degree having the same business nature as carrying out Micro-shop business. They share the same prospects of the Micro-shop business industry with rapid growth in GMV in the past decade. They have similar business model as providing a variety of online and offline solutions and services in relation to virtual wholesaling and retailing in China. Besides, they have similar level of technology with their platforms built virtually through the internet as well as similar key management to utilize the advancement of technology since the key technical personnel of Youzan are from Alibaba. The product offerings traded under those platforms are mainly general merchandise, such as, electronic appliances, household goods, clothing and apparel. While item sold on the e-commerce platforms may not be identical to the items sold on the platform of Youzan in absolute term, however, the main types of goods and services sold on these platforms are similar in nature in all material respects.

The overall outlook for the Target Company and the guideline companies/transactions are similar from an investor's point of view. When a reasonable basis for comparison exists, the key factor for comparison are the assessment of relative risk and relative growth differences so that we adjust the market multiples to the appropriate level to be applied to the Target Company. In choosing the appropriate level of the valuation multiple (i.e. adjusting the market GMV multiple) for the Target Company, we consider the qualitative and quantitative methods to adjust the differences between the guideline companies/transactions and the Target Company.

We are of the view that if the outlook for the Target Company relative to the guideline companies/transactions is of less risk and/or more growth rate, a qualitative multiple adjustment is to choose a multiple higher than the median. On the contrary, a lower multiple is chosen. In practice, most valuers will use weighted average based on their judgement. This is another way to saying that their choices are made on a qualitative basis.

A quantitative multiple adjustment means using quantitative techniques/model to do the adjustment which obviously adds precision to the direction and amount of adjustment. However, the quantitative adjustment for the size and growth are normally made to income statement – based multiple because they are based on the relationship between capitalization rates and the pricing multiple, the GMV multiple is not in this case.

Multiple Adjustment

After adjustment of control premium and discount for lack of marketability mentioned above, we get adjusted P/GMV multiples under GPTC and GMAC methods listed below:

Exhibit 13: Indicated Multiple after control premium under GMAC

Company Name	Price (RMB million)	Annualized GMV (RMB million)	Adjusted P/GMV Ratio	Weights
Koudai Gouwu (口袋購物)	9,814	20,000	0.49	50%
Weimai (微賣)	304	1,197	0.25	50%

Indicated Multiple under GMAC method

0.37

Under GMAC method, an equal weighting is assigned to Koudai Gouwu (口袋購物) and Weimai (微賣), the GMV of Koudai Gouwu (口袋購物) based on its transaction was RMB20,000 million and the GMV of Youzan was RMB7,404 million and RMB10,004 million as at the valuation date with and without adjustment respectively, however, the GMV of Weimai (微賣) was RMB1,197 million. In terms of GMV, the business size of Koudai Gouwu (口袋購物) is more similar with Youzan as compared to Weimai (微賣) because the business size in term of annualized GMV of Koudai Gouwu (口袋購物) is more similar to Youzan as compared with Weimai (微賣) while the transaction date of Weimai (微賣) is closer to Youzan. Consequently, an equal weighting is assigned to Koudai Gouwu (口袋購物) and Weimai (微賣).

Exhibit 14: Indicated Multiple after control premium and DLOM under GPTC

Company Name	Price (RMB million)	Last FY GMV after adjustment (RMB million)	Adjusted P/GMV Ratio	Weights
Alibaba Group Holding Ltd. (BABA US Equity)	3,138,900	3,767,000	0.73	10%
JD.com, Inc. (JD US Equity)	355,244	658,200	0.47	30%
Baozun Inc. (BZUN US Equity)	11,095	12,391	0.78	30%
Jumei International Holding Ltd. (JMEI US Equity)	2,680	7,380	0.32	30%
Indicated Multiple under GPTC method			0.54	

Under GPTC method, we consider the business size, the above selected companies can be classified into big and small groups. The small group is more comparable to Youzan Group and thus we deem a 30% weighting to be suitable for Jumei International Holding Ltd. and Baozun Inc.. On the other hand, when we consider the profitability, JD.com, Inc. is in loss, which is mating Youzan Group's situation, and thus we deem a 30% weighting to be suitable for JD.com, Inc..

Then Alibaba Group Holding Ltd. is assigned the remaining weighting of 10%.

Prior Transaction Analysis of the Target Company

While considering the comparability of the selected guideline companies/transactions, we should also consider prior transaction analysis of the Target Company (one method of the market approach) since the best comparable company to the Target Company should be itself. Therefore, we made an analysis for the most recent prior transaction of Series B-2 Preferred Shares. According to the Management, one of the conditions for the Company to acquire 51% equity interest in the Target Company is to treat all the Preferred Shares as Common Shares, therefore we have assumed these Preferred Shares are Common Shares as of the Valuation Date.

Exhibit 15: Indicated Multiple after control premium under Prior Transaction

Class	Date	Pro-rated 100% Equity (RMB)	Latest Twelve Month ("LTM") GMV	Adjusted P/GMV Ratio
Series B-2 Preferred Shares	10/21/2015	1,572,679,316	2,360,564,683	0.74

Under the Prior Transaction Analysis, we considered the latest round of the transaction. It is considered to be an arm's length transaction. Most of the investors are recognized funds or investment institutions. All transactions are financial investments which aim for investment return. There are no buyer-specific value added or management buy-out condition attached.

Adjustments on the GMV of Youzan

According to the information provided by the Management, RMB2.6 billion of the GMV were derived from transactions for which consumers elected direct settlements to merchants. As Youzan Group was not involved in the settlements of these transactions, no related documentary evidence has been maintained by the Youzan Group. Accordingly, the RMB2.6 billion is deducted from the Last FY GMV of Youzan in drawing the conclusion.

Weighing GPTC, GMAC Methods and Prior Transaction

In our opinion, the indicated multiple under GPTC method is reasonable and appropriate when considering the comparability of those guideline companies (the differences in business size and profitability are observed). On the other hand, the indicated multiple under GMAC method is also reasonable and appropriate although exposed to limited guideline transactions identified in the market. The indicated GMV multiple from the Prior Transaction Analysis is based on the assumption that all the Preferred Shares are equal to Common Shares in value as of the Valuation Date, while normally a convertible preferred share will have a bottom value of a common share.

We have conducted exhaustive search through internet and open market sources include but not limited to information disclosed in different website (i.e. Tencent Technology, Technode, TechCrunch, Yahoo! News, BBC News, CNET, Reuters, Bloomberg, TechNewsWorld... etc.), research conducted by different institutes (i.e. iResearch, China Galaxy Securities Research, Deloitte, White&Case... et.) and news disclosed by different stock exchange (i.e. HKEX, Shenzhen Stock Exchange, Shanghai Stock Exchange, NASDAQ, NYSE... etc.), on best-effort basis, and considered four guideline companies and two guideline transactions. We concluded both the indicated multiples under the GMAC, GPTC and Prior Transaction Analysis methods to be acceptable due to the following reasons:

- a. the concluded value of Youzan is among the observed transaction price range after adjustment of control premium (RMB275 million to RMB8,874 million);
- b. the indicated multiples under the GMAC, GPTC and Prior Transaction Analysis methods are supportive to each other; and
- c. We have selected guideline transactions and guideline companies according to the set-out selection criteria and correctly analysed and calculated the valuation multiples according to the valuation procedure required under the international valuation standards.

