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China Youzan Limited

中國有贊有限公司

(formerly known as 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) CONNECTED TRANSACTION: SUBSCRIPTION OF SHARES IN A NON-WHOLLY OWNED SUBSIDIARY; AND (2) CHANGE IN USE OF PROCEEDS IN RELATION TO THE SM PLACING

THE SUBSCRIPTION

The Company is pleased to announce that on 16 July 2018, the Company and the Investor entered into the Subscription Agreement with Qima Holdings Ltd., a non-wholly owned subsidiary of the Company, in relation to the subscription of approximately 21 million Qima Shares and approximately 7 million Qima Shares respectively, in the respective consideration of approximately US\$30 million and US\$10 million payable in cash upon Completion.

Upon Completion, the Company will hold approximately 51.48% of the total issued shares of Qima Holdings Ltd., which will remain as a non-wholly owned subsidiary of the Company.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Qima Holdings Ltd. is a non-wholly owned subsidiary of the Company which is owned as to 51% by the Company and 11.31% by Whitecrow Investment Ltd. Whitecrow Investment Ltd. is wholly owned by Mr. Zhu Ning, a Director and substantial shareholder of the Company. Therefore, Qima Holdings Ltd. is a connected subsidiary and connected person of the Company under Rule 20.07(5) of the GEM Listing Rules. Therefore, the Subscription constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

As all the applicable percentage ratios are less than 5% and the Subscription is on normal commercial terms, the Subscription is subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 20.74(2) of the GEM Listing Rules.

In addition, Qima Holdings Ltd. is also owned as to 1.90% by V5. Cui Investment and 4.85% by Youzan Teamwork Inc. V5. Cui Investment Ltd is wholly owned by Mr. Cui Yusong, a Director. Youzan Teamwork Inc. is owned by Mr. Zhu Ning, Mr. Huang Rongrong, Mr. Yu Tao, Ms. Ying Hangyan and Mr. Cui Yusong as to approximately 40%, 40%, 10%, 10% and one share, respectively, while except Mr. Huang Rongrong, all of them are Directors. Mr. Zhu Ning, Mr. Cui Yusong, Ms. Ying Hangyan and Mr. Yu Tao had interests in the Subscription by virtue of their respective interests in Qima Holdings Ltd. and they therefore abstained from voting on the board resolution of the Company on approving the Subscription Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in the Subscription Agreement and none were required to abstain from voting on the board resolution of the Company in respect of the Subscription Agreement.

As Completion is subject to the satisfaction of conditions precedent under the Subscription Agreement, the Subscription may or may not proceed to Completion. Shareholders and potential investors of the Company should exercise caution when dealing in Shares or any securities of the Company.

CHANGE IN USE OF PROCEEDS

References are made to the Circular and Completion Announcement. The net proceeds from the SM Placing received by the Company, after deducting all related costs, fees, expenses and commission, amounted to approximately HK\$187.0 million, of which HK\$110 million will be used for business of Qima Group through the Loan Agreement and approximately HK\$77.5 million will be used for the third party payment service business of the Group. Having considered the reasons mentioned in the section headed “Reasons for and benefits of the Subscription” set out in this announcement, the Directors decided to reallocate all the net proceeds from the SM Placing to subscribe Qima Shares under the Subscription.

The Company is pleased to announce that on 16 July 2018, the Company and the Investor entered into the Subscription Agreement with Qima Holdings Ltd., a non-wholly owned subsidiary of the Company, in relation to the subscription of approximately 21 million Qima Shares and approximately 7 million Qima Shares respectively, in the respective consideration of approximately US\$30 million and US\$10 million payable in cash upon Completion. Set out below are the principal terms of the Subscription Agreement.

THE SUBSCRIPTION AGREEMENT

Date:

16 July 2018 (after trading hours)

Parties:

- (i) the Company, as a Subscriber;
- (ii) Franchise Fund Limited as a Subscriber; and
- (iii) Qima Holdings Ltd.

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, the Investor and its ultimate beneficial owner are Independent Third Parties.

Subscription

Pursuant to the Subscription Agreement, each of the Company and the Investor agrees to subscribe for, and Qima Holdings Ltd. agrees to issue, sell and allot approximately 21 million Qima Shares and approximately 7 million Qima Shares respectively in the respective consideration of approximately US\$30 million and US\$10 million payable in cash upon Completion.

