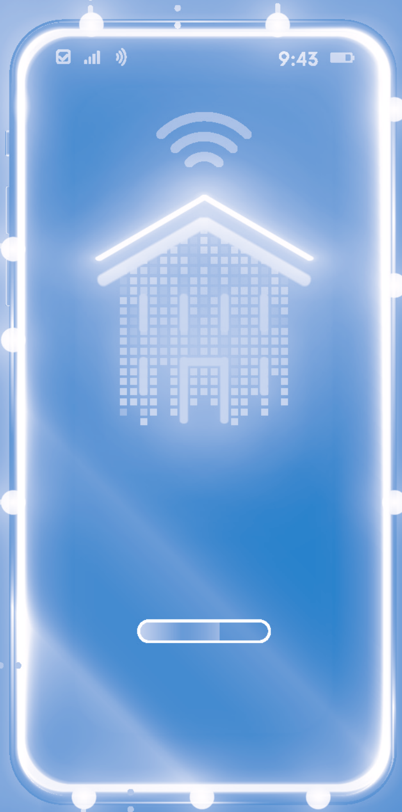
LUDASHI

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

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

2020
INTERIM REPORT



CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Sun Chunfeng
Mr. Liu Wei (appointed on 29 June 2020)
Mr. Zhao Dan (appointed on 29 June 2020)

Independent non-executive Directors

Mr. Li Yang
Mr. Wang Xinyu
Mr. Zhang Ziyu
Mr. Zhu Jinglei (appointed on 13 July 2020)

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Review

During the first half of 2020, the widespread of the COVID-19 epidemic (the "**Epidemic**") caused a severe recession in the global economy. In China, while the Epidemic prevention and control continued to improve and the economy has been recovering steadily, external risks and challenges increased significantly and the recovery of the domestic economy remained under pressure. Under the shadow of the Epidemic, all walks of life suffered the effect, and the Company's online advertising services are also affected to a certain extent. In addition, the worldwide geopolitical tensions, and the re-heating up of the Sino-US trade dispute, have also affected our overseas mobile devices business. Meanwhile, China adopted the home quarantine measure in response to the outbreak of the Epidemic in January 2020, which made users spending more time on entertainment through using computers and other mobile devices and thus the Company's online game business saw an upsurge.

In the first half of 2020, the Group continued to focus on the development of its online traffic monetization and electronic devices sales business lines. Through upgrading and iteration of 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 have 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 smart hardware examining technology, we have enhanced the quality control and service for electronic devices to provide products of higher quality to our customers.

We developed a series of PC and mobile device utility software and offered them to users free-of-charge in exchange for online traffic that we monetized by online advertising services and online game business and further expanded by electronic devices sales. Our utility software, Ludashi Software, 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 30 June 2020, the MAUs for our products had reached approximately 158.9 million.

We continued to optimize the functions of Ludashi Software for PC version, and conducted several rounds of iteration on the beta version 2 of the benchmarking engine, which has launched at the end of 2019. The base of the hardware temperature detection engine was modified to greatly improve its efficiency of support to new hardware in the future. Meanwhile, we have revised the hardware parameter page and optimized the design of hardware protection page, so as to present a more user-friendly Ludashi Software with higher-accuracy detection capability to our users.

We jointly developed and launched Ludashi game accelerator, a game accelerator for computer online game that, by using Ludashi's cross-border dedicated line acceleration technology, can perfectly solve the core experience issues, such as lengthy latency and frequent disconnection, encountered by domestic players when they logged in to games with servers overseas. It was designed to allow players to fully enjoy competitive games and eliminate the negative experience in playing online games as a result of network instability. The trial version was launched in March 2020 and is expected to be officially launched in the second half of 2020.

During the Epidemic, as users subject to the home quarantine measure have spent more time on entertainment through using computers and other mobile devices, Ludashi's game business has grown rapidly in the first half of 2020. With the further improvement of precision pushing and user categorization strategy, as well as more investment in online game advertising, we recorded a relatively large increase in the conversion rate, retention rate, user payment ratio and number of active users. At the same time, the Company increased the investment in the game launching business this year, and completed two tailored web game products on the basis of exclusive agency, one of which was launched in June 2020, and the other is scheduled to be launched in the second half of 2020. The Company tailored two H5 games and mobile games in the first half of 2020, one of which introduced well-known animation IP. It is our plan to increase IP contents in subsequent tailored products to enhance product competitiveness.

In respect of the electronic devices sales, with the smart hardware examining technology as our base, we continued to reinforce the quality control and service for the electronic devices in order to bring better products to our customers.

This year, on top of consolidating the competitiveness of its existing products, the Group had also actively sought for new business opportunities and conducted a number of acquisitions. It also set a foothold in the fields of internet and online financial services to enrich its existing product matrix while branching out into new fields for diversifying risks.

On the whole, despite the negative impact of the Epidemic on certain business segments of the Group, the Group's overall operations have remained stable and sufficient cash reserves could be maintained.

Outlook

Owing to the unpredictable development of the Epidemic and the uncertainty resulted from the Sino-US trade dispute, the business of the Group may be directly and indirectly affected in the future, thus leading to uncertainties of our overall revenue. We will continue to focus on our existing principal business while making every effort to seek new business opportunities, in order to mitigate the negative impact brought by the Epidemic and the Sino-US trade dispute.

We aim to further increase the user number and stickiness of our Ludashi Software PC version, 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 while achieving stable economic benefits by strengthening the relationship with suppliers, customers and users.

