LUDASHI

360 LUDASHI HOLDINGS LIMITED
魯大師控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code : 3601

2019
ANNUAL REPORT

LUDASHI

OUR MISSION IS

to let users fully understand and enjoy the convenience and fun brought by intelligent hardware

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CORPORATE INFORMATION

THE BOARD OF DIRECTORS

Executive Directors

Mr. Tian Ye *(Chairman)*
Mr. He Shiwei

Non-executive Director

Mr. Sun Chunfeng

Independent non-executive Directors

Mr. Li Yang
Mr. Wang Xinyu
Mr. Zhang Ziyu

AUDIT COMMITTEE

Mr. Zhang Ziyu *(Chairman)*
Mr. Li Yang
Mr. Wang Xinyu

NOMINATION COMMITTEE

Mr. Tian Ye *(Chairman)*
Mr. Li Yang
Mr. Wang Xinyu

REMUNERATION COMMITTEE

Mr. Wang Xinyu *(Chairman)*
Mr. Tian Ye
Mr. Zhang Ziyu

COMPANY SECRETARY

Mr. Cheng Ching Kit

AUTHORIZED REPRESENTATIVES

Mr. Tian Ye
Mr. Cheng Ching Kit

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

11/F, 11-24 Tianfu Software Site E1
1268 Tianfu Avenue, High-tech Zone
Chengdu, Sichuan Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

LEGAL ADVISERS

As to Hong Kong laws:
Jingtian & Gongcheng LLP
Suites 3203-3207, 32/F, Edinburgh Tower,
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC laws:
Jingtian & Gongcheng
45/F, K. Wah Centre
1010 Huaihai Road (M)
Xuhui District, Shanghai, PRC

As to Cayman Islands laws:
Conyers Dill & Pearman
Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

COMPLIANCE ADVISER

Guosen Securities (HK) Capital Co., Ltd.
Suites 3207-3212 level 32,
One Pacific Place, 88 Queensway
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

China Merchants Bank Chengdu Tianfudadao
Sub-Branch

STOCK CODE

3601

COMPANY WEBSITE

www.ludashi.com

FINANCIAL AND OPERATIONAL OVERVIEW

In 2019, we started the research and development of a new version of Ludashi Software testing engine for PC version and launched the beta version in November 2019. We are in the leading position in the field of hardware and system benchmarking and monitoring software, and the new testing engine will provide users with testing results of higher precision, which can help to maintain our position in the industry;

Our game business developed rapidly and the number of users and revenue increased significantly, with the total number of registered users reaching over 11 million;

Revenue in 2019 approximately

RMB 62.8 million

Revenue in 2018 approximately

RMB 42.9 million

increased by approximately

46.5%

Our revenue increased by approximately 26.3% to approximately RMB404.5 million for 2019 from approximately RMB320.3 million for 2018, representing a relatively large increase;

Revenue in 2019 approximately

RMB 404.5 million

Revenue in 2018 approximately

RMB 320.3 million

increased by approximately

26.3%

The profit or loss attributable to parent increased significantly by approximately 45.6% to approximately RMB104.7 million for 2019 from approximately RMB71.9 million for 2018;

Revenue in 2019 approximately

RMB 104.7 million

Revenue in 2018 approximately

RMB 71.9 million

increased by approximately

45.6%

Our products for mobile devices in the overseas market are very popular among newly developed countries and areas such as India, Southeast Asia and South America, with rapid expansion of user base. Our overseas mobile Apps reached Top 5 Downloads of utility software in overseas App market. The MAUs of our overseas products is 28 million in December 2019.

Revenue in 2019 approximately

RMB 39.1 million

Revenue in 2018 approximately

RMB 26.3 million

increased by approximately

48.3%

CHAIRMAN'S STATEMENT

A LETTER TO SHAREHOLDERS

Dear Shareholders:

The Company was successfully listed on the Main Board of the Stock Exchange on 10 October 2019. Since then, the Company has started a new chapter and this is the first annual report of 360 Ludashi after its listing on the Stock Exchange. In the challenging spring of 2020 when the whole country was fighting the coronavirus epidemic, we strived to ensure our business operations were not impacted, with a view to delivering satisfactory return to shareholders. On behalf of the Board, I am pleased to present the annual report of the Company and its subsidiaries for the year ended 31 December 2019, and I would like to extend my sincere gratitude to all shareholders and express my appreciation to the staff and professional advisers of the Company for their unremitting efforts.

Firstly, I am pleased to announce that for the year ended 31 December 2019, the Company recorded a total revenue of approximately RMB404.5 million, representing an increase of approximately 26.3% as compared to that of 2018, of which the revenue from our online advertising business was approximately RMB220.7 million, representing an increase of approximately 26.4% as compared to that of 2018，the revenue from our online game business was approximately RMB62.8 million, representing an increase of approximately 46.5% as compared to that of 2018 and the revenue from our smart hardware business was approximately RMB120.9 million, representing an increase of approximately 17.7% as compared to that of 2018. Our net profit attributable to parent increased by approximately 45.6% to approximately RMB104.7 million as compared to that of 2018.

Ludashi is a product first launched in 2007, and it is an honor for us to be able to get our shares listed on the Main Board of the Stock Exchange in 2019. In the past decade, we have been devoting ourselves to build up a product matrix that know your hardware best. From PCs to personal smart mobile devices and then to related smart electronic devices, we have been continuously providing corresponding smart hardware benchmarking and monitoring products, establishing our brand image as a leading hardware expert in China. We have always been adhering to the mission of "letting the consumers fully experience the happiness brought by smart hardware" to blaze new trials and forge ahead. We will continue to move forward by taking technology enhancement as the core and user experience improvement as the direction.

In 2019, we have made significant progress in its development. Our principal business maintained stable user increase and a high-speed growth was reflected in our gaming business. The downloads of our products for mobile devices ranked top 5 globally in the category of utility software in overseas app market. The expansion of user base and the increase of revenue from advertising were attributable to our strong technological capability and flexible ideas in respect of product outputting. We believe that with the continuous improvement of our capabilities of corporate governance and R&D, we can constantly create value for our customers, Shareholders, employees and the society.

On behalf of all members of 360 Ludashi, I would like to express my sincere appreciation to all of our users. I would also like to extend my gratitude to all staff and the management team for their efforts and contributions, and to all shareholders and professionals for their patience and unwavering support.

Tian Ye
Chairman
Hong Kong

30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Review

In 2019, despite the complex and rapid-changing international situation and a slowdown in the growth of global economy, the economy of China achieved generally stable growth with further progress. However, the downward pressure faced by the economy of China has increased. During 2019, the internet advertising and gaming markets of China maintained their growth. According to 2019 China Internet Advertising Development Report (2019中國互聯網廣告發展報告), in 2019, the total revenue growth of the advertising industry of China remained stable, though the growth rate has slightly decreased as compared to 2018. In spite of fierce competition, the global gaming industry, particularly the Chinese market, achieved stable growth as compared to 2018.

During the year, the Group continued to focus on the development of its online traffic monetization and electronic devices sales business lines. Through upgrading the products and enriching the product matrix, the number and stickiness of users of our online advertising services increased. As for online game business, we continuously launched attractive new games, and obtained gamers and expanded user base through continuous marketing efforts. In respect of electronic devices sales business, with Ludashi hardware examining technology, we enhanced the quality control and service for the electronic devices to provide products of higher quality to our customers.

We develop a series of PC and mobile device utility software and offer them to users free-of-charge in exchange for online traffic that we monetize by online advertising and online game business and further expand by electronic devices sales. Our utility software, Ludashi (魯大師), which means Master Lu, is a well-known brand and software in China and elsewhere in the world with a specialty in PC/smartphone hardware and system benchmarking and monitoring. We have accumulated a large user base through providing free download and installation of Ludashi Software. As at 31 December 2019, the MAUs for our products reached approximately 152.6 million.

In 2019, we started the research and development of a new version of Ludashi Software testing engine PC version. For continuously updated smart hardware in the market, we improved the algorithm of Ludashi Software PC version and constantly updated our hardware and system benchmarking technologies to provide testing from more dimensions for different core hardware, in order to ensure the professionalism and accuracy of our hardware and system benchmarking. We launched a beta version of the Ludashi Software in November 2019. We are in the leading position in the field of hardware and system benchmarking and monitoring software. The new testing engine will provide users with testing results of higher precision so as to keep our position in the industry.

We have been continuously developing utility software for mobile devices in the overseas market, including Dual Space, Easy Clean and APP Lock. With our efforts in discovering users' needs in respect of tools for mobile devices, and enriching our product matrix to satisfy the demands of users and maintain user stickiness, the downloads of the aforesaid overseas products of the Group for mobile devices ranked top 5 in the category of tools in overseas app market.

Through our own online game platform, we constantly release attractive new games. With further precision pushing, user categorization and more advertising activities for games, the number of new players of our games continues increasing. Through optimization of our advertising channel, our conversion rate, retention rate and user payment ratio has recorded relatively large increase.

We generate revenues from online traffic monetization and electronic devices sales. Through online traffic monetization, we generate revenues from online advertising services and online game business. With stable economic environment and favorable industry trend and through the continuous efforts of our management team and staff, the Group has achieved stable development for each of the business segment and recorded growth in both of our revenue and profit.

For the year ended 31 December 2019, the Company recorded a total revenue of approximately RMB404.5 million, representing an increase of approximately 26.3% as compared to that of 2018, of which the revenue from our online advertising business was approximately RMB220.7 million, representing an increase of approximately 26.4% as compared to that of 2018, the revenue from our online game business was approximately RMB62.8 million, representing an increase of approximately 46.5% as compared to that of 2018 and the revenue from our electronic devices sales business was approximately RMB120.9 million, representing an increase of approximately 17.7% as compared to that of 2018. The net profit attributable to parent increased by approximately 45.6% to approximately RMB104.7 million as compared to that of 2018.

Outlook

We aim to further increase the user number and stickiness of our Ludashi Software PC version and mobile devices version and game business by upgrading and improving our software products and enriching our product mix. In the meantime, we will leverage on our expertise in respect of PC and mobile device hardware and system benchmarking and monitoring to develop innovative products, enhance our monetization capability and promote the sales of electronic devices.

In 2020, the Group will continue to implement the following strategies and strive to become a reliable hardware expert and leading internet company:

- Further improve our product quality by strengthening our research and development capability, maintain and expand our user base, explore the overseas markets, and enhance our brand image as a reliable hardware expert;

- Enhance our online advertising services and game products so as to monetize our online traffic effectively;

- Enhance our electronic devices sales business by leveraging on our brand recognition; and

- Continue to retain talents and professionals, build strategic alliances and pursue investments and acquisitions.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

We derived revenue from two business lines, namely online traffic monetization and electronic devices sales. The revenue of online traffic monetization is from online advertising service and online game business. Revenue from electronic devices sales includes revenue generated from sale of certified pre-owned and factory smartphones, smart accessories and other electronic devices.

Our revenue increased by approximately 26.3% from approximately RMB320.3 million for the year ended 31 December 2018 to approximately RMB404.5 million for the year ended 31 December 2019. Such increase is mainly due to the growth in both online traffic business and electronic devices sales business.

The following table sets forth our business line revenue by amount and as a percentage of our revenue for the years ended 31 December 2018 and 31 December 2019:

	For the year ended 31 December			
	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Online traffic monetization				
Online advertising services	**220,722**	**54.6**	174,595	54.5
Online game business	**62,827**	**15.5**	42,889	13.4
Electronic devices sales				
Certified pre-owned and factory smartphones sales	**89,801**	**22.2**	85,689	26.8
Smart accessories sales	**5,216**	**1.3**	2,317	0.7
Other electronic devices sales	**25,929**	**6.4**	14,776	4.6
Total	**404,495**	**100.0**	320,266	100.0

(i) Online traffic monetization

(a) Online advertising services

Our revenue from online advertising services increased by approximately 26.4% from approximately RMB174.6 million for the year ended 31 December 2018 to approximately RMB220.7 million for the year ended 31 December 2019, mainly attributable to the increase in revenue of Ludashi Software PC version and mobile devices version as a result of the continuous increase in user number.

(b) *Online game business*

The revenue from online game business increased by approximately 46.5% from approximately RMB42.9 million for the year ended 31 December 2018 to approximately RMB62.8 million for the year ended 31 December 2019, mainly due to the new games continuously launched and the increase in the number of gamers.

(ii) ***Electronic devices sales***

Revenue from the electronic devices sales increased by approximately 17.7% from approximately RMB102.8 million for the year ended 31 December 2018 to approximately RMB120.9 million for the year ended 31 December 2019, primarily because we continued to expand the electronic devices sales business by various ways including that of enlarging the number of customers through marketing.

Costs of sales and services

The following table sets forth a breakdown of our costs of sales and services by amount and as a percentage of costs of sales and services for the years ended 31 December 2018 and 31 December 2019:

	For the year ended 31 December			
	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Online traffic monetization				
Advertising and promoting	**82,280**	**39.1**	53,374	33.2
Server leasing	**9,002**	**4.3**	7,679	4.8
Electronic devices sales				
Certified pre-owned and factory smartphones sales	**89,790**	**42.7**	83,352	51.8
Smart accessories sales	**4,752**	**2.3**	2,010	1.3
Other electronic devices sales	**24,317**	**11.6**	14,347	8.9
Total	**210,141**	**100.0**	160,762	100.0

Costs of sales and services increased by approximately 30.7% from approximately RMB160.8 million for the year ended 31 December 2018 to approximately RMB210.1 million for the year ended 31 December 2019, primarily due to the increase in purchase cost caused by the continuous expansion of the online traffic monetization business and the increase in the cost of the electronic devices sales business caused by the increase in sales volume.

Gross profit and gross profit margin

The following table sets forth our gross profit and gross profit margin by business lines for the years ended 31 December 2018 and 31 December 2019:

	For the year ended 31 December			
	2019		2018	
	RMB'000	*%*	*RMB'000*	*%*
Online traffic monetization	**192,267**	**67.8**	156,431	71.9
Electronic devices sales	**2,087**	**1.7**	3,073	3.0
Total gross profit and gross profit margin	**194,354**	**48.0**	159,504	49.8

Our gross profit increased by approximately 21.8% from approximately RMB159.5 million for the year ended 31 December 2018 to approximately RMB194.4 million for the year ended 31 December 2019, and the gross profit margins were approximately 49.8% and 48.0% for the years ended 31 December 2018 and 31 December 2019, respectively. The slight decrease in gross profit margin was mainly due to the increase in the purchase cost of the online traffic monetization business.

Other income

Other income increased by approximately 45.3% from approximately RMB6.2 million for the year ended 31 December 2018 to approximately RMB9.0 million for the year ended 31 December 2019, which was due to the increase in the interest income of bank deposits.

Other gains and losses

Other gains increased by approximately 532.8% from approximately RMB1.7 million for the year ended 31 December 2018 to approximately RMB10.9 million for the year ended 31 December 2019, which was due to changes in the fair value of put option liability.

Listing expenses

Listing expenses increased by approximately 9.7% from approximately RMB16.1 million for the year ended 31 December 2018 to approximately RMB17.7 million for the year ended 31 December 2019.

Administrative expenses

Administrative expenses increased by approximately 44.3% from approximately RMB20.1 million for the year ended 31 December 2018 to approximately RMB29.0 million for the year ended 31 December 2019, which was due to the increase in staff costs as a result of the increase in the average salary of employees.

Research and development expenses

Research and development expenses increased by approximately 16.9% from approximately RMB23.4 million for the year ended 31 December 2018 to approximately RMB27.3 million for the year ended 31 December 2019, which was mainly due to the increase in the average salary of research and development employees.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 19.9% from approximately RMB16.8 million for the year ended 31 December 2018 to approximately RMB20.2 million for the year ended 31 December 2019, which was mainly due to the increase in the number and average salary of our marketing personnel.

Taxation

Taxation decreased by approximately 17.8% from approximately RMB16.1 million for the year ended 31 December 2018 to approximately RMB13.2 million for the year ended 31 December 2019, mainly because Liu Liuyou Technology satisfies the favorable taxation conditions for high and new technology enterprises and is therefore subject to concessionary enterprise income tax rate.

Profit and total comprehensive income for the year

As a result of the foregoing, the Group's profit and total comprehensive income for the year increased by approximately 40.1% from approximately RMB76.0 million for the year ended 31 December 2018 to approximately RMB106.5 million for the year ended 31 December 2019.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

We have financed our operations through a combination of cash generated from operating activities, the proceeds from the pre-IPO investments and the proceeds from the Listing. In the future, we expect to continue relying on cash flows generated from operations, and other debt and equity financing, in addition to the net proceeds from the Listing, to fund our working capital needs and finance part of our business expansion.

As at 31 December 2018 and 31 December 2019, our bank balances and cash amounted to approximately RMB174.1 million and approximately RMB338.4 million, respectively.

The Group operates in China and its functional currency is RMB. However, we are exposed to foreign currency risks due to certain bank balances, trade receivables and trade payables denominated in foreign currencies held by us. We believe the existing bank balances, trade receivables and trade payables denominated in foreign currencies expose us to limited and controllable foreign currency risks. We will continue to monitor the movements in exchange rates and will take measures to mitigate the impacts brought by movements in exchange rates if necessary.

As at 31 December 2019, we did not have any bank borrowings. Accordingly, no gearing ratio is presented.

Capital Expenditures

The following table sets forth our capital expenditures for the years ended 31 December 2018 and 2019:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Purchase of property and equipment	**3,122**	3,648
Purchase of intangible assets	**1,112**	–
Total	**4,234**	3,648

Our capital expenditures primarily included expenditures for purchases of property and equipment such as servers and computers and intangible assets such as trademarks, franchises, and U8 Financial Software. We funded our capital expenditure requirements mainly from daily operation and receivables from sales and services we provide.

SIGNIFICANT INVESTMENTS HELD

We had no significant investment as at 31 December 2019.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 24 December 2019, an indirect wholly-owned subsidiary of the Group and Shenzhen Fantexi Technology Co., Ltd.* (深圳市範特西科技有限公司) entered into an acquisition agreement, pursuant to which the Group agreed to purchase and Shenzhen Fantexi Technology Co., Ltd.* (深圳市範特西科技有限公司) agreed to sell 20% equity interest in Liu Liuyou Technology. The acquisition has been completed, and as at the date of this annual report, the Group owned 88% interest in Liu Liuyou Technology, and its remaining 12% interest was owned by Mr. He Shiwei, an executive Director. For details, please refer to the announcement of the Company and its supplemental announcement dated 24 December 2019 and 31 December 2019, respectively.

Save as stated above, the Group did not have any other material acquisitions nor disposals of subsidiaries, interest in associates or joint ventures for the period from the Listing Date and up to 31 December 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2019, the Group has no future plan for material investments or capital assets.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2019, we had 184 full-time employees, all of whom are located in the PRC. Specifically, such full-time employees included 3 senior management members, 79 personnel who are responsible for sales and marketing, 76 personnel who are responsible for research and development and 26 administrative personnel.

We offer employees competitive remuneration, performance-based bonuses and incentives. Our employees' performance is reviewed every year on the basis of, among other criteria, their ability to achieve stipulated performance targets. We place great emphasis on the training and development of our employees. We invest in continuing education and training programs for our management personnel and other employees with a view to constantly upgrading their skills and knowledge. We also arrange internal and external professional training programs to develop our employees' skills and knowledge. New employees must be properly trained to ensure that they are equipped with the necessary skills to perform their duties. In accordance with the applicable PRC laws and regulations, we have made contributions to social insurance funds, including pension plans, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, and housing provident funds for our employees.

PLEDGE OF ASSETS

As at 31 December 2019, the Group did not have any pledge of assets.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2019, the Group did not have any significant contingent liabilities, guarantees or any litigation.

EVENTS AFTER THE REPORTING PERIOD

Save as elsewhere disclosed in this annual report, significant events and/or transactions took place subsequent to 31 December 2019 are detailed as below:

The outbreak of novel coronavirus since around December 2019 (the "**COVID-19 outbreak**") has caused the PRC local government offices to impose policies to delay opening of offices after Lunar New Year holiday, until certain preventive measures are taken and completed by the PRC local government. The Group's office has been re-opened on 3 February 2020.

As at the date of this annual report, the COVID-19 outbreak has not resulted in material impact to the Group. Depending on the development and spread of COVID-19 outbreak subsequent to the date of this annual report, further changes in economic conditions arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Tian Ye, aged 39, is the founder of the Group and was appointed as Director on 7 February 2018. Mr. Tian is also our chief executive officer, general manager and chairman of the Board responsible for overall strategic planning and overseeing the general management and daily operation of the Group. Mr. Tian holds directorships in 360 Ludashi Consulting Limited, 360 Ludashi Technology Limited, Anyixun Technology and Chengdu Qilu. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee.

Mr. Tian has around 16 years of experience in software development industry. From July 2004 to July 2005, Mr. Tian worked in Kingsoft Corporation Limited (stock code: 03888), whose shares are listed on the Main Board of the Stock Exchange and is a leading software developer, distributor and service provider in China, as project manager. From August 2005 to December 2009, Mr. Tian was an entrepreneur in the information technology industry. From December 2009 to October 2014, Mr. Tian joined 360 Group as a senior director (高級總監) responsible for software development and management. He then founded the Group in November 2014.

Mr. Tian obtained a bachelor's degree in computer science from Shenyang University of Technology* (瀋陽工業大學) in July 2003.

Mr. He Shiwei, aged 49, was appointed as Director on 26 August 2018. Mr. He is our chief technology officer principally responsible for overseeing research and technology development of the Group. Mr. He holds directorships in Anyixun Technology, Liu Liuyou Technology and Tianjin Zhongzhixing Technology Company Limited.

Mr. He has around 20 years of experience in the software development industry. From March 2000 to April 2002, he worked in Beijing Luosen Technology Company Limited* (北京絡森科技有限公司) as chief technology officer. From May 2002 to November 2009, Mr. He served in Beijing Wanxun Botong Technology Development Company Limited* (北京萬訊博通科技發展有限公司) as a manager of the development department. From December 2009 to November 2014, he worked at 360 Group as a technology manager (技術經理). In November 2014, he joined Chengdu Qilu and has been serving as chief technology officer since then.

Mr. He obtained a bachelor's degree in computer science from the Tianjin University* (天津大學) in July 1992.

NON-EXECUTIVE DIRECTOR

Mr. Sun Chunfeng, aged 33, was appointed as a non-executive Director on 26 August 2018, and is principally responsible for overseeing the management and strategic planning of the Group. Mr. Sun also holds directorship in Chengdu Qilu.

Mr. Sun has around 8 years of experience in the software development industry. In January 2013, he founded Shanghai Gaoxin, which is principally engaged in software design, operation and development, and has been serving as its general manager since April 2015. In March 2014, he further co-founded Shanghai Songheng, which is principally engaged in network technology development, has been serving as its general manager since then and has been serving as its chairman of the board of directors and authorized representative since 12 December 2018. Mr. Sun has also been serving as a director of Shanghai Leshu Information Technology Co., Ltd.* (上海樂蜀網絡科技股份有限公司) since 10 August 2015.

Mr. Sun obtained a diploma of computer information management (計算機信息管理) from Zhejiang Institute of Communications* (浙江交通職業技術學院) in June 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Yang, aged 37, an independent non-executive Director, was appointed to the Board on 5 June 2019. Mr. Li is responsible for supervising and providing independent judgement to the Board. He is also a member of each of the Nomination Committee and Audit Committee.

Mr. Li has been an associate professor of marketing of Cheung Kong Graduate School of Business (長江商學院) since July 2012.

Mr. Li obtained a bachelor's degree in electronic science in July 2005 from Peking University, a master of science degree in biomedical engineering in February 2007, a master of philosophy degree in management and a doctor of philosophy degree in management both in May 2012 from Columbia University.

Mr. Wang Xinyu, aged 49, an independent non-executive Director, was appointed to the Board on 5 June 2019. Mr. Wang is responsible for supervising and providing independent judgement to the Board. He is also the chairman of the Remuneration Committee and a member of each of the Nomination Committee and Audit Committee.

In September 1998, Mr. Wang founded Beijing Jingtianwei Technology Development Company Limited* (北京京天威科技發展有限公司), which is principally engaged in design and sale of locomotive software, and served as its general manager from September 1998 to August 2010. In March 2011, Mr. Wang founded Suzhou Huaxing Zhiyuan Electronics Technology Company Limited* (蘇州華興致遠電子科技有限公司), which is principally engaged in electronic technology development and was acquired by China High Speed Railway Technology Co., Ltd (神州高鐵技術股份有限公司) (stock code: 000008) whose shares are listed on Shenzhen Stock Exchange in 2015. In June 2016, Mr. Wang founded Suzhou Eavision Robotics Co., Ltd* (蘇州極目機器人科技有限公司) which is engaged in robotics technology development.

Mr. Wang obtained a bachelor's degree in industrial electronic automation in July 1992 from Lanzhou Railway College* (蘭州鐵道學院) (now known as Lanzhou Jiaotong University* (蘭州交通大學)), and a doctor's degree in systems engineering in July 2009 from Beijing Jiaotong University* (北京交通大學).

Mr. Zhang Ziyu, aged 36, an independent non-executive Director, was appointed to the Board on 5 June 2019. Mr. Zhang is responsible for supervising and providing independent judgement to the Board. He is also the chairman of the Audit Committee and a member of the Remuneration Committee.

