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
ANNUAL REPORT

LUDASHI

OUR MISSION IS

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

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CORPORATE INFORMATION

THE BOARD OF DIRECTORS

Executive Directors

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

Non-executive 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
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
35/F, One Pacific Place, 88 Queensway
Hong Kong

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, Dah Sing Financial Centre
248 Queen's Road East
Wanchai, Hong Kong

CORPORATE INFORMATION

LEGAL ADVISERS

As to Hong Kong laws:
Jingtian & Gongcheng LLP
Suites 3205-3207, 32/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC laws:
Llinks Law Offices
19F, One Lujiazui
68 Yin Cheng Road Middle
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, 32/F
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

CHAIRMAN'S STATEMENT

A LETTER TO SHAREHOLDERS

Dear Shareholders:

We witnessed the outbreak of the COVID-19 epidemic (the "**Epidemic**") in 2020. The Epidemic has changed our lifestyles and the development trends of various industries. Facing the impact of the changes in the macro environment, my partners and I have strived to minimize losses and continuously sought new growth points to maintain our Shareholders' returns, which is of first priority among all of our work. On behalf of the Board, I am pleased to present the annual report of the Company and its subsidiaries for the year ended 31 December 2020 (the "**Reporting Period**"), and I would like to extend my sincere gratitude to all Shareholders and express my appreciation to the staff and professional advisers of the Company for their unremitting efforts.

Firstly, I am pleased to announce that in 2020, the Company recorded a total revenue of approximately RMB347.9 million, representing a decrease of approximately 14.0% as compared to that of 2019, of which the revenue from our online advertising business was approximately RMB177.7 million, representing a decrease of approximately 19.5% as compared to that of 2019, the revenue from our online game platform was approximately RMB92.5 million, representing an increase of approximately 47.2% as compared to that of 2019, the revenue from our operation of exclusive licensed online game was approximately RMB14.4 million and the revenue from our smart hardware business was approximately RMB63.3 million, representing a decrease of approximately 47.6% as compared to that of 2019. Our net profit attributable to parent decreased by approximately 30.6% to RMB72.7 million as compared to that of 2019.

Ludashi has a history of 13 years since its establishment. From PCs products to personal smart mobile devices products and then to related smart electronic devices areas, we have been continuously providing corresponding smart hardware benchmarking and monitoring products, establishing our brand image as a leading hardware expert in China. We will firmly adhere to the current development orientations of Ludashi and put more efforts in upgrading the brand of Ludashi in the new era to better adapt to the current development and changes of the industry.

We are committed to the expansion of new business, seeking product benchmarking markets with greater market potential, carrying out broader benchmarking businesses in the intelligent era and boosting our brand influence in products with more vitality. We have established the intelligent hardware benchmarking laboratory jointly with the College of Computer Science of Sichuan University*(四川大學計算機學院). With the establishment of the laboratory, we upgraded our existing hardware benchmarking business and expanded to other product categories such as electric vehicles. Through this series of measures, we believe that our benchmarking business will be more precise, diversified and will obtain a larger market share in the future.

CHAIRMAN'S STATEMENT

In addition, our existing businesses have been reformed. We have replaced the testing engine for the PC and mobile versions of Ludashi Software with an aim to maintain our product advantages in the following decade. In 2020, we launched Ludashi Pro, a professional SaaS product for hardware asset management and corporate resources optimization, and officially advanced to the commercial use market, which is believed to be a market with challenges as well as huge profits.

Despite our online advertising services business was affected by the impact of various external macro environmental factors in 2020, we have achieved remarkable progress in our online game platform business. We believe that with the relief of the Epidemic and the expansion of our new businesses, our existing user base will be expanded significantly and our revenue will recover and improve. We have confidence in bringing more value for our users through technological research and development and market expansion and creating higher returns for our Shareholders.

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

Tian Ye
Chairman
Hong Kong
26 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Review

During 2020, the widespread of 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 remains under pressure. Under the shadow of the Epidemic, all walks of life suffered from its impact, and the Group's online advertising services were also adversely affected to a large extent due to the substantial reduction in the advertising budgets of our clients. In addition, the re-heating up of the Sino-us trade dispute which has led to the worldwide geopolitical tensions, have also affected our overseas online advertising services business. Meanwhile, China adopted the home quarantine measure in response to the outbreak of the Epidemic since January 2020, which made users spending more time on entertainment through using computers and other mobile devices and thus the Group's online game business saw an upsurge.

During 2020, the Group continued to focus on the development of its online traffic monetization and electronic devices sales business. Through upgrading the products and enriching the product mix, the number and stickiness of users of our online advertising services has increased. As for online game business including the provision of online game platform and operation of exclusive licensed online game business, the Group continued to launch 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 enhanced the quality control and service for the 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 monetize by online advertising and online game business and further expand by electronic devices sales. In particular, our utility software, Ludashi Software (魯大師軟件), 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, has accumulated a large user base through providing free download and installation. As at 31 December 2020, the MAUs of all our PC and mobile device utility software reached approximately 169.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS

We continued to optimize the functions of the PC version of Ludashi Software. In 2020, the core benchmarking functions such as those for the CPU, graphics card, RAM and storage have been completely upgraded. Meanwhile, the new version has completely revised the hardware parameter page which extracts and presents the core selling points of different hardware to users, so that users can distinguish the hardware's characteristics. We have upgraded the infrastructure of the PC version of Ludashi Software in exchange for faster iterations for future versions. The Group will continue to present users with a more easy-to-use Ludashi Software with more accurate detection.

As the first step of the Group to enter into the enterprise business segment, we officially released the Ludashi Pro software in December 2020. The Ludashi Pro software is a professional SaaS product for hardware assets management and users' behaviour analysis, mainly provides services to small and micro enterprises, helping their management efficiently manage their corporate assets, manage and analyze the behaviours of computer users, improve the work efficiency of employees, and provides enterprises with customized services and personalized solutions. In the future, the business line of the Ludashi Pro software will mainly focus on the enterprise business, forming a complete and sound product ecosystem.

In 2020, we continued to jointly develop and launch Ludashi game accelerator with a third party, a game accelerator for computer online game that, by using Ludashi's cross-border dedicated line acceleration technology, can perfectly resolve the core experience issues, such as lengthy latency and frequent disconnection, encountered by domestic players when they logged in to games with servers overseas. This software greatly improves the user's gaming acceleration experience by adding domestic acceleration nodes that cover major domestic cities and overseas acceleration nodes that cover overseas game rooms. By the end of 2020, the Group has maintained over 250 mainstream games and platforms, and will timely collect the latest new games to provide high-quality gaming experience for more game players.

The Group's game business achieved a rapid growth in the first half of 2020 due to the home quarantine measure during the Epidemic, and maintained a steady growth in the second half of 2020 due to the launch of new games, the number of active users and paying users both increased significantly. It is the basic goal of the Group in 2020 to implement the strategy of further precisely targeting our user groups and improving our user service quality. In 2020, through the segmentation of user groups, the precise users reach and the optimization of product experience, the overall conversion efficiency of the Group's game users was further improved, including the increase in registration rate, payment rate and user retention rate. By providing top-notch quality services for VIP users, the coverage rate of the Group's VIP users increased by over 70% as compared with the previous year, and the service satisfaction rate was further improved.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to implement its strategy of launching boutique game products. We launched an exclusive licensed web game product in 2020. There is also an exclusive licensed mobile and web H5 game in beta phase, which will be launched in early 2021. The Group is committed to continuously developing self-developed games, and promoting exclusive game products in accordance with the characteristics of our own game users.

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.