Consideration

It was agreed after arm's length negotiations between the Investor and Qima Holdings Ltd. that the consideration for the subscription of approximately 7 million Qima Shares by the Investor, representing 0.5% of the total issued Qima Shares as enlarged by the issue and allotment of the Subscription Shares will be US\$10 million payable in cash upon Completion. The implied pre-money valuation of Qima Group in respect of the Subscription is approximately US\$2 billion, which is calculated in accordance with the following formula:

$$\text{Implied pre-money valuation} = \frac{\text{Difference between market capitalization in June and market capitalization immediately before the MOU in relation to the Qima Acquisition}}{\text{Shareholding \% of Company in Qima Holdings Ltd.}} \times (1 - \text{Discount})$$

Notes:

1. Market capitalization in June represents the average Share price for the five consecutive trading days up to and including the last trading day of June 2018 times the then total issued Shares.
2. Market capitalization immediately before the signing of MOU in relation to the Qima Acquisition represents the average Share price for the five consecutive trading days up to and including the signing date of the MOU (i.e. 18 July 2016) in relation to the Qima Acquisition times the then total issued Shares.
3. Percentage of shareholding of Company in Qima Holdings Ltd. represents the 51% equity interest it holds in Qima Holdings Ltd.
4. Discount represents a discount catering for absence of control premium.

Consideration of approximately US\$30 million for the subscription of approximately 21 million Qima Shares, representing 1.5% of the total issued Qima Shares as enlarged by the issue and allotment of the Subscription Shares, was arrived at after arm's length negotiation between the Company and Qima Holdings Ltd. on normal commercial terms with reference to the above subscription price of the Investor. The Directors (including the independent non-executive Directors) consider that the aforesaid consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent

A. Conditions to the Subscribers' obligations at Completion

The obligation of each of the Subscribers to purchase the Subscription Shares at Completion is subject to the fulfillment, to the satisfaction of such Subscriber (or waiver thereof) on or prior to the Completion Date, of the following conditions:

- (a) The representations and warranties made by Qima Holdings Ltd. shall be true and correct and complete when made, and shall be true and correct and complete as of the Completion Date with the same force and effect as if they had been made on and as of the Completion Date.
- (b) All corporate and other proceedings in connection with the transactions to be completed at the Completion and all documents incident thereto, including without limitation, written approval from all of the then current holders of equity interests of Qima Holdings Ltd., as applicable, with respect to the Subscription Agreement and the other transaction documents and the transactions contemplated hereby and thereby, shall have been completed in accordance with the transaction documents, and the Subscribers shall have received all such counterpart copies of such documents as they may reasonably request.
- (c) Qima Holdings Ltd. shall have performed and complied with all obligations and conditions contained in the transaction documents that are required to be performed or complied with by them in all material respects, on or before Completion.

Each of the Subscribers may at any time waive in writing any of the conditions above, on such terms as it may decide.

B. Conditions to obligations of Qima Holdings Ltd. at Completion

The obligations of Qima Holdings Ltd. under the Subscription Agreement with respect to any Subscriber are subject to the fulfillment, on or prior to the Completion Date of the following conditions:

- (a) The representations and warranties of the Subscribers shall be true and correct when made, and shall be true and correct as of the Completion Date with the same force and effect as if they had been made on and as of the Completion Date.

- (b) Each Subscriber shall have performed and complied with all covenants, obligations and conditions contained in the Subscription Agreement that are required to be performed or complied with by each Subscriber in all material respects on or before Completion.

Unless otherwise agreed by the parties, the Subscription Agreement may be terminated by the Subscribers or Qima Holdings Ltd., on or after 30 September 2018 (the “**Termination Date**”), by written notice to the other parties, if Completion has not occurred on or prior to the Termination Date, provided that: (i) the terminating party is not in material default of any of its obligations hereunder, and (ii) the right to terminate the Subscription Agreement shall not be available to any party whose breach of any provision of the Subscription Agreement has been the primary cause of, or has resulted, directly or indirectly, in, the failure of the Completion to be consummated by the Termination Date.

INFORMATION ABOUT QIMA HOLDINGS LTD. AND THE SUBSCRIBERS

Information about Qima Holdings Ltd.

Qima Holdings Ltd, a company incorporated in the Cayman Islands, is an investment holding company. Qima Holdings Ltd. and its subsidiaries are 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. Qima 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.