From September 2006 to January 2010, Mr. Zhang worked at Deloitte Touche Tohmatsu Hong Kong office, with his last position as a senior associate of the audit department. In October 2010, he joined finance department in China Resources (Holdings) Co., Ltd (華潤(集團)有限公司) and was a senior manager when he left the firm. Mr. Zhang subsequently served as an Assistant Vice President of the Listing and Regulatory Affairs Division of Hong Kong Exchanges and Clearing Limited, responsible for compliance and regulatory affairs, from September 2014 to October 2015. In May 2016, Mr. Zhang joined China Tian Yuan Finance Group (Holdings) Limited (中國天元金融(集團)控股有限公司) and he is currently serving as its president.

Mr. Zhang obtained a bachelor's degree in business administration in November 2006 from Lingnan University, a master's degree in finance in November 2013 and a postgraduate diploma in commercial law in September 2016 from The University of Hong Kong. He has been a non-practicing member of Hong Kong Institute of Certified Public Accountants since January 2010, a fellow member of the Association of Chartered Certified Accountant since June 2016, and a member of CFA Institute since September 2010.

SENIOR MANAGEMENT

Mr. Tian Ye is the chief executive officer and general manager of the Company. For biographical details of Mr. Tian, please refer to the section headed "Directors – Executive Directors" above.

Mr. He Shiwei is the chief technology officer of the Company. For biographical details of Mr. He, please refer to the section headed "Directors – Executive Directors" above.

Mr. Zhang Fanchen, aged 34, is our chief financial officer, and is principally responsible for overseeing strategy planning, capital operation and financial management of the Group. Mr. Zhang also holds directorship in Shanghai Qilu Network Technology Company Limited* (上海奇魯網絡科技有限公司).

Mr. Zhang has around 12 years of experience in capital market and finance related industry. Mr. Zhang joined the Group in September 2018. Prior to joining us, Mr. Zhang worked at the investment banking department of Morgan Stanley Huaxin Securities Company Limited (摩根士丹利華鑫證券有限責任公司) from July 2015 to September 2018. Mr. Zhang worked at Sinolink Securities Company Limited (國金證券股份有限公司) from July 2014 to June 2015 and Huatai United Securities Company Limited (華泰聯合證券有限公司) from August 2011 to July 2014. Mr. Zhang worked at Ernst & Young's Shanghai office as a senior auditor from August 2008 to July 2011.

Mr. Zhang passed the Chinese Sponsor Representative examination in May 2015. He has been a non-practicing member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since September 2014 and is a member of the Association of Chartered Certified Accountant (英國特許公認會計師公會).

Mr. Zhang obtained a bachelor's degree in accounting from Sichuan University* (四川大學) in July 2008 and a master's degree in business administration from Shanghai Jiao Tong University* (上海交通大學) in June 2016.

COMPANY SECRETARY

Mr. Cheng Ching Kit was appointed as the company secretary of the Company on 30 August 2018. Mr. Cheng is a manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional service provider specializing in corporate services and has over 7 years of experience in corporate secretarial field. He is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom (previously known as The Institute of Chartered Secretaries and Administrators in the United Kingdom) since 2018. He holds a bachelor of commerce degree in finance from the University of Queensland.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language marked with an asterisk "*" included in this annual report is for identification purposes only.

DIRECTORS' REPORT

The Board presents the Directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 7 February 2018. The Company was listed on the Main Board of the Stock Exchange on 10 October 2019 with stock code 3601.

PRINCIPAL ACTIVITIES

The Group develops a series of PC and mobile devices utility software and offers them to users free-of-charge in exchange for online traffic that we monetize by online advertising and online game business and further expand by electronic devices sales. Our utility software, Ludashi (魯大師), as known as Master Lu, is a well-known brand and software in China and elsewhere in the world with a specialty in PC/smartphone hardware and system benchmarking and monitoring. The Group has accumulated a large user base pool through providing free download and installation of Ludashi Software.

RESULTS OF OPERATIONS

The results of our Group for the year ended 31 December 2019 are set out in the consolidated financial statements on pages 89 to 91 of this annual report.

FINANCIAL SUMMARY

The financial summary of the Group from 2016 to 2019 is set out in the section headed "Financial Summary" on page 162 of this annual report.

BUSINESS REVIEW AND OUTLOOK

The business review and outlook of the Group for the year ended 31 December 2019 is set out in the section headed "Management Discussion and Analysis" on page 6 to 14 of this annual report.

KEY RISKS AND UNCERTAINTIES

The Group is subject to the following key risks and uncertainties in its operations:

- If we fail to continue to innovate and provide attractive products and services to attract and retain users, we may lose customers for our revenue generating services;
- If we fail to protect our proprietary data and user data, our reputation and business could be negatively affected;
- Adverse changes on online advertising service may subject us to decrease in revenues;
- Our business depends on a strong brand and reputation, and we may not be able to maintain and enhance our brand or reputation or may suffer negative publicity;

- We face risks related to liabilities resulting from the use of our products by our customers;

- We have limited control over the operations of our offline business entity customers. Actions taken by our offline business entity customers may materially and adversely affect our business, prospects and reputation; and

- COVID-19 outbreak may cause the Group's customers to curtail the placement volume of advertisement and our business may be negatively affected.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are set out in the section headed "Events after the reporting period" of the section "Management discussion and analysis" on page 14 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Due to the nature of our business, we did not have any environmental issues that could have any material impact on our financial condition or business operations in respect of the relevant environmental laws and regulations applicable to our Group's business and operations.

The Group values environmental protection and continues to pay attention to the impact of its business operations on the environment. For details of the Group's environmental policies and performance, please refer to the "Environmental, Social and Governance Report" set out on pages 62 to 83 of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group's operation of online game business is considered to be a value-added telecommunications business in the PRC, a sector where foreign investment is subject to significant restrictions under the present PRC laws and regulations. In order to comply with the PRC laws and regulations and to maintain effective control over the operations of the PRC Operating Entities, WFOE entered into the Contractual Arrangements with Chengdu Qilu and the Relevant Shareholders (being the registered shareholders of Chengdu Qilu) (where applicable). For details of the Contractual Arrangements, please refer to the section headed "Contractual Arrangements" in this annual report.

In addition, under the current applicable PRC laws and regulations, a foreign investor wishing to acquire any equity interest in a value-added telecommunications business in the PRC must also demonstrate a good track record and operating experience in providing value-added telecommunications services oversees ("Qualification Requirements").

Insofar as the Directors are aware, as at the date of this annual report, the Company has taken all reasonable steps to ensure that such Qualification Requirements are met if and when the PRC laws and competent authorities substantively allow foreign investors to invest in value-added telecommunications services in the PRC. The Company will continue to communicate with the relevant governmental authorities and provide updates where necessary.

The Group has formulated and adopted various internal control measures, approval procedures and training programmes within all business units at all level of the Group to ensure its affairs are conducted in a lawful manner to uphold high standard of integrity in all respects of business. During the year ended 31 December 2019 and up to the date of this annual report, the Group has complied with applicable laws and regulations and there was no violation of or non-compliance with any relevant laws and regulations that had a significant impact on the business and operation of the Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Group's success depends on the support from key stakeholders which comprise our Directors and senior management members, employees, customers and suppliers. There were no substantial or material disputes between our Group and our stakeholders in 2019.

Employees

As at 31 December 2019, we had 184 full-time employees, all of whom are located in the PRC. Specifically, such full-time employees included 3 senior management members, 79 personnel who are responsible for sales and marketing, 76 personnel who are responsible for research and development and 26 administrative personnel. During the Reporting Period, we have not experienced any strikes or labor disputes that have a significant impact on the Company's business activities. Our future success depends on the competence and efforts of our experienced management team and high-tech personnel. Due to the fierce competition for talents in the Internet industry, the Group will continue to enhance our ability to attract new employees and retain and motivate existing management teams and high-tech personnel in the future.

We offer employees competitive remuneration, performance-based bonuses and incentives. Our employees' performance is reviewed every year on the basis of, among other criteria, their ability to achieve stipulated performance targets. We place great emphasis on the training and development of our employees. We invest in continuing education and training programs for our management personnel and other employees with a view to constantly upgrading their skills and knowledge. We also arrange internal and external professional training programs to develop our employees' skills and knowledge. New employees must be properly trained to ensure that they are equipped with the necessary skills to perform their duties. In accordance with the applicable PRC laws and regulations, we have made adequate contributions to social insurance funds, including pension plans, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, and housing provident funds for our employees.

Customers

The Group's customers for online advertising services acquire exposure to a vast number of users of our Ludashi Software with our different types of advertising services, which contributes online user traffic and viewer to their products. Customers of our online game business are mainly players on our Group's game operation platform. Customers of our electronic devices sales are mainly enterprises who purchase for resale and individuals who purchase and use electronic devices.

Our ability to attract, retain, and engage our user base and to increase our revenue depends heavily on our ability to continue to provide high-quality free-of-charge hardware and system benchmarking and monitoring services. We shall continue to improve our existing products and user experience in order to stay competitive. In the future, the Group will continue to innovate and provide attractive products and services to attract and retain users, so as to maintain competitive, keep our user base and retain our customers.

For the year ended 31 December 2019, revenue from the top five customers of the Group accounted for approximately 41.2% of our Group's total revenue, and revenue from our largest customer accounted for approximately 22.8% of the Group's total revenue.

360 Group, which is interested in approximately 30.76% of the issued share capital of the Company as at the date of this annual report, is the largest customer of the Group; and Songheng Group, which is interested approximately 17.58% of the issued share capital of the Company as at the date of this annual report, is one of the five largest customers of the Group.

Saved as disclosed above, to the best knowledge of the Directors, as at 31 December 2019 and up to the date of this annual report, none of the Directors or any of their close associates or any Shareholders, which own more than 5% of the Company's issued share capital, had any interests in the Group's five largest customers.

Suppliers

Our Group's suppliers include online traffic suppliers, advertising and promotion service suppliers, server leasing service suppliers and electronic devices suppliers.

To ensure the continuity and timeliness of the supply chain, we have always maintained good business relationships with our suppliers.

In addition, for the year ended 31 December 2019, purchases from the top five suppliers of our Group accounted for approximately 82.8% of our Group's total purchase amount, and purchases from the largest supplier accounted for approximately 42.3% of our Group's total purchase amount.

To the knowledge of the Directors, during the year ended 31 December 2019 and up to the date of this annual report, none of the Director, their respective close associates or any shareholders which own more than 5% of the Company's issued share capital, had any interests in our top five suppliers.

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year ended 31 December 2019 are set out in note 15 to the audited consolidated financial statements.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK10 cents per ordinary share for the year ended 31 December 2019. The final dividend is subject to the approval of the Shareholders at the AGM to be held on 29 May 2020 and upon approval, the final dividend is expected to be payable on 31 July 2020.

CLOSURES OF THE REGISTER OF MEMBERS

The Company will hold the AGM on 29 May 2020. The register of members of the Company will be closed from 26 May 2020 to 29 May 2020, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 25 May 2020.

The register of members of the Company will be closed from 14 July 2020 to 16 July 2020, both days inclusive, in order to determine the identity of the Shareholders who are entitled to receive the final dividend. To be eligible for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 13 July 2020.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 34 to the audited consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended 31 December 2019 are set out in note 26 to the audited consolidated financial statements.

RESERVES

The Company's reserves available for distribution as at 31 December 2019 was RMB124.3 million. Details of the movements in the reserves of the Company during the year ended 31 December 2019 are set out in note 36 to the audited consolidated financial statements.

ISSUE OF DEBENTURE

The Group has not issued any debentures during the year ended 31 December 2019.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association, or the laws of Cayman Islands being the jurisdiction in which the Company is incorporated, under which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

CHARITABLE DONATIONS

During the year ended 31 December 2019, the Group made charitable donations of approximately RMB900,000.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Main Board of the Stock Exchange on 10 October 2019 and the net proceeds raised by the Company from the Listing were approximately HK$123.1 million after deducting underwriting commissions and related expenses (the "Net Proceeds"). We will continue to utilize the Net Proceeds from the Global Offering as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. An analysis of the intended application of the Net Proceeds as stated in the Prospectus and the actual utilisation of the Net Proceeds up to 31 December 2019 is set out below:

Purposes		Allocation of Net Proceeds	Utilization as at 31 December 2019	Net balance of the Net Proceeds as at 31 December 2019	Timeframe for utilization of the balance of the Net Proceeds
			(HK$ million)		
(i)	to enhance the Group's research and development capability	36.9	0	36.9	On or before 31 December 2023
(ii)	to advertise and promote Ludashi software and related software and products on the third parties' electronic platforms, and continue to carry out the Group's existing marketing plans	24.6	0	24.6	On or before 31 December 2023
(iii)	to enhance our Group's own certified pre-owned and factory smartphones e-commerce platform and offline sales channel	24.6	0	24.6	On or before 31 December 2023
(iv)	to make additional strategic investments and acquisitions in cash alone or in combination with equity	24.6	0	24.6	On or before 31 December 2023
(v)	for our working capital and general corporate purposes	12.4	1.1	11.3	On or before 31 December 2022

The Net Proceeds used in 2019 were mainly for the daily operation of overseas companies of the Group.

DIRECTORS

The Directors as of the date of this annual report are:

Executive Directors

Mr. Tian Ye *(Chairman)*
Mr. He Shiwei

Non-executive Directors

Mr. Sun Chunfeng

Independent Non-executive Directors

Mr. Li Yang
Mr. Wang Xinyu
Mr. Zhang Ziyu

The biographical details of the Directors and senior management are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report.

In accordance with Article 84(1) of the Articles of Association, Mr. Sun Chunfeng and Mr. Zhang Ziyu shall retire by rotation at the AGM and, being eligible, have offered themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with the Company for a term of three years commencing from 9 September 2019, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of our non-executive Director and independent non-executive Directors has entered into a letter of appointment with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

There was no service contract entered into/letter of appointment signed by the Company and any Directors to be re-elected at the forthcoming AGM which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. As such, the Company considers all of the independent non-executive Directors to be independent.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 30 to the consolidated financial statements and in the section headed "Connected Transactions" of Directors' Report in this annual report, no Director nor an entity connected with the Director has a material interest, directly or indirectly, in any transaction, arrangement or contract of significance entered into by the Company, its holding company or any of its subsidiaries or fellow subsidiaries during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Saved as disclosed in the section headed "Relationship with Controlling Shareholders" in the Prospectus, none of the directors nor their respective close associates had interests in business, which compete or likely compete, either directly or indirectly, with the business of the Group that are required to be disclosed pursuant to Rule 8.10(2) of the Listing Rules.

DEED OF NON-COMPETITION

Mr. Tian Ye and Dashi Technology Holdings (each a "Covenantor", collectively, the "Covenantors") entered into the deed of non-competition with and in favor of the Company (for itself and as trustee for each of its subsidiaries) on 9 September 2019 (the "Deed"). Pursuant to the Deed, each of the Covenantors has irrevocably, unconditionally and severally undertaken with the Company that, among others, for as long as the Shares remain listed on the Stock Exchange and the Covenantors are individually or collectively with any of their respective close associates interested directly or indirectly in not less than 30% of the voting power in general meetings of the Company, each Covenantor shall not, and shall procure that their respective close associates will not, directly or indirectly, carry on, develop, invest in, engage in, participate or be interested in or acquire or hold any right or interest in or otherwise be involved in any business in competition with or likely to be in competition with the existing business carried on by the Group in the PRC and any part of the world and/or directly or indirectly take any action which constitutes an interference with or a disruption of the restricted business.

Particulars of the Deed are set out in the section headed "Relationship with Controlling Shareholders — Non-competition undertaking by Mr. Tian and Dashi Technology Holdings" in the Prospectus.

Each of Mr. Tian Ye and Dashi Technology Holdings has provided an annual confirmation to the Company regarding their compliance with the Deed for the year ended 31 December 2019. The independent non-executive Directors have reviewed their respective Compliance with the Deed, evaluated its effective implementation and were satisfied with the Covenantors' Compliance with the Deed for the year ended 30 December 2019.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

REMUNERATION OF DIRECTORS

In compliance with the CG Code, the Company has established a remuneration committee to formulate remuneration policies. Directors' remuneration is subject to Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties and responsibilities, the recommendations of the Remuneration Committee and the performance and results of the Group. No Director, or any of their respective associates, was involved in deciding his/her own remuneration.

Details of the remuneration of the Directors and the five highest paid individuals during the year ended 31 December 2019 are set out in note 11 to the audited consolidated financial statements.

During the year ended 31 December 2019, none of the Directors had waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force. The Company has taken out and maintained appropriate insurance coverage in respect of potential legal actions against its Directors and officers.

EQUITY-LINKED AGREEMENT

Except for the Share Option Scheme as defined and disclosed under the section headed "Share Option Scheme" below in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2019.

SHARE OPTION SCHEME

The Company conditionally adopted the Share Option Scheme on 9 September 2019, under which certain selected employees (including Directors and full-time employees) may be granted options to subscribe for the Shares to motivate them to optimize their future contributions to the Group.

(a) Purpose

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph (b) below) for their contribution to, and continuing efforts to promote the interests of, our Group and for such other purposes as the Board may approve from time to time.

(b) Eligible persons

The Board may, at its absolute discretion, offer eligible persons (being any director or employee (whether full time or part time), consultant or professional adviser of our Group who in the sole discretion of the Board has contributed to and/or will contribute to our Group) options to subscribe for such number of Shares in accordance with the terms of the Share Option Scheme (the "Eligible Persons").

(c) Maximum number of Shares to be issued

The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. At the time of adoption by our Company of the Share Option Scheme or any new share option scheme (the "New Scheme"), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, the New Scheme and all schemes existing at such time of our Company must not in aggregate exceed 26,000,000 Shares, representing 10% of the total number of the Shares in issue as at the Listing Date (representing 9.67% of the total number of the shares in issue as at the date of this annual report).

(d) Maximum entitlement of each participant

No option shall be granted to any Eligible Person if, at the relevant time of grant, the number of Shares issued and to be issued upon exercise of all options (including options exercised, cancelled or outstanding) to the relevant Eligible Person in the 12-month period expiring on the date on which a new offer of the grant of an option under the Share Option Scheme is made to the relevant Eligible Person would exceed 1% of the total number of Shares in issue at such time.

(e) Period of option

The date of grant of any particular option is the date on which the offer relating to such option is duly accepted by the grantee in accordance with the Share Option Scheme. An option may be exercised according to the terms of the Share Option Scheme and the offer in whole or in part by the grantee (or his personal representatives) before its expiry by giving notice in writing to our Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised provided that the number of Shares shall be equal to the size of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. Such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. No option may be granted more than 10 years after the date of approval of the Share Option Scheme.

(f) Exercise price

The subscription price for a Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be a price solely determined by the Board and notified to all Eligible Person and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to grant option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer to grant option; and (iii) the nominal value of the Share. A consideration of RMB1 is payable on acceptance of the offer of an option or options.

(g) Remaining life of the scheme

The Share Option Scheme shall be valid and effective for the period commencing on the Listing Date and ending on the tenth anniversary of the Listing Date (both dates inclusive).

During the year ended 31 December 2019 and up to the date of this annual report, no options had been granted, exercised, cancelled or lapsed under the Share Option Scheme, nor any options were outstanding under the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (a) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Interest in the Shares

Name of Directors/ Chief Executive	Capacity	Nature of Interests	Number of Shares	Approximate percentage of the issued share capital of the Company *(%)*
Mr. Tian Ye[1]	Interest in controlled corporations	Long position	138,079,057	51.33%
Mr. He Shiwei[2]	Interest in controlled corporations	Long position	6,735,312	2.50%

Notes:

1. Dashi Technology Holdings and True Thrive hold approximately 20.57% and 30.76% of the issued share capital of the Company, respectively. Pursuant to the Entrustment Arrangements under the Company Shareholder Rights Entrustment Agreement and the Chengdu Qilu Shareholder Rights Entrustment Agreement, True Thrive has entrusted its shareholder rights including its voting power at general meetings with respect to its shareholding in our Company to Dashi Technology Holdings. Dashi Technology Holdings is deemed to be interested in all the Shares and voting rights held by True Thrive. Dashi Technology Holdings is directly and wholly owned by Mr. Tian Ye who is therefore deemed to be interested in all the Shares held by Dashi Technology Holdings.

2. Hongmeng Investment holds 2.50% of the issued share capital of the Company. Hongmeng Investment is directly and wholly owned by Mr. He Shiwei. Mr. He Shiwei is therefore deemed to be interested in all the Shares held by Hongmeng Investment.

Save as disclosed above, as at 31 December 2019, neither the Directors nor chief executive of the Company (including their spouses and children under 18 years of age) had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, to the best knowledge of the Directors or chief executive of the Company, the Substantial Shareholders, other than the Directors or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of Substantial Shareholders	Capacity	Nature of interest	Number of Shares	Approximate percentage of the issued share capital of the Company (%)
Dashi Technology Holdings(Notes 1 and 3)	Beneficial owner	Long position	138,079,057	51.33
True Thrive(Notes 2 and 3)	Beneficial owner	Long position	82,745,082	30.76
360 Technology(Notes 2 and 3)	Interest in a controlled corporation	Long position	82,745,082	30.76
360(Notes 2 and 3)	Interest in a controlled corporation	Long position	82,745,082	30.76
Qixin Zhicheng(Notes 2 and 3)	Interest in a controlled corporation	Long position	82,745,082	30.76
Zhou Hongyi (周鴻禕)(Notes 2 and 3)	Interest in a controlled corporation	Long position	82,745,082	30.76
Songchang International(Note 4)	Beneficial owner	Long position	47,282,819	17.58
Songyuan International(Note 4)	Interest in a controlled corporation	Long position	47,282,819	17.58
Shanghai Gaoxin(Note 4)	Interest in a controlled corporation	Long position	47,282,819	17.58
Shanghai Songheng(Note 4)	Interest in a controlled corporation	Long position	47,282,819	17.58
Shanghai Dongfangwang(Note 4)	Interest in a controlled corporation	Long position	47,282,819	17.58

Notes:

1. Dashi Technology Holdings is directly and wholly owned by Mr. Tian Ye. Mr. Tian Ye is therefore deemed to be interested in all the Shares held by Dashi Technology Holdings.

2. True Thrive is wholly owned by 360 Technology, which is wholly owned by 360, which is ultimately held by Mr. Zhou Hongyi and Qixin Zhicheng. Each of 360 Technology, 360, Mr. Zhou Hongyi and Qixin Zhicheng is therefore deemed to be interested in all the Shares held by True Thrive.

3. Pursuant to the Entrustment Arrangements, True Thrive has entrusted its shareholder rights including its voting power at general meetings with respect to its shareholding in the Company to Dashi Technology Holdings. Dashi Technology Holdings is deemed to be interested in all the Shares and voting rights held by True Thrive.

4. Songchang International is directly and wholly owned by Songyuan International, which is in turn directly and wholly owned by Shanghai Gaoxin, which is in turn directly and wholly owned by Shanghai Songheng, which is in turn controlled by Shanghai Dongfangwang. Songyuan International, Shanghai Gaoxin, Shanghai Songheng and Shanghai Dongfangwang are therefore deemed to be interested in all the Shares held by Songchang International. Shanghai Dongfangwang is the controlling shareholder of Shanghai Songheng, and directly and through its subsidiary, Shanghai Dongfangwang Investment Company Limited* (上海東方網投資有限公司), holds in aggregate approximately 34.3566% of Shanghai Songheng. Shanghai Dongfangwang is in turn controlled by State-owned Assets Supervision and Administration Commission (國務院國有資產監督管理委員會) of Shanghai.

Save as disclosed above, as at 31 December 2019, so far as known to the Directors, no other persons (other than the Directors or chief executive) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Scheme" above in this annual report, at no time during the year ended 31 December 2019 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries or any of its holding companies or any of subsidiaries of its holding companies a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

EMPLOYEE RETIREMENT BENEFITS

Employees of the Group have mainly participated in a contribution pension scheme subsidized by government entities. The Group pays the required amount of contribution, which is based on a certain percentage of employees' base salary, to the scheme on a monthly basis. Pursuant to the scheme, the Group does not have any other material statutory or committed obligations in respect of the pension scheme.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the public float of the Company has satisfied the percentage prescribed in the Listing Rules since the Listing Date and up to the date of this annual report.

CONNECTED TRANSACTIONS

Details of the non-exempt connected transaction of the Group entered into during the year ended 31 December 2019 are as follows:

Acquisition of 20% equity interest in Liu Liuyou Technology

On 24 December 2019, Chengdu Qilu and Shenzhen FTX Technology entered into an acquisition agreement, pursuant to which Chengdu Qilu agreed to purchase and Shenzhen FTX Technology agreed to sell 20% equity interest in Liu Liuyou Technology. Before that, Liu Liuyou Technology was owned as to 68% by Chengdu Qilu, 20% by Shenzhen FTX Technology and 12% by Mr. He Shiwei (an executive Director of the Company).

Date:	24 December 2019	
Parties:	(i)	Chengdu Qilu, a deemed indirect wholly-owned subsidiary of the Company pursuant to the Contractual Arrangements, as the buyer; and
	(ii)	Shenzhen FTX Technology, as the seller.
Subject matter:	20% equity interest in Liu Liuyou Technology	
Consideration:	RMB26.6 million	

Upon completion of the acquisition, Shenzhen FTX Technology will cease to hold any equity interest in Liu Liuyou Technology, and Liu Liuyou Technology will be owned as to 88% by Chengdu Qilu and 12% by Mr. He Shiwei.

As Shenzhen FTX Technology holds more than 10% of Liu Liuyou Technology, a non-wholly owned subsidiary of the Company, Shenzhen FTX Technology is a substantial shareholder of Liu Liuyou Technology and therefore a connected person of the Company at the subsidiary level. Accordingly, the acquisition constitutes a connected transaction of the Company under the Listing Rules.