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

- Continue the upgrading and iteration of the Ludashi Software while enriching the PC product matrix and promoting Ludashi game accelerator;

- Constantly expand the scale of investment in game business promotion, combine the game directing business and game launching business, and keep on improving our competitiveness, so as to increase our operational revenue scale;

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

- Enhance our online advertising services and online 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

Our revenue decreased by approximately 2.3% from approximately RMB187.3 million for the six months ended 30 June 2019 to approximately RMB183.0 million for the six months ended 30 June 2020. Such decrease was mainly due to the decline of online traffic business and electronic devices sales business as affected by the Epidemic and Sino-US trade dispute.

The following table sets forth our revenue by amount and as a percentage of our revenue for the six months ended 30 June 2019 and 2020:

	For the six months ended 30 June			
	2020		2019	
	RMB'000 (unaudited)	*%*	*RMB'000* (unaudited)	*%*
Online traffic monetization				
Online advertising services	**83,629**	**45.7**	105,054	56.1
Online game business	**55,590**	**30.4**	28,762	15.4
Electronic devices sales				
Certified pre-owned and factory smartphones sales	**43,057**	**23.5**	25,885	13.8
Smart accessories sales	**329**	**0.2**	3,460	1.8
Other electronic devices sales	**409**	**0.2**	24,101	12.9
Total	**183,014**	**100.0**	187,262	100.0

(i) ***Online traffic monetization***

(a) *Online advertising services*

Our revenue from online advertising services decreased by approximately 20.4% from approximately RMB105.1 million for the six months ended 30 June 2019 to approximately RMB83.6 million for the six months ended 30 June 2020, which was mainly due to the reduction in promotion budget of our clients as affected by the Epidemic and Sino-US trade dispute.

(b) *Online game business*

The revenue from online game business increased by approximately 93.3% from approximately RMB28.8 million for the six months ended 30 June 2019 to approximately RMB55.6 million for the six months ended 30 June 2020, as users had spent more time on entertainment through computers and other mobile devices during their home quarantine measure amid the Epidemic, and the increase in the number of players as we have continued to launch new games.

(ii) Electronic devices sales

Revenue from the electronic devices sales decreased by approximately 18.1% from approximately RMB53.4 million for the six months ended 30 June 2019 to approximately RMB43.8 million for the six months ended 30 June 2020, which was mainly due to the decrease in purchase of electronic devices by users, as a result of the home quarantine measure amid the Epidemic.

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 six months ended 30 June 2019 and 2020:

	For the six months ended 30 June			
	2020		2019	
	RMB'000 **(unaudited)**	***%***	*RMB'000* (unaudited)	*%*
Online traffic monetization				
Advertising and promoting	**39,507**	**44.4**	40,018	42.9
Server leasing	**6,556**	**7.4**	1,387	1.5
Electronic devices sales				
Certified pre-owned and factory smartphones sales	**42,723**	**48.0**	25,019	26.8
Smart accessories sales	**44**	**0.1**	3,728	4.0
Other electronic devices sales	**112**	**0.1**	23,134	24.8
Total	**88,942**	**100.0**	93,286	100.0

(i) ***Online traffic monetization***

Cost of online traffic monetization business increased by approximately 11.2% from approximately RMB41.4 million for the six months ended 30 June 2019 to approximately RMB46.1 million for the six months ended 30 June 2020, which was mainly due to the increase in server expenses of online game business.

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

Cost of electronic devices sales decreased by approximately 17.4% from approximately RMB51.9 million for the six months ended 30 June 2019 to approximately RMB42.9 million for the six months ended 30 June 2020, which was mainly due to the decrease in purchase of electronic devices by users, as a result of the home quarantine measure amid the Epidemic.

Gross profit and gross profit margin

The following table sets forth our gross profit and gross profit margin by business lines for the six months ended 30 June 2019 and 2020:

	For the six months ended 30 June			
	2020		2019	
	RMB'000	***%***	*RMB'000*	*%*
	(unaudited)		(unaudited)	
Online traffic monetization	**93,156**	**66.9**	92,411	69.1
Electronic devices sales	**916**	**2.1**	1,565	2.9
Total gross profit and gross profit margin	**94,072**	**51.4**	93,976	50.2

Our gross profit increased by approximately 0.1% from approximately RMB94.0 million for the six months ended 30 June 2019 to approximately RMB94.1 million for the six months ended 30 June 2020, and the gross profit margins were approximately 50.2% and 51.4% for the six months ended 30 June 2019 and 2020, respectively. The increase in gross profit margin was mainly due to the increase in revenue generated from our online traffic monetization business, which has a higher gross profit, as compared to the electronic devices sales business.

Other income

Other income increased by approximately 71.7% from approximately RMB2.4 million for the six months ended 30 June 2019 to approximately RMB4.1 million for the six months ended 30 June 2020, which was due to the increase in the interest income of bank deposits and government grants.

Other gains and losses

Other gains and losses improved by over 100.0% from other gains of approximately RMB0.3 million for the six months ended 30 June 2019 to other gains of approximately RMB2.4 million for the six months ended 30 June 2020, which was due to the increase in exchange gains.

Listing expenses

Listing expenses decreased by 100.0% from approximately RMB5.1 million for the six months ended 30 June 2019 to nil for the six months ended 30 June 2020.

Administrative expenses

Administrative expenses increased by approximately 70.6% from approximately RMB11.9 million for the six months ended 30 June 2019 to approximately RMB20.2 million for the six months ended 30 June 2020, which was due to the increase in consulting services fees.

Research and development expenses

For the six months ended 30 June 2019 and 2020, the research and development expenses held flat at approximately RMB13.5 million, which was mainly due to the stable salary level of research and development personnel.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 20.8% from approximately RMB9.5 million for the six months ended 30 June 2019 to approximately RMB11.4 million for the six months ended 30 June 2020, which was mainly due to the increase in marketing expenses.

Taxation

Taxation decreased by approximately 2.3% from approximately RMB6.6 million for the six months ended 30 June 2019 to approximately RMB6.4 million for the six months ended 30 June 2020, mainly due to the reduction in profit before taxation in the first half of 2020 as compared to that of the corresponding period of 2019.