In 2020, on top of consolidating the competitiveness of our existing products, the Group had also actively sought for new business opportunities and conducted certain acquisitions to enrich our existing product matrix while branching out into new fields for diversifying risks.

For the year ended 31 December 2020, the Group recorded a total revenue of approximately RMB347.9 million, representing a decrease of approximately 14.0% as compared to that of 2019, with the revenue from our online advertising services of approximately RMB177.7 million, representing a decrease of approximately 19.5% as compared to that of 2019. The revenue from our online game platform was approximately RMB92.5 million, representing an increase of approximately 47.2% as compared to that of 2019. The revenue from the operation of exclusive licensed online game was approximately RMB14.4 million and the revenue from our electronic devices sales business was approximately RMB63.3 million, representing a decrease of approximately 47.6% as compared to that of 2019. The net profit attributable to the parent company was approximately RMB72.7 million, representing a decrease of approximately 30.6% as compared to that of 2019.

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 continue to be directly and indirectly affected in the future, thus leading to uncertainties of our overall revenue. The Group will continue to focus on our existing principal business while making every effort to seek new business opportunities, including but not limited to developing the exclusive licensed online game business and enterprise business segment, in order to mitigate the adverse impact brought by the Epidemic and the Sino-US trade dispute.

MANAGEMENT DISCUSSION AND ANALYSIS

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 PC and mobile device hardware and system benchmarking and monitoring to develop innovative products, enhance our monetization capability and promote the sales of electronic devices. In addition, through stabilizing the relationship with our suppliers, customers and users, stable economic benefits could be obtained.

In 2021, the Group will continue to implement the following strategies and strive to become a reliable hardware expert and leading internet company:

– In order to provide customers with better services and experience, we will continue to update and iterate the Ludashi Pro software, rapidly enrich the content of our products. With a more proactive attitude and our professional knowledge, we will provide users with comprehensive, flexible and easy-to-use products;

– 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 online game directing business and game launching business, and keep 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, explore 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

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

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

Our revenue decreased by approximately 14.0% from approximately RMB404.5 million for the year ended 31 December 2019 to approximately RMB347.9 million for the year ended 31 December 2020. Such decrease is mainly due to the reduction in revenue from both online advertising services and electronic devices sales business.

The following table sets forth our segment revenue by amount and as a percentage of our revenue for the years ended 31 December 2019 and 2020:

	For the year ended 31 December			
	2020		2019	
	RMB' 000	*%*	*RMB' 000*	*%*
Online traffic monetization				
Online advertising services	**177,718**	**51.0**	220,722	54.6
Online game platform	**92,468**	**26.6**	62,827	15.5
Operation of exclusive licensed online game business	**14,374**	**4.1**	–	–
Electronic devices sales				
Certified pre-owned and factory smartphones sales	**62,105**	**17.9**	89,801	22.2
Smart accessories sales	**218**	**0.1**	5,216	1.3
Other electronic devices sales	**1,018**	**0.3**	25,929	6.4
Total	**347,901**	**100.0**	404,495	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

(i) Online traffic monetization

(a) Online advertising services

Our revenue from online advertising services decreased by approximately 19.5% from approximately RMB220.7 million for the year ended 31 December 2019 to approximately RMB177.7 million for the year ended 31 December 2020. This is mainly due to the sharp reduction in the advertising promotion budget of our customers under the Epidemic, which has also adversely affected the domestic online advertising services business of the Group. At the same time, the Sino-US trade disputes and global geopolitical tensions have led to the decrease in revenue from overseas online advertising services business of the Group.

(b) Online game platform

Our revenue from online game platform increased by approximately 47.2% from approximately RMB62.8 million for the year ended 31 December 2019 to approximately RMB92.5 million for the year ended 31 December 2020. This is mainly because users spent more time using computers and other mobile devices for entertainment due to the home quarantine during the Epidemic, and we continued to launch new online games and tailored web game products on the basis of exclusive license, leading an increased number of game players during the year of 2020.

(c) Operation of exclusive licensed online game business

Our Group has commenced the mass operation of exclusive licensed online game business since 2020. By the end of 2020, the Group has obtained the exclusive licensed operation rights for two web games. As of 31 December 2020, our revenue from operation of exclusive licensed online game business was approximately RMB14.4 million.

(ii) Electronic devices sales

Our revenue from the electronic devices sales decreased by approximately 47.6% from approximately RMB120.9 million for the year ended 31 December 2019 to approximately RMB63.3 million for the year ended 31 December 2020. This is mainly because the number of electronic devices purchased by users decreased during the period of home quarantine under the impact of the Epidemic, and we had been exploring new business models, leading to a significant reduction in sales of other electronic devices.

MANAGEMENT DISCUSSION AND ANALYSIS

Costs of sales and services

The following table sets forth a breakdown of our costs of sales and services by amount and as a percentage of costs of sales and services for the years ended 31 December 2019 and 2020:

	For the year ended 31 December			
	2020		2019	
	RMB' 000	***%***	*RMB' 000*	*%*
Online traffic monetization				
Advertising and promoting	**78,845**	**49.0**	82,280	39.1
Server leasing	**16,781**	**10.5**	9,002	4.3
Electronic devices sales				
Certified pre-owned and factory smartphones sales	**64,005**	**39.8**	89,790	42.7
Smart accessories sales	**803**	**0.5**	4,752	2.3
Other electronic devices sales	**313**	**0.2**	24,317	11.6
Total	**160,747**	**100.0**	210,141	100.0

(i) Online traffic monetization

The costs used for online traffic monetization business increased by approximately 4.8% from approximately RMB91.3 million for the year ended 31 December 2019 to approximately RMB95.6 million for the year ended 31 December 2020. This is mainly due to the launch of exclusive licensed online games, resulting in a substantial increase in server costs.

(ii) Electronic devices sales

The costs used for electronic devices sales decreased by approximately 45.2% from approximately RMB118.9 million for the year ended 31 December 2019 to approximately RMB65.1 million for the year ended 31 December 2020. This is mainly due to the reduction of sales volume, resulting in the reduction of the costs of electronic devices sales business.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

The following table sets forth our gross profit and gross profit margin by business lines for the years ended 31 December 2019 and 2020:

	For the year ended 31 December			
	2020		2019	
	RMB'000	*%*	*RMB'000*	*%*
Online traffic monetization	**188,934**	**66.4**	192,267	67.8
Electronic devices sales	**(1,780)**	**(2.8)**	2,087	1.7
Total gross profit and gross profit margin	**187,154**	**53.8**	194,354	48.0

Our gross profit decreased by approximately 3.7% from approximately RMB194.4 million for the year ended 31 December 2019 to approximately RMB187.2 million for the year ended 31 December 2020, and the gross profit margins were approximately 48.0% and 53.8% for the years ended 31 December 2019 and 31 December 2020, respectively. The increase in gross profit margin was mainly due to the vigorous development of online game business, which had a higher gross profit in 2020.

Other income

Other income increased by approximately 59.6% from approximately RMB9.0 million for the year ended 31 December 2019 to approximately RMB14.4 million for the year ended 31 December 2020, which was due to the increase in the interest income of government grants.

Other gains and losses

Other gains and losses decreased by over 100% from a gain of approximately RMB10.8 million for the year ended 31 December 2019 to a loss of approximately RMB10.3 million for the year ended 31 December 2020, which was due to the increase in impairment loss in respect of interest in an associate and net foreign exchange loss.

Listing expenses

Listing expenses decreased by 100% from approximately RMB17.7 million for the year ended 31 December 2019 to nil for the year ended 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

Administrative expenses increased by approximately 59.3% from approximately RMB29.0 million for the year ended 31 December 2019 to approximately RMB46.2 million for the year ended 31 December 2020, which was due to the increase in consulting fees.