As the applicable percentage ratios in respect of the acquisition are more than 0.1% but less than 5%, the acquisition is subject to announcement, annual review and the reporting requirements, but is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Details of non-exempt continuing connected transactions of the Group conducted during the year ended 31 December 2019 are as follows:

Transactions	Actual transaction amount for the year ended 31 December *(RMB million)* 2019	Proposed annual cap for the year ended/ending 31 December *(RMB million)* 2019	2020	2021
Continuing connected transactions with 360 Group				
360 Master Sales Agreement	92.2	103.5	122.5	142.1
360 Master Purchase Agreement	1.5	2.4	2.6	2.9
Continuing connected transactions with Shanghai Songheng				
Songheng Master Sales Agreement	23.7	33.0	48.4	65.8
Songheng Master Purchase Agreement	2.1	3.0	3.0	3.0
Contractual Arrangements of the Group Note				
Dividends or other distributions made by Chengdu Qilu to the holders of its equity interests	Nil	Not Applicable	Not Applicable	Not Applicable

Note:

Stock Exchange Waiver and Annual Renewal

The Stock Exchange has granted a waiver that as long as the Company complies with the conditions disclosed on pages 323 to 325 of the Prospectus, it is exempted from strict compliance with the following matters: (i) strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value, i.e. an annual cap, for the fees payable to WFOE under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange.

I. Continuing Connected Transactions with 360 Group

1. *360 Master Sales Agreement*

The Group provided online advertising services principally through homepage directing and to a lesser extent through banner advertising ("Online Advertising Services") to 360 Group. The Group also generated revenue from Star World, a wholly-owned subsidiary of 360 Technology, through operation of the online games of Star World on the Group's online game platform ("Online Game Business").

The Company entered into a master agreement with 360 Technology dated 18 September 2019 (the "360 Master Sales Agreement") which sets out the terms and conditions upon which members of the Group will provide services to 360 Group. The 360 Master Sales Agreement is for a term of three years commencing from 1 January 2019. Upon expiry of the term, the 360 Master Sales Agreement will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

360 Technology is a controlling shareholder of the Company, and hence a connected person of the Company. As one or more than one of the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules will on an annual basis be more than 5%, the 360 Master Sales Agreement and the transactions contemplated thereunder will constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules and would require compliance with the announcement, annual review, reporting and the independent shareholders' approval requirements under the Listing Rules.

2. *360 Master Purchase Agreement*

The Group leased servers from Qihu Technology for data processing and storage purpose (the "Server Service").

The Company entered into a master agreement with 360 Technology dated 18 September 2019 (the "360 Master Purchase Agreement") which sets out the terms and conditions upon which members of the Group will procure Server Service from 360 Group. The 360 Master Purchase Agreement is for a term of three years commencing from 1 January 2019. Upon expiry of the term, the 360 Master Purchase Agreement will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

360 Technology is a controlling shareholder of the Company, and hence a connected person of the Company. As one or more than one of the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules will on an annual basis be more than 0.1% but less than 5%, the 360 Master Purchase Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company exempt from the independent shareholders' approval requirements and would require compliance with the announcement, annual review and reporting requirements under Chapter 14A of the Listing Rules.

II. Continuing Connected Transactions with Shanghai Songheng

1. *Songheng Master Sales Agreement*

The Group provided online advertising services principally through mini-page advertising to Shanghai Songheng in the past. We are of the view that the cooperation with Shanghai Songheng is more profitable as compared to that with other third party operators in consideration of the bigger volume of business of the Group with Shanghai Songheng and the fact that the cooperation with Shanghai Songheng is more stable.

The Company entered into a master agreement with Shanghai Songheng dated 18 September 2019 (the "Songheng Master Sales Agreement") which sets out the terms and conditions upon which members of the Group will provide services to Shanghai Songheng and/or its subsidiaries. The Songheng Master Sales Agreement is for a term of three years commencing from 1 January 2019. Upon expiry of the term, the Songheng Master Sales Agreement will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

Shanghai Songheng is a substantial shareholder and hence a connected person of the Company. As one or more than one of the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules will on an annual basis be more than 5%, the Songheng Master Sales Agreement and the transactions contemplated thereunder will constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules and would require compliance with the announcement, annual review, reporting and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. *Songheng Master Purchase Agreement*

Shanghai Zhanmeng Network Technology Company Limited* (上海展盟網絡科技有限公司) ("Shanghai Zhanmeng") and Shanghai Gaoxin Computer System Company Limited* (上海高欣計算機系統有限公司)("Shanghai Gaoxin") provided certain services to Chengdu Qilu. Shanghai Zhanmeng and Shanghai Gaoxin are both subsidiaries of Shanghai Songheng. The services (the "Songheng Service") provided by Shanghai Zhanmeng and Shanghai Gaoxin were mainly on-line advertising of Ludashi Software on the platform of Shanghai Songheng as well as directing services whereby users of Shanghai Songheng are directed to installation of Ludashi Software.

The Company entered into a master agreement with Shanghai Songheng dated 18 September 2019 (the "Songheng Master Purchase Agreement") which sets out the terms and conditions upon which members of the Group will procure Songheng Service from Shanghai Songheng and/or its subsidiaries. The Songheng Master Purchase Agreement is for a term of three years commencing from 1 January 2019. Upon expiry of the term, the Songheng Master Purchase Agreement will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement.

Shanghai Songheng is a substantial shareholder and hence a connected person of the Company. As one or more than one of the percentage ratios under Chapter 14A of the Listing Rules will on an annual basis be more than 0.1% but less than 5%, the Songheng Master Purchase Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company exempt from the independent shareholders' approval requirements and would require compliance with the announcement, annual review and reporting requirements under Chapter 14A of the Listing Rules.

Further details about the above continuing connected transactions are set out in the section headed "Connected Transactions" in the Prospectus.

III. Contractual Arrangements

No dividend nor other distribution was made by Chengdu Qilu to the holders of its equity interests for the year ended 31 December 2019. Please refer to the section headed "Contractual Arrangements" in this annual report for further details.

IV. Auditor's Confirmation in Relation to the Continuing Connected Transaction and the Contractual Arrangements

Deloitte Touche Tohmatsu, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu has issued its unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in connection with 360 Master Sales Agreement, 360 Master Purchase Agreement, Songheng Master Sales Agreement, Songheng Master Purchase Agreement and the Contractual Arrangements for the year ended 31 December 2019 in accordance with Rule 14A.56 of the Listing Rules, with an emphasis of matter paragraph in relation to the fact that the Company is not required to establish and announce an annual cap in respect of the continuing connected transactions in connection with the Contractual Arrangements for the year ended 31 December 2019. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The auditor has concluded in its unqualified letter that with regard to the continuing connected transactions in connection with 360 Master Sales Agreement, 360 Master Purchase Agreement, Songheng Master Sales Agreement, Songheng Master Purchase Agreement and the Contractual Arrangements for the year ended 31 December 2019:

(i) nothing has come to their attention that causes the auditor to believe that the continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;

(iv) nothing has come to their attention that causes the auditor to believe that the continuing connected transactions have exceeded the annual cap as set by the Group; and

(v) nothing has come to their attention that causes them to believe there were any dividends or other distributions made by Chengdu Qilu to the holders of its equity interests.

V. Independent Non-executive Directors' Confirmation in Relation to the Continuing Connected Transaction and the Contractual Arrangements

The independent non-executive Directors of the Company have reviewed the continuing connected transactions and Contractual Arrangements outlined above, and confirmed that such continuing connected transactions and Contractual Arrangements had been entered into:

(i) in the ordinary and usual course of business of our Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of our Company and our Shareholders as a whole.

CONTRACTUAL ARRANGEMENTS

The Group is engaged in online monetization in the form of online advertising and online game business. The operation of the online game business are subject to foreign investment restrictions under the PRC laws and regulations. As such, the Group operates the online game business through the PRC Operating Entities, namely Chengdu Qilu and its subsidiary, Liu Liuyou Technology, both of which were established under the laws of the PRC. The Group does not directly own any equity interest in Chengdu Qilu, which is held by the Relevant Shareholders, namely (i) Qihu Technology (41.6667%); (ii) Mr. Tian Ye (28.1155%);(iii) Shanghai Songheng (23.8095%); and (iv) Qilu Haochen (6.4083%).

In order to comply with the PRC laws and regulations and to maintain effective control over the operations of the PRC Operating Entities, WFOE entered into the Contractual Arrangements with Chengdu Qilu and the Relevant Shareholders (being the registered shareholders of Chengdu Qilu) (where applicable). Under the Contractual Arrangements, WFOE has acquired effective control over the financial and operational policies of the PRC Operating Entities and has become entitled to all the economic benefits derived from their operations.

Restrictions on Foreign Ownership

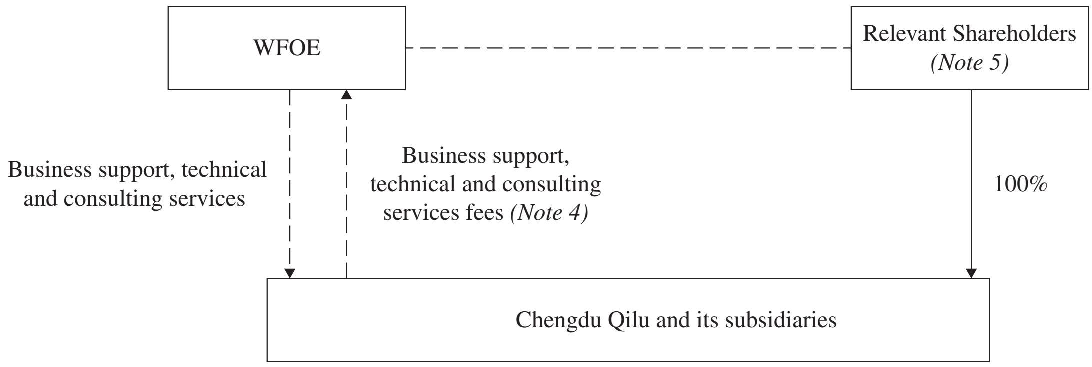
Foreign investment activities in the PRC are mainly governed by the Catalog, which was promulgated and is amended from time to time jointly by MOFCOM and the NDRC. The Catalog divides industries into four categories in terms of foreign investment, namely "encouraged," "restricted" and "prohibited" and all industries not listed under any of these categories are deemed to be "permitted."

Our business of operating online games that the PRC Operating Entities engage in is under the "prohibited" category and "restricted" category. Therefore, the Contractual Arrangements are used to enable us to conduct business that is subject to foreign investment restrictions in mainland China. We will unwind and terminate the Contractual Arrangements wholly or partially once our business is no longer prohibited or restricted to foreign investment.

Because foreign investment in certain areas of the industry in which we currently operate is subject to restrictions under current PRC laws and regulations outlined above, it was not viable for the Company to hold Chengdu Qilu and its subsidiaries directly through equity ownership. In line with common practice in industries in the PRC subject to foreign investment restrictions, the Company would gain effective control over, and receive all the economic benefits generated by the businesses currently operated by Chengdu Qilu and its subsidiaries through the Contractual Arrangements between WFOE, on the one hand, and Chengdu Qilu and the Relevant Shareholders, on the other hand. The Contractual Arrangements allow the results of operations and assets and liabilities of Chengdu Qilu and its subsidiaries to be consolidated into our results of operations and assets and liabilities under HKFRS as if they were wholly-owned subsidiaries of our Group.

The following simplified diagram illustrates the flow of economic benefits from Chengdu Qilu and its subsidiaries to our Group stipulated under the Contractual Arrangements:

(1) Powers of attorney to exercise all shareholders' rights in the PRC Operating Entities *(Note 1)*
(2) Exclusive option to acquire all or part of the equity interest in and/or assets of the PRC Operating Entities *(Note 2)*
(3) First priority security interest over the entire equity interest in the PRC Operating Entities *(Note 3)*



Notes:

(1) Please refer to "– Contractual Arrangements – Voting Rights Proxy Agreement and Powers of Attorney" in the Prospectus for details.

(2) Please refer to "– Contractual Arrangements – Exclusive Option Agreement" in the Prospectus for details.

(3) Please refer to "– Contractual Arrangements – Share Pledge Agreement" in the Prospectus for details

(4) Please refer to "– Contractual Arrangements – Exclusive Business Cooperation Agreement" in the Prospectus for details.

(5) The Relevant Shareholders are Qihu Technology, Mr. Tian Ye, Shanghai Songheng and Qilu Haochen, holding 41.6667%, 28.1155%, 23.8095% and 6.4083% in Chengdu Qilu, respectively.
"⟶" denotes direct legal and beneficial ownership in the equity interest and "- - ►" denotes contractual relationship.

The Contractual Arrangements comprise the following agreements: the Exclusive Option Agreement, the Exclusive Business Cooperation Agreement, the Share Pledge Agreement and the Voting Rights Proxy Agreement and Powers of Attorney as defined and with details set out below.

Business Overview of the Operating Entities

Chengdu Qilu is principally engaged in the online game operation.

Liu Liuyou Technology is principally engaged in the online game operation.

The PRC Operating Entities hold certain licenses and permits required for the operation of abovementioned business, referred to as the "Internet Content Provider License"("ICP License"). Our WFOE, namely Anyixun Technology, entered into the Contractual Arrangements with our PRC Operating Entities and the Relevant Shareholders (being the registered shareholders of our PRC Operating Entities) in order to conduct the business of online game operation in the PRC and to assert management control over the operations of, and enjoy all economic benefits of, each of our PRC Operating Entities. Pursuant to the Contractual Arrangements, all substantial and material business decisions of the PRC Operating Entities will be instructed and supervised by our Group, through Chengdu Qilu, and all risks arising from the business of the PRC Operating Entities are also effectively borne by Chengdu Qilu.

SUMMARY OF THE MAJOR TERMS OF THE ARRANGEMENTS COMPRISING THE CONTRACTUAL ARRANGEMENTS

Exclusive Option Agreement

Chengdu Qilu and the Relevant Shareholders entered into an exclusive option agreement with WFOE on 31 August 2018 (the "Exclusive Option Agreement"), pursuant to which WFOE (or a party designated by it, the "designee") was granted an irrevocable and exclusive right to purchase from the Relevant Shareholders and/or Chengdu Qilu all or any part of their equity interests in Chengdu Qilu for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, the Relevant Shareholders shall return any amount of purchase price they have received to WFOE.

At WFOE's request, the Relevant Shareholders will promptly and unconditionally transfer their respective equity interests in Chengdu Qilu to WFOE (or its designee) after WFOE exercises its purchase right. The Exclusive Option Agreement is for an initial term of ten years and is automatically renewable upon expiry until the purchased equity interests have been transferred to WFOE and/or its designees or a new renewed term confirmed by WFOE in writing is expired.

In order to prevent the flow of the assets and value of Chengdu Qilu and its subsidiaries to the Relevant Shareholders, during the term of the Exclusive Option Agreement, Chengdu Qilu is not allowed to, and shall procure its subsidiaries not to, sell, transfer, mortgage or otherwise dispose of any of its assets (exceeding the value of RMB1 million) without the prior written consent of WFOE.

In addition, Chengdu Qilu is not allowed to, and shall procure its subsidiaries not to, make any distributions to its shareholder(s) without the prior written consent of WFOE. In the event that the Relevant Shareholders receive any distribution from Chengdu Qilu and subject to the PRC laws, the Relevant Shareholders must immediately pay or transfer such distribution to WFOE (or its designee). If WFOE exercises its purchase right, all or any part of the equity interests in and/or assets of Chengdu Qilu acquired would be transferred to WFOE and the benefits of equity ownership and/or assets, as applicable, would flow to the Company and our Shareholders.

As provided in the Exclusive Option Agreement, without the prior written consent of WFOE, Chengdu Qilu shall not, and shall procure its subsidiaries not to, among other things:

(i) supplement, amend or revise its articles of associations, separate, dissolve or alter its form;

(ii) sell, transfer, pledge or dispose of in any manner any of its assets for a value more than RMB1 million;

(iii) execute any material contract for a value more than RMB1 million, except any contracts in the ordinary course of business;

(iv) provide any loan, financial support, pledge or guarantees in any form to any third party, or allow any third party to create any pledge or other security interest on its assets or equity;

(v) enter into any consolidation or merger with any third party, or acquire or invest in any third party; and

(vi) increase or reduce its registered capital, or alter the structure of the registered capital in any other way.

The Exclusive Option Agreement provides that the Relevant Shareholders and Chengdu Qilu shall procure the subsidiaries of Chengdu Qilu to comply with the above undertaking as if they are parties to the Exclusive Option Agreement. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on WFOE and the Company in the event of any loss suffered from Chengdu Qilu and/or its subsidiaries can be limited to a certain extent. In addition, in relation to the above restrictive provisions specified in the Exclusive Option Agreement, we will aggregate asset disposals or value of contracts if such asset disposals or value of contracts (i) are entered into by the Group with the same party or parties; or (ii) involve the disposal or contracts which relate to the whole or parts of the asset or securities or interests in a company or group of companies.

Exclusive Business Cooperation Agreement

Chengdu Qilu entered into an exclusive business cooperation agreement with WFOE on 31 August 2018 (the "Exclusive Business Cooperation Agreement"), pursuant to which Chengdu Qilu agreed to engage WFOE as its exclusive provider of business support, technical and consulting services, including technical services, network support, business consultation, intellectual property licensing, equipment, leasing, marketing consultancy, system integration, product research and development and system maintenance, in exchange for service fees. Without the prior written consent of WFOE, Chengdu Qilu and its subsidiaries shall not accept the consultation and/or service from any other third party, and shall not cooperate with any other third party. Under these arrangements, the service fees, subject to WFOE's adjustment, are equal to all of the net profit of Chengdu Qilu and its subsidiaries. WFOE may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of Chengdu Qilu and its subsidiaries from previous financial periods, which will be wired to the designated account of WFOE upon issuance of payment notification by WFOE. WFOE enjoys all the economic benefits derived from the businesses of Chengdu Qilu and its subsidiaries and bears Chengdu Qilu's business risks. If Chengdu Qilu runs into financial deficit or suffers severe operation difficulties, WFOE will provide financial support to Chengdu Qilu.

The Exclusive Business Cooperation Agreement is for an initial term of ten years and is automatically renewable upon expiry or extended by WFOE for a term determined by WFOE unless it is terminated according to certain circumstances provided in the Exclusive Business Cooperation Agreement.

Share Pledge Agreement

Chengdu Qilu, the Relevant Shareholders and WFOE entered into a share pledge agreement on 31 August 2018 (the "Share Pledge Agreement"). Under the Share Pledge Agreement, the Relevant Shareholders pledged as first charge all of their respective equity interests in Chengdu Qilu to WFOE as collateral security for any or all of their payments due to WFOE and to secure performance of their obligations under the Exclusive Business Cooperation Agreement, the Exclusive Option Agreement and the Powers of Attorney (as defined below). The Share Pledge Agreement will not terminate until (i) all secured debts and contractual obligations guaranteed by the Share Pledge Agreement are terminated or fulfilled and (ii) WFOE exercises its exclusive option to purchase the entire equity interests of the Relevant Shareholders in Chengdu Qilu pursuant to the terms of the Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws. In addition, under the Exclusive Option Agreement, none of the Relevant Shareholders may transfer or permit the encumbrance of any of their equity interests in and assets of Chengdu Qilu (including any equity interests in and assets of the subsidiaries of Chengdu Qilu) without WFOE's prior written consent. Furthermore, under the Exclusive Business Cooperation Agreement, WFOE is entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of Chengdu Qilu, which further strengthens the protection of WFOE's interests over Chengdu Qilu under the Contractual Arrangements. Should an event of default (as provided in the Share Pledge Agreement) occur, unless it is successfully resolved to WFOE's satisfaction within 30 days upon being notified by WFOE, WFOE may demand that the Relevant Shareholders and/or Chengdu Qilu immediately pay all outstanding payments due under the Exclusive Business Cooperation Agreement, repay any loans and make all other payments due to it, and/or dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to WFOE. The pledges under the Share Pledge Agreement have been duly registered with the relevant PRC legal authority pursuant to PRC laws and regulations.

Voting Rights Proxy Agreement and Powers of Attorney

The Voting Right Proxy Agreement was entered into between the Relevant Shareholders, WFOE and Chengdu Qilu on 31 August 2018 (the "Voting Rights Proxy Agreement"), pursuant to which, through the power of attorney (the "Powers of Attorney"), the Relevant Shareholders appointed WFOE or a director or any third party instructed by WFOE or its/his/her successor (including a liquidator replacing WFOE's director) as their exclusive agent and attorney to act on their behalf on all matters concerning Chengdu Qilu and to exercise all of its rights as a registered shareholder of Chengdu Qilu. These rights include:

(i) the right to propose, convene and attend shareholders' meetings;

(ii) the right to sell, transfer, pledge or dispose of shares;

(iii) the right to exercise shareholders' voting rights; and

(iv) the right to act as the legal representative (chairperson), the director, supervisor, the chief executive officer (or general manager) and other senior management members of Chengdu Qilu. The authorized person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of Chengdu Qilu on behalf of the Relevant Shareholders. The Relevant Shareholders have each undertaken to transfer all assets obtained after the winding up of Chengdu Qilu to WFOE at nil consideration or the lowest price permissible by the then applicable PRC laws.

As a result of the Powers of Attorney, the Company, through WFOE, is able to exercise management control over the activities that most significantly impact the economic performance of Chengdu Qilu. Shall an event of default (as provided in the Voting Rights Proxy Agreement) occur, unless it is successfully resolved to WFOE's satisfaction within a reasonable time or 10 days upon being notified by WFOE, WFOE may terminate the Powers of Attorney immediately and request the defaulting party to compensate the damages.

The Voting Rights Proxy Agreement shall automatically terminate once WFOE is permitted to directly hold the entire equity interests in Chengdu Qilu under the then PRC laws, following which WFOE is registered as the sole shareholder of Chengdu Qilu.

Further details about the above Contractual Arrangements are set out in the sections headed "Contractual Arrangements" and "Connected Transactions" in the Prospectus.

No Material Change

Save as disclosed above, as at the date of this annual report, there is no material change in the Contractual Arrangements and/or the circumstances under which they are adopted.

Revenue and Assets in relation to the Contractual Arrangements

Certain key financial information of Chengdu Qilu and its subsidiaries prepared in accordance with HKFRS for the year ended 31 December 2019 are set out below:

As of 31 December 2019, the net income of Chengdu Qilu and its subsidiaries was RMB4.6 million, representing a decrease of 92.5% as compared to RMB61.3 million for the year ended 31 December 2018. For the year ended 31 December 2019, the total revenue of Chengdu Qilu and its subsidiaries accounted for approximately 16.1% of the Group's revenue.

Confirmation from Independent Non-executive Directors

The independent non-executive Directors have reviewed the continuing connected transactions under the Contractual Arrangements for the year ended 31 December 2019 and confirmed that:

(i) the transactions carried out during the year ended 31 December 2019 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by the PRC Operating Entities (i.e. Chengdu Qilu and Liu Liuyou Technology) has been substantially retained by WFOE (i.e. Anyixun Technology);

(ii) no dividends or other distributions have been made by Chengdu Qilu to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and

(iii) any new contracts entered into, renewed or reproduced between the Group and Chengdu Qilu during the relevant financial period pursuant to the terms of renewal and cloning under the exemption granted by the Stock Exchange of Hong Kong Limited are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Company and the Shareholders as a whole.

Risks Relating to Contractual Arrangements and Measures Taken by the Company to Mitigate Risks

Risks Relating to Contractual Arrangements

- In order to comply with PRC laws and regulations limiting foreign ownership of internet businesses, we conduct our business through our consolidated affiliated entities in China by means of contractual arrangements. If the PRC Government determines that these contractual arrangements do not comply with applicable regulations, our business could be materially and adversely affected.

- Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the 2015 draft PRC foreign investment law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

- Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

- Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and Chengdu Qilu or its shareholders may fail to perform their obligations under our Contractual Arrangements.

- We may lose the ability to use and enjoy assets and licenses held by Chengdu Qilu and its subsidiaries that are important to the operation of our business if Chengdu Qilu or its subsidiaries declare bankruptcy or becomes subject to a dissolution or liquidation proceeding.

- Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

- Shareholders of Chengdu Qilu may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests.

- We conduct our business operation in the PRC through Chengdu Qilu and its subsidiaries by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws.

- If we exercise the option to acquire equity ownership of Chengdu Qilu, the ownership transfer may subject us to certain limitations and substantial costs.

Further details of these risks are set out in the section headed "Risk Factors – Risks Relating to Our Contractual Arrangements" on pages 63 to 70 of the Prospectus.

Measures Taken by the Company to Mitigate Risks

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

(a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

(b) the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(c) our Company will disclose the overall performance of and compliance with the Contractual Arrangements in its annual reports; and

(d) our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board with reviewing the implementation of the Contractual Arrangements, and review the legal compliance of our WFOE and the Operating Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Unwinding of Contractual Arrangements

It is the intention of the Group to unwind the Contractual Arrangements when foreign investment in value-added telecommunications services is no longer restricted in the PRC.

However, as at the date of the annual report, there is no unwinding of any of Contractual Arrangements or failure to unwind when the restrictions that led to the adoption of the Contractual Arrangements are removed.

Related Party Transactions

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in note 30 to the consolidated financial statements. Except for the transactions described in the section headed "Connected Transactions" above in this annual report, none of these related party transactions constitute connected transactions that are required to be disclosed under Chapter 14A of the Listing Rules.

The related party transactions disclosed in note 30 to the consolidated financial statements are not continuing connected transactions that require annual reporting under Chapter 14A of the Listing Rules. Therefore, such transactions need not comply with the disclosure requirements under Chapter 14A of the Listing Rules.