Profit and total comprehensive income for the period

As a result of the foregoing, the profit and total comprehensive income for the period decreased by approximately 3.4% from approximately RMB49.9 million for the six months ended 30 June 2019 to approximately RMB48.2 million for the six months ended 30 June 2020.

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 proceeds from the Listing, to fund our working capital needs and finance part of our business expansion.

As at 31 December 2019 and 30 June 2020, our bank balances and cash amounted to approximately RMB338.4 million and approximately RMB327.2 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 30 June 2020, 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 year ended 31 December 2019 and for the six months ended 30 June 2020:

	For the six months ended 30 June 2020 *RMB'000* **(unaudited)**	For the year ended 31 December 2019 *RMB'000* (unaudited)
Purchase of property and equipment	**1,107**	3,122
Purchase of intangible assets	**4,300**	1,112
Total	**5,407**	4,234

Our capital expenditures primarily included expenditures for purchases of property and equipment such as servers and computers and intangible assets such as trademarks and franchises. 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 30 June 2020.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 24 June 2020, 360 Ludashi Consulting Limited, a wholly-owned subsidiary of the Group, Mr. Tian Ye, an executive Director and a controlling shareholder of the Company, and Mr. Zhang Fanchen, the chief financial officer of the Company (collectively, the "**Purchasers**"), entered into an agreement with Wan Lung Investment Development Limited (the "**Agreement**"), pursuant to which the Purchasers have jointly and conditionally agreed to acquire and Wan Lung Investment Development Limited has conditionally agreed to sell the entire issued share capital of Wan Lung Securities Limited, a licensed corporation carrying on business in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO, at the aggregate consideration of approximately HK$14.5 million subject to the terms and conditions of the Agreement (the "**Acquisition**").

Upon completion of the Acquisition, Wan Lung Securities Limited will be owned as to 80% by 360 Ludashi Consulting Limited, 15% by Mr. Tian Ye and 5% by Mr. Zhang Fanchen, respectively, and will become a non wholly-owned subsidiary of the Company. For details, please refer to the announcement of the Company dated 25 June 2020.

Save as disclosed above, the Group did not have any other material acquisitions nor disposals of subsidiaries, interest in associates or joint ventures for the six months ended 30 June 2020.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 30 June 2020, there was no future plan for material investments or capital assets.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2020, we had 168 full-time employees, all of whom are located in the PRC. Specifically, such full-time employees included 3 senior management members, 67 personnel who are responsible for sales and marketing, 74 personnel who are responsible for research and development and 24 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 have developed a series of training with individualized emphasis and focus based on our accumulated industry experience over the years. 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. These programs include further educational studies, fundamental economics and finance knowledge and skills training, and professional development courses for our management personnel. New employees are required to attend induction training meeting 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 30 June 2020, the Group did not have any pledge of assets.

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 June 2020, the Group did not have any significant contingent liabilities, guarantees or any litigation.

EVENTS AFTER THE REPORTING PERIOD

On 24 July 2020, a deposit of HK$2 million was paid by 360 Ludashi Consulting Limited to Wan Lung Investment Development Limited in connection to the Acquisition. As at the date of this report, the Acquisition is not completed as all required approvals from the regulatory authorities have not been obtained.

OTHER INFORMATION

INTERIM DIVIDEND

The Board has resolved not to pay the interim dividend for the six months ended 30 June 2020.

COMPLIANCE WITH THE CG CODE

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.

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.

During the Reporting Period, save as disclosed above, the Company has complied with all the code provisions under the CG Code as set forth in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiries, all the Directors confirmed that they have strictly complied with the required standards as set out in the Model Code throughout the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange.

CHANGE OF DIRECTORS' INFORMATION

The changes in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

The basic salaries of Mr. Tian Ye and Mr. He Shiwei have increased to RMB2.4 million and RMB2.1 million per annum, respectively, with effect from May 2020.

Mr. Zhang Ziyu resigned as the president of China Tian Yuan Finance Group (Holdings) Limited (中國天元金融集團(控股)有限公司) in September 2020.

CONTRACTUAL ARRANGEMENTS

According to the Negative List, value-added telecommunications service business is restricted from foreign investment and foreign ownership in such business (except e-commerce, domestic multi-party communication, storage and forwarding, call center) cannot exceed 50%, and in particular, internet cultural business (except for music) is prohibited for foreign investment. The Group is principally engaged in online monetization in the form of online advertising and online game business, which is considered to be engaged in the provision of value-added telecommunications services and the internet cultural business, a restricted and prohibited business, respectively, for foreign investors pursuant to the Negative List. As such, the Group operates its 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 is entitled to all the economic benefits derived from their operations, as 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.

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 overseas (the "**Qualification Requirements**").

Insofar as the Directors are aware, as at the date of this 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. We will unwind and terminate the Contractual Arrangements wholly or partially once our business is no longer prohibited or restricted from foreign investment.

Business Overview of the PRC Operating Entities

Both Chengdu Qilu and Liu Liuyou Technology are 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". Our WFOE, namely Anyixun Technology, entered into the Contractual Arrangements with Chengdu Qilu and the Relevant Shareholders in order to conduct the online game business 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.

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 PRC Operating Entities in China by means of Contractual Arrangements. If the PRC Government determines that the Contractual Arrangements do not comply with applicable regulations, our business could be materially and adversely affected.

- 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.

- 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 the 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.

AUDIT COMMITTEE

The Company has established the Audit Committee, the primary duties of which are to make recommendations to our Board on the appointment and dismissal of the external auditor, monitor and review the financial statements and information and oversee the financial reporting system, risk management and internal control systems of the Company. The Audit Committee consists of three members, namely Mr. Zhang Ziyu, Mr. Li Yang and Mr. Wang Xinyu. The chairman of the Audit Committee is Mr. Zhang Ziyu.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2020.