Financial information of Qima Group

Set out below is the consolidated financial information of Qima Group:

	For the year ended	
	31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(audited)
Loss before tax (<i>Note 1</i>)	122,049	155,662
Loss after tax (<i>Note 1</i>)	122,049	155,662

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(audited)

Net liabilities (<i>Note 2</i>)	184,322	70,115
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Notes:

1. Excluding change in fair value of contingently redeemable convertible preference shares
2. Excluding the contingently redeemable convertible preference shares

According to the valuation report in the Circular, the total appraised value of Qima Holdings Ltd. was RMB4,076.0 million as of 31 October 2017.

Information about the Investor

Franchise Fund Limited is an investment holding company established in the Cayman Islands with limited liabilities and is principally engaged in the asset management business. Franchise Fund Limited, is managed by Franchise Capital Limited, is a value-oriented long/short hedge fund, seeking to invest in great business and great companies with innovation and franchise. To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, the Investor and its ultimate beneficial owner are Independent Third Parties.

As at the date of this announcement, the Investor held approximately 17.6 million Qima Shares, representing approximately 1.28% of the issued shares of Qima Holdings Ltd. It is expected that upon Completion, the Investor will hold approximately 24.6 million Qima Shares, representing approximately 1.75% of the issued shares of Qima Holdings Ltd. as enlarged by the allotment and issue of the Subscription Shares.

Information about the Company

The Company is an investment holding company. Its subsidiaries mainly operate e-commerce business and payment service-based business across the PRC. It consists of four operating segments, which are (i) e-commerce — provision of a variety of online and offline solutions and services in relation to virtual wholesaling and retailing in the PRC through Qima Holdings Ltd.; (ii) third party payment services; (iii) Onecomm — provision of third party payment system solution and sales of integrated smart point of sales devices; and (iv) general trading.

As at the date of this announcement, the Company holds approximately 703 million Qima Shares, representing 51% of total issued Qima Shares. It is expected that upon Completion, the Company will hold approximately 724 million Qima Shares, representing approximately 51.48% of total issued Qima Shares as enlarged by the allotment and issue of the Subscription Shares.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

To cope with the rapid development of the e-commerce industry in the PRC, additional capital is required for further expansion and to strengthen the competitiveness of Qima Group. Further, the Company intends to enlarge the investor base of Qima Group, in particular, long term investors, so as to strengthen the financing capability of Qima Holdings Ltd., being non-wholly owned subsidiary of the Company and one of its principal businesses. The Company is of the view that through the Subscription, a long term investor (i.e. the Investor) will become one of stable financing sources for its principal business. The Directors are of the view that the Subscription is in line with the Company's business strategy of providing continuous support to the business plan and development of Qima Group.

Furthermore, as the subscription of new Qima Shares by the Investor would result in a dilution of the Company's interest in Qima, the Company is of the view that the Subscription will enable it to counter the aforesaid dilution effect and maintain not less than 51% equity holding in Qima Holdings Ltd..

Taking into consideration the above factors, the Directors (including the independent non-executive Directors) consider that the terms and conditions of the Subscription are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business and are in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS FROM THE SUBSCRIPTION

Qima Holdings Ltd. intends to use the proceeds from the Subscription of approximately US\$40 million (equivalent to approximately HK\$312 million) for following purposes:

- approximately 30% of the proceeds from the Subscription, which represents approximately HK\$93.6 million, will be used towards the maintenance and upgrade of the system for high volume merchants;
- approximately 40% of the proceeds from the Subscription, which represents approximately HK\$124.8 million, will be used towards new products development including e-commerce products catering for the specific needs of various industries;

- approximately 20% of the proceeds from the Subscription, which represents approximately HK\$62.4 million, will be used towards new products development and the promotion of products and services to offline and unbranded merchants; and
- the remaining balance of approximately HK\$31.2 million, will be used as general working capital.

The Company intends to satisfy consideration for subscribing new Qima Shares under the Subscription by internal resources which involves change of use of proceeds from the SM Placing, details of which are set out in the section headed “Change of use of proceeds from SM Placing” in this announcement.

CHANGE OF USE OF PROCEEDS FROM SM PLACING

References are made to the Circular and Completion Announcement.

The net proceeds from the SM Placing received by the Company, after deducting all related costs, fees, expenses and commission, amounted to approximately HK\$187.0 million, of which HK\$110 million will be used for business of Qima Group through the Loan Agreement and approximately HK\$77.5 million will be used for the third party payment service business of the Group. As of the date of this announcement, the Company has not utilized any of the aforementioned proceeds. Having considered the reasons mentioned in the section headed “Reasons for and benefits of the Subscription” set out in this announcement, the Directors decided to reallocate all the net proceeds from the SM Placing to subscribe Qima Shares under the Subscription.