Audit Committee

The Audit Committee has reviewed with the management and external auditors the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2019.

Auditor

The financial statements for the year ended 31 December 2019 of the Group have been audited by Deloitte Touche Tohmatsu, the auditor of the Company, who shall retire and, being eligible, have offered itself for re-appointment as auditor of the Company at the AGM.

A resolution will be proposed at the AGM to reappoint Deloitte Touche Tohmatsu as the auditor of the Company and to authorize the Board to fix the remuneration of the auditor.

By order of the Board
360 Ludashi Holdings Limited
Tian Ye
Chairman

Hong Kong, 30 March 2020

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining and ensuring a high standard of corporate governance practices and the corporate governance principles adopted by the Company are in the interests of the Company and its shareholders.

The Company has adopted the applicable code provisions set out in the CG Code in Appendix 14 to the Listing Rules since the Listing Date. The Company was listed on the main board of the Stock Exchange on 10 October 2019. Except for code provision A.2.1 of the CG Code, the Company has complied with all the applicable code provisions set forth in the CG Code during the Reporting Period. The main corporate governance principles and practices of the Company and details of the above-mentioned deviation are summarized below.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the code of conduct for Directors to conduct securities transactions. The Company has made specific enquiry toward all Directors, and Directors have all confirmed that they complied with required standard set forth in the Model Code during the Reporting Period.

BOARD OF DIRECTORS

Composition of the Board of Directors

The Board of Directors currently consists of two executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board of Directors is set out below:

Executive Directors
Mr. Tian Ye *(chairman)*
Mr. He Shiwei

Non-executive Director
Mr. Sun Chunfeng

Independent Non-executive Directors
Mr. Li Yang
Mr. Wang Xinyu
Mr. Zhang Ziyu

Biographical details of Directors are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report.

Since the Listing Date, the Board has at all times met the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise, and independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Director has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

Chairman and Chief Executive Officer

Pursuant to code provision A.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate chairman and chief executive officer and Mr. Tian Ye currently performs these two roles concurrently. The Board believes that vesting the roles of both the chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group for more effective and efficient overall strategic planning for our Group. The Board considers that the balance of power and authority within our Group will not be impaired by the present arrangement and the current structure will enable our Company to make and implement decisions more promptly and effectively. The Board will from time to time review and consider splitting the roles of chairman of the Board and the chief executive officer of our Company to ensure appropriate and timely arrangements are in place to meet changing circumstances.

Appointment, Re-election and Dismissal of Directors

Each Director (including non-executive Director and independent non-executive Directors) has entered into a service contract or letter of appointment with the Company for a term of three years.

Pursuant to article 84(1) of the Articles of Association, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring director shall be eligible for re-election.

Pursuant to article 84(1) of the Articles of Association, Mr. Sun Chunfeng and Mr. Zhang Ziyu will retire from office by rotation at the AGM and shall be eligible for re-election.

Directors' Responsibilities for Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Directors also acknowledge their responsibilities to ensure that the financial statements of the Group are published in a timely manner.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The reporting responsibilities of the Company's external auditor on the financial statements of the Group are set out in the section headed "Independent Auditor's Report" in this annual report.

Responsibilities of and Delegation by the Board

The major powers and functions of the Board include, but are not limited to, convening the general meetings, presenting reports to the general meetings, implementing the resolutions passed at the general meetings, determining the operational plans and investment plans of the Group, determining the annual financial budgets and final accounts of the Group, determining the fundamental management systems of the Group, formulating profit distribution plans and loss recovery plans of the Group, and exercising other powers and functions as conferred by the Articles of Association.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Board reserves its right of decision for all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation of the Group and management of the Company are delegated to the management of the Company.

The Board and the management have clearly defined their authorities and responsibilities under various internal control and check and balance mechanisms. The Board shall not delegate matters to the Board committee(s), executive Directors or the management to an extent that would significantly hinder or reduce the ability of the Board as a whole to perform its functions.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors shall keep abreast of the Company's business and regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

The following table lists the training record for each Director during the Reporting period:

Name of Directors	Reading training materials relating to the Company's business, the duties and responsibilities of being a Director and regulatory requirements
Executive Directors	
Mr. Tian Ye	✓
Mr. He Shiwei	✓
Non-executive Director	
Mr. Sun Chunfeng	✓
Independent Non-executive Directors	
Mr. Li Yang	✓
Mr. Wang Xinyu	✓
Mr. Zhang Ziyu	✓

CORPORATE GOVERNANCE FUNCTION

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of directors and senior management;

- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- to review the Company's compliance with the code provisions of the CG Code and disclosure in the corporate governance report under the Listing Rules.

The Board has reviewed the policies and practices on corporate governance and this corporate governance report.

BOARD MEETINGS, BOARD COMMITTEES MEETINGS AND GENERAL MEETINGS

The Board should meet regularly and Board meetings should be held at least four times a year. At least a 14-day notice of all regular Board meetings shall be given to directors, who are given the opportunity to include other matters in the meeting agenda.

For the period from 10 October 2019 (the date on which the Company was listed on the Main Board of Hong Kong Stock Exchange) to 31 December 2019, the Company did not hold any Board meetings, board committee meetings nor any general meetings. The Company will fully comply with the requirement under the code provision A.1.1 of the CG Code of convening Board meetings at least four times a year at approximately quarterly intervals.

BOARD COMMITTEES

The Company has established three Board committees in accordance with the relevant laws and regulations and the corporate governance practice under the Listing Rules, including the Audit Committee, the Remuneration Committee and the Nomination Committee.

AUDIT COMMITTEE

The Audit Committee consists of three members: Mr. Zhang Ziyu, Mr. Wang Xinyu and Mr. Li Yang. The chairman of the Audit Committee is Mr. Zhang Ziyu.

The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and dismissal of the external auditor, monitor and review the financial statements and information, oversee the financial reporting system, risk management and internal control systems of our Company and perform corporate governance procedures of the Company.

The Audit Committee has not held any meeting during the Reporting Period.

NOMINATION COMMITTEE

The Nomination Committee consists of three members: Mr. Tian Ye, Mr. Wang Xinyu and Mr. Li Yang. The chairman of the Nomination Committee is Mr. Tian Ye.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of independent non-executive Directors; make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and chief executive officer of the Company; and to review the policy on Board diversity.

The Nomination Committee has not held any meeting during the Reporting Period.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three members: Mr. Wang Xinyu, Mr.Zhang Ziyu and Mr. Tian Ye. The chairman of the Remuneration Committee is Mr. Wang Xinyu. The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure for all Directors and senior management of the Group; to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; to review the remuneration of directors and senior management and ensure that no director is involved in deciding his own remuneration; and to consider and approve the grant of share options to eligible participants pursuant to the share option scheme.

The Remuneration Committee has not held any meeting during the Reporting Period.

BOARD DIVERSITY

Board diversity policy aims to achieve sustainable and balanced development, and the Company deems the increasingly diversified Board as a key factor in supporting its strategic objectives and sustainable development. In determining the composition of the Board of Directors, the Company will consider the diversity of board members from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and service tenure. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board. The policy is outlined as follows:

The Nomination Committee will discuss annually and agree to measurable objectives for the implementation of board diversity and make recommendations to the Board for adoption.

Selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and service tenure. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The composition of the Board (including gender, ethnicity, age and service tenure) will be disclosed annually in the corporate governance report.

The Nomination Committee will report annually, in the corporate governance report, on the Board's composition under diversified perspectives, monitor the implementation of this policy, and will review this policy in due course to ensure the effectiveness of this policy.

The Board comprises six members, including two executive Directors, one non-executive Director and three independent non-executive Directors. The Directors have a balanced mix of experiences, including business management, strategic development, direct selling and social commerce, public administration and management, finance, auditing and accounting experiences. The Board members also obtained degrees or diplomas in various majors including computer science, computer information management, science, marketing, industrial electronic automation, systems engineering and business administration. Furthermore, the ages of the Directors range from 30 years old to 50 years old. While we recognize that gender diversity at the Board level can be improved given its current composition of all-male Directors. We will strive to achieve gender balance of the Board through certain measures to be implemented by our nomination committee in accordance with our board diversity policy. We will actively identify female individuals suitably qualified to become the Board members and we aim to introduce female Board member to the Board.

To further ensure gender diversity of the Board in a long run, the Group will also identify and select several female individuals with a diverse range of skills, experience and knowledge in different fields from time to time, and maintain a list of such female individuals who possess qualities to become the Board members in order to develop a pipeline of potential successors to the Board to promote gender diversity of the Board.

NOMINATION POLICY

The Company has adopted a policy for nomination, pursuant to which, the Nomination Committee shall advise the Board on the appointment of any director in accordance with the following procedures and process:

1. When identifying or selecting suitable candidates, the Nomination Committee may seek any source of assistance as it sees fit, including referrals from existing directors, use of public advertisement or external consultancy services, and recommendations from the shareholders of the Company.

2. The Nomination Committee shall conduct preliminary review over the qualifications and conditions of the candidates for directorship by convening nomination committee meeting before recommending suitable candidates for directorship to the Board. The Board of Directors shall have the right of final decision in all matters relating to the nomination of candidates for election at the general meeting.

3. For details of the procedures for shareholders to nominate a person for election as a Director, please refer to the Procedures for Shareholders to Nominate a Person for Election as a Director (《股東提名人士參選董事的程序》) of the Company.

4. The candidate nominated by the Board of Directors to stand for election at a general meeting (the "Board Candidate(s)") and the candidate nominated by shareholders to stand for election at a general meeting (the "Shareholder Candidate(s)", together with the Board Candidate, the "Candidates") shall submit the necessary personal information, together with their written consent to be appointed as a director and to the public disclosure of their personal information for the purpose of or in relation to their standing for election as a Director. The Nomination Committee may request the Board Candidate to provide additional information and documents, if considered necessary.

The factors listed below would be used as reference by the Nomination Committee in assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to:

- reputation for integrity;
- professional qualifications and skills;
- achievements and experience in the Internet industry;
- time available for performing duties;
- independence of independent non-executive directors; and

- diversity in all aspects of the Board, including but not limited to gender, age (at least 18 years old), cultural and educational background, ethnicity, professional experience, skills, knowledge and service tenure.

REMUNERATION OF THE MEMBERS OF THE SENIOR MANAGEMENT BY BAND OF REMUNERATION

Details of the remuneration of the Directors are set out in Note 11 to the audited consolidated financial statements. Save as disclosed therein, the Company has another one senior management member.

Pursuant to paragraph B.1.5 of the CG Code, remuneration of senior management by band of remuneration for the year ended 31 December 2019 is set out below:

Remuneration bands	Number of individual
RMB1 to RMB1,000,000	**0**
RMB1,000,001 to RMB2,000,000	**1**
RMB2,000,001 to RMB3,000,000	**0**

EXTERNAL AUDITOR'S REMUNERATION

The remuneration of the auditor in respect of audit and non-audit services provided to the Group for the year ended 31 December 2019 is summarized as below:

Service Category	Fees payable or paid *(RMB'000)*
Audit Services	**1,800**
Non-audit Services	**150**
Total Fees	**1,950**

The audit service fee represents the service fee in connection with the annual audit for 2019. The non-audit services mainly represent the assurance service provided in relation to the calculations of the discounted future estimated cash flows in connection with the valuation of 20% equity interest in Liu Liuyou Technology acquired by the Group.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the risk management and internal control systems of the Company. The Board is committed to implementing an effective and sound risk management and internal control system to safeguard the interest of the shareholders and the assets of the Company. The Board has appointed the management to implement the risk management and internal control system within the delegated scope, as well as to review all control and risk management functions in respect to finance, operation, and compliance with laws and rules.

The Board acknowledges that it has responsibility to ensure that the Company has established and maintained adequate and effective risk management and internal control systems and to review their effectiveness. The Board delegates its responsibility to the audit committee to review the practices of the management on an annual basis with respect to risk management and internal control, including the design, implementation and supervision of the risk management and internal control systems, and review the effectiveness thereof.

To cope with various risks associated with the Group's operations, we have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. Key risk management objectives of the Group include: (i) identifying different risks of our operations; (ii) assessing and prioritizing the identified risks; (iii) developing appropriate risk management strategies for different risks; (iv) execution of measures to respond to risks; and (v) monitoring and managing risks and our risk tolerance level.

The Board oversees and manages the overall risks associated with the Group's operations. The Company has adopted a series of internal control policies, procedures and programs designed to achieve objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Key points of the Company's internal control system include the following:

- Our Directors and senior management attended training session in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;

- We have adopted various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, continuing connected transactions and information disclosures;

- We have implemented internal control policies related to financial management, including treasury management, financial reporting and disclosure, and budgetary management; and

- We have implemented a series of internal rules and policies relating to our business operations.

The Board has the responsibility for evaluating and determining the nature and extent of the risks that the Group is willing to take in achieving operation objectives to uphold the principle of balanced risk and return, ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems, and overseeing the management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems regularly. The Board should ensure that a review of the effectiveness of the Group's risk management and internal control systems has been conducted at least annually. Such systems are designed to manage rather than eliminate the risk of failure to achieve operation objectives, and can only provide reasonable and not absolute assurance against material error or loss.

The Company has set up an internal audit department to analyse and evaluate the Company's risk management and internal control systems. The results of internal audits and reviews will be reported to the audit committee and the board of directors. Within the scope of review on internal control, the internal audit department believes that the Group's internal control system has no significant control defects. The review results have been reported to the audit committee and the board of directors.

EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board conducted an annual review over the effectiveness of risk management and internal control systems of the Group for the year ended 31 December 2019, and the management confirmed the effectiveness of the risk management and internal control systems within their terms of reference during the year. The Board believes, without any evidence to the contrary, the Company has provided reasonable assurance as to compliance with the risk management and internal control systems for the year ended 31 December 2019, which has prevented any significant financial misstatement or loss, and included protection of assets, appropriate maintenance of accounting records, reliability of financial data, compliance with applicable laws and regulations, and identification and control of business risks. In connection with the effectiveness of risk management and internal control systems, the Board has confirmed that no significant areas of concern have been identified and believes that the system remains effective and adequate, including sufficient resources, appropriate qualifications and experiences of our employees, and employee training programs, and that there are adequate budgets for accounting, internal audit, and financial reporting functions.

DISCLOSURE OF INSIDE INFORMATION

The Group has established policies for external communication and disclosure of inside information. The Company's procedures for handling and releasing inside information in accordance with the policies and internal control measures are as follows:

(i) The insiders and/or officers of the Group must disclose the inside information to the public to the extent reasonably practicable.

(ii) The Board of Directors of the Group shall take reasonable measures to keep the inside information and the relevant announcement (if applicable) confidential until published.

(iii) All inside information must be kept strictly confidential.

(iv) Disclosure must be made in a manner that provides the public with an equal, timely and effective access to the information, such as through the electronic publication system operated by the Stock Exchange.

Each Director, manager or company secretary or any other person involved in the management of the Group shall take all reasonable measures from time to time to ensure that the Group has adequate precautionary measures to prevent itself from breaching the disclosure requirements.

Generally, no employee or Director may disclose, discuss or share with outside parties (except for communication with the Group's advisers who bear the responsibility of confidentiality, and other categories of persons as allowed under the laws) the information of price-sensitive nature about the Company that has not been released to the public.

COMPANY SECRETARY

Mr. Cheng Ching Kit ("Mr. Cheng") is the company secretary of the Company. Mr. Cheng is a manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional service provider specializing in corporate services. His principal contact person in our Company is Mr. Zhang Fanchen, our chief financial officer.

For the year ended 31 December 2019, Mr. Cheng has received no less than 15 hours of professional training in relation to reviewing Listing Rules and other compliance requirements.

PROCEDURES OF SHAREHOLDERS TO CONVENE EXTRAORDINARY GENERAL MEETINGS AND PRESENT PROPOSALS AT THE GENERAL MEETINGS

In accordance with article 58 of the Articles of Association, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. Such meeting shall be held within 2 months after the deposit of such written requisition.

For Shareholders' right to nominate candidates for directors, please refer to "Procedures for Shareholders to Nominate a Person for Election as a Director" on the website of our Company.

DIVIDEND POLICY

The Company has adopted a dividend policy.

In accordance with the dividend policy, in deciding whether to propose the payment of dividends and the amount of dividend payable, the Board will take into consideration the following factors of the Group, including but not limited to:

- overall business performance
- financial results
- capital requirements and surplus
- shareholders' interests
- any limitation from contracts or agreements on payment of dividends by the Company
- any other factors as the Board may consider relevant

The Company will continue to review its dividend policy in light of its financial position and the current economic environment.

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

The Board considers that effective communication with its shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. Shareholders and investors may send written enquiries or requisitions to bring to the attention of the Board through the following methods:

Address of Ludashi: No. 1124, 11/F, Tianfu Software Site E1, High-tech Zone, Sichuan Province
E-mail: ir@ludashi.com

Shareholders, investors and members of the public should direct their questions about their shareholdings to the Company's Hong Kong Share Registrar. The contact details for the Hong Kong Share Registrar are as follows:

Tricor Investor Services Limited

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: (852) 2980 1333
Fax: (852) 2810 8185
Email: is-enquiries@hk.tricorglobal.com

CONSTITUTIONAL DOCUMENTS

The Articles of Association were approved on 9 September 2019 by special resolution and with effect from the Listing Date. There were no significant changes in the Articles of Association from the Listing Date and up to the date of this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

The report is the first environmental, social and governance report (the "ESG Report) published by 360 LUDASHI HOLDINGS LIMITED (the "Company", the "Group" or "we"). The purpose of this report is to summarize the principles and sustainability philosophy upheld by the Group in fulfilling our corporate social responsibility and the challenges faced by it in 2019, and illustrate our corporate social responsibility vision and commitments.

Reporting Standards

The report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "Guide") as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") with contents that comply with the disclosure requirements and principles under the Guide.

Reporting Scope

The reporting scope includes all areas of business over which the Group has financial significance and operational influence, as well as those of environmental, social and governance significance to the Group and its stakeholders. The content of the report mainly focuses on the core businesses of the Group, and overall performance of the fulfillment of sustainability and corporate social responsibility from 1 January 2019 to 31 December 2019 (the "Year" or the "Reporting Period"). The content of the report also complies with the disclosure requirements and principles under the Guide and includes the key performance indicators at environmental and social aspects of the Company's 4 offices (Beijing Regional Office, Chengdu Regional Office, Shenzhen Regional Office and Fuzhou Regional Office) and 2 stores.

Preparation of the Report

In preparing the report, we have received support from all stakeholders of the Company and gained a better understanding of the Company's current situation of environmental and social aspects. The report summarizes our efforts on environmental and social aspects and helps the Company in developing the short-term and long-term sustainability strategies.

Feedback on the Report

The Group highly values your feedback on the report. Should you have any questions or suggestions, please do not hesitate to contact us through the following email address (ir@ludashi.com).

2. PRINCIPLE OF SUSTAINABLE DEVELOPMENT

The Group focuses on software and Internet services, and our mission is to offer the users joy and convenience from their use of smart devices. The Group proactively builds the entire value chain of sustainable development services and embodies our corporate social responsibility. We have been committed to beautifying the environment, and have made positive contributions in enhancing the environmental awareness of our employees, promoting their participation in environmental protection, supervising the environmental behavior of others and promoting environmental protection in buildings.

2.1. Environmental, Social and Governance System

The board of directors of the Group takes full responsibility for the environmental, social and governance strategies and the report thereof, and is responsible for assessing and determining environmental, social and governance related risks, as well as ensuring the appropriateness and effectiveness of the relevant risk management and internal control systems. In order to implement the sustainable development policies into our daily operations, the Group will set up the Environmental, Social and Governance Committee in the coming year to manage our environmental, social and governance related risks, and to implement such environmental, social and governance policies.

2.2. Stakeholder Engagement

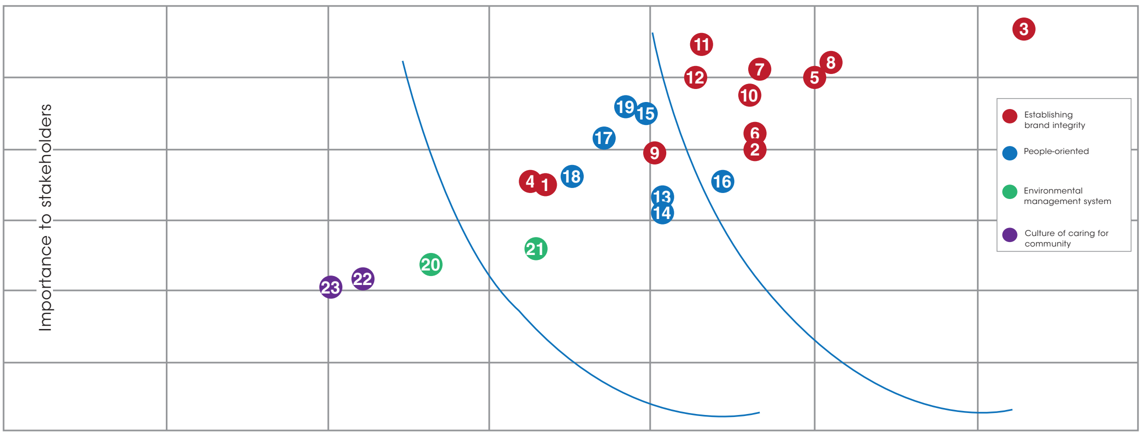
Support from our stakeholders is the basis for the stable development of the Group's businesses, which helps us identifying existing and potential risks and opportunities, and stakeholder engagement is also an integral part of our sustainable development strategy. Therefore, the Group attaches great importance to stakeholder engagement, especially the opinions on environmental, social and governance issues, including our customers, employees, shareholders/investors, business partners, suppliers and community. Communication with stakeholders through diversified channels allows us to understand their major concerns. Their opinions form an important basis for the Group in formulating our sustainable development strategy.

Major stakeholders	Main participation channels
Customers	Customer satisfaction surveys and opinion form, customer service center, activities, daily operation/communication, online service platform, customer hotlines and emails
Shareholders	Annual general meeting, corporate communications and shareholders visits
Employees	Employee opinion survey, employee suggestion box, performance appraisal, group discussions, face-to-face interviews and performance discussions
Investors	Results announcement and senior management meetings
Business partners	Meetings and visits
Regulatory authorities	Meetings and written responses to public inquiries
Suppliers	Supplier management programs, meetings, supplier evaluation systems and site inspections
Peers	Strategic cooperation projects and Group notice
Communities	Donation, seminars/lectures/workshops and meetings

2.3. Materiality Assessment and Matrix

We have an online questionnaire in place and invite various stakeholders to give their opinions. Material topics that are the most relevant and have the most significant impact on the Group and our stakeholders, and stakeholders expect us to manage and disclose. In 2019, a materiality assessment was conducted to draw a materiality matrix and review our material topics. Upon reviewing, a total of 23 material topics were identified by the Group. The overall materiality for material topics in the upper right corner of the materiality matrix shown in the following chart has been determined by the aggregated score assigned by our internal and external stakeholders.

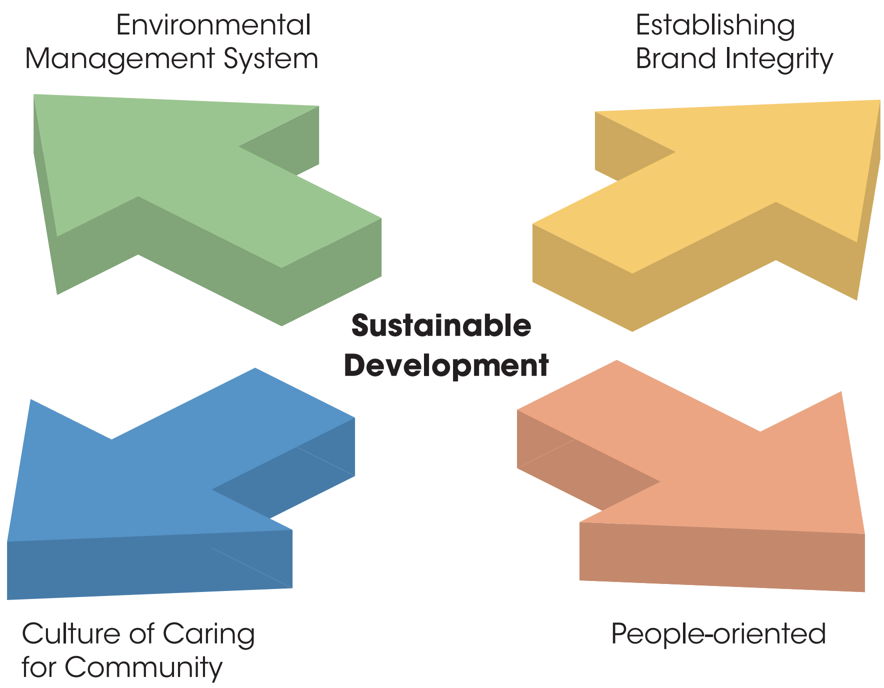
Materiality analysis matrix for ESG issues



1. Economic performance
2. Market competitiveness
3. Compliance with laws and regulations
4. Responsible sourcing
5. Quality control
6. Technology development and application
7. Privacy protection
8. Anti-fraud and anti-corruption
9. Whistleblowing system
10. Complaints handling and response mechanism
11. Protection of intellectual properties
12. Promotion and product/service labeling
13. Employment interests
14. Labor relations
15. Occupational health and safety
16. Employee diversity, non-discrimination and equal opportunities
17. Prevention of child and forced labor
18. Staff training and development
19. Qualifications and professional conduct
20. Energy consumption and benefits
21. Environmental awareness of employees
22. Community culture
23. Community investment and engagement

The sustainable development strategies of the Group covers professional teams, environment and community aspects. While promoting development of business, we also continue to enhance our effectiveness in environmental, social and governance.