In addition, the external auditor of the Company has reviewed the condensed consolidated financial statements of the Group for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by HKICPA.

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 30 June 2020 is set out below:

Purpose		Allocation of Net Proceeds	Utilization as at 30 June 2020	Net balance of the Net Proceeds as at 30 June 2020	Expected timeframe for utilization of the balance of the Net Proceeds
			(HK$ million)		
(i)	to enhance the Group's research and development capability	**36.9**	**1.0**	35.9	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**	**1.6**	23.0	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**	**3.1**	21.5	On or before 31 December 2023
(iv)	to make additional strategic investments and acquisitions in cash alone or in combination with equity	**24.6**	**24.6**	–	N/A
(v)	for our working capital and general corporate purposes	**12.4**	**3.4**	9.0	On or before 31 December 2022

During the six months ended 30 June 2020, a portion of the Net Proceeds allocated for making additional strategic investments and acquisitions in cash alone or in combination with equity were used for the equity investment in logo Workshop Investment Ltd., a company principally engaged in the research, development and operation of portable chargers for mobile devices.

As at the date of this report, the Net Proceeds had been applied in accordance with the allocations and purposes as set out in the Prospectus and were expected to be used in accordance with the purposes as set forth above.

SHARE OPTION SCHEME

The Company conditionally adopted the Share Option Scheme on 9 September 2019, under which certain selected employees (including, among others, 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.

During the six months ended 30 June 2020, 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 30 June 2020, 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:

Interest in the Shares

Name of Directors/ Chief executive	Capacity	Nature of interest	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	3,342,712	1.24%

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 1.24% of the issued share capital of the Company. Hongmeng Investment is directly and wholly owned by Mr. He Shiwei. Mr. He Shiwei, our executive Director, is therefore deemed to be interested in all the Shares held by Hongmeng Investment.

Save as disclosed above, as at 30 June 2020, 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 30 June 2020, to the best knowledge of the Directors and 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 (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 30 June 2020, the Company had not been notified by any substantial shareholders (other than the Directors or chief executive), who had 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.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of 360 Ludashi Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 45, which comprise the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE 2410") issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

OTHER MATTER

The comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period ended 30 June 2019 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**183,014**	187,262
Costs of sales and services		**(88,942)**	(93,286)
Gross profit		**94,072**	93,976
Other income	*4*	**4,086**	2,380
Other gains and losses	*5*	**2,443**	271
Listing expenses		**–**	(5,065)
Selling and distribution expenses		**(11,423)**	(9,457)
Administrative expenses		**(20,238)**	(11,866)
Research and development expenses		**(13,527)**	(13,541)
Share of results of associates		**(619)**	–
Finance costs		**(105)**	(172)
Profit before taxation		**54,689**	56,526
Taxation	*6*	**(6,444)**	(6,594)
Profit and total comprehensive income for the period	*7*	**48,245**	49,932
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**45,471**	49,565
Non-controlling interests		**2,774**	367
		48,245	49,932
Earnings per share			
Basic and diluted (in RMB cents)	*9*	**16.90**	24.78

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Non-current Assets			
Intangible assets		8,428	3,086
Property, plant and equipment	10	8,483	10,028
Interests in associates	11	18,191	9,210
Financial assets at fair value through profit or loss ("FVTPL")	12	25,628	–
Deferred tax assets		4,750	4,341
		65,480	26,665
Current assets			
Trade receivables	13	71,615	86,010
Other receivables, deposits and prepayments	14	61,310	41,987
Inventories		4,506	4,278
Tax recoverable		1,053	752
Bank balances and cash		327,224	338,368
		465,708	471,395
Current liabilities			
Trade and other payables	15	58,024	47,829
Contract liabilities		347	389
Lease liabilities		2,563	2,388
Income tax payable		3,371	3,472
		64,305	54,078
Net current assets		401,403	417,317
Total assets less current liabilities		466,883	443,982
Capital and reserves			
Share capital	16	2,425	2,425
Reserves		456,697	435,930
Equity attributable to owners of the Company		459,122	438,355
Non-controlling interests		5,702	2,794
Total Equity		464,824	441,149
Non-current liability			
Lease liabilities		2,059	2,833
		466,883	443,982

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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 1 January 2019 (audited)	9	37,920	5,000	(9)	161,891	204,811	15,198	220,009
Profit and total comprehensive income for the period	–	–	–	–	49,565	49,565	367	49,932
At 30 June 2019 (unaudited)	9	37,920	5,000	(9)	211,456	254,376	15,565	269,941
Profit and total comprehensive income for the period	–	–	–	–	55,137	55,137	1,400	56,537
Dividends paid to non-controlling interests shareholders	–	–	–	–	–	–	(7,277)	(7,277)
Capitalisation issue (Note 16)	1,794	(1,794)	–	–	–	–	–	–
New ordinary shares issued (Note 16)	622	167,316	–	–	–	167,938	–	167,938
Transaction costs related to the issue of new ordinary shares (Note 16)	–	(27,588)	–	–	–	(27,588)	–	(27,588)
Conversion of put option liability (Note iii)	–	8,198	–	–	–	8,198	–	8,198
Purchase of non-controlling interests (Note ii)	–	–	–	–	(19,706)	(19,706)	(6,894)	(26,600)
Transfer	–	–	8,235	–	(8,235)	–	–	–
At 31 December 2019 (audited) and 1 January 2020 (audited)	2,425	184,052	13,235	(9)	238,652	438,355	2,794	441,149
Profit and total comprehensive income for the period	–	–	–	–	45,471	45,471	2,774	48,245
Dividends recognised as distribution (Note 8)	–	(24,570)	–	–	–	(24,570)	–	(24,570)
Purchase of non-controlling interests (Note ii)	–	–	–	–	(134)	(134)	134	–
At 30 June 2020 (unaudited)	2,425	159,482	13,235	(9)	283,989	459,122	5,702	464,824

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) At 30 June 2020, the non-controlling interests comprise of those equity interests in the Tianjin Liu Liuyou Technology Co., Ltd ("Liu Liuyou Technology") and Tianjin Xiaolu Second-Hand Technology Co., Ltd ("Xiaolu Second-Hand") held by parties other than the Company.