Research and development expenses

Research and development expenses increased by approximately 5.2% from approximately RMB27.3 million for the year ended 31 December 2019 to approximately RMB28.7 million for the year ended 31 December 2020, which was mainly due to the increase in the average salary of our research and development employees.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 23.8% from approximately RMB20.2 million for the year ended 31 December 2019 to approximately RMB25.0 million for the year ended 31 December 2020, which was mainly due to the increase in marketing expenses.

Taxation

Taxation decreased by approximately 26.0% from approximately RMB13.2 million for the year ended 31 December 2019 to approximately RMB9.8 million for the year ended 31 December 2020, mainly due to a decrease in profit before taxes in 2020 as compared to 2019.

Profit and total comprehensive income for the year

As a result of the foregoing, the Group's profit and total comprehensive income for the year decreased by approximately 27.6% from approximately RMB106.5 million for the year ended 31 December 2019 to approximately RMB77.1 million for the year ended 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

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 of 31 December 2019 and 31 December 2020, our bank balances and cash amounted to approximately RMB338.4 million and approximately RMB369.2 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 of 31 December 2020, we did not have any bank borrowings. Accordingly, no gearing ratio is presented.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital expenditures

The following table sets forth our capital expenditures for the years ended 31 December 2019 and 2020:

	For the year ended 31 December	
	2020	2019
	RMB' 000	*RMB' 000*
Purchase of property and equipment	**3,183**	3,122
Purchase of intangible assets	**4,907**	1,112
Purchase of intellectual properties	**6,182**	–
Total	**14,272**	4,234

Our capital expenditures primarily include expenditures for purchase of property and equipment such as laboratories, servers and computers, expenditures for purchase of intangible assets such as trademarks and franchises and expenditures for purchase of intellectual properties such as copyrights of games. During the year of 2020, we funded our capital expenditure requirements mainly from daily operation and receivables from sales and services we provided.

SIGNIFICANT INVESTMENTS HELD

We had no significant investment as of 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 24 June 2020, 360 Ludashi Consulting Limited (360魯大師諮詢有限公司), a wholly-owned subsidiary of the Group, Mr. Tian Ye (田野), an executive Director and a controlling shareholder of the Company and Mr. Zhang Fanchen (張凡琛), the chief financial officer of the Company (collectively the "**Purchasers**"), entered into a sale and purchase 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, which is 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 approximately and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), 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. In view of the facts that all required approvals from the regulatory authorities regarding the Acquisition have not been obtained and the rapid change in market conditions, taking the commercial considerations and the interests of the Company and its shareholders into account, the Purchasers terminated the Acquisition on 4 March 2021. The details in respect of the Acquisition are set out in the announcements of the Company dated 24 June 2020, 31 December 2020 and 4 March 2021.

Save as disclosed above, the Group did not have any other material acquisitions nor disposals of subsidiaries, interest in associates or joint ventures throughout the Reporting Period.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2020, the Group had no future plan for material investments or capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2020, we had 197 full-time employees, all of whom are located in the PRC and Hong Kong. Specifically, such full-time employees included 3 senior management members, 66 personnel who are responsible for sales and marketing, 102 personnel who are responsible for research and development and 26 administrative personnel.

We offer employees competitive remuneration, performance-based bonuses and incentives. Our employees' performance is reviewed every year on the basis of, among other criteria, their ability to achieve stipulated performance targets. We place great emphasis on the training and development of our employees. We have developed a series of personalized training conferences based on our 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 education, basic economic and financial knowledge and skills training, as well as professional development courses for our management members. New employees are required to attend induction meetings to ensure they have the necessary skills to perform their duties. In accordance with the applicable PRC laws and regulations, we have made contributions to social insurance funds, including pension plans, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance, and housing provident funds for our employees.

PLEDGE OF ASSETS

As at 31 December 2020, the Group did not have any pledge of assets.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2020, the Group did not have any significant contingent liabilities, guarantees or litigation.

EVENTS AFTER THE REPORTING PERIOD

The Group had no material events for disclosure subsequent to 31 December 2020 and up to the date of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Tian Ye, aged 40, is the founder of the Group and was appointed as Director on 7 February 2018. Mr. Tian is also our chief executive officer, general manager and chairman of the Board responsible for overall strategic planning and overseeing the general management and daily operation of the Group. Mr. Tian holds directorships in 360 Ludashi Consulting Limited, 360 Ludashi Technology Limited, Anyixun Technology and Chengdu Qilu. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee.

Mr. Tian has around 17 years of experience in software development industry. From July 2004 to July 2005, Mr. Tian worked in Kingsoft Corporation Limited (stock code: 03888), whose shares are listed on the Main Board of the Stock Exchange and is a leading software developer, distributor and service provider in China, as project manager. From August 2005 to December 2009, Mr. Tian was an entrepreneur in the information technology industry. From December 2009 to October 2014, Mr. Tian joined 360 Group as a senior director (高級總監) responsible for software development and management. He then founded the Group in November 2014.

Mr. Tian obtained a bachelor's degree in computer science from Shenyang University of Technology (瀋陽工業大學) in July 2003 and a master's degree in business administration from Cheung Kong Graduate School of Business (長江商學院) in 2018.

Mr. He Shiwei, aged 50, was appointed as Director on 26 August 2018. Mr. He is our chief technology officer principally responsible for overseeing research and technology development of the Group. Mr. He holds directorships in Anyixun Technology, Chengdu Qilu, Liu Liuyou Technology and Tianjin Zhongzhixing Technology Company Limited.

Mr. He has around 21 years of experience in the software development industry. From March 2000 to April 2002, he worked in Beijing Luosen Technology Company Limited* (北京絡森科技有限公司) as chief technology officer. From May 2002 to November 2009, Mr. He served in Beijing Wanxun Botong Technology Development Company Limited* (北京萬訊博通科技發展有限公司) as a manager of the development department. From December 2009 to November 2014, he worked at 360 Group as a technology manager (技術經理). In November 2014, he joined Chengdu Qilu and has been serving as chief technology officer since then.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Sun Chunfeng, aged 34, was appointed as a non-executive Director on 26 August 2018, and is principally responsible for overseeing the management and strategic planning of the Group. Mr. Sun also holds directorship in Chengdu Qilu.

Mr. Sun has around 9 years of experience in the software development industry. In January 2013, he founded Shanghai Gaoxin, which is principally engaged in software design, operation and development, and has been serving as its general manager since April 2015. In March 2014, he further co-founded Shanghai Songheng, which is principally engaged in network technology development, has been serving as its general manager since then and has been serving as its chairman of the board of directors and authorized representative since 12 December 2018. Mr. Sun has also been serving as a director of Shanghai Leshu Information Technology Co., Ltd.* (上海樂蜀網絡科技股份有限公司, whose shares are listed on the National Equities Exchange and Quotations (stock code: 836002)) since 10 August 2015.

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

Mr. Liu Wei, aged 43, was appointed as a non-executive Director on 29 June 2020. Mr. Liu is responsible for overseeing the management and strategic planning of the Group.

Mr. Liu has more than 21 years of experience in the investment and management field. Since August 2000, Mr. Liu has served multiple management positions at various investment firms, such as the investment director of Fosun International Limited* (復星國際有限公司) (the shares of which are listed on the Stock Exchange (stock code: 656)), the investment director of Shanda Capital* (盛大資本), and the general manager of Ping'an Venture Investment Fund* (平安創新投資基金). In July 2014, Mr. Liu joined 360 Group and had been responsible for the business segments of 360 Group, such as "360 Capital", "360 Innovative Research" and "360 Financing", etc.. He is currently serving as the vice president of 360 Group, comprehensively responsible for city safety business.