We have considered factors such as data availability, timeliness of data and assumptions when conducting the valuation using GPTC, GMAC and Prior Transaction Analysis methods under market approach. Weighting is assigned to those methods after considering the aforesaid factors. Since the data adopted under GPTC method is relatively updated, a 40% weighting is assigned to this method whilst GMAC method and prior transaction are being assigned 30% each based on our professional judgement.

Exhibit 16: Concluded Multiple

Method	Adjusted P/GMV Ratio	Weights	Concluded Adjusted P/GMV Ratio
GMAC	0.37	30%	
GPTC	0.54	40%	0.55
Prior Transaction Analysis	0.74	30%	

Sensitivity Analysis

We have identified the weighting of multiples in our model whose sensitivities on the *market value* of the Target Company are tested.

Our concluded *market value* of the Target Company increases from RMB4,076,000,000 to RMB4,167,000,000 when equal weighting, 25% each, is applied to Alibaba Group, JD.com, Baozun and Jumei International in GPTC method.

CONCLUSION

Based upon the investigation and analysis outlined above and on the valuation method employed, it is our opinion that the *market value* of the 100% equity interest in the business enterprise of Qima Holdings Ltd. as of 31 October 2017 is reasonably stated at the amount of **RENMINBI FOUR BILLION SEVENTY SIX MILLION (RMB4,076,000,000)** only.

This appraisal was performed in conformity with the *International Valuation Standards* that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. We have been aware of the *Statement on the Liability of Valuers for Disclosure of False or Misleading Information* issued by the Securities and Futures Commission, and we, being an independent party in this case, have no intentions to give out false and misleading information.

The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed. We hereby certify that we have neither present nor prospective interests in the Company, the Target Company, its holding company and its subsidiaries (if any), and the value reported.

Respectfully submitted,

For and on behalf of

HONG KONG APPRAISAL ADVISORY LIMITED

Jacqueline W. Huang, Ph.D, ASA

Managing Director

Note: Dr Jacqueline W. Huang is an Accredited Senior Appraiser (Business Valuation) of the American Society of Appraisers and a Ph.D. in real estate economics from the University of Hong Kong. She has been conducting business valuation for various purposes since 2005 and has extensive experience in transaction services.

The following is the text of a letter received from the financial adviser of the Company, Oriental Patron Asia Limited, addressed to the Directors and prepared for the sole purpose of inclusion in this circular.



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

2 January 2018

Dear Sirs,

We refer to the circular (the “**Circular**”) dated 2 January 2018 issued by China Innovationpay Group Limited (the “**Company**”) to its shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter. We also refer to the valuation report dated 2 January 2018 (the “**Valuation Report**”) prepared by Hong Kong Appraisal Advisory Limited, the independent valuer of the Company (the “**Valuer**”), in respect of the appraisal of the market value of 100% equity interest in Qima Holdings Ltd. in Appendix IV to this Circular.

This letter is issued (i) in compliance with the requirement under Rule 11.1(b) of the Takeovers Code and sets out our assessment and review of the qualifications and experience of Jacqueline Huang, being the key member of the Valuer, and (ii) for the purpose of confirming our acknowledgment of and compliance with both the Circular to Financial Advisers in relation to their Advisory Work on Valuations in Corporate Transactions as issued by the SFC on 15 May 2017 (the “**Circular to Financial Advisers**”) and the applicable requirements under the Corporate Finance Adviser Code of Conduct (the “**CFA Code**”).

With regards to the qualifications and experience of Jacqueline Huang of the Valuer, we have conducted reasonableness checks to assess her relevant experience and expertise and have reviewed and discussed with her the relevant information provided on her qualifications and experience. On the basis of the checks conducted and the information provided, we are satisfied that Jacqueline Huang and the Valuer are suitably qualified and experienced to prepare the Valuation Report.

On the basis of the foregoing, we are satisfied that the Valuer has the qualification and experience to undertake the valuation of the Target Company.

We, as financial adviser to the Company, also confirm our acknowledgment of and compliance with both the Circular to Financial Advisers and the applicable requirements of the CFA Code. We have reviewed and discussed with the Directors and the Valuer the bases and assumptions adopted by the Valuer in the course of its work and we are satisfied that the bases and assumptions adopted in the Valuation Report have been made with due care and objectivity and on a reasonable basis.

Yours faithfully,
for and on behalf of
Oriental Patron Asia Limited
Jeffrey Chan
Director

1. RESPONSIBILITY STATEMENT

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

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Sellers) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the directors of the Sellers) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of each of the Sellers jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Group) and confirms, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed by the directors of the Sellers have been arrived at after due and careful consideration, and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was, and as a result of the allotment and issue of the Consideration Shares and the SM Placing Shares will be, as follows:

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>20,000,000,000</u>	Shares	<u>200,000,000</u>
<i>Issued and fully paid or credited as fully paid:</i>		
<u>6,978,955,197</u>	Shares as at the Latest Practicable Date	<u>69,789,551.97</u>
<i>Shares to be issued:</i>		
<u>5,516,052,632</u>	Consideration Shares to be issued	<u>55,160,526.32</u>
<u>460,000,000</u>	SM Placing Shares to be issued	<u>4,600,000</u>
<i>Total Shares issued and to be issued:</i>		
<u>12,955,007,829</u>	Shares	<u>129,550,078.29</u>

The nominal value of the Shares and the Consideration Shares is HK\$0.01 each. All the existing Shares rank *pari passu* in all respects including all rights as to dividend, voting and capital. The Consideration Shares to be issued following completion will rank *pari passu* in all respects with the existing Shares on the relevant date of allotment.

Since 31 December 2016 (the date to which the latest audited financial statements of the Company were made up) and up to the Latest Practicable Date, the Company has issued 879,644,444 new Shares as a result of (i) completion of GM Placing; (ii) the exercise of share options granted under the share option scheme of the Company (“**Share Option Scheme**”) by certain Directors and other employees of the Company; and (iii) the issue and allotment of certain incentive shares pursuant to a incentive agreement entered into by the Company on 18 June 2015 (please refer to the announcements of the Company dated 18 June 2015 and 8 July 2015 respectively for further details).