During the six months ended 30 June 2020, Chengdu Anyixun Technology Co., Ltd ("Chengdu Anyixun"), a wholly-owned subsidiary of the Group, purchased 100% equity interests of Tianjin Lubang Technology Co., Ltd ("Lubang Technology") from Xiaolu Second-Hand, a subsidiary which is 82.86% owned by Chengdu Anyixun and the Group, for a consideration of RMB3,000,000, and the equity interest of Lubang Technology owned by the Group increased from 82.86% to 100% accordingly. The difference between the fair value of the consideration paid and the net book value of Lubang Technology resulted in an adjustment of the non-controlling interests in Xiaolu Second-Hand and the equity attributed to owners of the Company.

During December 2019, the Group acquired 20% interest of Liu Liuyou Technology from the non-controlling shareholder, Shenzhen Fantexi Technology Co., Ltd for a consideration of RMB26,600,000. The transaction was accounted for as an equity transaction with non-controlling 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.

(iii) Pursuant to the agreement entered between Lima High Tech Limited ("Lima") and the Company in 24 July 2018, as amended by a supplemental agreement dated 1 August 2018, the Company issued 7,110 shares with liquidation preference and redemption rights ("the Put Option") to Lima. The Put Option is designated as a financial liability at FVTPL on initial recognition. On 10 October 2019, the Put Option attached on the Company's shares granted to Lima has been terminated upon the completion of the Company's successful Initial Public Offering and the put option liability was derecognised with an equal amount being adjusted to the share premium accordingly. 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**42,202**	15,678
Investing activities		
Proceeds from disposal of property, plant and equipment	**100**	–
Purchase of property, plant and equipment	**(1,107)**	(642)
Proceeds from disposal of interest in an associate	**1,500**	–
Proceeds from disposal of interests in subsidiaries	**500**	–
Purchase of intangible assets	**(4,300)**	(113)
Purchase of interests in associates	**(9,600)**	–
Payment of deposit for an investment	**(5,600)**	–
Purchase of financial assets at FVTPL	**(25,628)**	–
Placement of pledged bank deposit	**–**	(20,000)
Net cash used in investing activities	**(44,135)**	(20,755)
Financing activities		
Purchase of non-controlling interests	**(13,300)**	–
Interest paid	**–**	(122)
Repayments of lease liabilities	**(324)**	(859)
Deferred issue costs paid	**–**	(4,186)
Net cash used in financing activities	**(13,624)**	(5,167)
Net decrease in cash and cash equivalents	**(15,557)**	(10,244)
Cash and cash equivalents at beginning of the period	**312,368**	174,147
Effect of foreign exchange rate changes	**4,413**	102
Cash and cash equivalents at end of the period, represented by	**301,224**	164,005
Bank balances and cash	**327,224**	190,005
Less: non-pledged bank deposits with maturity of more than three months	**(26,000)**	(26,000)
	301,224	164,005

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of Covid-19 and subsequent quarantine measures as well as the travel restrictions imposed by many countries had negative impacts to the global economy, business environment and directly and indirectly affect the operations for the Group. Due to mandatory government quarantine measure from January 2020 to March 2020 in effort to contain the spread of the pandemic, the Group's revenue from online advertising services were affected to a certain extent, but the Group's revenue from online game business increased due to more people spend more time on entertainment through using computers and other mobile devices.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except certain financial instruments which are measured at fair value, as appropriate.

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the amendments to References to Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKCPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 "Covid-19-Related Rent Concessions".

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and accounting policies on early application of Amendments to HKFRS 16 "Covid-19-Related Rent Concessions"

2.1.1 Accounting policies

Leases

Covid-19-related rent concessions

Rent concessions relating to lease contracts that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 "Leases" if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

2.1.2 Transition and summary of effects

The Group has early applied the amendment in the current interim period. The application has no impact to the opening retained profits at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of RMB21,000, in the profit or loss for the current interim period.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Financial instruments

Classification and subsequent measurement of 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.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting 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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial assets the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combination applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Accounting policies newly applied by the Group (continued)

***Financial instruments** (continued)*

Classification and subsequent measurement of financial assets (continued)

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminate or significantly reduces an accounting mismatch.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividends or interest earned on the financial asset and is included in the "other gains and losses" line item.

3. 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 People's Republic of China ("PRC").