According to the comprehensive analysis result of the above materiality assessment issues, we have four outlines for sustainable development strategies during the year, namely "Establish Brand Integrity", "People-oriented", "Environmental Management System" and "Community Culture Engagement".



3. ESTABLISH BRAND INTEGRITY

The Group is mainly engaged in development of PC and mobile devices utility software, online advertising service and online game business, to further expand the user scale, achieve continuous growth, and enhance incubation capabilities of our products, so as to drive related games and e-commerce services and strengthen our monetization ability and promote our electronic devices sales. The Group complies with the Cayman Companies Law, the PRC Company Law (《中華人民共和國公司法》), the Listing Rules of the Stock Exchange, and the laws and regulations of the place where we operate. Through adhering to legal and compliant operations, we continuously improve the internal supervision and management system to eliminate corruption, take effective measures to protect intellectual properties, with a view to improve the quality of customer service, and enhance the standards of supplier management.

Awards of the Group in 2019:

- The 6th place at the "2019 Deloitte Technology Fast 20 & Chengdu Rising Star" by Deloitte China
- "Top 20 Internet Growth Companies in China" by Internet Society of China
- "2019 Deloitte Technology Fast 50 & China Rising Star" by Deloitte China

3.1. Customer Service

There is a desire from the Group to offer the users joy and convenience from their use of smart devices and enhance users' experience in enjoying products. Therefore, we have expanded the communication channels for customer service complaints, such as solving problems for users by telephone, WeChat, online customer service tools, email responses, online system robot self-help answers and related remote software. Through the records of online tools, we track the history of interaction, and respond to relevant requests in a timely manner, so as to improve the quality of interaction with customer services.

We have established a comprehensive customer complaint mechanism to handle complaints and disputes in an efficient and proper manner. The sources of complaint include emails, telephone complaints and online complaints. In order to avoid the improper handling of complaint, through recording the content of the complaint, determining the responsibility for handling the complaint, and analyzing the cause of the complaint, we propose the corresponding specific solution, implement the handling plan, and communicate with relevant departments to improve countermeasures, the basic work process is:

- The customer service receives the complaint, classifies and records the content of the complaint;
- After reviewing the content of complaint, we provide satisfactory solutions for effective complaints;
- After handling the complaint, the customer service understands the complaint handling and user acceptance with the relevant department and conducts analyze.

We also set up upgrading user service and priority service by specialists to strengthen the maintenance and holiday care, and with a view to cater for customer needs in an all-round way.

During the year, the Group received a total of 11,894 complaint cases, with a customer satisfaction of 86%.

3.2. Customer Privacy

Ensuring the information security of the Group and customers is a top priority for us. We comprehensively upgrade the protection of user privacy and account information security and have put in place relevant systems and procedures. We strictly abide by the relevant laws and regulations such as the Cyber Security Law of the PRC (《中華人民共和國網絡安全法》), the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》), the Ministry of Public Security issued the Regulations on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》) and the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》). We have developed the "Information System Management System" to standardize our security incident handling procedures and designated emergency teams. Each team member has signed and complied with the Security Responsibility Letter for Key Positions of Information Systems (《信息系統關鍵崗位安全責任書》).

To comply with the Systematic Real Name Certification Measures on Online Games Addiction Prevention* (《網路遊戲防沉迷系統實名認證方案》), game players shall register their game accounts on our platform and collect their names and identification numbers. With the secure storage technologies and the information security service provided, we protect the security of the information we collect.

With the standardized user account management, regular inspection, system change workflow, backup settings and data processing, we plan and develop information security system, review its effectiveness and availability through daily security management, operation and maintenance works, revise and improve the system on a regular basis.

3.3. Honest Enterprise

The Group strictly abides by laws and regulations such as the Criminal Law of the PRC (《中華人民共和國刑法》), the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》) and the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), to have a comprehensive control on internal control audit and monitoring, elimination of corruption culture and risk management. In order to enhance the risk management and contingency capabilities, we have prepared the "Internal Audit and Monitoring System" to regulate our internal management processes and employee behavior standards.

To further strengthen to monitor the daily operations of the Group, we have established the "Conflicts of Interest Policy", "Anti-fraud Policy" and "Whistle-blowing Policy", to eliminate any corruption such as bribery, extortion and money laundering to establish a culture of integrity, diligence and dedication to one's job.

We provide whistle-blowing channels for employees with a safe manner to report issues involving business ethics. The Group will conduct investigations when various misconduct is found and take corrective actions. The Group will handle all disclosed information in a confidential and prudent manner.

In 2019, the Group was not involved in corruption case.

3.4. Supply Chain Management

The Group strictly complied with the Law of the PRC on Bid Invitation and Bidding (《中華人民共和國招標投標法》), the Regulation on the Implementation of the Law of the PRC on Bid Invitation and Bidding (《中華人民共和國招標投標實施條例》), and relevant local laws and regulations of the place of operation, to continuously strengthen the supply chain management.

During the year, there were more than 13 five largest suppliers related to the Group's business, all of which were from China and mainly provide overseas purchases volume, game purchases volume, mobile end purchases volume and office supplies. We proactively evaluate and manage suppliers, and are committed to working with suppliers to develop in a steady manner.

In order to strengthen the management of the supply chain, we have developed "Procurement Service Management System" to set out the procurement process clearly. We will base on the evaluation items specified in the "Supplier Evaluation Form" in selecting a supplier. We will also conduct an annual review on the suppliers and propose improvement suggestions for qualified suppliers, as the case may be, so as to promote them to improve service quality.

3.5. Consistent Discharge of Responsibilities

In terms of information disclosure, the Group strictly abides by the Advertising Law of the PRC (《中華人民共和國廣告法》), the Patent Law of the PRC (《中華人民共和國專利法》), the Copyright Law of the PRC (《中華人民共和國著作權法》), the Trademark Law of the PRC (《中華人民共和國商標法》) and the Law of Intellectual Property Rights of the PRC (《中華人民共和國知識產權法》) and other laws and regulations, closely review the information disclosed throughout our businesses. We take great care in advertisements and matters related to intellectual property to ensure that we deliver complete, true and accurate information to the public and eliminate all fraudulent use of false and misleading trade descriptions. Any advertisements must go through internal review and external monitoring. Once found inappropriate, the advertisement would be withdrawn and rectified in a timely manner. The Group endeavours to safeguard all legal rights of intellectual property rights, legal patent rights, trademark rights and copyrights of the Group and our business partners. Confidentiality is held in high regard in order to further strengthen the quality of project resources within the Group. All involved parties are not allowed to disclose or deliver relevant information to others during the product development and creation process.

We have established relevant product testing procedures, in which employees are required to follow the procedural, regulative and standardized principles to ensure that products meet the requirements and can also execute project management and testing.

There was no products that need to be recalled due to safety and health issues during the reporting period.

4. PEOPLE-ORIENTED

The Group pursues a people-oriented business philosophy, regards our employees as our most valuable assets, protects the legal rights and interests of employees, provides competitive compensation and benefits, and promotes the personal and professional development of employees. We have compiled the "Employee Handbook", which introduces various rules and regulations within the Group, and clarify the rights and responsibilities of employees, improving our talent management system. As of 31 December 2019, the Group had 184 employees.

4.1. Employment Practices

In strict compliance with relevant labor laws and regulations such as the Labor Law (《勞動法》), the Labor Contract Law (《勞動合同法》), the Law on the Protection of Minors (《未成年人保護法》) and the Provisions on the Prohibition of Child Labor (《禁止使用童工規定》) of the PRC, the Group prohibits any form of employment discrimination, forced labor exploitation as well as employment of child labor and has a zero tolerance policy for any form of discrimination or harassment. During the reporting period, there had been no case of non-compliance in respect of employment of child labor or forced labor involving the Group.

In order to standardize the recruitment management of the Group, we have stipulated the recruitment and induction process, which clearly lists the procedures for recruitment request, interview screening, approval and hiring, and induction process. The applicant's abilities, qualifications and skills, development potential and values are the main considerations for our recruitment of employees, their gender, age, ethnicity, and family background will not affect their employment opportunities. During the recruitment process, we conduct strict background check on the identities of applicants and verify their identities to avoid child or forced labor.

The following are the KPIs in the aspects of employment:

Total number of employees			2019
Total number of employees	Number of people		**184**
Total number of female employees	Number of people		**56**
Total number of male employees	Number of people		**128**
By employee category			
Short-term contract/part-time employees	Number of people		**11**
Junior employee	Number of people		**170**
Senior management	Number of people		**3**
By age group			
Below 30	Number of people		**111**
30-50	Number of people		**73**
By geographical region			
Northern China	Number of people		**6**
Southern China	Number of people		**178**
Occupational health and safety			
Work-related fatalities		**Male**	**Female**
Number of work-related injuries	Number of people	0	0
Number of work-related fatalities	Number of people	0	0

4.2. Benefit and Welfare

We have formulated the "Employee Handbook", specifying the employees' welfare, attendance management, employee development, basic codes and other requirements, entitle employees to have professional development under a fair system. The Company implements a five-day work system. We adopt flexible methods to arrange working hours by taking into account of the instability of traffic conditions.

In addition to various statutory paid leaves and benefits according to the Labor Law of the PRC (《中華人民共和國勞動法》), our employees are entitled to marriage leave, paternity leave, maternity leave and consolation leave. We provide "Five Social Insurances and One Housing Fund", including endowment insurance, unemployment insurance, work injury insurance, medical insurance and maternity insurance. We will also provide employees with basic and supplementary medical insurances.

We also provide employees with basic benefits such as meal allowances, traditional holiday gifts, employee birthday parties and employee care to balance their work pressure and build a team spirit.

The annual dinner is an annual gala that engages all employees, all departments prepared programs to express the sense of belonging to the Company.

Grand annual dinner

Enjoyable time at the annual dinner

We regularly review the policies of remuneration and benefits packages to attract and retain talents. We adjust the salary and remuneration of employees per annum according to their own performance, the market pay rates, price index and development changes. The Group has developed a performance appraisal system to regularly conduct objective, fair and transparent quarterly performance appraisal and annual appraisal for employees, evaluating their performance, determining the year-end performance bonus and quarterly bonus based on the performance appraisal results to reward their past contributions and efforts, also expect to stimulate the working enthusiasm of employees.

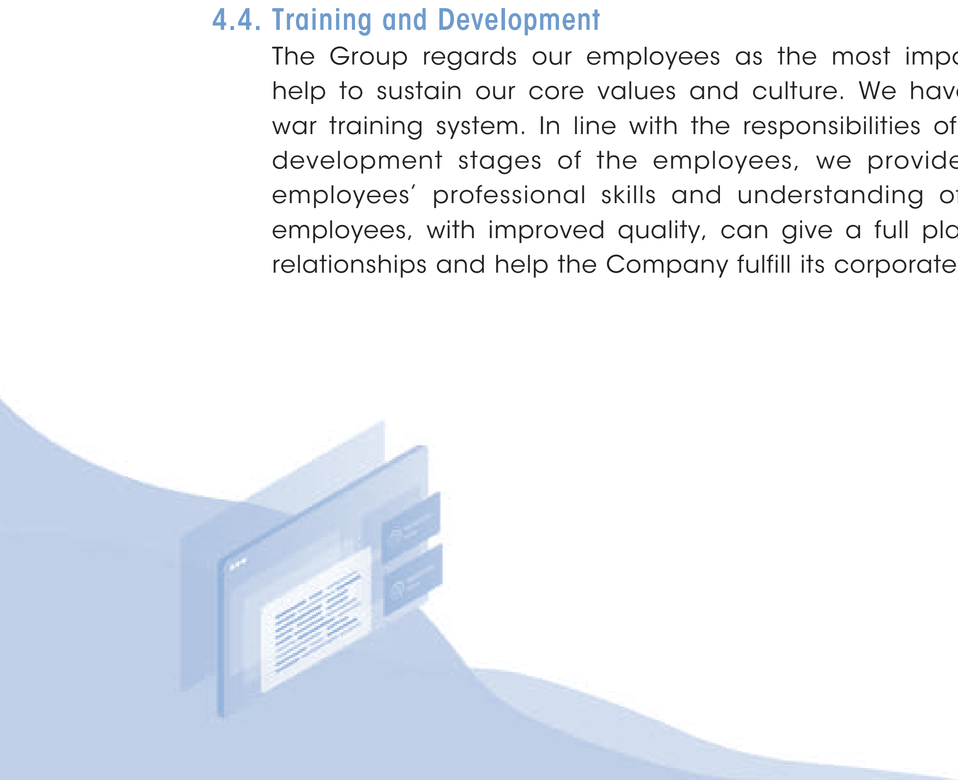
4.3. Health and Safety

We strictly abide by relevant laws and regulations, such as the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), the Law of the People's Republic of China on Work Safety (《中華人民共和國安全生產法》), the Regulations on Supervision and Administration of Occupational Health in Workplace (《工作場所職業衛生監督管理規定》) and the Regulation on Work-Related Injury Insurances (《工傷保險條例》), and strive to provide employees with a safe working environment. During the reporting period, the Group was not aware of any non-compliance with any relevant laws and regulations regarding the provision of a safe working environment and protection of employees to avoid occupational hazards. The Group has no working days lost due to work-related injuries or fatalities caused by any serious work accident.

To implement the policy of safe operation, we require our employees to strictly abide by such labor disciplines during their work and provide employees with the necessary protective equipment. The Group also instills in the employees the accident prevention and emergency response capabilities from time to time. We also conduct general safety education for new employees, including safety regulations and emergency measures of the Company.

4.4. Training and Development

The Group regards our employees as the most important asset and resource as they help to sustain our core values and culture. We have developed a Techmark business war training system. In line with the responsibilities of different positions and the career development stages of the employees, we provide targeted training to strengthen employees' professional skills and understanding of our corporate culture. Thus the employees, with improved quality, can give a full play to their potentials, build positive relationships and help the Company fulfill its corporate commitments.



Case: Techmark Business War Training	In 2019, the Group organized the management trainings to further understand the Company's development strategy, broke the habitual thinking patterns through lecturing and activity expansion, and developed innovative thinking patterns that create value. The trainings not only effectively improved the comprehensive quality of the Company's management team, but also cultivated the vision of globalization and international operation.

5. ENVIRONMENTAL MANAGEMENT SYSTEM

Global climate change is a global topic of continuous concern. In order to achieve emission reduction targets, the world must reduce greenhouse gas (GHG) emissions to zero by 2055. As a part thereof, the Group pays attention to and attaches great importance to the best practices of sustainable development. The Group strictly abides by laws and regulations related to environment, manages sustainable development issues, improves employees' environmental awareness, so as to reduce emissions, make the best of resources, waste management and environmental compliance measures. During the year, the Group did not violate laws and regulations related to environmental protection such as the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) and the Law of the PRC on the Prevention and Control of Pollution (《中華人民共和國污染防治法》).

5.1. Low Carbon Culture

Through the report, the Group accurately collects environmental data and will file them in a complete manner in order to track the source of the data and prepare for the establishment of future indicators and targets. The GHG emissions performance during the year is calculated according to the "Greenhouse Gas Protocol" developed by the World Resources Institute and the World Business Council for Sustainable Development and the ISO14064-1 set by the International Standards Organization. The GHG emissions are summarized as follows:

GHG Emissions Performance	Unit	2019
GHG Emissions		
Direct GHG emissions (Scope 1)	tonnes carbon dioxide equivalent (CO_2e)	**3.55**
Indirect GHG emissions (Scope 2)	tonnes CO_2e	**122.13**
Other indirect GHG emissions (Scope 3)	tonnes CO_2e	**2.59**
Total GHG emissions (Scope 1, 2 & 3)	tonnes CO_2e	**131.20**
GHG Emissions Intensity		
Emissions Intensity per square meter	tonnes CO_2e/square meter	**0.036**

Scope 1: Direct GHG emissions generated from sources owned and controlled by the Company.

Scope 2: GHG emissions indirectly generated from electricity generation, heating and cooling or steam purchased by the Company.

Scope 3: GHG emissions that are not owned or directly controlled by the Company but are indirectly generated from sources related to the Company's business activities.

According to the result of the carbon audit, the Group's GHG emissions can be divided into direct emissions (Scope 1) and indirect emissions (Scope 2 and Scope 3). The GHG emissions in each scope are generated from fuel consumption by vehicles of the Group (Scope 1), electricity consumption (Scope 2) and waste disposed at landfills and paper consumption (Scope 3).

The total GHG emissions during the year were 131.20 tonnes CO_2e, with intensity of 0.036 tonnes CO_2e/square meter.

5.2. Air Emissions

Vehicle emission is one of air emissions sources that our country has been working to regulate. By understanding the fuel consumption and driving kilometers of vehicles of the Group during the year, the emissions of nitrogen oxides, sulfur oxides and particulate matter were 32.17 kg, 0.02 kg and 3.08 kg respectively.

5.3. Energy Management

During the year, the total electricity consumption of the Group during the operation was 211,631 kWh[1], while the total electricity consumption intensity was 58.37 kWh per square meter. In the coming year, we will continue to monitor the electricity consumption of our business operations.

Electricity consumption		2019
Total electricity consumption	kWh	**211,631**
Total electricity intensity (per square meter)	kWh/square meter	**58.37**

Note 1: Some stores just opened for business.

5.4. Use of Water Resources

During the year, the total water consumption and intensity of the Group during the operation were 1,957 cubic meters and 0.54 cubic meter per square meter.

Water consumption		2019
Total water consumption	cubic meter	**1,957**
Total water consumption intensity (per square meter)	cubic meter/square meter	**0.54**

5.5. Waste Management

The Group strictly complies with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) and the PRC Law on the Prevention and Control of Solid Waste Pollution (《中華人民共和國固體廢物污染環境防治法》), to properly dispose wastes and emissions. During the year, the Group's total non-hazardous waste produced was 800 kg[1], while the total hazardous waste produced was 22 kg[1]. In the future, we will continue to monitor the Group's generation of non-hazardous and hazardous waste to further improve the measures for waste management.

Note 1: As the waste management system was not optimized during the year, the weight of waste was only an estimate. The system will be optimized in next year.

5.6. Green Measures

In order to reduce the GHG emissions, we take the following targeted measures to implement energy management in an effective manner.

Green office measures	
Lighting system	• Adoption of lamps of high energy efficiency (such as T5 fluorescent lamps and luminous diode) • Use of daylight whenever possible • Turn off the lights when not in the office • Set up independent switches to avoid turning on the lamps in lighting area where it is not needed • Regular assessment of the number of required and suitable lamps in the workplace to ensure that employees are provided with sufficient but not too much lighting to protect their health at work • If it is necessary to replace the lamps, energy saving lamps will be preferred • Increasing the number of luminaire cleanings to maintain and enhance efficiency

Air-conditioning system	• Set the minimum temperature of the air-conditioning system at 25.5 degrees Celsius • Central air-conditioning system is applied to effectively control indoor air quality, temperature, air flow and humidity • Variable speed drives are used to adjust pump and fan systems according to the actual needs of the air-conditioning • Variable refrigerant flow system is applied to optimize refrigerant flow • Clear the dust net on a regular basis • Close door and window gaps to reduce air loss
Resource management	
Paper resources	• Paper saving by printing documents on both sides • Adjust font and line spacing before printing • The recycling bins are placed next to the printer to collect waste paper for further processing • Screen and receive faxes by email • Try to use computer for document processing to reduce printing unnecessary documents • Send e-cards at festivals • Monitor printing quantity
Waste resources	• Reuse of all kinds of stationery supplies • Use of rechargeable batteries • Recyclers will be arranged to recycle computers, batteries, waste ink cartridges and waste toner cartridges in future to reduce the impact on the environment through proper disposal • Use reusable toner cartridges and ink cartridges in future
Water resources	• Close the faucet • Post water-saving signs in pantries and lavatories • Regular checks and tests to achieve timely discovery and maintenance • Use of sanitary appliance with water-saving label • Use of infrared faucet

6. COMMUNITY CULTURE ENGAGEMENT

Participating in community investment or campaigns may establish a positive impact on corporate brand image. By leveraging our expertise and strengths in the industry, we will proactively cooperate with charities and actively encourage employees to take part in community events in future. Employees can gain a deep understanding of needs and views of the community by joining charity activities with an aim to build a good habit for making contributions to society.

Education Fund

The Group donated RMB10,000 to the Meijiang Foundation as the local education and charity fund. Meijiang Foundation upholds the mission of "passing on love and planting hope" to help impoverished minority students successfully complete their studies. The purpose of the campaign is to support impoverished high school students who are excellent both in studies and in conduct of Huining No.1 Middle School and No.2 Middle School in Gansu Province, with a scholarship of RMB300 per year for each student, so that children can receive education in a better environment.

The Community Chest of Hong Kong

The Group donated HK$1 million to the Community Chest of Hong Kong for care and assistance to different areas of the society, including children and youth, elderly, family and child welfare, medical and health care, rehabilitation and crime prevention services, community development and other services.

APPENDIX I: SUSTAINABILITY DATA SUMMARY

Environmental KPIs	Unit	2019
Direct GHG emissions (Scope 1)	tonne CO_2e	3.55
Indirect GHG emissions (Scope 2)	tonne CO_2e	122.13
Other indirect GHG emissions (Scope 3)	tonne CO_2e	2.59
Total GHG emissions (Scope 1, 2 & 3)	tonne CO_2e	131.20
GHG Emissions Intensity		
Emissions intensity per square meter	tonne CO_2e/square meter	0.036
Fuel consumption		
Gasoline consumption by vehicles	litre	1,336
Nitrogen oxides	kilogram	32.17
Sulfur oxides	kilogram	0.02
Particulate matter	kilogram	3.08
Electricity consumption		
Total electricity consumption	kWh	211,631.73
Total electricity consumption intensity (per square meter)	kWh/square meter	58.37
Water consumption		
Total water consumption	cubic meter	1,956.89
Total water consumption intensity (per square meter)	cubic meter/square meter	0.54
Total hazardous waste produced	kilogram	22
Total hazardous waste recycling	kilogram	17
Total non-hazardous waste produced	kilogram	800
Total non-hazardous waste recycling	kilogram	600
Paper consumption		
A4 paper	tonne	0.48

APPENDIX II: HONG KONG STOCK EXCHANGE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX

Content of Indicators			Related Section(s)
A. Environmental			
A1 Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste.	Environmental Management System
	A1.1	The types of emissions and respective emissions data.	Environmental Management system
	A1.2	Greenhouse gas emissions in total and density.	Energy Management
	A1.3	Total hazardous waste produced and density.	Waste Management
	A1.4	Total non-hazardous waste produced and density.	Waste Management
	A1.5	Description of measures to mitigate emissions and results achieved.	Environmental Management system
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Waste Management

Content of Indicators			Related Section(s)
A2 Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental Management System
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total and density.	Energy Management
	A2.2	Water consumption in total and density.	Water Resource Management
	A2.3	Description of energy use efficiency initiatives and results achieved.	Energy Management
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Water Resource Management
	A2.5	Total packaging material used for finished products and, with reference to per unit produced.	Not applicable as the Company's business does not involve packaging materials
A3 The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental Management System
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Management System

Content of Indicators			Related Section(s)
B. Social			
B1 Employment	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment Practices
	B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment Practices
	B1.2	Employee turnover rate by gender, age group and geographical region.	/
B2 Health and Safety	General Disclosure	Relating to providing a safe working environment and protecting employees from occupational hazards:	Health and Safety
	B2.1	Number and rate of work-related fatalities.	Health and Safety
	B2.2	Lost days due to work injury.	Health and Safety
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety
B3 Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Training and Development
	B3.1	The percentage of employees trained by gender and employee category.	/
	B3.2	The average training hours completed per employee by gender and employee category.	/

Content of Indicators			Related Section(s)
B4 Labor Standards	General Disclosure	Relating to preventing child and forced labor:	Employment Practices
	B4.1	Description of measures to review employment practices to avoid child and forced labor.	Employment Practices
	B4.2	Description of steps taken to eliminate such practices when discovered.	Employment Practices
B5 Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
	B5.1	Number of suppliers by geographical region.	Supply Chain Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management
B6 Product Responsibility	General Disclosure	Product Responsibility : Relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress:	Establish Brand Integrity
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Consistent Discharge of Responsibilities
	B6.2	Number of products and service related complaints received and how they are dealt with.	Customer Service
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	Consistent Discharge of Responsibilities
	B6.4	Description of quality assurance process and recall procedures.	Consistent Discharge of Responsibilities
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Customer Privacy

Content of Indicators			Related Section(s)
B7 Anti-corruption	General Disclosure	Relating to bribery, extortion, fraud and money laundering:	Honest Enterprise
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Honest Enterprise
	B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	Honest Enterprise
B8 Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Culture Engagement
	B8.1	Focus areas of contribution.	Community Culture Engagement
	B8.2	Resources contributed to the focus area.	Community Culture Engagement