APPENDIX VI

GENERAL INFORMATION

Particulars of the outstanding options granted under the Share Option Scheme as at the Latest Practicable Date are as follows:

Capacity of grantee	Grant date	Exercise price HK\$	Exercisable period (both days inclusive)	Outstanding as at the Latest Practicable Date
Directors and chief executives	11 June 2015	1.25	1 February 2016 to 10 June 2020	21,000,000
		1.25	1 February 2017 to 10 June 2020	21,000,000
		1.25	1 February 2018 to 10 June 2020	28,000,000
Other employees	11 June 2015	1.25	1 February 2016 to 10 June 2020	36,270,600
		1.25	1 February 2017 to 10 June 2020	36,270,600
		1.25	1 February 2018 to 10 June 2020	<u>48,360,800</u>
				<u>190,902,000</u>

Particulars of the outstanding warrants to the Shares as at the Latest Practicable Date are as follows:

Description of warrants	Grant date	Date of expiry	Class of Shares issuable	Subscription Price	Nominal value as at the Latest Practicable Date HK\$	No. of new Shares which may be issued pursuant thereto as at the Latest Practicable Date
Warrant share for a period of five (5) years	6 July 2015	5 July 2020	Ordinary Shares	HK\$0.72	381,600,000	530,000,000

Save as disclosed above, the Company did not have any other options, warrants, derivatives and other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares and underlying Shares:

Name of Director	Interest in shares	Number of Shares		% Shareholding
		Interest in underlying shares	Total interest in shares	
Mr. Guan Guisen (Note 1)	1,311,792,000 (L)	–	1,311,792,000 (L)	18.80%
	1,140,000,000 (S)	–	1,140,000,000 (S)	16.33%
Mr. Cao Chunmeng	67,420,000	36,000,000 (Note 2)	103,420,000	1.48%
Mr. Yan Xiaotian	21,640,000	25,000,000 (Note 2)	46,640,000	0.67%
Dr. Fong Chi Wah	1,000,000	3,000,000 (Note 2)	4,000,000	0.06%
Mr. Wang Zhongmin	1,000,000	3,000,000 (Note 2)	4,000,000	0.06%
Mr. Gu Jiawang	1,000,000	3,000,000 (Note 2)	4,000,000	0.06%

Notes:

- (1) These shares are held by Mighty Advantage Enterprises Limited (“**Mighty Advantage**”). Mighty Advantage was incorporated in the British Virgin Islands and is beneficially owned by Mr. Guan Guisen.
- (2) The Company granted the share options under the Share Option Scheme on 11 June 2015.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors of the Company had any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (iii) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

4. DISCLOSURE OF INTERESTS OF THE SHAREHOLDERS PURSUANT TO THE SFO

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have, interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or had any option in respect of such capital:

Name of Substantial Shareholder	Nature of interest	Number of issued Shares and underlying shares held (note 1)	Approximate percentage of the existing issued share capital of the Company (note 1)
Zhu Ning (note 2)	Interest in controlled corporation	1,803,771,804 (L)	25.92 (L)
Whitecrow Investment Ltd. (note 2)	Beneficial owner	1,440,601,703 (L)	20.70 (L)
Mighty Advantage Enterprises Limited (note 3)	Beneficial owner	1,311,792,000 (L)	18.80 (L)
Central Huijin Investment Ltd. (note 3 and 4)	Person having a security interest in shares/interest in controlled corporation	1,140,000,000 (S)	16.33 (S)
		1,188,640,000 (L)	17.08 (L)
China Construction Bank Corporation (note 3 and 4)	Person having a security interest in shares/interest in controlled corporation	1,188,640,000 (L)	17.08 (L)
Tembusu HZ II Limited (note 5)	Beneficial owner	905,961,684 (L)	13.02 (L)
Zuo Lingye (note 5)	Interest in controlled corporation	905,961,684 (L)	13.02 (L)
上海經為股權投資管理有限公司 (note 5)	Interest in controlled corporation	905,961,684 (L)	13.02 (L)

Name of Substantial Shareholder	Nature of interest	Number of issued Shares and underlying shares held (note 1)	Approximate percentage of the existing issued share capital of the Company (note 1)
杭州經緯騰創投資管理合夥企業 (有限合夥)(note 5)	Interest in controlled corporation	905,961,684 (L)	13.02 (L)
經緯創達(杭州)創業投資 合夥企業(有限合夥)(note 5)	Interest in controlled corporation	905,961,684 (L)	13.02 (L)
Huang Rongrong (note 6)	Interest in controlled corporation	770,713,268 (L)	11.07 (L)
Hillhouse Capital Management, Ltd. (note 7)	Interest in controlled corporation	700,848,478 (L)	10.07 (L)
Hillhouse Fund II, L.P. (note 7)	Interest in controlled corporation	700,848,478 (L)	10.07 (L)
Hillhouse KDWD Holdings Limited (note 7)	Beneficial owner	700,848,478 (L)	10.07 (L)
Youzan Teamwork Inc. (note 2 and 6)	Beneficial owner	363,170,101 (L)	5.22 (L)
Rory Huang Investment Ltd. (note 6)	Beneficial owner	407,543,167 (L)	5.86 (L)
Matrix China III GP GP, L.P. (note 8)	Interest in controlled corporation	391,846,533 (L)	5.63 (L)
Matrix China Management III, L.P. (note 8)	Interest in controlled corporation	391,846,533 (L)	5.63 (L)
Matrix Partners China III Hong Kong Limited (note 8)	Beneficial owner	391,846,533 (L)	5.63 (L)
Matrix Partners China III, L.P. (note 8)	Interest in controlled corporation	391,846,533 (L)	5.63 (L)
Li Zhiguo (note 9)	Beneficial owner	370,607,335 (L)	5.33 (L)
Xincheng Investment Limited (note 9)	Interest in controlled corporation	370,607,335 (L)	5.33 (L)

Note:

- The letter “L” represents the Director’s interests in the shares and underlying Shares of the Company and the letter “S” represents the Director’s short position in the Shares and underlying Shares of the Company.
- Mr. Zhu Ning was interested in a total of 1,803,771,804 Shares, of which 1,440,601,703 Shares were held by Whitecrow Investment Ltd., which was a company wholly-owned by him, and 363,170,101 Shares was held by Youzan Teamwork Inc., which was a company owned as to 40% by him.

3. Mighty Advantage Enterprises Limited (“**Mighty Advantage**”) is beneficially owned by Mr. Guan Guisen, who is an executive Director. Based on the best knowledge and information of the Directors as at the date of this circular, Mighty Advantage has a short position of 1,140,000,000 Shares under a legal charge in connection with certain financing provided by Chance Talent Management Limited to Mighty Advantage. Chance Talent Management Limited is a wholly owned subsidiary of the China Construction Bank Corporation which was in turn controlled by Central Huijin Investment Limited.
4. Central Huijin Investment Ltd. was interested in 48,640,000 Shares, which were held by CCB International Asset Management Limited, which was a company wholly-owned by CCB International (Holdings) Limited, which was in turn wholly-owned by CCB Financial Holdings Limited, which was in turn wholly owned by CCB International Group Holdings Limited, which was in turn wholly owned by China Construction Bank Corporation, which was in turn controlled by Central Huijin Investment Limited.
5. Tembusu HZ II Limited was wholly-owned by 經緯創達(杭州)創業投資合夥企業(有限合夥), the general partner of which is Hangzhou Matrix Tengchuang Investment Management L.P (杭州經緯騰創投資管理合夥企業(有限合夥)), which was in turn wholly owned by 上海經為股權投資管理有限公司, which was in turn owned as to 70% by Mr. Zuo Lingye.
6. Mr. Huang Rongrong was interested in 770,713,268 Shares, of which 407,543,167 Shares was held by Rory Huang Investment, which was a company wholly-owned by him, and 363,170,101 Shares was held by Youzan Teamwork Inc., which was a company owned as to 40% by him.
7. Hillhouse KDWD Holdings Limited was wholly owned by Hillhouse Fund II, L.P., which was managed by Hillhouse Capital Management, Ltd..
8. Matrix Partners China III Hong Kong Limited was owned by Matrix Partners China III, L.P., as to 90%, the general partner of which was Matrix China Management III, L.P., and Matrix Partners III-A, L.P. as to 10%, the general partner of which was Matrix China Management III, L.P..
9. Mr. Li Zhiguo was interested in 370,607,335 shares, which were held by Xincheng Investment Limited, which was a company wholly-owned by him.