From January 2017 to January 2020, Mr. Liu served as the independent non-executive director of Hanwei Electronics Group Corporation* (漢威科技集團股份有限公司) (the shares of which are listed on Shenzhen Stock Exchange (stock code: 300007)). Since September 2018, he has been a director of 360 DigiTech, Inc. (360數科公司) (the shares of which are listed on NASDAQ (stock code: QFIN)).

Mr. Liu graduated from Shanghai University of International Business and Economics (上海對外經貿大學) majoring in international trade with a bachelor's degree in economics in July 2000.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhao Dan, aged 41, was appointed as a non-executive Director of the Company on 29 June 2020. Mr. Zhao is responsible for overseeing the management and strategic planning of the Group.

Mr. Zhao has over 16 years of experience in the accounting and audit field. From September 2006 to November 2007, Mr. Zhao worked at the Shanghai branch of KPMG Huazhen LLP* (畢馬威華振會計師事務所(特殊普通合夥)). From November 2007 to January 2013, Mr. Zhao worked in the internal audit department of Alibaba Group Holding Limited*(阿里巴巴集團控股有限公司) (the shares of which are listed on the Stock Exchange (stock code: 9988) and New York Stock Exchange (stock code: BABA)). In January 2013, Mr. Zhao joined 360 Group, and is currently serving as the vice president of 360 Group.

Since May 2020, Mr. Zhao has been a director of 360 DigiTech, Inc (360數科公司).

Mr. Zhao obtained a bachelor's degree in international business management in July 2002 from University of Shanghai for Science and Technology (上海理工大學), and a master's degree in international business economics in December 2004 from University of Konstanz, Germany. He obtained a professional qualification of Certified Internal Auditor in November 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Yang, aged 38, an independent non-executive Director, was appointed to the Board on 5 June 2019. Mr. Li is responsible for supervising and providing independent judgement to the Board. He is also a member of each of the Nomination Committee and Audit Committee.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Xinyu, aged 50, an independent non-executive Director, was appointed to the Board on 5 June 2019. Mr. Wang is responsible for supervising and providing independent judgement to the Board. He is also the chairman of the Remuneration Committee and a member of each of the Nomination Committee and Audit Committee.

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

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

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

From September 2006 to January 2010, Mr. Zhang worked at Deloitte Touche Tohmatsu Hong Kong office, with his last position as a senior associate of the audit department. In October 2010, he joined finance department in China Resources (Holdings) Co., Ltd (華潤(集團)有限公司) and was a senior manager when he left the firm. Mr. Zhang subsequently served as an Assistant Vice President of the Listing and Regulatory Affairs Division of Hong Kong Exchanges and Clearing Limited, responsible for compliance and regulatory affairs, from September 2014 to October 2015. From May 2016 to September 2020, Mr. Zhang worked in China Tian Yuan Finance Group (Holdings) Limited (中國天元金融集團(控股)有限公司) and served as the president when he resigned from the company. Currently, Mr. Zhang serves as the co-chief executive officer of Dongxin Financial Holdings Co., Ltd. (東新金控有限公司).

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhu Jinglei, aged 41, was appointed as an independent non-executive Director on 13 July 2020. Mr. Zhu is responsible for supervising and providing independent judgement to the Board.

Mr. Zhu has over 16 years of professional experience in the equity investment and strategic consulting field. From July 2003 to May 2004, he worked in Accenture (China) Co., Ltd. (埃森哲(中國)有限公司). From June 2004 to October 2007, he served as a senior consultant in Roland Berger China (羅蘭貝格中國), focusing on strategic consultancy in sectors such as automobile, consumer goods and real estate industry. From November 2007 to March 2010, Mr. Zhu served as an associate director of Trustbridge Partners (摯信資本), and conducted in several equity investments project management. From April 2010 to December 2014, as both a co-founder and an executive director of ShangCap* (嘉信上凱), he participated in several large scale equity investments in medical and internet information industries. From 2015 to 2017, he served as a special consultant of the chief executive officer of Roland Berger Greater China Region (羅蘭貝格大中華區), advising on the strategic consultancy projects in relation to internet and big data. Mr. Zhu established Pros & Partners* (澎湃資本) in 2015, where he currently serves as the managing partner, which specialises in equity investments of artificial intelligence application, new consumption, e-commerce services and solutions, insurance, and medical services industry, etc.. From 2016 to 2017, Mr. Zhu served as an independent director of Zhejiang Qinglian Food Co., Ltd.* (浙江青蓮食品股份有限公司, whose shares were listed on the National Equities Exchange and Quotations Co., Ltd. (stock code: 835876) and subsequently delisted on 21 July 2017).

Mr. Zhu obtained a bachelor's degree in business administration from Tongji University (同濟大學) in 2003.

SENIOR MANAGEMENT

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

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

Mr. Zhang Fanchen, aged 35, joined the Group in September 2018 as the chief financial officer of the Group, and is principally responsible for overseeing strategy planning, capital operation and financial management of the Group. Mr. Zhang also holds directorship in Shanghai Qilu Network Technology Company Limited* (上海奇魯網絡科技有限公司).

Mr. Zhang graduated from Shanghai Jiao Tong University (上海交通大學) with a master's degree in business administration. He is a non-practicing member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) and a member of the Association of Chartered Certified Accountant (英國特許公認會計師公會) and has passed Chinese Sponsor Representative examination. Mr. Zhang has over 13 years of experience in capital market and has served in well-known Chinese and foreign investment banks.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. Cheng Ching Kit was appointed as the company secretary of the Company on 30 August 2018. Mr. Cheng is a manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional service provider specializing in corporate services and has over 8 years of experience in corporate secretarial field. He is an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom (previously known as The Institute of Chartered Secretaries and Administrators in the United Kingdom) since 2018. He holds a bachelor of commerce degree in finance from the University of Queensland.

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

DIRECTORS' REPORT

The Board presents the Directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

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

RESULTS OF OPERATIONS

The results of our Group for the year ended 31 December 2020 are set out in the consolidated financial statements on pages 100 to 102 of this annual report.

FINANCIAL SUMMARY

The financial summary of the Group from 2016 to 2020 is set out in the section headed "Financial Summary" on page 177 of this annual report.

BUSINESS REVIEW AND OUTLOOK

The business review and outlook of the Group for the year ended 31 December 2020 is set out in the section headed "Management Discussion and Analysis" on page 6 to 18 of this annual report.

KEY RISKS AND UNCERTAINTIES

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

- If we fail to continue to innovate and provide attractive products and services to attract and retain users, we may lose customers for our revenue generating service businesses;

- If we fail to protect our proprietary data and user data, our reputation and business could be negatively affected;

- Adverse changes on online advertising service may subject us to decrease in revenues;

- Our business depends on a strong brand and reputation, and we may not be able to maintain and enhance our brand or reputation or may suffer negative publicity;

DIRECTORS' REPORT

- We may face risks related to liabilities resulting from the use of our products by our customers;
- We have limited control over the operations of our offline business entity customers. Actions taken by our offline business entity customers may materially and adversely affect our business, prospects and reputation; and
- The Epidemic may cause the Group's customers to curtail the placement volume of advertisement and our business may be negatively affected.