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF 360 LUDASHI HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of 360 Ludashi Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 89 to 161, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, 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 ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by 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 opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables We identified impairment assessment of trade receivables as a key audit matter due to the significant balance of trade receivables to the consolidated statement of financial position and the involvement of subjective judgements and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As disclosed in notes 4, 18 and 32 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables collectively for not credit-impaired debtors based on provision matrix and individually for credit-impaired debtors. The Group has determined the provision matrix through grouping of various debtors that have similar loss patterns after considering internal credit rating of trade receivables, ageing, repayment history and the past-due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and take into consideration of the forward-looking information. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the carrying amount of trade receivables and the present value of estimated future cash flows of trade receivables with the consideration of expected future credit losses. As disclosed in notes 4, 18 and 32 to the consolidated financial statements, the carrying amount of trade receivables of the Group amounted to RMB86,010,000, net of loss allowance of ECL amounting to RMB520,000 as at December 31, 2019.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at December 31, 2019, on sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgements in assessing credit losses on trade receivables as at December 31, 2019, including their identification of credit-impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); • Testing subsequent settlements of credit-impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of current reporting period; and • Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 4, 18 and 32 to the consolidated financial statements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with our agreed terms of engagement, 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 HKSAs 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 HKSAs, we exercise professional judgement 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is SY, Sunnie.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
March 30, 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended December 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	**404,495**	320,266
Costs of sales and services		**(210,141)**	(160,762)
Gross profit		**194,354**	159,504
Other income	6	**9,039**	6,220
Other gains and losses	7	**10,877**	1,719
Listing expenses		**(17,685)**	(16,123)
Selling and distribution expenses		**(20,171)**	(16,820)
Administrative expenses		**(29,010)**	(20,104)
Research and development expenses		**(27,317)**	(23,368)
Share of results of associates		**10**	1,308
Finance costs	8	**(418)**	(285)
Profit before taxation		**119,679**	92,051
Taxation	9	**(13,210)**	(16,067)
Profit and total comprehensive income for the year	10	**106,469**	75,984
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**104,702**	71,913
Non-controlling interests		**1,767**	4,071
		106,469	75,984
Earnings per share			
Basic (in RMB cents)	13	**48.65**	36.12
Diluted (in RMB cents)	13	**48.59**	36.12

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current assets			
Intangible assets	14	3,086	3,018
Property, plant and equipment	15	10,028	6,728
Interests in associates	16	9,210	–
Deferred tax assets	17	4,341	937
		26,665	10,683
Current assets			
Trade receivables	18	86,010	63,671
Other receivables, deposits and prepayments	19	41,987	19,050
Inventories	20	4,278	1,326
Amounts due from related parties	23	–	1,615
Tax recoverable		752	803
Pledged bank deposit		–	6,000
Bank balances and cash	21	338,368	174,147
		471,395	266,612
Current liabilities			
Trade and other payables	22	47,829	26,160
Borrowing	24	–	5,918
Contract liabilities	25	389	44
Lease liabilities	28	2,388	1,612
Income tax payable		3,472	2,861
		54,078	36,595
Net current assets		417,317	230,017
Total assets less current liabilities		443,982	240,700

At December 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
Capital and reserves			
Share capital	26	**2,425**	9
Reserves		**435,930**	204,802
Equity attributable to owners of the Company		**438,355**	204,811
Non-controlling interests		**2,794**	15,198
		441,149	220,009
Non-current liabilities			
Put option liability	27	**–**	19,314
Lease liabilities	28	**2,833**	1,377
		2,833	20,691
		443,982	240,700

The consolidated financial statements on page 89 to 161 were approved and authorised for issue by the board of directors on March 30, 2020 and were signed on its behalf by:

Tian Ye
Director

HE Shiwei
Director

Zhang Fanchen
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31, 2019

	Attributable to owners of the Company							
	Paid-in Capital/ Share capital *RMB'000*	Share premium *RMB'000*	Statutory surplus reserve *RMB'000* *(Note i)*	Other reserve *RMB'000*	Accumulated profits *RMB'000*	Subtotal *RMB'000*	Non-controlling interests *RMB'000* *(Note ii)*	Total *RMB'000*
At January 1, 2018	8,500	30,713	5,000	–	89,978	134,191	9,834	144,025
Profit and total comprehensive income for the year	–	–	–	–	71,913	71,913	4,071	75,984
Arising from reorganisation *(Note iv)*	(8,500)	8,500	–	–	–	–	–	–
Issue of shares *(Note v)*	9	–	–	(9)	–	–	–	–
Capital contribution from Chengdu Qilu Technology Co., Ltd ("Chengdu Qilu") to a subsidiary *(Note iii)*	–	(1,293)	–	–	–	(1,293)	1,293	–
At December 31, 2018	9	37,920	5,000	(9)	161,891	204,811	15,198	220,009
Profit and total comprehensive income for the year	–	–	–	–	104,702	104,702	1,767	106,469
Dividends paid to non-controlling interests shareholders	–	–	–	–	–	–	(7,277)	(7,277)
Capitalisation issue *(Note 26)*	1,794	(1,794)	–	–	–	–	–	–
New ordinary shares issued *(Note 26)*	622	167,316	–	–	–	167,938	–	167,938
Transaction costs related to the issue of new ordinary shares *(Note 26)*	–	(27,588)	–	–	–	(27,588)	–	(27,588)
Conversion of put option liability *(Note 27)*	–	8,198	–	–	–	8,198	–	8,198
Purchase of non-controlling interests *(Note vi)*	–	–	–	–	(19,706)	(19,706)	(6,894)	(26,600)
Transfer	–	–	8,235	–	(8,235)	–	–	–
At December 31, 2019	2,425	184,052	13,235	(9)	238,652	438,355	2,794	441,149

Notes:

(i) In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "PRC"), the PRC subsidiaries are required to set aside 10% of their profit after tax as per statutory financial statements determined under the PRC laws and regulations for the statutory surplus reserve fund until the reserve reach 50% of their registered capital. Transfer to this reserve must be made before distributing dividends to equity owners of the subsidiaries. The statutory surplus reserve can be used to make up previous years' losses, expand the existing operations or convert into additional capital of the respective subsidiaries.

(ii) The non-controlling interests comprise of those equity interests in the Tianjin Liu Liuyou Technology Co., Ltd ("Liu Liuyou Technology"), Tianjin Xiaolu Second-Hand Technology Co., Ltd ("Xiaolu Second-Hand"), and Tianjin Lubang Technology Co., Ltd ("Lubang Technology ") held by parties other than the Company.

(iii) Amounts mainly represent the capital injection from the shareholders, which exceeded the principal amounts of the paid-in capital committed at initial recognition and service provided by the shareholder for free.

(iv) Amount represents the paid-in capital of Chengdu Qilu, upon the Company became the holding company of Chengdu Anyixun technology Co., Ltd ("Anyixun") and its subsidiaries (including Chengdu Qilu and its subsidiaries) effective from the date of the Structured Contracts as stipulated in Note 1 to the consolidated financial statements.

(v) On February 7, 2018, the Company was incorporated as an exempted company with limited liability in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 shares with par value of HK$0.01 each. Upon its incorporation, one share was allotted and issued to the initial subscriber, which was transferred to Mr. Tian Ye on the same day. In August 2018, the share capital was increased to RMB9,000 comprising of 999,999 shares of HK$0.01 each and 7,110 shares of HK$0.01 each were then issued to its shareholders, of which RMB9,000 (in equivalent to HK$10,071) was debited to other reserve.

(vi) In December 2019, The Group acquired 20% interest of Liu Liuyou Technology from non-controlling interests shareholder, Shenzhen Fantexi Technology Co., Ltd ("Shenzhen Fantexi") for a consideration of RMB26,600,000. As a result, the Group's equity interest in Liu Liuyou Technology increased from 68% to 88%. The transaction was accounted for as an equity transaction with non-controlling interests shareholder of an existing subsidiary, and the differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid is recognised directly in equity attributed to owners of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019

	2019 RMB'000	2018 RMB'000
Operating activities		
Profit before taxation	119,679	92,051
Adjustments for:		
Depreciation of property, plant and equipment	3,903	2,086
Share of results of associates	(10)	(1,308)
Amortisation of intangible assets	1,044	1,006
Gain on disposal of associates	–	(642)
Gain on disposal of subsidiaries	–	(1,687)
Finance costs	418	285
Impairment loss (reversed) recognised in respect of trade receivables and inventories	(18)	557
Interest income	(5,335)	(2,656)
Loss on disposal of property, plant and equipment	–	43
Gain on changes in fair value on put option liability	(11,116)	(61)
Unrealised exchange loss	218	–
Operating cash flow before movement in working capital	108,783	89,674
Movements in working capital:		
Increase in trade receivables	(22,240)	(45,497)
(Increase) decrease in other receivables, deposits and prepayments	(26,158)	1,231
Increase in amounts due from related parties	–	(600)
Increase in inventories	(3,033)	(1,080)
Increase in trade and other payables	8,450	13,092
Increase (decrease) in contract liabilities	345	(1,149)
Cash generated from operating activities	66,147	55,671
Interest received	4,401	1,993
Income tax paid	(15,952)	(16,225)
Net cash from operating activities	54,596	41,439

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2019

	2019 RMB'000	2018 RMB'000
Investing activities		
Dividends received from an associate	–	2,327
Proceeds from disposal of an interest in an associate	–	3,500
Proceeds from disposal of financial assets at fair value through profit or loss	–	8,366
Payment for rental deposits	(147)	–
Proceeds from disposal of property, plant and equipment	–	8
Purchase of property, plant and equipment	(3,122)	(3,648)
Purchase of intangible assets	(1,112)	–
Purchase of interests in associates	(9,200)	(5,000)
Purchase of financial assets at fair value through profit or loss	–	(1,000)
Advances to related parties	–	(1,685)
Repayment from related parties	1,615	1,670
Net cash inflow on disposal of subsidiaries	–	234
Placement of non-pledged bank deposits with maturity of more than three months	(26,000)	–
Withdrawal of pledged bank deposits	6,000	–
Placement of pledged bank deposit	–	(6,000)
Net cash used in investing Activities	(31,966)	(1,228)
Financing activities		
Dividends paid to non-controlling interests shareholders	(7,277)	–
Interest paid	(499)	(204)
Purchase of non-controlling interests	(13,300)	–
Repayment to related parties	–	(1,005)
Repayment of bank loan	(5,918)	–
New bank loan raised	–	5,918
Repayments of lease liabilities	(1,849)	(1,179)
Proceeds from issuance of put option liability	–	19,375
Proceeds from issue of shares	167,938	–
Deferred issue costs paid	(22,916)	(4,672)
Net cash from financing activities	116,179	18,233
Net increase in cash and cash equivalents	138,809	58,444
Cash and cash equivalents at beginning of the year	174,147	115,703
Effect of foreign exchange rate changes	(588)	–
Cash and cash equivalents at end of the year, represented by	312,368	174,147
Bank balances and cash	338,368	174,147
Less: non-pledged bank deposits with maturity of more than three months	(26,000)	–
	312,368	174,147

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

1. GENERAL INFORMATION, GROUP REORGANISATION, STRUCTURED CONTRACTS AND BASIS OF PREPARATION

360 Ludashi Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on February 7, 2018. On October 10, 2019, the Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is an investment holding company. The subsidiaries of the Company, as set out in Note 34, are mainly engaged in online advertising services, online game business, sales of certified pre-owned and factory smartphones and certified pre-owned and factory other electronic devices as well as smart accessories (collectively the "Listing Business") in the PRC.

Prior to the incorporation of the Company and the completion of the reorganisation ("Reorganisation"), the main operating activities of the Listing Business were carried out by Chengdu Qilu and its subsidiaries, including Anyixun, Liu Liuyou Technology, Xiaolu Second-Hand and Lubang Technology (collectively known as the "Operating Entities") which were established in the PRC. The Company and its subsidiaries comprising the Group are under the control of 360 Technology Group Co., Ltd ("360 Technology") and Mr. Tian Ye (the "Controlling Shareholders").

Pursuant to the Reorganisation as more fully explained in the Corporate Reorganisation under the section History, Reorganisation and Corporate Structure of the prospectus dated September 26, 2019 (the "Prospectus"), the Company became the holding company of the entities now comprising the Group on August 31, 2018. The Reorganisation involved combination of the Company, its direct wholly-owned companies, the Operating Entities with execution of Structured Contracts (as defined below), the consolidated financial statements for the year ended December 31, 2018 had been presented as a continuation of the existing entities under the principles of common control combination in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Due to the restrictions imposed by relevant laws and regulatory regime of PRC on foreign ownership of companies engaged in the business carried out by Chengdu Qilu and its subsidiaries (the "Structured Entities"), the Company has entered into, via Anyixun, various agreements with Chengdu Qilu (the "Structured Contracts"), which, effective from August 31, 2018, enable Anyixun and the Company to:

- exercise effective financial and operational control over the Structured Entities;
- exercise equity holders' voting rights of the Structured Entities;
- receive substantially all of the economic interest returns generated by the Structured Entities in consideration for the business support, technical and management consultancy services provided by Anyixun;

1. GENERAL INFORMATION, GROUP REORGANISATION, STRUCTURED CONTRACTS AND BASIS OF PREPARATION (continued)

- obtain an irrevocable and exclusive right to purchase all or part of the interests in Chengdu Qilu and/or any assets that are held by the Structured Entities at the lowest purchase price permitted under PRC laws and regulations and exercise such right from time to time in the event that PRC laws and regulations permitted;

- prevent the Structured Entities to sell, assign, transfer, or otherwise dispose of or create encumbrance over their interest in the equity and/or the assets of the Structured Entities without prior consent of Anyixun; and

- prevent the Structured Entities to make any distributions to their equity holders without prior consent of Anyixun.

The Company does not have any equity interest in the Structured Entities. However, the Structured Contracts enable the Company to have the power over the Structured Entities, rights to variable returns from its involvement with the Structured Entities and the ability to affect those returns through its power over the Structured Entities. Consequently, the Company regards the Structured Entities as indirect subsidiaries. The Group has consolidated the assets and liabilities, income and expenses of the Structured Entities in the consolidated financial statements during both years.

The following financial statements balances and amounts of the Structured Entities were included in the consolidated financial statements:

	2019 *RMB'000*	2018 *RMB'000*
Revenue	**65,134**	130,146
Profit before taxation	**4,737**	62,064

	2019 *RMB'000*	2018 *RMB'000*
Non-current assets	**4,721**	3,579
Current assets	**181,200**	200,550
Current liabilities	**23,587**	13,438
Non-current liabilities	**564**	527

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries.

The consolidated financial statements have been prepared based on the accounting policies set out in Note 3 which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

2. APPLICATION OF HKFRSs

For the purpose of preparing and presenting the consolidated financial statements for the years ended December 31, 2019 and 2018, the Group has consistently applied accounting policies which conform with the HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and the related Interpretations issued by the HKICPA that are effective for the financial year beginning on January 1, 2019.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and HKASs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after January 1, 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after January 1, 2020.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on January 1, 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

2. APPLICATION OF HKFRSs (continued)

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

The directors of the Company consider that the application of other new and amendments to HKFRSs and HKASs is unlikely to have a material impact on the Group's consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries (including the Structured Entities). Control is achieved when a company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

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 owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of the subsidiary and non-controlling interest (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

An associate is an entity over which the Group has 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.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An interest in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the interest in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of services.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

Principal versus agent *(continued)*

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

The Group recognise revenue from the following major sources:

(a) Service income

Service income includes online advertising service and online game business. Such revenues are recognised over time or at a point in time with reference to the detailed terms of transaction as stipulated in the contracts entered into with its customers and counterparties.

(b) Sales income

Sales income includes the sales of certified pre-owned and factory smartphones and other electronic devices, and smart accessories. Such revenues are recognised when control of the goods has been transferred, being when the goods have been delivered to the customer's specific location.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

***The Group as lessee** (continued)*

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets within "property, plant and equipment" item as that within which the corresponding underlying assets would be presented if they were owned.

Refundable rental deposits

Refundable rental deposits paid are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as lessee *(continued)*

Lease liabilities (continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable by the Group under residual value guarantees;

- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and

- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment;

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as lessee *(continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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 added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective January 1, 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that receivable as compensation for expenses of losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and state-managed retirement benefit schemes are charged as expenses when employees have rendered services entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefits in the cost of an asset.

A liability is recognised for benefits accruing to employees after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises 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 associated with investments in subsidiaries and interests in associates, 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets 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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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 to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporates assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of property, plant and equipment, right-of-use assets and intangible assets other than goodwill (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables, amounts due from related parties, pledged bank deposit and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group estimates the amount of lifetime ECL of trade receivables collectively for not credit-impaired debtors based on provision matrix and individually for credit-impaired debtors.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for a security because of financial difficulties; or

(f) the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definition of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial liabilities and equity** (continued)*

Financial liabilities at FVTPL (continued)

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

The financial liabilities at FVTPL are measured at fair value upon initial recognition, any changes in fair value arising on remeasurement are recognised in the profit or loss.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and borrowing are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical accounting judgements

The following are the critical judgement that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Contractual arrangements

The Group conducts a substantial portion of the business through the Structured Entities in the PRC due to regulatory restrictions on internet value-added services in PRC. The Group does not have any equity interests in the Structured Entities. The management of the Group assessed whether or not the Group has control over the Structured Entities based on whether the Group has the power over the Structured Entities, has rights to variable returns from its involvement with the Structured Entities and has the ability to affect those returns through its power over the Structured Entities. After assessment, the management of the Group concluded that the Group has control over the Structured Entities as a result of the contractual arrangements (the "Contractual Arrangements") and other measures and accordingly, the Group has consolidated the financial information of the Structured Entities in the consolidated financial statements during the both years.

Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the Structured Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Structured Entities. The management of the Group, based on the advice of its legal counsel, considers that the Contractual Arrangements among Anyixun, the Structured Entities and their respective legal equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next twelve months from the end of each reporting period.

Allowances for impairment of trade receivables

The Group estimates the amount of lifetime ECL of trade receivables collectively for not credit-impaired debtors based on provision matrix and individually for credit-impaired debtors. The estimated loss rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the historical default rates of trade receivables and takes into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.

The amount of lifetime ECL is sensitive to changes in estimates. As at December 31, 2019, the carrying amounts of trade receivables measured at amortised cost RMB86,010,000 (net of loss allowance of RMB520,000) (2018: RMB63,671,000 (net of loss allowance of RMB619,000)).

5. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of online advertising services, online game business, and sales of smart accessories and certified pre-owned and factory smartphones and other electronic devices in the PRC.

Revenue represents services and sales income comprising the business mentioned above.

Segment information

The Group's chief operating decision maker ("CODM") has been identified as the chief executive officer who reviews revenue analysis by service lines when making decisions about allocating resources and assessing performance of the Group.

As there is no other discrete financial information available for assessment of performance of different service lines, no segment information is presented.

The revenues attributable to the Group's service lines for the years ended December 31, 2019 and 2018 are as follows:

	2019 ***RMB'000***	2018 *RMB'000*
Online advertising services	**220,722**	174,595
Online game business	**62,827**	42,889
Smart accessories sales	**5,216**	2,317
Certified pre-owned and factory smartphones sales	**89,801**	85,689
Certified pre-owned and factory other electronic devices sales	**25,929**	14,776
Total	**404,495**	320,266

5. REVENUE AND SEGMENT INFORMATION (continued)

Geographical information

During the year, the Group principally operated in PRC and its revenue was generated in the PRC and overseas based on the location of the customers' operations. All of its non-current assets were located in the PRC.

	2019 *RMB'000*	2018 *RMB'000*
Mainland China	**365,429**	293,927
Overseas	**39,066**	26,339
Total	**404,495**	320,266

Timing of revenue recognition

	2019 *RMB'000*	2018 *RMB'000*
A point in time	**341,668**	277,377
Over time	**62,827**	42,889
Total	**404,495**	320,266

Revenue relating to the online game business are recognised over time. The transaction price of these services are recognised as a contract liability at the time of the initial sales transaction and are released based on output method over the period of services.

The Group applies the practical expedient of not disclosing the information about its remaining performance obligation when the performance obligation is part of a contract that has an original expected duration of one year or less.

5. REVENUE AND SEGMENT INFORMATION (continued)

Major customers

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

	Service lines	2019 RMB'000	2018 RMB'000
Customer A**	Online advertising	**64,600**	61,010
Customer B	Certified pre-owned and factory smartphones sales	*	40,201

* Revenue from the customer was less than 10% of the total revenue during the year ended December 31, 2019.

** The customer is a related party of the Group.

6. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Government grants	**3,704**	3,564
Interest on bank deposits and financial products issued by banks	**5,335**	2,656
	9,039	6,220

7. OTHER GAINS AND LOSSES

	2019 RMB'000	2018 RMB'000
Reversal of allowance (allowance) for trade receivables	**99**	(529)
Allowance for inventories	**(81)**	(28)
Loss on disposal of property, plant and equipment	**–**	(43)
Gain on changes in fair value on put option liability (Note 27)	**11,116**	61
Gain on disposal of associates	**–**	642
Gain on disposal of subsidiaries	**–**	1,687
Net foreign exchange loss	**(218)**	–
Others	**(39)**	(71)
	10,877	1,719

8. FINANCE COSTS

	2019 *RMB'000*	2018 *RMB'000*
Interest on borrowing	**148**	81
Interest on lease liabilities	**270**	204
	418	285

9. TAXATION

Pursuant to the Registration Form for Enterprise Income Tax Preference Items certified by Chengdu Hi-Tech Industrial Development Zone State Administration of Taxation, Chengdu Qilu and Anyixun have been satisfied the conditions for software enterprise's tax preference. As such, Chengdu Qilu was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2015. Anyixun was subject to three years of 50% tax deduction with effect from 2018.

Pursuant to the National Leading Group Office of Hi-Tech Enterprise Identification and Management, Liu Liuyou Technology has been satisfied the conditions for Hi-Tech enterprise's tax preference. As such, Liu Liuyou Technology was subject to PRC EIT at a rate of 15% on its taxable income for three years with effect from 2019.

Pursuant to the PRC EIT Law and the respective regulations, the other main companies of the Group except for Chengdu Qilu, Anyixun and Liu Liuyou Technology as detailed above established in the PRC are subject to PRC EIT at a rate of 25% on its taxable income.

	2019 *RMB'000*	2018 *RMB'000*
Tax expense comprises:		
Current tax – PRC EIT	**16,614**	16,660
Deferred tax (Note 17)	**(3,404)**	(593)
Total	**13,210**	16,067

9. TAXATION (continued)

The taxation for the years ended December 31, 2019 and 2018 can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 *RMB'000*	2018 *RMB'000*
Profit before taxation	**119,679**	92,051
Tax at applicable tax rate of 25%	**29,920**	23,013
Tax effect of share of results of associates	**(3)**	(327)
Tax effect of income not taxable for tax purpose	**(2,779)**	(15)
Tax effect of expenses not deductible for income tax purpose	**1,074**	1,610
Tax effect of tax losses not recognised	**–**	1,782
Tax effect attributable to tax concession	**(15,002)**	(9,996)
Taxation for the year	**13,210**	16,067

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2019 *RMB'000*	2018 *RMB'000*
Directors' and chief executive's remuneration (Note 11)	**2,522**	1,966
Other staff costs		
– Salaries and other benefits	**43,241**	32,812
– Retirement benefit schemes	**3,647**	3,210
Total staff costs	**49,410**	37,988
Cost of inventories sold	**118,826**	99,651
Expenses relating to short-term leases	**159**	117
Depreciation of property, plant and equipment (included in "administrative expenses, selling and distribution expenses and research and development expenses")	**3,903**	2,086
Amortisation of intangible assets (included in "administrative expenses")	**1,044**	1,006
Auditor's remuneration	**1,800**	260

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION

Directors' and chief executive's emoluments

The executive directors' emoluments shown below were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors and independent non-executive directors' emoluments shown below were for their services as directors of the Company.

During the years ended December 31, 2019 and 2018, executive directors and chief executive officer of the Company received remuneration from the subsidiaries now comprising the Group for services in connection with the management of affairs of the Group prior to becoming the directors and chief executive officer of the Company. The details were disclosed as below:

Year ended December 31, 2019

	Salaries and allowances *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Executive director and chief executive officer			
Mr. Tian Ye (i)	1,339	47	1,386
Executive director			
Mr. He Shiwei (ii)	1,012	34	1,046
Non-executive director			
Mr. Sun Chunfeng (iii)	–	–	–
Independent Non-executive directors			
Mr. Li Yang (iv)	30	–	30
Mr. Wang Xinyu (iv)	30	–	30
Mr. Zhang Ziyu (iv)	30	–	30
	2,441	81	2,522

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION (continued)

Directors' and chief executive's emoluments (continued)

Year ended December 31, 2018

	Salaries and allowances *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Executive director and chief executive officer			
Mr. Tian Ye (i)	1,117	48	1,165
Executive director			
Mr. He Shiwei (ii)	769	32	801
Non-executive director			
Mr. Sun Chunfeng (iii)	–	–	–
	1,886	80	1,966

Notes:

(i) Mr. Tian Ye was appointed as executive director on February 7, 2018.

(ii) Mr. He Shiwei was appointed as executive director on August 26, 2018.

(iii) Mr. Sun Chunfeng was appointed on August 26, 2018, and no emoluments were paid or payable to him during the years ended December 31, 2019 and 2018.

(iv) Mr. Li Yang, Mr. Wang Xinyu and Mr. Zhang Ziyu were appointed as independent non-executive directors of the Company on June 5, 2019.