5. COMPETING BUSINESS INTERESTS OF DIRECTORS

At the Latest Practicable Date, none of the Directors or their respective associates had any business or interest apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

6. DIRECTORS' MATERIAL INTERESTS

As at the Latest Practicable Date,

- (i) none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2015 (being the date to which the latest published audited financial statements of the Company were made up), been (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Enlarged Group; and
- (ii) none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

7. SHAREHOLDINGS OF AND DEALINGS IN THE SECURITIES OF THE COMPANY AND THE SELLERS AND PERSONS ACTING IN CONCERT WITH IT AND OTHER ARRANGEMENT

As at the Latest Practicable Date:

- (a) the Company did not hold, control or have direction over any shares and any options, warrants, derivatives or convertible securities in respect of securities ("**Relevant Securities**") in any member of the Sellers and persons acting in concert with it and it has not dealt for value in any such securities of any member of the Sellers and persons acting in concert with it during the Relevant Period;
- (b) save as disclosed under the paragraph headed "Disclosure of interests of Directors and chief executives" in this appendix, none of the Directors or chief executive of the Company held, controlled or had direction over any Relevant Securities in any member of the Sellers and persons acting in concert with it or any Relevant Securities in the Company and none of them has dealt for value in any such securities of any member of the Sellers and persons acting in concert with it or any such securities of the Company during the Relevant Period;
- (c) none of the advisers to the Company as specified in class (2) of the definition of "associates" under the Takeovers Code, held, controlled or had direction over any Relevant Securities in the Company and none of them has dealt for value in any such securities of the Company during the Relevant Period;

- (d) save for the Sale and Purchase Agreement and the transactions contemplated thereunder and the undertakings of each of the Sellers to the Company in relation to the non-disposal of the Consideration Shares as disclosed in the Announcement, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “an associate” under the Takeovers Code during the Relevant Period;
- (e) none of the subsidiaries of the Company and none of the pension funds of the Company and/or its subsidiaries, nor any fund managed on a discretionary basis by any fund manager connected with the Company owned or controlled any Shares, warrants, options or derivatives of the Company or had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;
- (f) save as disclosed under the paragraph headed “Disclosure of interests of Directors and chief executives” in this appendix, none of the Directors and their respective associates owned or controlled any Relevant Securities in the Company, and none of them has dealt for value in any such securities of the Company during the Relevant Period;
- (g) as disclosed in the paragraph headed “SGM” in the letter from the Board in this circular, Mighty Advantage Enterprises Limited and parties acting in concert with it, the Sellers and their respective concert parties, and the Directors are required to abstain from voting on the relevant resolution(s) at the SGM. Other than the above, no person will be required to abstain from voting on the resolutions approving the Sale and Purchase Agreement, the Whitewash Waiver and the transactions contemplated thereunder at the SGM;
- (h) no person had irrevocably committed themselves to vote in favour of or against the resolutions approving the Sale and Purchase Agreement, the Whitewash Waiver and the transactions contemplated thereunder at the SGM;
- (i) the Directors, which each of its shareholdings was disclosed under the paragraph headed “Disclosure of interests of Directors and chief executives” in this appendix, will abstain from voting on the resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement, the Whitewash Waiver and the transactions contemplated thereunder;
- (j) neither the Company nor any of the Directors has borrowed or lent any Shares or any Relevant Securities;

- (k) no benefit will be given to any Director as compensation for loss of office in any members of the Group or otherwise in connection with the Sale and Purchase Agreement, the Whitewash Waiver and the transactions contemplated thereunder;
- (l) as at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Sale and Purchase Agreement, the Whitewash Waiver and the transactions contemplated thereunder or otherwise connected with the Sale and Purchase Agreement, the Whitewash Waiver and the transactions contemplated thereunder; and
- (m) as at the Latest Practicable Date, save and except the Sale and Purchase Agreement and the undertakings of each of the Sellers to the Company in relation to the non-disposal of the Consideration Shares as disclosed in the Announcement, there was no material contract entered into by the Sellers in which a Director had a material personal interest.

As at the Latest Practicable Date, there were no agreement, arrangement or understanding (including any compensation arrangement) between the Sellers or any parties acting in concert with it on one hand and any Directors, recent Directors, Shareholders or recent Shareholders on the other hand, having any connection with or was dependent upon the Acquisition or the Whitewash Waiver.

As at the Latest Practicable Date, save for the Sale and Purchase Agreement and the undertakings of each of the Sellers to the Company in relation to the non-disposal of the Consideration Shares, there is no agreement, arrangement or understanding existing between the Sellers or any parties acting in concert with each of them on one hand and the Company, Mighty Advantage Enterprises Limited or any parties acting in concert with it, any of the Directors, recent directors of the Company, Shareholders or recent shareholders of the Company on the other hand as at the Latest Practicable Date.

As at the Latest Practicable Date, save as disclosed under the paragraph headed “Effect of the Acquisition and the SM Placing on the shareholding structure of the Company” in the letter from the Board in this circular and the paragraph headed “Share capital”, “Disclosure of interests of Directors and chief executives” and “Disclosure of interests of the shareholders pursuant to the SFO” in this appendix:

- (a) the Sellers and persons acting in concert with it did not hold, control or have direction over any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold, control or have direction over any Relevant Securities in the Company and none of them has dealt for value in any such securities of the Company during the Relevant Period;

- (b) the Sellers or persons acting in concert with it did not borrow or lend any Shares during the Relevant Period;
- (c) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and the Sellers and persons acting in concert with it during the Relevant Period;
- (d) none of the member of the Sellers and persons acting in concert with it has received any irrevocable commitment to vote for or against the Acquisition or the Whitewash Waiver during the Relevant Period; and
- (e) none of the member of the Sellers and persons acting in concert with it owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date, and none of them has dealt for value in any such securities of the Company during the Relevant Period.