EVENTS AFTER THE REPORTING PERIOD

Events after the Reporting Period are set out in the paragraph headed "Events after the Reporting Period" of the section headed "Management discussion and analysis" on page 18 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

The Group values environmental protection and continues to pay attention to the impact of its business operations on the environment. For details of the Group's environmental policies and performance, please refer to the "Environmental, Social and Governance Report" set out on pages 71 to 94 of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

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

DIRECTORS' REPORT

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

The Group has formulated and adopted various internal control measures, approval procedures and training programmes within all business units at all level of the Group to ensure its affairs are conducted in a lawful manner to uphold high standard of integrity in all respects of business. During the year ended 31 December 2020 and up to the date of this annual report, as far as the Company is aware, the Group has complied with all applicable laws and regulations and there was no violation of or non-compliance with any relevant laws and regulations that had a significant impact on the business and operation of the Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Group's success depends on the support from key stakeholders which comprise our Directors and senior management members, employees, customers and suppliers.

Employees

As at 31 December 2020, we had 197 full-time employees, all of whom are located in the PRC and Hong Kong. Specifically, such full-time employees included 3 senior management members, 66 personnel who are responsible for sales and marketing, 102 personnel who are responsible for research and development and 26 administrative personnel. During the Reporting Period, we have not experienced any strikes or labor disputes that have a significant impact on the Company's business activities. Our future success depends on the competence and efforts of our experienced management team and high-tech personnel. Due to the fierce competition for talents in the Internet industry, the Group will continue to enhance our ability to attract new employees and retain and motivate existing management teams and high-tech personnel in the future.

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

DIRECTORS' REPORT

Customers

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

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

For the year ended 31 December 2020, revenue from the top five customers of the Group accounted for approximately 45.8% of our Group's total revenue, and revenue from our largest customer accounted for approximately 27.2% of the Group's total revenue.

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

Save as disclosed above, to the best knowledge of the Directors, for the year ended 31 December 2020 and up to the date of this annual report, none of the Directors or any of their close associates or any Shareholders, which hold more than 5% of the Company's issued shares, had any interests in the Group's five largest customers.

Suppliers

Our Group's suppliers include online traffic suppliers, advertising and promotion service suppliers, server leasing service suppliers and electronic devices suppliers. To ensure the continuity and timeliness of the supply chain, we have always maintained good business relationships with our suppliers.

For the year ended 31 December 2020, purchases from the top five suppliers of our Group accounted for approximately 35.5% of our Group's total purchase amount, and purchases from the largest supplier accounted for approximately 8.8% of our Group's total purchase amount.

To the knowledge of the Directors, during the year ended 31 December 2020 and up to the date of this annual report, none of the Director, their respective close associates or any shareholders which hold more than 5% of the Company's issued shares, had any interests in our top five suppliers.

DIRECTORS' REPORT

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the year ended 31 December 2020 are set out in note 15 to the audited consolidated financial statements.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2020 (2019: HK10 cents per share).

CLOSURES OF THE REGISTER OF MEMBERS

The Company will hold the AGM on 28 May 2021. The register of members of the Company will be closed from 25 May 2021 to 28 May 2021, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 24 May 2021.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 33 to the audited consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended 31 December 2020 are set out in note 26 to the audited consolidated financial statements.

RESERVES

The Company's reserves available for distribution as at 31 December 2020 was approximately RMB92.9 million. Details of the movements in the reserves of the Company during the year ended 31 December 2020 are set out in note 35 to the audited consolidated financial statements.

ISSUE OF DEBENTURE

The Group has not issued any debentures during the Reporting Period.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' REPORT

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 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 as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. An analysis of the intended application of the Net Proceeds as stated in the Prospectus and the actual utilisation of the Net Proceeds up to 31 December 2020 is set out below:

Purposes		Allocation of Net Proceeds *(HK$ million)*	Net balance of the Net Proceeds as at 31 December 2019 *(HK$ million)*	Utilization of the Net Proceeds in 2020 *(HK$ million)*	Net balance of the Net Proceeds as at 31 December 2020 *(HK$ million)*	Timeframe for utilization of the balance of the Net Proceeds
(i)	to enhance the Group's research and development capability	36.9	36.9	7.4	29.5	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	24.6	5.0	19.6	On or before 31 December 2023
(iii)	to enhance our Group's own certified pre-owned and factory smartphones e-commerce platform and offline sales channel	24.6	24.6	7.0	17.6	On or before 31 December 2023
(iv)	to make additional strategic investments and acquisitions in cash alone or in combination with equity	24.6	24.6	24.6	–	On or before 31 December 2023
(v)	for our working capital and general corporate purposes	12.4	11.3	4.9	6.4	On or before 31 December 2022

During the year ended 31 December 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 annual report, the Net Proceeds had been applied in accordance with the allocations and purposes as stated in the Prospectus and set out above and were expected to be used in accordance with the purposes as set forth above.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. Sun Chunfeng
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)

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

In accordance with Article 83(3) of the Articles of Association, Mr. Liu Wei, Mr. Zhao Dan and Mr. Zhu Jinglei shall retire at the AGM and, being eligible, have offered themselves for re-election.

In accordance with Article 84(1) of the Articles of Association, Mr. Li Yang and Mr. Wang Xinyu shall retire by rotation at the AGM and, being eligible, have offered themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' REPORT

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 29 to the consolidated financial statements and in the section headed "Connected Transactions" of Directors' Report in this annual report, no Director nor an entity connected with the Director has a material interest, directly or indirectly, in any transaction, arrangement or contract of significance entered into by the Company, its holding company or any of its subsidiaries or fellow subsidiaries during the year ended 31 December 2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DEED OF NON-COMPETITION

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

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

DIRECTORS' REPORT

Each of Mr. Tian Ye and Dashi Technology Holdings has provided an annual confirmation to the Company regarding their compliance with the Deed for the year ended 31 December 2020. The independent non-executive Directors have reviewed their respective Compliance with the Deed, evaluated its effective implementation and were satisfied with the Covenantors' Compliance with the Deed for the year ended 31 December 2020.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

REMUNERATION OF DIRECTORS

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

Details of the remuneration of the Directors and the five highest paid individuals during the year ended 31 December 2020 are set out in note 11 to the audited consolidated financial statements.

During the year ended 31 December 2020, none of the Directors had waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

PERMITTED INDEMNITY PROVISION

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

EQUITY-LINKED AGREEMENT

Except for the Share Option Scheme as defined and disclosed under the section headed "Share Option Scheme" in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2020.

DIRECTORS' REPORT

SHARE OPTION SCHEME

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

(a) Purpose

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

(b) Eligible persons

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

(c) Maximum number of Shares to be issued

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

(d) Maximum entitlement of each participant

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

DIRECTORS' REPORT

(e) Period of option

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

(f) Exercise price

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

(g) Remaining life of the scheme

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

During the year ended 31 December 2020 and up to the date of this annual report, no options had been granted, exercised, cancelled or lapsed under the Share Option Scheme, nor any options were outstanding under the Share Option Scheme.

DIRECTORS' REPORT

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

As at 31 December 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:

(i) Interest in the Shares

Name of Directors/ Chief Executive	Capacity	Nature of Interests	Number of Shares	Approximate percentage of the issued share capital of the Company (%)
Mr. Tian Ye[1]	Interest in controlled corporations	Long position	132,699,057	49.33%
Mr. He Shiwei[2]	Interest in controlled corporations	Long position	2,342,712	0.87%

Notes:

1. Dashi Technology Holdings and True Thrive hold approximately 18.57% 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 0.87% of the issued share capital of the Company. Hongmeng Investment is directly and wholly owned by Mr. He Shiwei. Mr. He Shiwei is therefore deemed to be interested in all the Shares held by Hongmeng Investment.