There were no arrangement under which a director or the chief executive of the Company waived or agreed to waive any emolument during the years ended December 31, 2019 and 2018.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION (continued)

Employees' remuneration

The five highest paid individuals of the Group included Mr. Tian Ye and Mr. He Shiwei, executive directors of the Company during the years ended December 31, 2019 and 2018, whose emoluments are included in the disclosures above. The emoluments of the remaining three individuals during the year ended December 31, 2019 (2018: three) are as follows:

	2019 ***RMB'000***	2018 *RMB'000*
Salaries and allowances	**2,545**	1,529
Retirement benefit scheme contributions	**117**	149
Total	**2,662**	1,678

The five highest paid individuals other than the directors of the Company were within the following bands:

	Number of employees	
	2019 ***RMB'000***	2018 *RMB'000*
Remuneration bands		
Nil to Hong Kong dollar ("HK$") 1,000,000	**2**	3
HK$1,500,001 to HK$2,000,000	**1**	–
	3	3

During the years ended December 31, 2019 and 2018, no remuneration was paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2019 of HK10 cents (2018: Nil) per share, in an aggregate amount of approximately HK$26,900,000 (2018: Nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

Earnings	2019 RMB'000	2018 RMB'000
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**104,702**	71,913

Shares	Number of ordinary shares 2019 '000	2018 '000
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**215,197**	199,099
Effect of dilutive potential ordinary shares:		
Over-allotment options (Note 26(iv))	**280**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**215,477**	199,099

The calculation of the basic earnings per share for the years ended December 31, 2019 and 2018 is based on the consolidated profit attributable to owners of the Company and the weighted average number of ordinary shares after retrospective adjustment and on the assumption that the Reorganisation and capitalisation issue as described in the Paragraph headed "Share Capital" to the Prospectus had been in effective on January 1, 2018.

The computation of diluted earnings per share for the years ended December 31, 2019 and 2018 does not assume the removal of the special rights (details as set out in Note 27) attached on the Company's shares granted to Lima High Tech Limited (the "Removal") since the Removal would not result in a decrease in earnings per share.

14. INTANGIBLE ASSETS

	Software *RMB'000*	Domain name *RMB'000*	Total *RMB'000*
COST			
At January 1, 2018 and December 31, 2018	7,000	42	7,042
Additions	1,112	–	1,112
At December 31, 2019	**8,112**	**42**	**8,154**
AMORTISATION			
At January 1, 2018	(3,000)	(18)	(3,018)
Provided for the year	(1,000)	(6)	(1,006)
At December 31, 2018	(4,000)	(24)	(4,024)
Provided for the year	(1,038)	(6)	(1,044)
At December 31, 2019	**(5,038)**	**(30)**	**(5,068)**
CARRYING VALUES			
At December 31, 2019	**3,074**	**12**	**3,086**
At December 31, 2018	3,000	18	3,018

The intangible assets above are amortised on a straight-line method at the following useful lives:

Software	3-7 years
Domain name	7 years

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Electronic equipment *RMB'000*	Leasehold improvements *RMB'000*	Right-of-use assets – office premises *RMB'000*	Total *RMB'000*
COST						
At January 1, 2018	303	325	544	–	3,404	4,576
Additions	398	–	799	2,451	–	3,648
Inception of leases	–	–	–	–	2,976*	2,976
Expiration of leases	–	–	–	–	(1,303)	(1,303)
Disposal of subsidiaries	–	–	(20)	–	–	(20)
Disposal	(3)	–	(56)	–	–	(59)
At December 31, 2018	698	325	1,267	2,451	5,077	9,818
Additions	95	979	320	1,728	–	3,122
Inception of leases	–	–	–	–	4,081*	4,081
At December 31, 2019	**793**	**1,304**	**1,587**	**4,179**	**9,158**	**17,021**
DEPRECIATION						
At January 1, 2018	(186)	(98)	(166)	–	(1,869)	(2,319)
Provided for the year	(118)	(62)	(257)	(260)	(1,389)	(2,086)
Disposal of subsidiaries	–	–	4	–	–	4
Eliminated on disposals	1	–	7	–	–	8
Expiration of leases	–	–	–	–	1,303	1,303
At December 31, 2018	(303)	(160)	(412)	(260)	(1,955)	(3,090)
Provided for the year	(89)	(61)	(400)	(1,125)	(2,228)	(3,903)
At December 31, 2019	**(392)**	**(221)**	**(812)**	**(1,385)**	**(4,183)**	**(6,993)**
CARRYING VALUES						
At December 31, 2019	**401**	**1,083**	**775**	**2,794**	**4,975**	**10,028**
At December 31, 2018	395	165	855	2,191	3,122	6,728

* Right-of-use assets for office premises was arisen due to initial recognition of lease liabilities at the commencement date of the lease amounted to RMB4,081,000 (2018: RMB2,976,000).

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated on a straight-line basis over the following useful lives after taking into account the residual values:

Furniture and fixtures	5 years
Motor vehicles	5 years
Electronic equipment	3 years
Leasehold improvements	3 years
Right-of-use assets – office premises	Over the lease terms

16. INTERESTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Cost of investment in associates	**9,200**	–
Share of post-acquisition profits and other comprehensive income	**10**	–
	9,210	–

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group 2019 %	2018 %	Proportion of voting rights held by the group 2019 %	2018 %	Principal activity
Beijing Sihai chuangwei Technology Co., Ltd ("Sihai Chuangwei") (i)	PRC	PRC	**20%**	-	**20%**	-	Online advertising
Tianjin Qiyu Network Technology Co., Ltd. ("Tianjin Qiyu") (ii)	PRC	PRC	**20%**	-	**20%**	-	Technical service

Notes:

(i) The Group acquired a 20% interest in Sihai Chuangwei on December 23, 2019 for a consideration of RMB8,800,000 and is able to exercise significant influence over Sihai Chuangwei because the Group has the power to appoint one out of the three directors of that company under the Articles of Association of that company.

(ii) In December 2019, Tianjin Zhongzhixing Technology Co., Ltd ("Zhongzhixing") established Tianjin Qiyu with independent third parties with equity interest of 20% and 80% respectively. Under a shareholders' agreement, the Group and other shareholders exercise their voting power over Tianjin Qiyu with reference to its respective percentage of registered share capital. The directors of the Company consider that the Group has significant influence over Tianjin Qiyu and it is therefore classified as an associate of the Group.

16. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of material associate

Summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

Sihai Chuangwei

	December 31, 2019 *RMB'000*
Current assets	**5,143**
Non-current assets	**2,960**
Current liabilities	**5,343**
Non-current liabilities	**740**

	For the period from December 23, 2019 to December 31, 2019 *RMB'000*
Revenue	108
Loss and total comprehensive expense for the year	50

16. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of material associate (continued)

***Sihai Chuangwei** (continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	December 31, 2019 *RMB'000*
Net assets of Sihai Chuangwei	**2,020**
Proportion of the Group's ownership interest in Sihai Chuangwei	**20%**
The Group's share of net assets of Sihai Chuangwei	**404**
Goodwill	**8,406**
Carrying amount of the Group's interest in Sihai Chuangwei	**8,810**

17. DEFERRED TAX ASSETS

The following are the major deferred taxation recognised and movement thereon during the current and prior years:

	Allowance for credit losses and inventories *RMB'000*	Impairment loss on AFS investments *RMB'000*	Unrealised intragroup profit *RMB'000*	Tax losses *RMB'000*	Total *RMB'000*
At January 1, 2018	94	250	–	–	344
Credited (charged) to profit or loss	99	(250)	744	–	593
At December 31, 2018	193	–	744	–	937
Credited (charged) to profit or loss	76	–	(330)	3,658	3,404
At December 31, 2019	**269**	**–**	**414**	**3,658**	**4,341**

As at December 31, 2019, the Group has unused tax losses of RMB23,269,000 (2018: RMB8,636,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB14,633,000 (2018: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB8,636,000 (2018: RMB8,636,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB1,508,000 (2018: RMB1,508,000) and RMB7,128,000 (2018: RMB7,128,000) that will expire in 2022 and 2023, respectively.

18. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables		
– related parties	**21,327**	24,356
– third parties	**65,203**	39,934
Less: allowance for credit losses	**(520)**	(619)
	86,010	63,671

Details of amounts due from related parties included in trade receivables are as follows:

Related parties	Relationship	2019 RMB'000	2018 RMB'000
360 Technology	Shareholder of Beijing Qihu Technology Co., Ltd. ("Beijing Qihu")	**313**	498
Shanghai Songheng Network Technology Inc. ("Shanghai Songheng")	Shareholder of the Company	**6,870**	9,081
Beijing Qihu	Shareholder of the Company	**13,867**	14,693
Shenzhen Blog Technology Co., Ltd ("Shenzhen Blog")	Non-controlling interest holder's subsidiary	*	70
Beijing Star World Technology Co., Ltd. ("Beijing Star World")	360 Technology's subsidiary	**205**	6
Tianjin Xiaofeiniao Technology Co., Ltd ("Xiaofeiniao")	Controlled by Tian Ye	**72**	8
Total		**21,327**	24,356

* Shenzhen Blog, a subsidiary of Shenzhen Fantexi has ceased to be the Group's related party since December 2019 as disclosed in Note 34.

The Group allows a credit period of 90 to 120 days to its customers of online advertising services, sales of certified pre-owned and factory smartphones, certified pre-owned and factory other electronic devices and smart accessories. Customers of online game business usually prepay the consideration before services are provided.

18. TRADE RECEIVABLES (continued)

The following is an aging analysis of trade receivables net of allowance for credit losses presented based on the dates of delivery of goods/dates of rendering of services.

	2019 *RMB'000*	2018 *RMB'000*
0 – 90 days	**75,296**	53,080
91 – 180 days	**7,458**	8,960
Over 180 days	**3,256**	1,631
	86,010	63,671

As at December 31, 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB8,784,000 (2018: RMB4,556,000) which are past due as at the reporting date, for which the Group has not provided an impairment loss as the Group is satisfied with the subsequent settlements and the credit quality of these customers had not seen deteriorated. Accordingly, the Group does not consider these balances impaired. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired:

	2019 *RMB'000*	2018 *RMB'000*
Days overdue		
0 – 90 days	**5,840**	2,992
91 – 180 days	**2,856**	1,564
181 – 365 days	**88**	–
	8,784	4,556

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The debtors are assessed individually into three internal credit rating ranks (namely: low risk, medium risk and high risk) based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtors, and general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forward-looking information that is available without undue cost or effort. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed individually for credit-impaired debtors and collectively for not credit-impaired debtors based on provision matrix as at December 31, 2019 and 2018.

18. TRADE RECEIVABLES (continued)

For trade debtors that are not credit-impaired

As at December 31, 2019

Internal credit rating	Gross carrying amount *RMB'000*	Average loss rate *%*	Loss allowance *RMB'000*
Low risk	25,055	0.03	8
Medium risk	60,804	0.27	164
High risk	334	3.29	11
	86,193		183

As at December 31, 2018

Internal credit rating	Gross carrying amount *RMB'000*	Average loss rate *%*	Loss allowance *RMB'000*
Low risk	28,084	0.02	7
Medium risk	35,477	0.29	102
High risk	228	3.95	9
	63,789		118

For trade debtors that are credit-impaired

As at December 31, 2019

Internal credit rating	Gross carrying amount *RMB'000*	Average loss rate *%*	Loss allowance *RMB'000*
Credit-impaired	337	100.00	337

As at December 31, 2018

Internal credit rating	Gross carrying amount *RMB'000*	Average loss rate *%*	Loss allowance *RMB'000*
Credit-impaired	501	100.00	501

18. TRADE RECEIVABLES (continued)

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed when necessary. The majority of the Group's trade receivables that are past due but not impaired have no history of defaulting on repayment.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

Movement in the allowance for credit losses:

	2019 *RMB'000*	2018 *RMB'000*
Opening	**619**	90
Impairment losses recognised on trade receivables	**186**	619
Reversal of impairment recognised on trade receivables	**(285)**	(90)
Ending	**520**	619

The Group always measures the allowance for credit losses for trade receivables at an amount equal to life time ECL upon the application of HKFRS 9. During the year ended December 31, 2019, impairment loss (net of allowance for credit loss) of RMB99,000 was reversed (2018: impairment loss (net of reversal) of RMB529,000 was recognised) due to settlements received from trade debtors.

18. TRADE RECEIVABLES (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit –impaired) *RMB'000*	Lifetime ECL (credit –impaired) *RMB'000*	Total *RMB'000*
As at January 1, 2018	79	11	90
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses reversed	(79)	(11)	(90)
Changes due to financial instruments recognised during the year:			
– Impairment losses recognised	118	501	619
As at December 31, 2018	118	501	619
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses reversed	(17)	(268)	(285)
Changes due to financial instruments recognised during the year:			
– Impairment losses recognised	82	104	186
As at December 31, 2019	**183**	**337**	**520**

The Group performs impairment assessment under ECL model of HKFRS 9 on trade receivables. Credit-impaired debtors with gross carrying amounts of RMB337,000 (2018: RMB501,000), were assessed individually. The ECL for not credit-impaired trade receivables are assessed collectively using a provision matrix with groupings based on internal credit rating.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over 180 days past due, whichever occurs earlier.

19. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 *RMB'000*	2018 *RMB'000*
Other receivables	**9,756**	1,629
Deductible value-added tax	**3,675**	–
Deferred cash consideration on disposal of subsidiaries	**2,000**	2,000
Deferred cash consideration on disposal of an associate	**1,500**	1,500
Prepayments and deferred expenses	**17,398**	3,348
Prepaid listing expenses	**–**	1,992
Deferred issue costs	**–**	5,351
Interest receivables	**2,614**	1,680
Online payment platform (Note)	**5,044**	1,550
Total	**41,987**	19,050

Note: The amount is unsecured, interest-free and repayable in one day and it represents receivables from third party payment platform in respect of the Group's online game business.

20. INVENTORIES

The inventories of the Group mainly comprise certified pre-owned smartphones, certified pre-owned computers, certified pre-owned smart accessories and other electronic devices held for sale.

21. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise cash and short-term deposits with an original maturity of three months or less and non-pledged bank deposits with an original maturity of more than three months.

The Group's short-term bank deposits amounted RMB312,368,000 (2018: RMB174,147,000) carried interest rates, per annum, ranging from 0.01% to 3.90% (2018: 0.0625% to 4.1%).

As at December 31, 2019, a non-pledged bank deposit amounted to RMB10,000,000 with an original maturity of March 29, 2024 and a non-pledged bank deposit amounted to RMB16,000,000 with an original maturity of November 11, 2024 are included in the bank balances of the Group. The non-pledged bank deposits carry interest rate with fixed interest rate of 3.8225%, per annum. The non-pledged bank deposits can be redeemed before due date at floating rates based on daily bank deposit rates and classified under current assets.

For the year ended December 31, 2019, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

22. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables		
– related parties	315	346
– third parties	14,991	8,241
Other payables	4,353	3,734
Payables arisen from online game business (Note)	6,247	2,811
Payables arisen from purchase of non-controlling interests (Note 34)	13,300	–
Accrued listing expenses/share issue costs	–	4,534
Payroll payable	7,585	5,808
Other tax payable	1,038	686
	47,829	26,160

Note: The amount is unsecured, interest-free and repayable on a monthly basis and represents payable to online game developers and operators for prepayments collected by the Group from third party game players.

Details of amounts due to related parties included in trade payables are as follows:

Related parties	Relationship	2019 RMB'000	2018 RMB'000
Beijing Qihu	Shareholder of the Company	314	342
Shanghai Gaoxin Computer System Co., Ltd. ("Shanghai Gaoxin")	Shanghai Songheng's subsidiary	1	4
		315	346

22. TRADE AND OTHER PAYABLES (continued)

The credit period granted by trade creditors is normally within three months. The following is an aging analysis of trade payables presented based on the dates of delivery of goods/dates of rendering of services:

	2019 RMB'000	2018 RMB'000
0 – 90 days	**14,528**	8,487
91 – 180 days	**681**	21
Over 180 days	**97**	79
Total	**15,306**	8,587

23. AMOUNTS DUE FROM RELATED PARTIES

Related parties	Relationship	At December 31, 2019 RMB'000	At December 31, 2018 RMB'000	Maximum amounts outstanding during the year ended December 31, 2019 RMB'000	Maximum amounts outstanding during the year ended December 31, 2018 RMB'000
Tian Ye	Shareholder of the Company	**–**	550	**550**	550
Hu Wei Bin	Shareholder of Shenzhen Zhonghe Yilian Technology Co., Ltd ("Zhonghe Yilian")	**–**	1,000	**1,000**	3,000
Chengdu Qilu Haochen Enterprise Management Consulting Co., Ltd	Shareholder of the Company	**–**	15	**15**	15
Xiaofeiniao	Controlled by Tian Ye	**–**	50	**50**	2,377
		–	1,615	**1,615**	5,942

The amounts due from related parties are non-trade related, unsecured, non-interest bearing and repayable on demand.

24. BORROWING

	2019 RMB'000	2018 RMB'000
Secured bank loan, repayable within one year	–	5,918

The loan was secured by a pledged bank deposit held by the Group with carrying amount of RMB6,000,000 as at December 31, 2018. The loan was fixed at 5.0% per annum and was repaid in full in October 2019.

25. CONTRACT LIABILITIES

The balances represents amounts received in advance of delivery of goods or services to customers. The contract liabilities as at December 31, 2018 are recognised as revenue during the year ended December 31, 2019. And the contract liabilities as at December 31, 2019 are expected to be recognised as revenue during the year ending December 31, 2020.

26. SHARE CAPITAL

	Number of shares	Amount HK$	Amount RMB	Shown in the Consolidated Statement of Financial Position RMB'000
Ordinary shares of HK$0.01 each				
Authorised:				
At date of incorporation, December 31, 2018	38,000,000	380,000	308,180	
Increase on September 9, 2019 (i)	9,962,000,000	99,620,000	90,012,647	
At December 31, 2019	10,000,000,000	100,000,000	90,320,827	
Issued and fully paid				
At date of incorporation	1	–	–	
Issue of new shares on July 12, 2018	999,999	10,000	8,502	9
Issue of new shares on August 22, 2018 (ii)	7,110	71	62	*
At December 31, 2018	1,007,110	10,071	8,564	9
Capitalisation issue (iii)	198,992,890	1,989,929	1,794,120	1,794
Issue of new ordinary shares (iv)	60,000,000	600,000	540,960	541
Exercise of over-allotment option (iv)	9,000,000	90,000	81,032	81
At December 31, 2019	269,000,000	2,690,000	2,424,676	2,425

26. SHARE CAPITAL (continued)

Notes:

(i) On September 9, 2019, the share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of an additional 9,962,000,000 shares of HK$0.01 each.

(ii) On July 24, 2018 and August 1, 2018, the Company signed an agreement and a supplemental agreement (the "Agreements") with an independent third party, Lima High Tech Limited ("Lima"). Pursuant to the Agreements, the Company issued 7,110 shares of the Company with liquidation preference and redemption rights (the "Put Option") to Lima, at US$399 (equivalent to RMB2,725) per share for a total net cash proceed of US$2,837,000 (equivalent to RMB19,375,000) in August 2018. The Put Option is designated as a financial liability at FVTPL on initial recognition and is measured at fair value with any changes in fair value arising on remeasurement recognised in the profit or loss before: 1) the termination of the special rights attached, or, 2) redemption. Details are set out in Note 27.

(iii) On October 10, 2019, the Company allotted and issued a total of 198,992,890 ordinary shares of HK$0.01 each, credited as fully paid at par, by way of capitalisation of the sum of HK$1,989,929 standing to the credit of the share premium account of the Company by applying such sum towards the paying up in full at par a total of 198,992,890 ordinary shares for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on October 9, 2019, immediately in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in the Company.

(iv) On October 10, 2019, 60,000,000 new shares of HK$0.01 each of the Company were issued at a price of HK$2.70 (equivalent to RMB2.43) each, upon the Global Offering and listing of the shares of the Company on the Stock Exchange. On October 30, 2019, 9,000,000 new shares of HK$0.01 each of the Company were issued at a price of HK$2.70 (equivalent to RMB2.43) each upon exercise of over-allotment option. The proceeds of HK$690,000 (equivalent to RMB622,000) representing the par value of the new shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$185,610,000 (equivalent to RMB167,316,000), before issue expenses of RMB27,588,000, were credited to the Company's share premium. The new shares rank pari passu with the existing shares in all respects.

27. PUT OPTION LIABILITY

On July 24, 2018 and August 1, 2018, the Company signed the Agreements with an independent third party, Lima. Pursuant to the Agreements, the Company issued 7,110 shares of the Company (Note 26) attached with the Put Option and certain special rights to Lima, at US$399 (equivalent to RMB2,725) per share for a total net cash proceed of US$2,837,000 (equivalent to RMB19,375,000) in August 2018. The Put Option and any special rights granted to Lima under the Agreements would be terminated upon successful initial public offering (the "IPO").

The significant terms of the Agreements are as follows:

(a) Liquidation preferences

In the event of any liquidation, the investor shall be entitled to receive, prior and in preference to any distribution of the proceeds of such liquidation event to the holders of ordinary shares. All of the remaining proceeds available for distribution to shareholders shall be distributed pro rata among the holders of ordinary shares.

27. PUT OPTION LIABILITY (continued)

(b) Anti-dilution provision

In the event that the Company introduce new investors by issuing additional shares (excluding the employee incentive plan permitted by the investor) before the completion of successful IPO, without the written consent by the investor, the share issuance price paid by new investors shall be not lower than the price in this transaction. Otherwise, the investor has the right to adjust the investment consideration of this transaction based on the weighted average method.

(c) Redemption

The investor is granted an option to demand the Company to repurchase its shares if there is no successful IPO within 24 months after the completion of the investment (regardless of any subjective and objective reasons).

(1) The repurchase price is calculated as follows:

Repurchase price = Investment consideration * (1+8%/365 * the actual number of days between the injection of consideration to the designated account and investor received the total repurchase price) – the dividend that the Company paid to investor; and

(2) The Company shall pay the investor in 15 working days after the investor issue the written repurchase request.

The Put Option and special rights granted to Lima under the Agreements as detailed above would terminate upon the completion of a successful IPO.

The Put Option is designated as a financial liability at FVTPL on initial recognition. The put option liability is measured at fair value with any changes in fair value arising on remeasurement recognised in the profit or loss before: 1) the termination of the special rights attached, or, 2) redemption.

The put option liability was valued at fair value at December 31, 2018 by the Company with reference to an independent valuation provided by Jones Lang LaSalle Appraisals Consultation Co., Ltd., an independent firm professional valuer not connected with the Group, who has appropriate qualification and recent experience of valuation of similar financial instrument. Its address is 6/F, Three Pacific Place 1 Queen's Road East, Hong Kong.

The fair value of the put option liability at December 31, 2018 was determined by using valuation technique of discounted cash flow analysis. The fair value of the put option liability was determined using scenarios probabilities analysis.

27. PUT OPTION LIABILITY (continued)

(c) Redemption (continued)

The key assumptions adopted for the scenarios probabilities analysis were as follows:

	2018
Estimated probability of the Put Option	
– for successful IPO	90%
– for redemption	10%

The key parameters adopted for the valuation of the put option liability under successful IPO scenario as at December 31, 2018 were as follows:

	2018
Methodology	Discounted cash flow and option pricing method on discount for lack of marketability
Terminal growth rate ("TGR")	2%
WACC	15%
Risk-free rate	3.63%
Volatility	38.80%
Dividend yield	0%
Maturity date	April 26, 2019

The key parameters adopted for the valuation of the put option liability under redemption scenario as at December 31, 2018 were as follows:

	2018
Methodology	Discounted cash flow
Time to expiration (number of years)	1.64
Discount rate	8%

27. PUT OPTION LIABILITY (continued)

(c) Redemption (continued)

On October 10, 2019, the special rights attached on the Company's shares granted to Lima has been terminated upon the completion of the Company's successful IPO. Immediately before the termination, the fair value of put option liability was RMB8,198,000, which was valued at fair value by the Company with reference to an independent valuation provided by Cushman & Wakefield Consultation Co., Ltd., an independent firm professional valuer not connected with the Group, who has appropriate qualification and recent experience of valuation of similar financial instrument. Its address is 14/F, North Tower, Beijing Kerry Centre, 1 Guanghua Road, Beijing.

The fair value of the put option liability at October 10, 2019 was determined by using valuation technique of market approach with reference to the volume weighted average price of the Company's shares on October 10, 2019.

The movements of the put option liability are set out below:

	Put option liability *RMB'000*
At January 1, 2018	–
Issuance of the Put Option	19,375
Changes in fair value recognised in profit or loss	(61)
At December 31, 2018	19,314
Changes in fair value recognised in profit or loss	(11,116)
Conversion of put option liability	(8,198)
At December 31, 2019	–

28. LEASE LIABILITIES

	2019 *RMB'000*	2018 *RMB'000*
Current liabilities	**2,388**	1,612
Non-current liabilities	**2,833**	1,377
	5,221	2,989

	2019 *RMB'000*	2018 *RMB'000*
Minimum lease payment due:		
– within one year	**2,436**	1,875
– more than one year, but not exceeding two years	**1,160**	1,667
– more than two years	**2,020**	155
	5,616	3,697
Less: future finance charges	**(395)**	(708)
	5,221	2,989
Present value of lease liability		
– within one year	**2,388**	1,612
– more than one year, but not exceeding two years	**1,088**	1,282
– more than two years	**1,745**	95
	5,221	2,989

The Group leased properties for its office premises and the lease liabilities were measured at the present value of the lease payments that are not yet paid using its incremental borrowing rate at the lease commencement date. The rate applied is 4.75% per annum. All leases are entered at fixed rates.

Leases are negotiated and fixed for the terms in the range of 2 to 5 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions.

The total cash outflows for leases including the payments of lease liabilities for the year were RMB2,119,000 (2018: RMB1,383,000).

29. RETIREMENT BENEFIT PLAN

The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The contributions made by the Group in respect of the retirement benefit scheme amounting to approximately RMB3,728,000 (2018: RMB3,290,000) are included in cost of sales and services, administrative expenses, research and development expenses or selling and distribution expenses.

30. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with related parties:

i Transactions with related parties

	Relationship	2019 *RMB'000*	2018 *RMB'000*
Revenue from Beijing Qihu	Shareholder of the Company	**64,600**	61,010
Revenue from 360 Technology	Shareholder of Beijing Qihu	**1,259**	5,232
Revenue from Shanghai Songheng	Shareholder of the Company	**23,637**	23,971
Revenue from Hangzhou Ju'a Network Technology Co., Ltd ("Hangzhou Ju'a")	Associate of Chengdu Qilu	*	1,334
Revenue from Beijing Star World	360 Technology's subsidiary	**26,318**	5,511
Revenue from Shenzhen Blog**	Non-controlling interest holder's subsidiary	**119**	215
Revenue from Xiaofeiniao	Controlled by Tian Ye	**110**	12
Revenue from Shanghai Zhanmeng Technology Co., Ltd. ("Shanghai Zhanmeng")	Shanghai Songheng's subsidiary	**23**	–
Revenue from Shenzhen Fantexi**	Non-controlling interest holder	**20**	–
Cost to Beijing Qihu	Shareholder of the Company	**1,485**	2,221
Cost to Shanghai Zhanmeng	Shanghai Songheng's subsidiary	**–**	1
Cost to Shanghai Gaoxin	Shanghai Songheng's subsidiary	**2,098**	617
Cost to Shenzhen Fantexi**	Non-controlling interest holder	**20**	–

* Hangzhou Ju'a has ceased to be the Group's related party since September 2018.

** Shenzhen Fantexi and Shenzhen Blog, a subsidiary of Shenzhen Fantexi have ceased to be the Group's related parties since December 2019 as disclosed in Note 34.

30. RELATED PARTY TRANSACTIONS (continued)

ii Compensation of key management personnel

The remuneration of directors and other members of key management of the Group were as follows:

	2019 *RMB'000*	2018 *RMB'000*
Salaries and allowances	**3,685**	2,299
Retirement benefit scheme contributions	**130**	93
	3,815	2,392

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Group, comprising issued share capital and reserves.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares and new debts, if necessary.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 *RMB'000*	2018 *RMB'000*
Financial assets		
Loans and receivables/debt instruments at amortised cost		
Trade receivables	**86,010**	63,671
Other receivables	**20,914**	8,359
Amounts due from related parties	**–**	1,615
Pledged bank deposit	**–**	6,000
Bank balances and cash	**338,368**	174,147
	445,292	253,792

32. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

	2019 *RMB'000*	2018 *RMB'000*
Financial liabilities		
FVTPL		
Put option liability	–	19,314
Amortised cost		
Trade and other payables*	39,206	15,132
Borrowing	–	5,918
	39,206	40,364

* Payroll payable, accrued listing expenses/share issue costs and other tax payable are excluded.

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, amounts due from related parties, pledged bank deposit, bank balances and cash, trade and other payables, borrowing, put option liability and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (mainly foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market risk

(i) Foreign Currency risk

The Group has bank balances, trade receivables and trade payables which are denominated in US dollars (the "USD"). The Group also has bank balances which are denominated in HKD. The carrying amounts of the Group's USD and HKD denominated monetary assets and liabilities at the end of the reporting period are as follows:

	2019 *RMB'000*	2018 *RMB'000*
USD		
Assets	41,608	23,033
Liabilities	(5,679)	(19,314)
HKD		
Assets	139,370	–

32. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

***(a) Market risk** (continued)*

(i) Foreign Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the USD and HKD. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD and HKD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel 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 year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in profit before tax where RMB strengthens 5% against USD and HKD. For a 5% weakening of RMB against USD and HKD, there would be an equal and opposite impact on the profit.

	2019 *RMB'000*	2018 *RMB'000*
Profit or loss related to USD	1,796	186
Profit or loss related to HKD	6,969	–

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowing and lease liabilities. The Group is also exposed to cash flow interest rate risk on the variable rate of interest earned on the bank balances.

The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate risk exposure and will consider interest rate hedging should the need arise.

No sensitivity analysis is prepared for variable-rate interest bearing bank balances as the bank interest rate on bank balances is relative stable over the year.

32. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise credit risk, the Group has tasked its credit management team to develop and maintain the credit risk grading for the Group's trade and other receivables and other financial assets at amortised costs and to categorise exposures according to their degree of risk of default. The credit management team uses publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework in respect of other receivables and other financial assets at amortised costs comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL-not credit- impaired
In default	There is evidence indicating the asset is credit- impaired	Lifetime ECL-credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

32. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(b) Credit risk *(continued)*

For trade receivables, the Group has applied the simplified approach under HKFRS 9 to measure the loss allowance at lifetime ECL. The ECL on trade receivables are assessed individually for credit-impaired debtors and collectively for not credit-impaired debtors grouped under a provision matrix, based on shared credit risk characteristics by reference to past default experience and current past due exposure of the debtors, and general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forward-looking information that is available without undue cost or effort at the reporting date.

For other receivables, the management of the Group makes periodic collective as well as individual assessment on the recoverability of these financial assets based on credit risk assessment and historical settlement records and past experience, if any, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

As the Group's debtor and general economic conditions of the industry changed slightly, loss allowances of RMB520,000 were accrued as at December 31, 2019 (2018: RMB619,000).

(c) Liquidity risk

In management of the liquidity risk, the management of Group monitors and maintains level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates of financial liabilities and lease liabilities based on the earliest date on which the Group can be required to pay). The table includes both interest and principal cash flows, where applicable.

32. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(c) Liquidity risk (continued)

	Weighted average effective interest rate %	On demand or within 3 months RMB'000	3 months-1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
As at December 31, 2019							
Non-interest bearing							
Trade and other payables	N/A	39,206	–	–	–	39,206	39,206
Interest bearing							
Lease liabilities	4.75%	590	1,846	1,160	2,020	5,616	5,221
		39,796	1,846	1,160	2,020	44,822	44,427

	Weighted average effective interest rate %	On demand or within 3 months RMB'000	3 months-1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
As at December 31, 2018							
Non-interest bearing							
Trade and other payables	N/A	15,132	–	–	–	15,132	15,132
Interest bearing							
Borrowing	5%	74	6,057	–	–	6,131	5,918
Put option liability	8%	–	–	22,586	–	22,586	19,314
Lease liabilities	4.75%	625	1,250	1,667	155	3,697	2,989
		15,831	7,307	24,253	155	47,546	43,353

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32. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(d) Fair value measurement

Fair value of the Group's financial liability that is measured at fair value on recurring basis

This note provides information about how the Group determines fair value of the following financial liability that is measured at fair value on a recurring basis.

	Fair value as at December 31, 2019 RMB'000	2018 RMB'000	Fair Value hierarchy	Valuation technique and key input	Significant unobservable inputs
Financial liabilities					
Put option liability	-	19,314	Level 3	Discounted cash flow analysis, option pricing method on discount for lack of marketability and scenarios analysis Key inputs: TGR, WACC, risk-free rate and volatility to determine the enterprise fair value, probability, of successful IPO, time to expiration, discount rate	WACC (15%) Discount rate (8%)

The fair value of the Group's put option liability as at October 10, 2019 is categorised within level 2 of the fair value hierarchy. The fair value is determined by using valuation technique of market approach with key input of the volume weighted average price of the Company's shares (HKD6.44) on October 10, 2019.

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing model based on discounted cash flow analysis.

The management of the Group considers that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES/NET DEBT RECONCILIATION

	Amounts due to related parties *RMB'000*	Borrowing *RMB'000*	Other payables *RMB'000*	Lease liabilities *RMB'000*	Put option liability *RMB'000*	Accrued share issue costs *RMB'000*	Total *RMB'000*
At January 1, 2018	1,005	–	–	1,192	–	–	2,197
Inception of leases	–	–	–	2,976	–	–	2,976
Interest expenses	–	–	81	204	–	–	285
Financing cash flows	(1,005)	5,918	–	(1,383)	19,375	(4,672)	18,233
Deferred issue costs	–	–	–	–	–	5,351	5,351
Fair value changes on put option liability	–	–	–	–	(61)	–	(61)
At December 31, 2018	–	5,918	81	2,989	19,314	679	28,981
Inception of leases	–	–	–	4,081	–	–	4,081
Interest expenses	–	–	148	270	–	–	418
Financing cash flows	–	(5,918)	(20,806)	(2,119)	–	(22,916)	(51,759)
Deferred issue costs	–	–	–	–	–	22,237	22,237
Dividends payable to non-controlling interests shareholders	–	–	7,277	–	–	–	7,277
Purchase of non-controlling interests	–	–	26,600	–	–	–	26,600
Fair value changes on put option liability	–	–	–	–	(11,116)	–	(11,116)
Conversion of put option liability	–	–	–	–	(8,198)	–	(8,198)
At December 31, 2019	**–**	**–**	**13,300**	**5,221**	**–**	**–**	**18,521**

34. PARTICULARS OF SUBSIDIARIES

As at the date of this report, the Company has direct or indirect interests, in the following subsidiaries:

Name of subsidiary	Date and place of establishment/ incorporation	Issued and fully paid paid-in capital/share capital/registered capital (at date of this report)	Effective equity interest attributable to the Company At December 31,		Principal activities
			2019 %	2018 %	
360 Ludashi Consulting Limited	March 27, 2018 the British Virgin Islands	Nil/US$50,000	**100**	100	Investment holding
360 Ludashi Technology Limited	February 15,2018 HK	Nil/HK$10,000	**100**	100	Investment holding
Anyixun	October 20, 2015 the PRC	RMB300,000/ RMB10,000,000	**100**	100	Online advertising
Chengdu Qilu	November 25, 2014 the PRC	RMB8,500,000/ RMB10,500,000	**100**	100	Online advertising
Liu Liuyou Technology (Note 6)	April 17, 2017 the PRC	RMB6,500,000/ RMB12,500,000	**88**	68	Online game business
Xiaolu Second-Hand	April 25, 2017 the PRC	RMB9,500,000/ RMB17,500,000	**82.86**	82.86	Certified pre-owned and factory smartphones sales
Lubang Technology	November 23, 2017 the PRC	RMB3,000,000/ RMB5,000,000	**66.29**	66.29	Certified pre-owned and factory smartphones sales
Zhongzhixing	June 27, 2017 the PRC	Nil/RMB100,000	**100**	100	Homepage directory services

34. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary	Date and place of establishment/ incorporation	Issued and fully paid paid-in capital/share capital/registered capital (at date of this report)	Effective equity interest attributable to the Company At December 31, 2019 %	2018 %	Principal activities
Zhonghe Yilian (Note 1)	December 4, 2017 The PRC	RMB1,900,000/ RMB10,000,000	19	19	Smart accessories sales
Tianjin Jiubake Technology Co., Ltd. (Notes 1 & 2)	April 2, 2018 The PRC	Nil/RMB10,000,000	–	15	Inactive
Shenzhen Zhilu Wulianwang Technology Co., Ltd ("Zhilu Technology") (Notes 1 & 3)	May 23, 2018 The PRC	Nil/RMB10,000,000	–	15.2	Internet of things service
Chengdu Xiaolu Zhidian Technology Co., Ltd ("Xiaolu Zhidian") (Note 4)	July 17, 2018 the PRC	RMB1,500,000/ RMB5,000,000	80	80	Smartphone and computer maintenance
Shanghai Qilu Network Technology Company Limited ("Shanghai Qilu") (Note 5)	January 15, 2019 the PRC	RMB1,000,000/ RMB10,000,000	100	N/A	Online advertising

Notes:

1) Despite the fact that the Group's legal equity ownership in each of these investees is below 50% during the year, the Group has control over them as relevant decisions required only simple majority vote and the remaining or majority legal ownership is held by the Group's employees who are also key management of these investees. In addition, since all the capital and working capital of these investees were solely contributed by the Group, based on the relevant shareholders' agreements, the Group has rights to all the net assets of these investees. Therefore, the Group considers it has power over these investees, and has exposure and rights to variable returns from its involvement with the investees.

2) In September 2018, the resolution of the shareholders' meeting unanimously passed the de-registration of Tianjin Jiubake Technology Co., Ltd, and the de-registration was approved by Industry and Commerce Bureau in June 2019.

3) In May 2018, Zhonghe Yilian established Zhilu Technology with an independent third party with equity interest of 80% and 20% respectively. In January 2019, the resolution of the shareholders' meeting unanimously passed the de-registration of Zhilu Technology, and the de-registration was approved by Industry and Commerce Bureau in June 2019.

4) The Group solely contributed all the capital and working capital of Xiaolu Zhidian. Based on the relevant shareholders' agreements, the Group has rights to all the net assets of this investee.

5) In January 2019, Anyixun established Shanghai Qilu with equity interest of 100%.

6) In December 2019, the Group acquired 20% interest of Liu Liuyou Technology from non-controlling interest shareholder, Shenzhen Fantexi. As a result, the Group's equity interest in Liu Liuyou Technology increased from 68% to 88% as stipulated in Note vi to the consolidated statement of changes in equity.

No subsidiaries have material non-controlling interests as at December 31, 2019.

The Company's financial year end date is December 31, which is consistent with all other group entities.

35. EVENTS AFTER THE REPORTING PERIOD

Save as elsewhere disclosed in this report, events and transactions took place subsequent to December 31, 2019 are detailed as below:

The outbreak of Novel Coronavirus ("Coronavirus COVID-19") has caused the Chinese government offices to impose policies to delay opening of offices after Lunar New Year holiday, until certain hygiene measures are fulfilled and satisfied by the local government. The Group's office has been re-opened on February 3, 2020.

As at the date of this report, the Coronavirus COVID-19 has not resulted in material impact to the Group. Depending on the development and spread of Coronavirus COVID-19 subsequent to the date of this report, further changes in economic conditions arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this report.

36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 *RMB'000*	2018 *RMB'000*
Non-current asset		
Investment in a subsidiary	–	–
	–	–
Current assets		
Other receivables, deposits and prepayments	1,027	5,377
Amount due from a subsidiary	6,432	–
Bank balances and cash	157,847	19,479
	165,306	24,856
Current liabilities		
Trade and other payables	90	–
Amounts due to subsidiaries	38,498	21,473
	38,588	21,473
Net current assets	126,718	3,383
Total assets less current liabilities	126,718	3,383
Capital and reserves		
Share capital	2,425	9
Reserves	124,293	(15,940)
	126,718	(15,931)
Non-current liability		
Put option liability	–	19,314
	126,718	3,383

36. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves

	Share premium *RMB'000*	Other reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At date of incorporation	–	–	–	–
Issue of shares	–	(9)	–	(9)
Loss and total comprehensive expense for the year	–	–	(15,931)	(15,931)
At December 31, 2018	–	(9)	(15,931)	(15,940)
Loss and total comprehensive expense for the year	**–**	**–**	**(5,899)**	**(5,899)**
Capitalisation issue	**(1,794)**	**–**	**–**	**(1,794)**
New ordinary shares issued	**167,316**	**–**	**–**	**167,316**
Transaction costs related to the issue of new ordinary shares	**(27,588)**	**–**	**–**	**(27,588)**
Conversion of put option liability	**8,198**	**–**	**–**	**8,198**
At December 31, 2019	**146,132**	**(9)**	**(21,830)**	**124,293**

FINANCIAL SUMMARY

SUMMARIZED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

RMB'000	2016	2017	2018	**2019**
Revenue	69,812	122,561	320,266	**404,495**
Gross profit	60,391	102,441	159,504	**194,354**
Profit before taxation	32,801	65,429	92,051	**119,679**
Profit and total comprehensive income for the year	31,702	56,182	75,984	**106,469**
Profit attributable to equity holders of the Company for the year	31,702	53,168	71,913	**104,702**

SUMMARIZED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RMB'000	2016	2017	2018	**2019**
Non-current assets	9,406	7,603	10,683	**26,665**
Current assets	71,007	155,482	266,612	**471,395**
Current liabilities	7,982	18,363	36,595	**54,078**
Non-current liabilities	588	697	20,691	**2,833**
Total equity	71,843	144,025	220,009	**441,149**

SUMMARIZED CONSOLIDATED STATEMENT OF CASH FLOWS

RMB'000	2016	2017	2018	**2019**
Cash and cash equivalents at beginning of the year	28,488	42,990	115,703	**174,147**
Net cash generated from operating activities	28,849	52,559	41,439	**54,596**
Net cash (used in) generated from investing activities	(13,448)	4,161	(1,228)	**(31,966)**
Net cash (used in) generated from financing activities	(899)	15,993	18,233	**116,179**
Net increase in cash and cash equivalents	14,502	72,713	58,444	**138,809**
Effect of foreign exchange rate changes	–	–	–	**(588)**
Non-pledged bank deposits with maturity of more than three months	–	–	–	**26,000**
Cash and cash equivalents at end of the year	42,990	115,703	174,147	**338,368**

DEFINITION AND GLOSSARY

"360"	360 Security Technology Inc. (三六零安全科技股份有限公司) (formerly known as Jiangnan Jiajie Elevator Stock Company Limited* (江南嘉捷電梯股份有限公司)), a joint stock company with limited liability established in the PRC and ultimately controlled by Mr. Zhou, one of our Controlling Shareholders for the purpose of the Listing Rules, whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所) (stock code of 601360.SH), and one of our Controlling Shareholders for the purpose of the Listing Rules
"360 Group"	360 and its subsidiaries
"360 Technology"	360 Technology Group Co., Ltd.* (三六零科技集團有限公司) (formerly known as Tianjin Qisi Technology Company Limited* (天津奇思科技有限公司), 360 Technology Inc.* (三六零科技股份有限公司) and 360 Technology Co., Ltd.* (三六零科技有限公司)), a limited liability company established in the PRC on 15 September 2011 and directly wholly owned by 360, one of our Controlling Shareholders for the purpose of the Listing Rules, and one of our Controlling Shareholders for the purpose of the Listing Rules
"AGM"	the annual general meeting of the Company to be held on 29 May 2020
"Anyixun Technology" or "WFOE"	Chengdu Anyixun Technology Company Limited* (成都安易迅科技有限公司), a limited liability company established in the PRC on 20 October 2015 and a wholly-owned subsidiary of the Group
"Articles of Association" or "Articles"	the articles of association of the Company, as amended, supplemented or otherwise modified from time to time
"Audit Committee"	the audit committee of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"CG Code"	the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules
"Chengdu Qilu"	Chengdu Qilu Technology Company Limited* (成都奇魯科技有限公司), a limited liability company established in the PRC on 25 November 2014 and is deemed to be a wholly-owned subsidiary of the Group pursuant to the Contractual Arrangements

"Chengdu Qilu Shareholder Rights Entrustment Agreement"	the agreement dated 15 January 2018 and taking effect from 29 December 2016 among Mr. Tian Ye, Qihu Technology and Chengdu Qilu, pursuant to which Mr. Tian Ye is entrusted by Qihu Technology to exercise all of Qihu Technology's rights as a shareholder of Chengdu Qilu (including but not limited to Qihu Technology's voting power at general meetings of Chengdu Qilu)
"China" or the "PRC"	the People's Republic of China
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Company," "our Company" or "the Company"	360 LUDASHI HOLDINGS LIMITED (360魯大師控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands, whose shares are listed on the Main Board of the Stock Exchange
"Company Shareholder Rights Entrustment Agreement"	the agreement dated and taking effect on 4 September 2018 between Dashi Technology Holdings and True Thrive, pursuant to which Dashi Technology Holdings is entrusted by True Thrive to exercise all of True Thrive's rights as a Shareholder (including but not limited to True Thrive's voting power at general meetings of the Company)
"Contractual Arrangements"	a series of contractual arrangements entered into among WFOE, Chengdu Qilu and the Relevant Shareholders, details of which are described in "Contractual Arrangements" in the Prospectus
"Dashi Technology Holdings"	Dashi Technology Holdings Limited (大師控股有限公司), a company incorporated in the BVI with limited liability on 31 January 2018 and directly wholly owned by Mr. Tian Ye, one of our Controlling Shareholders
"Deed of Non-Competition"	the deed of non-competition dated 9 September 2019 entered into by Mr. Tian Ye and Dashi Technology Holdings with and in favor of the Company (for ourselves and as trustee for each of our subsidiaries) with particulars set out in "Relationship with Controlling Shareholders – Non-competition undertaking by Mr. Tian and Dashi Technology Holdings" in the Prospectus
"Director(s)"	director(s) of the Company

"Entrustment Arrangements"	the entrustment arrangements under the Company Shareholder Rights Entrustment Agreement and the Chengdu Qilu Shareholder Rights Entrustment Agreement in relation to the shareholder rights of True Thrive in the Company in favor of Dashi Technology and the shareholder rights of Qihu Technology in Chengdu Qilu in favor of Mr. Tian Ye, respectively, details of which are set out in "History, Reorganization and Corporate Structure – Entrustment Arrangements" in the Prospectus
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group", "we", "us" and "our", "360 Ludashi" or "Ludashi"	the Company, our subsidiaries and the PRC Operating Entities
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hongmeng Investment"	Hongmeng Investment Co. Ltd (鴻蒙投資有限公司), a limited liability company incorporated in the BVI on 16 March 2018 and directly wholly owned by Mr. He Shiwei, a Director
"Listing"	the listing of the Shares on the Main Board
"Listing Date"	10 October 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Liu Liuyou Technology"	Tianjin Liu Liuyou Technology Company Limited* (天津六六遊科技有限公司), a limited liability company established in the PRC on 17 April 2017
"Ludashi Software"	hardware and system benchmarking and monitoring software and App operated by Chengdu Qilu

"MAU(s)"	monthly active user(s), a key performance indicator for software, Apps and online games. Monthly active users are calculated by counting the number of unique devices that activate the software, Apps or online games for at least once during a calendar month
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Company
"PRC Operating Entities"	collectively, Chengdu Qilu and Liu Liuyou Technology (and "PRC Operating Entity" means any one of them), the financial results of which have been consolidated and accounted for as the subsidiaries of the Group by virtue of the Contractual Arrangements
"Prospectus"	the prospectus of the Company dated 26 September 2019
"Qihu Technology"	Beijing Qihu Technology Company Limited* (北京奇虎科技有限公司), a limited liability company incorporated in the PRC on 13 August 2007, one of the Relevant Shareholders and directly wholly owned by 360 Technology, one of our Controlling Shareholders
"Qilu Haochen"	Chengdu Qilu Haochen Enterprise Management Consulting Company Limited* (成都奇魯昊宸企業管理諮詢有限公司), a limited liability company incorporated in the PRC on 7 February 2018, and one of the Relevant Shareholders, owned as to 43.76% by Mr. He Shiwei, a Director, and 56.24% aggregately by three Independent Third Parties
"Qixin Zhicheng"	Tianjin Qixin Zhicheng Technology Company Limited* (天津奇信志成科技有限公司), a limited liability company established in the PRC on 2 December 2015 and one of our Controlling Shareholders for the purpose of the Listing Rules, ultimately controlled by Mr. Zhou Hongyi, one of our Controlling Shareholders for the purpose of the Listing Rules
"Relevant Shareholder(s)"	Qihu Technology, Mr. Tian Ye, Shanghai Songheng and Qilu Haochen, being the registered shareholders of Chengdu Qilu
"Remuneration Committee"	the remuneration committee of the Company
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the period from the Listing Date to 31 December 2019

"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Shanghai Dongfangwang"	Shanghai Dongfangwang Stock Company Limited* (上海東方網股份有限公司), a limited liability company established in the PRC on 5 July 2000
"Shanghai Gaoxin"	Shanghai Gaoxin Computer System Company Limited* (上海高欣計算機系統有限公司), a limited liability company established in the PRC on 4 January 2013 and wholly owned by Shanghai Songheng, one of our Relevant Shareholders and a substantial shareholder of the Company
"Shanghai Songheng"	Shanghai Songheng Network Technology Company Limited* (上海嵩恒網絡科技股份有限公司) (formerly known as Shanghai Songheng Network Technology Company Limited* (上海嵩恒網絡科技有限公司)), a limited liability company established in the PRC on 18 March 2014 and owned aggregately by 20 Independent Third Parties, and one of the Relevant Shareholders and a substantial shareholder of the Company
"Songheng Group"	Shanghai Songheng and its subsidiaries
"Share(s)"	ordinary share(s) with nominal value of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	the Share option scheme conditionally adopted by the Company on 9 September 2019, a summary of the principal terms and conditions of which are set forth in "Appendix IV – Statutory and General Information – D. Share Option Scheme" in the Prospectus
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen FTX Technology"	Shenzhen Fantexi Technology Co., Ltd.* (深圳市範特西科技有限公司), a limited liability company established in the PRC on 10 November 2008, wholly owned by an Independent Third Party, and a substantial shareholder of Liu Liuyou Technology, and hence a connected person at subsidiary level of the Company
"Songchang International"	Songchang International Limited, a limited liability company incorporated in the BVI on 9 May 2018, wholly owned by Songyuan International, a substantial shareholder of the Company, and a substantial shareholder of the Company

"Songyuan International"	Hong Kong Songyuan International Limited (香港嵩遠國際有限公司), a limited liability company incorporated in Hong Kong on 1 December 2017, indirectly wholly owned by Shanghai Songheng, one of the Relevant Shareholders and a substantial shareholder of the Company, and a substantial shareholder of the Company
"Star World"	Beijing Star World Technology Company Limited* (北京世界星輝科技有限責任公司), a limited liability company incorporated in the PRC on 12 October 2009, wholly owned by 360 Technology, one of our Controlling Shareholders for the purpose of the Listing Rules, and a connected person of the Company
"True Thrive"	True Thrive Limited (誠盛有限公司), a limited liability company incorporated in the Cayman Islands on 12 October 2015, wholly owned by 360 Technology, one of our Controlling Shareholders for the purpose of the Listing Rules, and one of our Controlling Shareholders for the purpose of the Listing Rules
"%"	per cent.