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

Segment information

The Group's chief executive officer has been identified as the chief operating decision maker ("CODM") 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 as follows:

	Six months ended 30 June	
	2020 ***RMB'000*** **(unaudited)**	2019 *RMB'000* (unaudited)
Online advertising services	**83,629**	105,054
Online game business	**55,590**	28,762
Certified pre-owned and factory smartphones sales	**43,057**	25,885
Certified pre-owned and factory other electronic devices sales	**409**	24,101
Smart accessories sales	**329**	3,460
Total	**183,014**	187,262

3. REVENUE AND SEGMENT INFORMATION (continued)

Geographical information

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Mainland China	**168,972**	166,686
Overseas	**14,042**	20,576
Total	**183,014**	187,262

Timing of revenue recognition

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
A point in time	**127,424**	158,500
Over time	**55,590**	28,762
Total	**183,014**	187,262

4. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants	**1,526**	344
Interest on bank deposits and financial products issued by banks	**2,560**	2,036
	4,086	2,380

The government grants mainly represented the additional value-added tax deduction granted by the PRC government for some specific industries within which the Group's main business activities fall.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Allowance for trade receivables	**(147)**	(7)
Allowance for inventories	**(666)**	–
Net foreign exchange gain	**3,220**	142
Gain on changes in fair value on put option liability	**–**	220
Others	**36**	(84)
	2,443	271

6. TAXATION

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Tax expense comprises:		
Current tax – PRC Enterprise Income Tax	**(6,853)**	(7,887)
Deferred tax	**409**	1,293
Total	**(6,444)**	(6,594)

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Directors' and chief executive's remuneration	**1,483**	1,034
Other staff costs		
– Salaries and other benefits	**21,257**	21,716
– Retirement benefit schemes	**485**	1,886
Total staff costs	**23,225**	24,636
Cost of inventories sold	**42,786**	51,908
Depreciation of property, plant and equipment (included in "administrative expenses, selling and distribution expenses and research and development expenses")	**2,813**	1,693
Amortisation of intangible assets (included in "administrative expenses")	**744**	510

8. DIVIDENDS

During the current interim period, a final dividend of Hong Kong Dollars ("HK$") at HK10 cents per share in respect of the year ended 31 December 2019 (For the six months ended 30 June 2019: nil in respect of the year ended 31 December 2018) was declared to owners of the Company. The aggregate amount of the final dividend for the year ended 31 December 2019 declared in the interim period amounted to HK$26,900,000 (equivalent to approximately RMB24,570,000) (For the six months ended 30 June 2019: nil).

The directors of the Company have determined that no dividend will be paid in respect of the interim period.

9. 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:

	Six months ended 30 June	
Earnings	**2020** ***RMB'000*** **(unaudited)**	2019 *RMB'000* (unaudited)
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the period attributable to owners of the Company)	**45,471**	49,565
Number of shares	***'000*** **(unaudited)**	*'000* (unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	**269,000**	200,000

The calculation of the basic earnings per share is based on the profit attributable to owners of the Company and the weighted average number of ordinary shares after retrospective adjustment and on the assumption that the Capitalisation Issue as described in the paragraph headed "Share Capital" to the prospectus of the Company dated 26 September 2019 had been in effective on 1 January 2019.

The computation of diluted earnings per share for the six months ended 30 June 2019 does not assume the removal of the special rights attached on the Company's shares granted to Lima (the "Removal") since the Removal would not result in a decrease in earnings per share.

No diluted earnings per share for the six months ended 30 June 2020 was presented as there was no potential ordinary shares in issue for this period.

10. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT INCLUDING RIGHT-OF-USE ASSETS

During the current interim period, the Group disposed of certain motor vehicles with an aggregate carrying amount of RMB89,000 for proceeds of RMB100,000, resulting in a gain on disposal of RMB11,000. Comparatively, there is no disposal in the previous period.

During the current interim period, the Group incurred approximately RMB849,000 (six months ended 30 June 2019: RMB498,000) for decoration cost of new office premise, approximately RMB253,000 (six months ended 30 June 2019: RMB143,000) for expenditures on new electronic equipment and approximately RMB5,000 (six months ended 30 June 2019: RMB1,000) for expenditures on new furniture and fixtures and equipment.

During the current interim period, the Group entered into a new lease agreement for office premise for 14 months and recognised an addition of RMB249,000 of right-of-use assets and lease liabilities on lease commencement. Comparatively, for the six months ended 30 June 2019, the Group entered into two new lease agreements for office premise for 2 to 5 years and recognised an addition of RMB3,631,000 of right-of-use assets and lease liabilities on lease commencement.

11. INTERESTS IN ASSOCIATES

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 as at 30 June		Proportion of voting rights held by the group as at 30 June		Principal activity
			2020 %	2019 %	2020 %	2019 %	
Beijing Sihai Chuangwei Technology Co., Ltd. ("Sihai Chuangwei")	PRC	PRC	**20%**	20%	**20%**	20%	Online advertising
Tianjin Qiyu Network Technology Co., Ltd.	PRC	PRC	**20%**	20%	**20%**	20%	Technical service
Shanghai Kaizhan Network Technology Co., Ltd. ("Shanghai Kaizhan") (i)	PRC	PRC	**8%**	–	**8%**	–	Technical service
Tianjin Youbenzhiquan Technology Co., Ltd. ("Tianjin Youbenzhiquan") (ii)	PRC	PRC	**40%**	–	**40%**	–	Technical service
Tianjin Mimo Atomization Intelligent Technology Co., Ltd. ("Tianjin Mimo") (iii)	PRC	PRC	**20%**	–	**20%**	–	Technical service
Chengdu Exclamation Point Technology Co., Ltd. ("Chengdu Exclamation Point") (iv)	PRC	PRC	**10%**	–	**10%**	–	On-line game development

11. INTERESTS IN ASSOCIATES (continued)

Notes:

(i) In January 2020, the Group made an investment of RMB8,000,000 to Shanghai Kaizhan established by two independent third parties and has the right to appoint one of the three directors of Shanghai Kaizhan. After the investment, the Group and those two independent third parties held the equity interest of 8%, 9.2% and 82.8%, respectively. According to the articles of association, the Board of Directors is responsible to approve the decision to direct the operation and financing activities of Shanghai Kaizhan and the directors of the Company consider that the Group has significant influence over Shanghai Kaizhan and it is therefore classified as an associate of the Group.