Save as disclosed above, as at 31 December 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.

DIRECTORS' REPORT

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

As at 31 December 2020, to the best knowledge of the Directors or chief executive of the Company, the Substantial Shareholders, other than the Directors or chief executive of the Company, who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of Substantial Shareholders	Capacity	Nature of interest	Number of Shares	Approximate percentage of the issued share capital of the Company (%)
Dashi Technology Holdings[Notes 1 and 3]	Beneficial owner	Long position	132,699,057	49.33
True Thrive[Notes 2 and 3]	Beneficial owner	Long position	82,745,082	30.76
360 Technology[Notes 2 and 3]	Interest in a controlled corporation	Long position	82,745,082	30.76
360[Notes 2 and 3]	Interest in a controlled corporation	Long position	82,745,082	30.76
Qixin Zhicheng[Notes 2 and 3]	Interest in a controlled corporation	Long position	82,745,082	30.76
Zhou Hongyi (周鴻禕)[Notes 2 and 3]	Interest in a controlled corporation	Long position	82,745,082	30.76
Songchang International[Note 4]	Beneficial owner	Long position	47,282,819	17.58
Songyuan International[Note 4]	Interest in a controlled corporation	Long position	47,282,819	17.58
Shanghai Gaoxin[Note 4]	Interest in a controlled corporation	Long position	47,282,819	17.58
Shanghai Songheng[Note 4]	Interest in a controlled corporation	Long position	47,282,819	17.58
Shanghai Dongfangwang[Note 4]	Interest in a controlled corporation	Long position	47,282,819	17.58

Notes:

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

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

DIRECTORS' REPORT

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

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

Save as disclosed above, as at 31 December 2020, so far as known to the Directors, no other persons (other than the Directors or chief executive) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Option Scheme" in this annual report, at no time during the year ended 31 December 2020 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries or any of its holding companies or any of subsidiaries of its holding companies a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

EMPLOYEE RETIREMENT BENEFITS

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

Details of the non-exempt connected transaction of the Group entered into during the year ended 31 December 2020 are as follows:

On 24 June 2020, 360 Ludashi Consulting Limited, a wholly-owned subsidiary of the Group, Mr. Tian Ye, an executive Director and one of the controlling shareholders 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), 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 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.

Mr. Tian Ye is the chief executive officer, an executive director and a controlling shareholder of the Company and Mr. Zhang Fanchen, being chief financial officer of the Company, is also considered as a chief executive of the Company. Each of Mr. Tian Ye and Mr. Zhang Fanchen is a connected person of the Company at the issuer level.

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

In view of the facts that all required approvals from the regulatory authorities regarding the Acquisition have not been obtained and the rapid change in market conditions, taking the commercial considerations and the interests of the Company and its Shareholders into account, the Purchasers decided to terminate the Acquisition on 4 March 2021. For details, please refer to the announcements of the Company dated 24 June 2020, 31 December 2020 and 4 March 2021.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS

Details of non-exempt continuing connected transactions of the Group conducted during the year ended 31 December 2020 are as follows:

Transactions	Total actual annual transaction amount for the year ended 31 December 2020 *(RMB million)*	Proposed annual cap for the year ended/ending 31 December *(RMB million)* 2020	2021
Continuing connected transactions with 360 Group			
360 Master Sales Agreement	94.8	122.5	142.1
360 Master Purchase Agreement (as amended by a supplemental agreement)	3.0	15.2	19.7
Continuing connected transactions with Shanghai Songheng			
Songheng Master Sales Agreement	6.6	48.4	65.8
Songheng Master Purchase Agreement	0.01	3.0	3.0
Contractual Arrangements[Note]			
Dividends or other distributions made by Chengdu Qilu to the holders of its equity interests	Nil	Not Applicable	Not Applicable

Note:

Stock Exchange Waiver and Annual Renewal

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

DIRECTORS' REPORT

I. Continuing Connected Transactions with 360 Group

1. 360 Master Sales Agreement

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

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

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

2. 360 Master Purchase Agreement (as amended by a supplemental agreement)

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

The Company entered into a master agreement with 360 Technology dated 18 September 2019 (the "**360 Master Purchase Agreement**") which sets out the terms and conditions upon which members of the Group will procure Server Leasing Service from 360 Group. The 360 Master Purchase Agreement is for a term of three years commencing from 1 January 2019. Upon expiry of the term, the 360 Master Purchase Agreement will, subject to the requirements of the Listing Rules, be renewed for further period of three years by mutual agreement. In view of the development of the Group's exclusive agency games business and the increasing demand of the advertising traffic services and other internet services required by the Group, on 23 October 2020, the Company and 360 Technology entered into a supplemental agreement (the "**Supplemental Agreement**") to revise the existing service scope under the 360 Master Purchase Agreement from only server leasing services to cover server leasing services, game traffic services, advertising traffic services and other internet services and increase the annual caps for the year ended 31 December 2020 and the year ending 31 December 2021.

DIRECTORS' REPORT

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

II. Continuing Connected Transactions with Shanghai Songheng

1. *Songheng Master Sales Agreement*

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

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

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

2. ***Songheng Master Purchase Agreement***

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

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

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

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

III. Contractual Arrangements

No dividend nor other distribution was made by Chengdu Qilu to the holders of its equity interests for the year ended 31 December 2020. Please refer to the section headed "Contractual Arrangements" in this annual report for further details.

DIRECTORS' REPORT

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

Deloitte Touche Tohmatsu, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions in connection with 360 Master Sales Agreement, 360 Master Purchase Agreement as amended by the Supplemental Agreement, Songheng Master Sales Agreement, Songheng Master Purchase Agreement and the Contractual Arrangements for the year ended 31 December 2020 in accordance with Rule 14A.56 of the Listing Rules, with an emphasis of matter paragraph in relation to the fact that the Company is not required to establish and announce an annual cap in respect of the continuing connected transactions in connection with the Contractual Arrangements for the year ended 31 December 2020. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

The auditor has concluded in its unqualified letter that with regard to the continuing connected transactions in connection with 360 Master Sales Agreement, 360 Master Purchase Agreement (as amended by a supplemental agreement), Songheng Master Sales Agreement, Songheng Master Purchase Agreement and the Contractual Arrangements for the year ended 31 December 2020:

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

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

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

(iv) with respect to the aggregate amount of each of the continuing connected transaction in connection with 360 Master Sales Agreement, 360 Master Purchase Agreement (as amended by the Supplemental Agreement), Songheng Master Sales Agreement, Songheng Master Purchase Agreement, nothing has come to its attention that causes the auditor to believe that the continuing connected transactions have exceeded the annual caps as set by the Company; and

DIRECTORS' REPORT

(v) with respect to the Contractual Arrangements with Chengdu Qilu and the Relevant Shareholders of Chengdu Qilu, nothing has come to its attention that causes the auditor to believe that there were any dividends or other distributions made by Chengdu Qilu to the holders of its equity interests of Chengdu Qilu.