As at the Latest Practicable Date, no Shares to be acquired by the Sellers and persons acting in concert with it pursuant to the Acquisition will be transferred, charged or pledged to any other person. At present, there is no agreement, arrangement or understanding and any related charges or pledges exist which may result in the transfer of voting rights in such shares.

8. SERVICE CONTRACTS

As at the Latest Practicable Date:

- (i) none of the Directors had any existing or proposed service contracts with any member of the Group or any associated company of the Company (excluding contracts expiring or determinable within one year without payment of compensation, other than statutory compensation).
- (ii) none of the Directors had any continuous or fixed term service contracts with the Company or any of its subsidiaries or associated companies that were entered into or amended within the Relevant Period.
- (iii) none of the Directors had entered into any continuous service contracts with the Company or any of its subsidiaries or associated companies with a notice period of 12 months or more.
- (iv) none of the Directors had entered into any fixed term contracts with the Company or any of its subsidiaries or associated companies with more than 12 months to run irrespective of the notice period.

9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

10. QUALIFICATION OF EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which are contained or referred to in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants
Hong Kong Appraisal Advisory Limited	Independent professional valuer
Oriental Patron Asia Limited	A corporation licensed to carry on Type 1 (dealing in securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activity under the SFO
RSM Hong Kong	Certified Public Accountants
SPDB International Capital Limited	A corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO

Each of Ernst & Young, Hong Kong Appraisal Advisory Limited, Oriental Patron Asia Limited, RSM Hong Kong and SPDB International Capital Limited has given and has not withdrawn its written consent to the issue of this circular with copies of its letter or report (as the case may be) and the references to its name and logo in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Ernst & Young, Hong Kong Appraisal Advisory Limited, Oriental Patron Asia Limited, RSM Hong Kong and SPDB International Capital Limited was interested in any Share or share in any member of the Enlarged Group, nor does it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Enlarged Group.

As at the Latest Practicable Date, none of the aforesaid parties had any direct or indirect interests in any assets which have since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to or by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to or by the Company or any of its subsidiaries.

11. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business carried on or intended to be carried on by members of the Group, have been entered into by members of the Group within two years immediately preceding the date of the Announcement and up to the Latest Practicable Date which are or may be material:

- (i) the Sale and Purchase Agreement (as supplemented by the supplemental agreements dated 9 June 2017, 10 July 2017, 11 October 2017, 31 October 2017 and 29 December 2017, respectively);
- (ii) the MOU;
- (iii) the SM Placing Agreement;
- (iv) the GM Placing Agreement;
- (v) the guarantee dated 8 November 2016 provided by the Group in favour of Haier Finance Company Limited in the sum of RMB250 million for the financing facility in the sum of RMB2.5 billion granted to Haier Consumer Finance Co., Ltd.;
- (vi) the subscription agreement dated 25 June 2015 entered into between the Group and National Agricultural Holdings Limited (“**National Agricultural**”) pursuant to which the Group has conditionally agreed to subscribe for, and National Agricultural has conditionally agreed to allot and issue, a total of 49,140,000 national agricultural convertible preferred shares at the price of HK\$4.07 per national agricultural convertible preferred share (which was terminated on 29 January 2016);
- (vii) the subscription agreement dated 25 June 2015 entered into between the Group and National Agricultural pursuant to which the Group has conditionally agreed to issue 194,174,000 subscription Shares at the price of HK\$1.03 per Share to National Agricultural under the general mandate of the Company;
- (viii) the guarantee dated 4 August 2015 provided by Beijing Tiantongsaibo Information Technology Co., Ltd. in favour of Haier Finance Company Limited in the sum of RMB150 million for the financing facility in the sum of RMB1.5 billion granted to Haier Consumer Finance Co., Ltd.;

- (ix) the subscription agreement dated 18 June 2015 and entered into between our Group and Moderntimes Payment Limited (“**Moderntimes**”), and its subsidiaries pursuant to which our Group has conditionally agreed to subscribe for 52,041 new shares of Moderntimes at an aggregate consideration of HK\$49,510,000;
- (x) the loan assignment dated 18 June 2015 entered into between our Group, Essence Management Services Limited and the shareholder of Moderntimes pursuant to which the shareholder of Moderntimes has conditionally agreed to assign the shareholder’s loan of HK\$13,090,000 to our Group in consideration of the sum of HK\$13,090,000 payable by our Group to the shareholder of Moderntimes; and
- (xi) the incentive agreement dated 18 June 2015 entered into between the Group, the shareholder of Moderntimes and Mr. Joong Chi-Wei entered into the pursuant to which the Group shall reward the shareholder of Moderntimes with an aggregate amount not exceeding RMB200,000,000 by way of issue and allotment of incentive Shares.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 10:00 a.m. to 5:30 p.m. on any weekdays (except for public holidays) at the principal office of the Company at Unit 2708, 27/F, The Center, 99 Queen’s Road Central, Hong Kong, from date of this circular up to (and including) the date of the SGM:

- (i) the memorandum and articles of association of the Company;
- (ii) the memorandum and articles of association of each of the Sellers;
- (iii) the material contracts referred to in the section headed “Material contracts” in this appendix;
- (iv) the annual reports of the Company for each of the two years ended 31 December 2015 and 2016, the first quarterly report of the Company for the three months ended 31 March 2017, the interim report of the Company for the six months ended 30 June 2017 and the third quarterly report of the Company for the nine months ended 30 September 2017;
- (v) this circular;
- (vi) the accountants’ report on Youzan Group from Ernst & Young as set out in Appendix II to this circular;

- (vii) the report from RSM Hong Kong on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;
- (viii) the valuation report of the Target Group from Hong Kong Appraisal Advisory Limited as set out in Appendix IV to this circular;
- (ix) the letter from the financial adviser of the Company reporting on the qualifications and experience of the valuer as set out in Appendix V to this circular;
- (x) the independent reasonable assurance report with qualified opinion from Ernst & Young as set out in Appendix VII to this circular;
- (xi) the letter of advice from the Independent Financial Adviser in connection with the Sale and Purchase Agreement (including the issue of the Consideration Shares) and the Whitewash Waiver and the Continuing Connected Transactions, the text of which is set out on page IFA-1 to IFA-57 of this circular;
- (xii) the letter from the Board, the text of which is set out on pages 9 to 49 of this circular;
- (xiii) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 50 to 51 of this circular;
- (xiv) the written consent letters of the experts referred to in the section headed “Qualification of experts and consents” in this appendix; and
- (xv) the undertakings given by each of the Sellers dated 17 March 2017.

The above documents will be available at the website of the SFC at www.sfc.hk and the Company’s website at <http://www.innovationpay.com.hk> from the date of this circular up to (and including) the date of the SGM in accordance with Note 1 to Rule 8 of the Takeovers Code.

13. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last trading day of the Stock Exchange for each calendar month during the Relevant Period; (ii) the last trading day prior to the date of the Announcement; and (iii) the Latest Practicable Date:

Date	Closing price per Share HK\$
30 September 2016	0.61
31 October 2016	0.68
30 November 2016	0.63
31 December 2016	0.58
30 January 2017	0.58
28 February 2017	0.485
17 March 2017 (being the last trading day immediately prior to the date of the Announcement)	0.55
28 April 2017	0.495
31 May 2017	0.46
30 June 2017	0.5
31 July 2017	0.45
31 August 2017	0.4
29 September 2017	0.49
31 October 2017	0.47
30 November 2017	0.42
Latest Practicable Date	0.43

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK\$0.74 on 18 October 2016 and HK\$0.36 on 18 December 2017 and 20 December 2017 respectively.

14. MISCELLANEOUS

- 1 The Company Secretary of the Company is Mr. Fung Kwok Leung (“**Mr. Fung**”). Mr. Fung is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.
- 2 The registered office of the Company is at Canon’s Court, 22 Victoria Street Hamilton, HM 12, Bermuda and the head office and the principal place of business of the Company in Hong Kong is at Unit 2708, 27/F, The Center, 99 Queen’s Road Central, Hong Kong.
- 3 The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- 4 The registered office of Whitecrow Investment Ltd is at Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands. As at the Latest Practicable Date, the director of Whitecrow Investment Ltd was Mr. Zhu Ning and its ultimate shareholder was Mr. Zhu Ning.
- 5 The registered office of Rory Huang Investment Ltd. is at Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands. As at the Latest Practicable Date, the director of Rory Huang Investment Ltd. was Mr. Huang Rongrong and its ultimate shareholder was Mr. Huang Rongrong.
- 6 The registered office of V5.Cui Investment Ltd. is at Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands. As at the Latest Practicable Date, the director of V5.Cui Investment Ltd. was Mr. Cui Yusong and its ultimate shareholder was Mr. Cui Yusong.
- 7 The registered office of Youzan Teamwork Inc. is at Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, Tortola, British Virgin Islands. As at the Latest Practicable Date, the director of Youzan Teamwork Inc. was Mr. Zhu Ning and its ultimate shareholders were Mr. Zhu Ning and Mr. Huang Rongrong, Mr. Yu Tao and Ms. Ying Hangyan and Mr. Cui Yusong.
- 8 The registered office of Xincheng Investment Limited is at Geneva Place, Waterfront Drive, P.O. Box 3469, Road Town, British Virgin Islands. As at the Latest Practicable Date, the director of Xincheng Investment Limited was Mr. Li Zhiguo and its ultimate shareholder was Mr. Li Zhiguo.

- 9 The registered office of Aves Capital, LLC is at Floor 4, Willow House, Cricket Square, P.O. Box 2582, Grand Cayman KY1-1103, Cayman Islands. As at the Latest Practicable Date, the director of Aves Capital, LLC was Mr. Xiong Minghua and its ultimate shareholder was Mr. Xiong Minghua.
- 10 The registered office of Tembusu HZ II Limited is at Trinity Chambers, P.O. Box 4301, Road Town, Tortola, British Virgin Islands. As at the Latest Practicable Date, the director of Tembusu HZ II Limited was Mr. David Su Tuong Sing and its ultimate shareholder was Hangzhou Matrix Tengchuang Investment Management L.P..
- 11 The registered office of Matrix Partners China III Hong Kong Limited is at Suites 3701-10, 37/F., Jardine House, 1 Connaught Place, Central, Hong Kong. As at the Latest Practicable Date, the directors of Matrix Partners China III Hong Kong Limited were Mr. Zhang David Ying, Mr. Shao Yibo and Mr. Barrows Timothy Allan and its ultimate shareholder was Matrix China Management III, L.P..
- 12 The registered office of Hillhouse KDWD Holdings Limited is at Flemming House, Wickhams Cay, P.O. Box 662, Road Town, Tortola, British Virgin Islands. As at the Latest Practicable Date, the director of Hillhouse KDWD Holdings Limited was Mr. Colm O'Connell and its ultimate shareholder was Hillhouse Fund II, L.P..
- 13 The registered office of E&A Amigne Investments Limited is at P.O. Box 472, 2/F., Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands. As at the Latest Practicable Date, the director of E&A Amigne Investments Limited was Mr. Shen Ya and its ultimate shareholder was Mr. Shen Ya.
- 14 The registered office of Ralston Global Holdings Limited is at P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. As at the Latest Practicable Date, the director of Ralston Global Holdings Limited was Ms. Wen Qun and its ultimate shareholder was Ms. Wen Qun.
- 15 The registered office of Puhua Investment Ltd. is at Level 5, Development Bank of Samoa Building, Beach Road, Apia, Samoa. As at the Latest Practicable Date, the director of Puhua Investment Ltd. was Mr. Shen Qinhua and its ultimate shareholder was Mr. Shen Qinhua.
- 16 The registered office of Oriental Patron Asia Limited is at 27/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.
- 17 The registered office of SPDB International Capital Limited is at Suites 3207-3212, One Pacific Place, 88 Queensway, Hong Kong.
- 18 The English text of this circular prevails over the Chinese text in case of inconsistency.

**PART A: INDEPENDENT REASONABLE ASSURANCE REPORT ISSUED BY
REPORTING ACCOUNTANT ERNST & YOUNG CERTIFIED PUBLIC
ACCOUNTANT**

INDEPENDENT REASONABLE ASSURANCE REPORT

To the directors of China Innovationpay Group Limited

We have been engaged to perform a reasonable assurance engagement in relation to the compilation of the gross merchandise value (“**GMV**”) of Qima Holdings Ltd. (“**Youzan Group**” or the “**Target Company**”) for the year ended 31 December 2016 (hereafter referred to as the “**2016 GMV of Youzan Group**”).

The 2016 GMV of Youzan Group is set out in the section headed “Information of Youzan Group” of the circular of China Innovationpay Group Limited (the “**Company**”) dated 2 January 2018 (the “**Circular**”) in connection with the Company’s proposed acquisition of 51% equity interest in the Target Company. For the purpose of the Circular, and as further explained below, our engagement is to report on whether the Subject Matter (as defined below) has been compiled in accordance with the Criteria (as defined below). We are not engaged to report on the disclosure of the 2016 GMV of Youzan Group in the Circular.

Subject Matter

The Subject Matter for our assurance is the 2016 GMV of Youzan Group in aggregate of approximately RMB10.0 billion.

Criteria

The Criteria is determined by the management of Youzan Group which is set out in the attached “Management Criteria for the Compilation of Gross Merchandise Value of Youzan Group for the year ended 31 December 2016” (the “**Management Criteria**”).

Directors’ Responsibilities

The directors of the Company are solely responsible for the preparation of the Circular, including making reference to 2016 GMV of Youzan Group. For the purpose of the Circular, the directors of the Target Company (the “**Directors**”) have compiled the 2016 GMV of Youzan Group in accordance with the Criteria as set out in the attached Management Criteria. It is the sole responsibility of the Directors to compile the 2016 GMV of Youzan Group in accordance with the attached Management Criteria for the purpose of the Circular.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express a reasonable assurance conclusion as to whether the 2016 GMV of Youzan Group was properly compiled by the Directors in accordance with Criteria as set out in the attached Management Criteria, in all material respects. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 Revised, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (“ISAE 3000”) issued by the International Auditing and Assurance Standards Board (“IAASB”). ISAE 3000 requires that we plan and perform our procedures to obtain reasonable assurance to support our conclusion.