(ii) In June 2020, the Group established Tianjin Youbenzhiquan with independent third parties of equity interest of 40% and 60% respectively. The Group has made the capital injection of RMB500,000. According to the articles of association of Tianjin Youbenzhiquan, the Group and other shareholders exercise their voting power over Tianjin Youbenzhiquan with reference to its respective percentage of registered share capital. The directors of the Company consider that the Group has significant influence over Tianjin Youbenzhiquan and it is therefore classified as an associate of the Group.

(iii) In March 2020, the Group established Tianjin Mimo with an independent third party of equity interest of 20% and 80% respectively. The Group has made the capital injection of RMB100,000. According to the articles of association of Tianjin Mimo, the Group and other shareholders exercise their voting power over Tianjin Mimo with reference to its respective percentage of registered share capital. The directors of the Company consider that the Group has significant influence over Tianjin Mimo and it is therefore classified as an associate of the Group.

(iv) In May 2020, the Group made an investment of RMB1,000,000 to Chengdu Exclamation Point established by an independent third party and has the right to appoint one of the three directors of Chengdu Exclamation Point. After the investment, the Group and the independent third party held the equity interest of 10% and 90%, respectively. According to the articles of association, the Board of Directors is responsible to approve the decision to direct the operation and financing activities of Chengdu Exclamation Point. The directors of the Company consider that the Group has significant influence over Chengdu Exclamation Point and it is therefore classified as an associate of the Group.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Unlisted equity investments:		
– logo Workshop Investment Ltd.	**25,628**	–

In May 2020, 360 Ludashi Consulting Limited ("Ludashi Consulting"), a wholly-owned subsidiary of the Group, purchased 10% equity interests of logo Workshop Investment Ltd. with a consideration of HKD28,000,000.

The fair value of the equity instruments are determined by the cost of investment as they are mainly comprise of equity investments in private companies and the investment date is closed to the period end. Management considered that the cost of investment could represent the recent transaction price and it's the appropriate valuation method to determine the fair value for the investments. The fair value was based on the recent transaction price with another independent third party and is within level 2 of the fair value hierarchy.

13. TRADE RECEIVABLES

	30 June 2020 *RMB'000* (unaudited)	31 December 2019 *RMB'000* (audited)
Trade receivables		
– related parties	**17,764**	21,327
– third parties	**54,517**	65,203
Less: allowance for credit losses	**(666)**	(520)
	71,615	86,010

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

Related parties	**Relationship**	30 June 2020 *RMB'000* (unaudited)	31 December 2019 *RMB'000* (audited)
360 Technology Group Co., Ltd. ("360 Technology")	Shareholder of Beijing Qihu Technology Co., Ltd. ("Beijing Qihu")	**–**	313
Shanghai Songheng Network Technology Inc. ("Shanghai Songheng")	Shareholder of the Company	**7,306**	6,870
Beijing Qihu	Shareholder of the Company	**9,960**	13,867
Beijing Star World Technology Co., Ltd. ("Beijing Star World")	360 Technology's subsidiary	**226**	205
Tianjin Xiaofeiniao Technology Co., Ltd. ("Tianjin Xiaofeiniao")	Controlled by Tian Ye	**–**	72
Sihai Chuangwei	An associate of the Group	**167**	–
Beijing Qiyuan Technology Co., Ltd. ("Beijing Qiyuan")	360 Technology's subsidiary	**105**	–
Total		**17,764**	21,327

13. 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.

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
0 – 90 days	48,545	75,296
91 – 180 days	11,527	7,458
Over 181 days	11,543	3,256
	71,615	86,010

The Group performs impairment assessment in respect of trade receivables under expected credit loss ("ECL") model. The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

14. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Other receivables	8,796	9,756
Deductible value-added tax	5,463	3,675
Deferred cash consideration on disposal of subsidiaries	1,500	2,000
Deferred cash consideration on disposal of an associate	–	1,500
Prepayments and deferred expenses		
– a related party (Note a)	2,500	–
– third parties	28,215	17,398
Deposit for an investment	5,600	–
Interest receivables	3,371	2,614
Online payment platform (Note b)	5,865	5,044
Total	61,310	41,987

Note a: The prepayment to a related party represents a payment for a license of online game currently under development by Chengdu Exclamation Point, an associate of the Group. Based on the terms of the agreement, the prepayment is refundable if Chengdu Exclamation Point failed to launch the game and therefore, the prepayment is classified as current asset.

Note b: 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.

15. TRADE AND OTHER PAYABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade payables		
– related parties	**268**	315
– third parties	**8,047**	14,991
Other payables	**5,118**	4,353
Payables arisen from online game business (Note)	**13,254**	6,247
Payables arisen from purchase of non-controlling interests	**–**	13,300
Payroll payable	**6,073**	7,585
Other tax payable	**694**	1,038
Dividend payable	**24,570**	–
	58,024	47,829

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:

		Six months ended 30 June	
Related parties	**Relationship**	**2020 RMB'000 (unaudited)**	2019 RMB'000 (unaudited)
Beijing Qihu	Shareholder of the Company	**267**	314
Shanghai Gaoxin Computer System Co., Ltd. ("Shanghai Gaoxin")	Shanghai Songheng's subsidiary	**1**	1
		268	315

15. TRADE AND OTHER PAYABLES (continued)

The following is an aging analysis of trade payables presented based on the dates of receiving of goods and services:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
0-90 days	**7,896**	14,528
91-180 days	**273**	681
Over 180 days	**146**	97
Total	**8,315**	15,306

16. 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 1 January 2019, 30 June 2019	38,000,000	380,000	308,180	
Increase on 9 September 2019 (note (i))	9,962,000,000	99,620,000	90,012,647	
At 1 January 2020 and 30 June 2020	10,000,000,000	100,000,000	90,320,827	
Issued and fully paid				
At 1 January 2019, 30 June 2019	1,007,110	10,071	8,564	9
Capitalisation issue (note (ii))	198,992,890	1,989,929	1,794,120	1,794
Issue of new ordinary shares (note (iii))	60,000,000	600,000	540,960	541
Exercise of over-allotment option (note (iii))	9,000,000	90,000	81,032	81
At 1 January 2020 and 30 June 2020	269,000,000	2,690,000	2,424,676	2,425

16. SHARE CAPITAL (continued)

Notes:

(i) On 9 September 2019, the authorised 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 10 October 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 9 October 2019, immediately in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in the Company.