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

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

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

(ii) on normal commercial terms or better; and

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

CONTRACTUAL ARRANGEMENTS

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

DIRECTORS' REPORT

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

Restrictions on Foreign Ownership

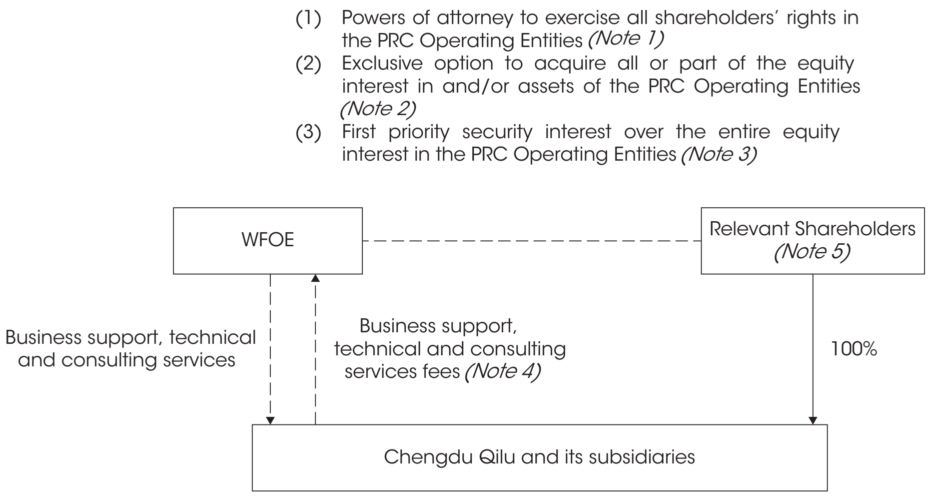
Foreign investment activities in the PRC are mainly governed by the Catalogue for the Guidance of Foreign Investment Industries*(外商投資產業指導目錄), the Special Administrative Measures (Negative List) for the Access of Foreign Investment* (外商投資准入特別管理措施(負面清單)) and the Catalogue of Industries for Encouraging Foreign Investment* (鼓勵外商投資產業目錄) collectively, (the "**Catalogues**"), which were promulgated and are amended from time to time jointly by MOFCOM and the NDRC. The Catalogues divide industries into three categories in terms of foreign investment, namely "encouraged," "restricted" and "prohibited", and all industries not listed under any of these categories are deemed to be "permitted."

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

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

DIRECTORS' REPORT

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



Notes:

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

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

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

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

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

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

DIRECTORS' REPORT

Business Overview of the Operating Entities

Both of 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 our PRC Operating Entities and the Relevant Shareholders, where applicable, in order to conduct the business of online game operation in the PRC and to assert management control over the operations of, and enjoy all economic benefits of, each of our PRC Operating Entities. Pursuant to the Contractual Arrangements, all substantial and material business decisions of the PRC Operating Entities will be instructed and supervised by our Group, through Chengdu Qilu, and all risks arising from the business of the PRC Operating Entities are also effectively borne by Chengdu Qilu.

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

Exclusive Option Agreement

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

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

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

DIRECTORS' REPORT

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

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

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

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

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

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

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

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

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

DIRECTORS' REPORT

Exclusive Business Cooperation Agreement

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

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

DIRECTORS' REPORT

Share Pledge Agreement

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

Voting Rights Proxy Agreement and Powers of Attorney

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

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

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

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

DIRECTORS' REPORT

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

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

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

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

No Material Change

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

Revenue and Assets in relation to the Contractual Arrangements

Certain key financial information of Chengdu Qilu and its subsidiaries prepared in accordance with HKFRS for the year ended 31 December 2020 are set out below:

As of 31 December 2020, the net income of Chengdu Qilu and its subsidiaries was approximately RMB39.8 million, representing an increase over 100% as compared to approximately RMB4.6 million for the year ended 31 December 2019. For the year ended 31 December 2020, the total revenue of Chengdu Qilu and its subsidiaries accounted for approximately 31.0% of the Group's revenue.

Confirmation from Independent Non-executive Directors

The independent non-executive Directors have reviewed the continuing connected transactions under the Contractual Arrangements for the year ended 31 December 2020 and confirmed that:

(i) the transactions carried out during the year ended 31 December 2020 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the revenue generated by the PRC Operating Entities (i.e. Chengdu Qilu and Liu Liuyou Technology) has been substantially retained by WFOE (i.e. Chengdu Anyixun Technology Co., Ltd);

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

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

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

Risks Relating to Contractual Arrangements

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

- Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law of the People's Republic of China and its implementation rules 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.

DIRECTORS' REPORT

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

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

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

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

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

Measures Taken by the Company to Mitigate Risks

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

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

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

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

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

DIRECTORS' REPORT

Unwinding of Contractual Arrangements

It is the intention of the Group to unwind the Contractual Arrangements when foreign investment in value-added telecommunications services is no longer restricted in the PRC. However, as at the date of the annual report, there is no unwinding of any of Contractual Arrangements or failure to unwind when the restrictions that led to the adoption of the Contractual Arrangements are removed.

Related Party Transactions

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in note 29 to the consolidated financial statements. Except for the transactions described in the section headed "Connected Transactions" in this annual report, none of these related party transactions constitute connected transactions that are required to be disclosed under Chapter 14A of the Listing Rules.

The related party transactions disclosed in note 29 to the consolidated financial statements are not continuing connected transactions that require annual reporting under Chapter 14A of the Listing Rules. Therefore, such transactions need not comply with the disclosure requirements under Chapter 14A of the Listing Rules.

Audit Committee

The Audit Committee has reviewed with the management and external auditors the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2020.

Auditor

The financial statements for the year ended 31 December 2020 of the Group have been audited by Deloitte Touche Tohmatsu, the auditor of the Company, who shall retire and, being eligible, have offered itself for re-appointment as auditor at the AGM.

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

There has been no change of auditor of the Company since the Listing Date.

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

Hong Kong, 26 March 2021

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct for Directors to conduct securities transactions. The Company has made specific enquiry toward all Directors, and Directors have all confirmed that they complied with required standard set forth in the Model Code during the Reporting Period.

BOARD OF DIRECTORS

Composition of the Board of Directors

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

Executive Directors

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

Non-executive 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)

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

CORPORATE GOVERNANCE REPORT

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

Chairman and Chief Executive Officer

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

Appointment, Re-election and Dismissal of Directors

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

In accordance with Article 83(3) of the Articles of Association, any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

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

In this regard, Mr. Liu Wei, Mr. Zhao Dan, Mr. Zhu Jinglei, Mr. Li Yang and Mr. Wang Xinyu will retire from office at the AGM and shall be eligible for re-election.

CORPORATE GOVERNANCE REPORT

Directors' Responsibilities for Financial Statements

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

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

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

Responsibilities of and Delegation by the Board

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

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

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

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

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

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

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the code provisions of the CG Code and disclosure in the corporate governance report under the Listing Rules.

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

BOARD MEETINGS, BOARD COMMITTEES MEETINGS AND GENERAL MEETINGS

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

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company held 7 Board meetings, 2 meetings of the Audit Committee, 1 meeting of the Remuneration Committee, 1 meeting of the Nomination Committee and 1 general meeting. The attendance record of each Director at the above meetings is set out as follows.

Name of Director	Number of Meetings Attended/Held				
	Board Meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	General meetings
Executive directors					
Mr. Tian Ye	7/7	N/A	1/1	1/1	1/1
Mr. He Shiwei	7/7	N/A	N/A	N/A	1/1
Non-executive directors					
Mr. Sun Chunfeng	7/7	N/A	N/A	N/A	1/1
Mr. Liu Wei[1]	3/3	N/A	N/A	N/A	N/A
Mr. Zhao Dan[1]	3/3	N/A	N/A	N/A	N/A
Independent non-executive directors					
Mr. Li Yang	7/7	2/2	N/A	1/1	1/1
Mr. Wang Xinyu	6/7	1/2	1/1	1/1	1/1
Mr. Zhang Ziyu	7/7	2/2	1/1	N/A	1/1
Mr. Zhu Jinglei[2]	3/3	N/A	N/A	N/A	N/A

Notes:

1. Mr. Liu Wei and Mr. Zhao Dan were appointed as non-executive Directors on 29 June 2020. From the date of their appointments and up to 31 December 2020, the Company had held 3 Board meetings.