Assurance Approach and Limitations

Our assurance approach was conducted in accordance with ISAE 3000. A reasonable assurance engagement consisted primarily of making inquiries of persons responsible for the Subject Matter, and applying analytical, control testing, and other evidence-gathering procedures that are sufficient for us to obtain a meaningful level of assurance as the basis for a positive form of conclusion. The procedures performed depend on the reporting accountants’ judgment including risk of material misstatement of the specific activity data, whether due to fraud or error. While we considered the effectiveness of Youzan Group’s management’s internal controls when determining the nature and extent of our procedures, our review was not designated to provide assurance on internal controls. We believe that the evidence we obtained is sufficient and appropriate to provide a basis for our qualified conclusion.

The 2016 GMV of Youzan Group is compiled by the management of Youzan Group. The compilation does not involve the adoption of any accounting policies and is not subject to any measurement under generally accepted accounting standards. There are additional inherent risks associated with assurance over non-financial information including reporting against standards which require information to be assured against source data compiled using definitions that are developed by the management of Youzan Group.

Our assurance does not extend to the GMV in respect of earlier or later periods or to any other information included in the Circular. We are not reporting on the appropriateness and validity of the 2016 GMV of Youzan Group and the management criteria for the purpose of the Circular, nor the accuracy and appropriateness of the disclosure in the Circular, and thus express no opinion whatsoever thereon. Our work is substantially less in scope than an audit conducted in accordance with International Standards on Auditing issued by the IAASB. Accordingly, we do not express an audit opinion.

Our procedures

Our assurance procedures performed included, but were not limited to:

- Inquire of the management of Youzan Group and obtain an understanding of the policies and procedures maintained by Youzan Group related to the compilation of the GMV;
- Confirm our understanding of the policies and procedures related to the compilation of GMV through testing;
- Evaluate the control environment of the information technology system (“IT”) regarding the access to the source data of the GMV;
- Interview with persons who are responsible for the compilation of the 2016 GMV of Youzan Group concerning management’s review on monitoring over the completeness, reliability and accuracy of the GMV;
- Perform testing of key controls identified relating to compilation of GMV and assess their effectiveness;
- Perform substantive testing on selected transactions by agreeing the respective GMV to the transaction amount, date of transaction and the cash receipt from the consumer;
- Perform arithmetical check by reviewing the formula in the compilation;
- Perform cut-off test to ensure the GMV for the period from 1 January to 31 December 2016 was recorded;
- Perform analytical procedures to identify any unusual trends or patterns, if any;
- Obtain a schedule from database comprising the breakdown of 2016 GMV of Youzan Group by third party payment service providers. Independently obtain confirmations from these third party payment service providers to confirm the aggregate transaction amounts for the year ended 31 December 2016 transacted with Youzan Group. For non-replied confirmations, perform alternative procedures by checking to the respective monthly statements issued by the third parties payment service providers;

Basis of Qualified Conclusion

The 2016 GMV of Youzan Group of RMB10.0 billion included GMV of RMB2.6 billion derived from transactions for which consumers elected direct settlements to merchants. As Youzan Group was not involved in the settlements of these transactions, Youzan Group did not maintain documentary evidence for these transactions. Accordingly, we are unable to obtain any evidence to satisfy ourselves that the GMV derived from these transactions have been properly compiled by the Directors in accordance with the Criteria.

Qualified Conclusion

Based on the procedures performed and the evidence obtained, except for the GMV of RMB2.6 billion derived from transactions for which consumers elected direct settlements to merchants described in the Basis of Qualified Conclusion section of our report, the 2016 GMV of Youzan Group has been properly compiled in all material respects by the Directors in accordance with the Criteria as set out in the attached Management Criteria.

Use of Report

Our work has been undertaken for the purpose of reporting solely to you and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work. This letter is solely being issued in connection with the filing of the Circular and not for any other purpose.

Ernst & Young

Certified Public Accountants

Hong Kong

2 January 2018

PART B: MANAGEMENT CRITERIA FOR THE COMPILATION OF GROSS MERCHANDISE VALUE OF YOUZAN GROUP

For the year ended 31 December 2016

*This memorandum summarises the criteria for the management of Youzan Group to compile the GMV of Youzan Group for the year ended 31 December 2016 (“**2016 GMV of Youzan Group**”) for the purpose of the Circular. This memorandum is the sole responsibility of the directors of China Innovationpay Group Limited (the “**Company**”) and Qima Holdings Ltd. (the “**Target Company**” or “**Youzan Group**”) which is prepared for the purpose of the circular issued by the Company dated 2 January 2018 in connection with the proposed acquisition of the Target Company (the “**Circular**”). It does not form part of the assurance report of the Reporting Accountants in relation to the Gross Merchandise Value (GMV) of Youzan Group for the year ended 31 December 2016.*

Introduction

The Directors define GMV as the total value of all confirmed transactions for products and services on Youzan Group’s e-commerce platform, regardless of whether the goods are delivered or returned or how such orders are settled.

Applicable criteria for the compilation of the 2016 GMV of Youzan Group:

Fundamental principles	Applicable criteria
Relevance	GMV is derived from transaction orders placed by consumers for merchandise items listed on Youzan Group e-commerce platform, regardless whether the transaction is subsequently cancelled, merchandise item is returned or not delivered; or payment from consumer is failed.
Completeness	2016 GMV is reported for transactions occurred between 00:01 1 January 2016 and 24:00 31 December 2016; - Youzan Group has maintained an operational system to record the GMV of each transaction; - Youzan Group has maintained archived records of the GMV captured in the system;

Fundamental principles**Applicable criteria**

Reliability

- Youzan Group has policies and procedures that regulate the recording of the GMV of each transaction;
- GMV for each transaction is initiated by consumers;
- Management of Youzan Group maintains review and monitoring of the compilation of GMV;
- GMV is reconciled to third parties payment service providers' statements, if applicable;

Accuracy

- The GMV for each transaction agrees to the respective transaction price, including delivery costs and surcharge;
- Summation of GMV for all transactions within the reporting period is correct;