(iii) On 10 October 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 completion of the Hong Kong Public Offering and the International Offering and listing of the shares of the Company on the Stock Exchange. On 30 October 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.

17. SIGNIFICANT RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the condensed consolidated financial statements, the Group entered into the following transactions with related parties:

i Transactions with related parties

Related parties	Relationship	Six months ended 30 June 2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue from Beijing Qihu	Shareholder of the Company	**26,723**	31,935
Revenue from 360 Technology	Shareholder of Beijing Qihu	**–**	670
Revenue from Shanghai Songheng	Shareholder of the Company	**4,738**	14,922
Revenue from Beijing Star World	360 Technology's subsidiary	**24,392**	11,350
Revenue from Tianjin Xiaofeiniao	Controlled by Tian Ye	**10**	9
Revenue from Shanghai Zhanmeng Technology Co., Ltd.	Shanghai Songheng's subsidiary	**5**	19
Revenue from Sihai Chuangwei	An associate of the Group	**121**	–
Revenue from Beijing Qiyuan	360 Technology's subsidiary	**319**	–
Cost to Beijing Star World	360 Technology's subsidiary	**413**	–
Cost to Beijing Qihu	Shareholder of the Company	**687**	863
Cost to Shanghai Gaoxin	Shanghai Songheng's subsidiary	**7**	1,239

17. SIGNIFICANT 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:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Salaries and allowances	**2,457**	1,770
Retirement benefit scheme contributions	**10**	71
	2,467	1,841

18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Financial assets	Fair value as at	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship unobservable inputs to fair value
Unlisted equity investment classified at financial assets at FVTPL	30 June 2020 – RMB25,628,000 31 December 2019 – Nil	Level 2	Recent transaction price	N/A	N/A

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 costs in the condensed consolidated financial statements approximate to their fair values.

19. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 24 June 2020, Ludashi Consulting, a wholly-owned subsidiary of the Group, Mr. Tian Ye, an executive Director and a controlling shareholder of the Company, and Mr. Zhang Fanchen, the chief financial officer of the Company (collectively, the "Purchasers"), entered into an agreement with Wan Lung Investment Development Limited ("Wan Lung"), an independent third party, pursuant to which the Purchasers have jointly and conditionally agreed to acquire and Wan Lung has conditionally agreed to sell the entire issued share capital of Wan Lung Securities Limited, a licensed corporation carrying on business in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance, at an aggregate consideration of approximately HK$14.5 million subject to the terms and conditions of the agreement (the "Acquisition"). Upon completion of the Acquisition, Wan Lung Securities Limited will be owned as to 80% by Ludashi Consulting, 15% by Mr. Tian Ye and 5% by Mr. Zhang Fanchen, respectively, and will become a non wholly-owned subsidiary of the Company.

On 24 July 2020, a deposit of HK$2 million was paid by Ludashi Consulting to Wan Lung in connection to the Acquisition. As at the date of this report, the Acquisition is not completed as all required approvals from the regulatory authorities have not been obtained.

DEFINITION AND GLOSSARY

"360"	360 Security Technology Inc. (三六零安全科技股份有限公司), a joint stock company with limited liability established in the PRC and ultimately controlled by Mr. Zhou Hongyi, 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), 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
"Audit Committee"	the audit committee of the Board
"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 Company
"Board" or "Board of Directors"	the board of Directors of the Company
"CG Code"	the Code on Corporate Governance 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 Company 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
"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 (stock code: 3601)

"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
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules, and unless the context requires otherwise, for the purpose of the Listing Rules, refers to Mr. Tian Ye, Dashi Technology Holdings, True Thrive, 360 Technology, 360, Qixin Zhicheng and Mr. Zhou Hongyi
"Dashi Technology Holdings"	Dashi Technology Holdings Limited (大師控股有限公司), a company incorporated in the British Virgin Islands with limited liability on 31 January 2018 and directly wholly owned by Mr. Tian Ye, one of our Controlling Shareholders
"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 Holdings and the shareholder rights of Qihu Technology in Chengdu Qilu in favor of Mr. Tian Ye, respectively
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group", "we", "us" and "our", "Ludashi" or "360 Ludashi"	the Company, our subsidiaries and the PRC Operating Entities
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"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
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKICPA"	the Hong Kong Institute of Certified Public Accountants
"IP(s)"	intellectual property rights. In the game industry, IP products usually refer to the game products created with the authorized use of characters, images, graphics, texts, plots, etc. of literatures, movies or famous games

"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"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
"Negative List"	The Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020 Revision) (外商投資准入特別管理措施(負面清單)(2020年版)), which was issued on 23 June 2020 and came into effect on 23 July 2020, which has replaced the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019 Revision) (外商投資准入特別管理措施(負面清單) (2019年版))
"PC(s)"	personal computers
"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 Company 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, the executive 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
"Reporting Period"	the six months ended 30 June 2020
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"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 the 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), a limited liability company established in the PRC on 18 March 2014, and one of the Relevant Shareholders and a substantial shareholder of the Company
"Songheng Group"	Shanghai Songheng and its subsidiaries
"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
"Share(s)"	ordinary share(s) with nominal value of HK$0.01 each in the share capital of the Company

"Shareholder(s)"	holder(s) of the Share(s)
"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
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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.

* *For identification purpose only*