The Board considers that the aforesaid change in use of proceeds is in the interests of the Group and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Qima Holdings Ltd. is a non-wholly owned subsidiary of the Company which is owned as to 51% by the Company and 11.31% by Whitecrow Investment Ltd. Whitecrow Investment Ltd. is wholly owned by Mr. Zhu Ning, a Director and substantial shareholder of the Company. Therefore, Qima Holdings Ltd. is a connected subsidiary and connected person of the Company under Rule 20.07(5) of the GEM Listing Rules. Therefore, the Subscription constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

As all the applicable percentage ratios are less than 5% and the Subscription is on normal commercial terms, the Subscription is subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders’ approval requirements under Rule 20.74(2) of the GEM Listing Rules.

In addition, Qima Holdings Ltd. is also owned as to 1.90% by V5. Cui Investment and 4.85% by Youzan Teamwork Inc.. V5. Cui Investment Ltd is wholly owned by Mr. Cui Yusong, a Director. Youzan Teamwork Inc. is owned by Mr. Zhu Ning, Mr. Huang Rongrong, Mr. Yu Tao, Ms. Ying Hangyan and Mr. Cui Yusong as to approximately 40%, 40%, 10%, 10% and one share, respectively, while except Mr. Huang Rongrong, all of them are Directors. Mr. Zhu Ning, Mr. Cui Yusong, Ms. Ying Hangyan and Mr. Yu Tao had interests in the Subscription by virtue of his interests in Qima Holdings Ltd. and they therefore abstained from voting on the board resolution of the Company approving the Subscription Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors had any material interest in Subscription Agreement and none were required to abstain from voting on the board resolution of the Company in respect of the Subscription Agreement.

As Completion is subject to the satisfaction of the conditions precedent under the Subscription Agreement, the Subscription may or may not proceed to Completion. Shareholders and potential investors of the Company should exercise caution when dealing in Shares or any securities of the Company.

DEFINITIONS

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

“Board”	the board of Directors of the Company
“Circular”	the circular of Company dated 2 January 2018 in relation to the Qima Acquisition
“Company”	China Youzan Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the GEM
“Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“Completion Announcement”	the announcement of Company dated 16 April 2018 in relation to the completion of the SM Placing
“Completion Date”	the date of Completion
“connected person”	has the meaning ascribed to this term under the GEM Listing Rules
“connected subsidiary”	has the meaning ascribed to this term under the GEM Listing Rules
“Director(s)”	the director(s) of the Company

“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	any person or company and its ultimate beneficial owner(s), who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third party independent of the Company and its connected persons
“Investor”	Franchise Fund Limited, a company incorporated in Cayman Islands with limited liability, is managed by Franchise Capital Limited
“Loan Agreement”	the loan agreement entered into between the Company and Qima Holdings Ltd. on 8 April 2017 (as supplemented by the supplemental loan agreement dated 29 November 2017)
“MOU”	the memorandum of understanding entered into between the Company, Qima Holdings Ltd. and the then Shareholders of Qima Holdings Ltd. in relation to the Qima Acquisition dated 18 July 2016
“normal commercial terms”	has the meaning ascribed to this term under the GEM Listing Rules
“PRC”	The People’s Republic of China
“Qima Acquisition”	the acquisition of 51% equity interest in Qima Holdings Ltd. completed on 18 April 2018
“Qima Group”	Qima Holdings Ltd. and its subsidiaries
“Qima Holdings Ltd.”	Qima Holdings Ltd., a company incorporated in the Cayman Islands with limited liability and is a non-wholly owned subsidiary of the Company as at the date of this announcement

“Qima Share(s)”	share(s) of US\$0.00001 per share each in the share capital of Qima Holdings Ltd.
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“SM Placing”	the placing under specific mandate of the Company completed on 16 April 2018
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber(s)”	the Company or the Investor
“Subscription”	subscription of approximately 28 million Qima Shares by the Subscribers pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement in relation to the Subscription entered into among the Subscribers and Qima Holdings Ltd.
“Subscription Shares”	The approximately 28 million Qima Shares to be subscribed by the Company and the Investor
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

By Order of the Board
China Youzan Limited
Guan Guisen
Chairman

Hong Kong, 16 July 2018

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

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

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

For ease of reference, amounts in US\$ are translated to HK\$ on the basis of US\$1 = HK\$7.8. The conversion is for illustration purpose only and should not be taken as a representation that US\$ could actually be converted into HK\$ at that rate or at other rates or at all.