NOTICE OF SGM



NOTICE OF SGM

NOTICE IS HEREBY GIVEN that a special general meeting (“SGM”) of China Innovationpay Group Limited (the “**Company**”) will be held at Function Room II, 1/F of City Garden Hotel, 9 City Garden Road, North Point, Hong Kong on 26 January 2018, at 10:00 a.m., for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) conditional sale and purchase agreement dated 17 March 2017 (as supplemented by the supplemental agreements dated 9 June 2017, 10 July 2017, 11 October 2017, 31 October 2017 and 29 December 2017 respectively) entered into between Whitecrow Investment Ltd., Rory Huang Investment Ltd., V5.Cui Investment Ltd., Youzan Teamwork Inc., Xincheng Investment Limited, Aves Capital, LLC, Tembusu HZ II Limited, Matrix Partners China III Hong Kong Limited, Hillhouse KDWD Holdings Limited, E&A Amigne Investments Limited, Ralston Global Holdings Limited and Puhua Investment Ltd (collectively, the “**Sellers**”), the Company and Qima Holdings Ltd. (“**Target Company**”) (the “**Sale and Purchase Agreement**”, a copy of which has been produced before the meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification) for the sale and purchase of the 621,038,809 ordinary shares in the issued share capital of the Target Company, representing 51% of the issued share capital of the Target Company, which shall be satisfied by the Company by way of allotment and issue of 5,516,052,632 consideration shares of the Company (“**Consideration Shares**”) to the Sellers in proportion to their shareholding in the Target Company, and the transactions contemplated thereunder and in connection therewith, be and hereby approved, confirmed and ratified;

NOTICE OF SGM

- (b) subject to the fulfillment of the conditions of the Sale and Purchase Agreement, any one director of the Company (the “**Director**”) be and is hereby authorised to exercise all the powers of the Company and to take all steps as might in his opinion be desirable or necessary in connection with the Sale and Purchase Agreement to, including without limitation, allot and issue the Consideration Shares;
 - (c) all other transactions contemplated under the Sale and Purchase Agreement be and are hereby approved and any one Director be and is authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as he considers necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Sale and Purchase Agreement, the allotment and issue of the Consideration Shares and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the such Director, in the interests of the Company and its shareholders as a whole;
 - (d) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Consideration Shares, the unconditional specific mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with the Consideration Shares pursuant to the Sale and Purchase Agreement be and is hereby confirmed and approved.”
2. “**THAT**, subject to and conditional upon the passing of the resolutions set out as Resolution No. 1 in the notice convening the SGM, the ruling letter of Whitewash Waiver (as defined in the circular of the Company dated 2 January 2018 (the “**Circular**”)) granted by the Executive (as defined in the Circular) to the Sellers be and is hereby approved and any one director of the Company be and is hereby authorised to do all such things and take all such action as he may consider to be necessary or desirable to implement any of the matters relating to or incidental to the Whitewash Waiver (as defined in the Circular).”

NOTICE OF SGM

3. “**THAT:**

- (a) the conditional placing agreement dated 17 March 2017 (“**SM Placing Agreement**”) entered in to between the Company as issuer and Oriental Patron Asia Limited as placing agent in relation to the placing of up to 460,000,000 shares (“**SM Placing Share(s)**”) of HK\$0.01 each in the share capital of the Company in accordance with the terms and conditions of the SM Placing Agreement at the placing price of HK\$0.5 to HK0.75 per SM Placing Share (a copy of which has been produced before the meeting marked “B” and initialed by the chairman of the meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) conditional upon, among others, The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the SM Placing Shares to be allotted and issued under the SM Placing Agreement, the allotment and issue of the SM Placing Shares to the relevant placee(s) in accordance with the terms and conditions of the SM Placing Agreement be and are hereby approved and the board (the “**Board**”) of Directors be and is hereby granted with a specific mandate to allot and issue the SM Placing Shares to the relevant placee(s); and
- (c) any one Director be and is hereby authorised to do all such things and acts as he may in his discretion consider as necessary, expedient or desirable for the purpose of or in connection with the implementation of the SM Placing Agreement and the transactions contemplated thereunder, including but not limited to the execution all such documents under seal where applicable, as he considers necessary or expedient in his opinion to implement and/or give effect to the allotment and issue of the SM Placing Shares and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole.”

4. “**THAT:**

- (a) the framework agreement dated 8 April 2017 entered into between Beijing Gaohuitong Commercial Management Co., Ltd. and 杭州有贊科技有限公司 (Hangzhou Youzan Technology Company Limited*) (the “**Third Party Payment Services Framework Agreement**”) (a copy of which has been produced before the meeting marked “C” and initialed by the chairman of the meeting for identification purpose) and all the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

NOTICE OF SGM

- (b) the annual caps for the maximum aggregate annual value for the transactions contemplated under the Third Party Payment Services Framework Agreement for each of the three financial years ending 31 December 2019 as more particularly set out in the Circular be and are hereby approved, confirmed and ratified; and
- (c) any one director of the Company be and is hereby authorised to do all such things and acts of administrative nature as he may in his discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the Third Party Payment Services Framework Agreement and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he considers necessary or expedient in his opinion to implement and/or give effect to the Third Party Payment Services Framework Agreement.”

5. “**THAT:**

- (a) the loan agreement dated 8 April 2017 (as supplemented by the supplemental loan agreement dated 29 November 2017) entered into between the Company and the Target Company (the “**Loan Agreement**”) (a copy of which has been produced before the meeting marked “D” and initialed by the chairman of the meeting for identification purpose) and all the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) the annual caps for the maximum aggregate annual value for the transactions contemplated under the Loan Agreement for each of the three financial years ending 31 December 2020 as more particularly set out in the Circular be and are hereby approved, confirmed and ratified; and
- (c) any one director of the Company be and is hereby authorised to do all such things and acts of administrative nature as he may in his discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the Loan Agreement and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he considers necessary or expedient in his opinion to implement and/or give effect to the Loan Agreement.”

By order of the Board
China Innovationpay Group Limited
Guan Guisen
Chairman

Hong Kong, 2 January 2018

NOTICE OF SGM

Head Office and Principal Place of Business:

Unit 2708, 27/F

The Center

99 Queen's Road Central

Hong Kong

Notes:

1. Any member entitled to attend and vote at the SGM is entitled to appoint one or more separate proxies to attend and vote instead of him/her. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company.
2. Where there are joint holders of any share, any one of such persons may vote at the SGM, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, provided that if more than one of such joint holders be present at the SGM personally or by proxy, the person whose name stands first in the register in respect of such share shall alone be entitled to vote in respect thereof.
3. The register of members of the Company will be closed from Tuesday, 23 January 2018 to Friday, 26 January 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the SGM, unregistered holders of Shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 22 January 2018.
4. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at Computershare Hong Kong Investor Services Limited, the share registrar of the Company in Hong Kong, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no less than 48 hours before the time schedule for holding the SGM (i.e. no later than 10.00 a.m. on Wednesday, 24 January 2018). Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the SGM and any adjourned meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. A form of proxy for use in connection with the SGM is enclosed with the circular of the Company dated 2 January 2018. Such form is also published on the website of GEM at www.hkgem.com and on the Company's website at www.innovationpay.com.hk.
6. As at the date of this notice, the Board comprises three executive Directors, namely Mr. Guan Guisen, Mr. Cao Chunmeng and Mr. Yan Xiaotian; and four independent non-executive Directors, namely Dr. Fong Chi Wah, Mr. Wang Zhongmin (suspended), Mr. Gu Jiawang and Mr. Xu Yanqing.