2. Mr. Zhu Jinglei was appointed as an independent non-executive Directors on 13 July 2020. From the date of his appointment and up to 31 December 2020, the Company had held 3 Board meetings.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

During the Reporting Period, the Audit Committee held 2 meetings in total, which reviewed the audited annual results of the Group for the year ended 31 December 2019 and reviewed the unaudited interim results of the Group for the six months ended 30 June 2020, the risk management and internal control system, the re-appointment of auditors, continuing connected transactions and other matters of the Group for the year ended 31 December 2019.

NOMINATION COMMITTEE

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

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

During the Reporting Period, the Nomination Committee held 1 meeting in total, which reviewed the structure, number and composition of the Board, assessed the independence of independent non-executive directors and reviewed the policy on Board diversity and other matters.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

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

During the Reporting Period, the Remuneration Committee held 1 meeting in total, which reviewed the overall remuneration policy and structure for Directors and senior management and reviewed the remuneration of Directors and senior management and other matters.

BOARD DIVERSITY

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

NOMINATION POLICY

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

- reputation for integrity;
- professional qualifications and skills;
- achievements and experience in the Internet industry;
- time available for performing duties;
- independence of independent non-executive directors; and
- diversity in all aspects of the Board, including but not limited to gender, age (at least 18 years old), cultural and educational background, ethnicity, professional experience, skills, knowledge and service tenure.

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

Details of the remuneration of the Directors are set out in Note 11 to the audited consolidated financial statements.

Pursuant to code provision B.1.5 of the CG Code, remuneration of senior management, including those members of senior management who are also the executive Director, by band of remuneration for the year ended 31 December 2020 is set out below:

Remuneration bands	Number of individual
RMB1 to RMB1,000,000	0
RMB1,000,001 to RMB2,000,000	1
RMB2,000,001 to RMB3,000,000	2

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITOR'S REMUNERATION

The remuneration of the auditor in respect of audit and non-audit services provided to the Group for the year ended 31 December 2020 is summarized as below:

Service Category	Fees payable or paid *(RMB'000)*
Audit services	1,800
Non-audit services	400
Total fees	2,200

The audit services fee represents the service fee in connection with the annual audits for 2020. The non-audit services fee represents the interim review fee for the period ended 30 June 2020.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board conducted an annual review over the effectiveness of risk management and internal control systems of the Group for the year ended 31 December 2020, and the management confirmed the effectiveness of the risk management and internal control systems within their terms of reference during the year. The Board believes, without any evidence to the contrary, the Company has provided reasonable assurance as to compliance with the risk management and internal control systems for the year ended 31 December 2020, which has prevented any significant financial misstatement or loss, and included protection of assets, appropriate maintenance of accounting records, reliability of financial data, compliance with applicable laws and regulations, and identification and control of business risks. In connection with the effectiveness of risk management and internal control systems, the Board has confirmed that no significant areas of concern have been identified and believes that the system remains effective and adequate, including sufficient resources, appropriate qualifications and experiences of our employees, and employee training programs, and that there are adequate budgets for accounting, internal audit, and financial reporting functions.

DISCLOSURE OF INSIDE INFORMATION

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

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

For the year ended 31 December 2020, Mr. Cheng has received no less than 15 hours of professional training in relation to reviewing Listing Rules and other compliance requirements.

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

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

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

DIVIDEND POLICY

The Company has adopted a dividend policy.

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

- overall business performance
- financial results
- capital requirements and surplus
- shareholders' interests

CORPORATE GOVERNANCE REPORT

- any limitation from contracts or agreements on payment of dividends by the Company

- any other factors as the Board may consider relevant

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

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

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

Address: 11/F, 11-24 Tianfu Software Site E1, 1268 Tianfu Avenue, High-tech Zone, Chengdu, Sichuan Province, PRC
E-mail: ir@ludashi.com

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

Tricor Investor Services Limited

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

CONSTITUTIONAL DOCUMENTS

There were no significant changes in the Articles of Association during the Reporting Period.

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THE REPORT

The report is the second environmental, social and governance report (hereinafter referred to as the "**ESG Report**" or the "**Report**") of 360 LUDASHI HOLDINGS LIMITED (hereinafter referred to as the "**Company**") and its subsidiaries (hereinafter referred to as the "**Group**" or "**we**"), to demonstrate the principles and sustainable development philosophies we uphold in fulfilling corporate social responsibility, and to summarize the Group's work and practices in environmental, social and governance (hereinafter referred to as "**ESG**") aspects.

1.1 Standard of the Report

The report is compiled in accordance with Appendix 27 Reporting Guide (hereinafter referred to as the "**Guide**") to the Rules Governing the Listing of Securities (hereinafter referred to as "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (hereinafter referred to as "**Stock Exchange**"), and has complied with the provision and recommendation of "Comply or explain" in the Guide. For details on the Group's corporate governance, please refer to the "**Corporate Governance Report**" chapter in the (2020) annual report of the Group, or the official website of the Group. Readers can refer to Appendix II to this report: Index to the Environmental, Social and Governance Reporting Guide of the Stock Exchange for inquiry.

1.2 Scope of the Report

This report describes the Group's overall ESG performance related to its core business and corporate social responsibility from 1 January 2020 to 31 December 2020 (hereinafter referred to as the "**Year**"), while the environmental key performance indicators include the performance of the Chengdu office.

1.3 Language of the Report

This report is written in traditional Chinese and English. In case of discrepancy between the texts, the traditional Chinese version shall prevail.

1.4 Feedback on the Report

Any opinions and proposals of the stakeholders would help the Group on the plan of sustainable development strategies. If there are any questions or suggestions for this Report, welcome to contact us by email (ir@ludashi.com).

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. SUSTAINABLE DEVELOPMENT STRATEGY

The Group has always strived to combine its sustainable development philosophy and the overall development strategy, policy and business plan of the Group, so we have set up an environmental, social and governance working group (hereinafter referred to as "**ESG Working Group**") to manage our ESG risks and promote various departments to implement various ESG policies. This Working Group is under the direction of the Chief Technology Officer and should report to the Board of Directors regularly to help evaluate whether the Group's ESG risk management and internal monitoring system are appropriate and effective. The ESG Working Group will also convene special meetings.

The main responsibility of the ESG committee is as follows:

- Identify the significant operations related to or important to the Group, as well as ESG matters affecting shareholders and other important stakeholders, including working environment quality, environmental protection, operational practices, community participation, and animal benefits;
- Maintain the operation of the corporate social responsibility management system, and enhance employees' awareness in this regard;
- Promote the functional departments to implement various ESG policies;
- Arrange to inform the stakeholders of significant ESG matters, identify their opinions on these matters and respond to these opinions;
- Responsible for reviewing the Group's ESG policy and related routines;
- Ensure that the Group meets relevant laws and regulatory requirements, monitor and respond to the latest ESG issues; and
- Propose relevant recommendations to the Board of Directors in due course to enhance the Group's performance in ESG matters.

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.1 Stakeholders' Engagement

The Group hopes to establish a long-term partnership of mutual trust with the stakeholders by maintaining close contacts with them through a variety of communication channels, and listening to their expectations on the Group's ESG performance in an open attitude.

Main Stakeholders	Communication Channels
Customers	• Customer satisfaction survey and opinion feedback • Customer consultation group • Customer service center • Daily operation/communication • Online service platform • Phone • E-mail
Shareholders	• General meeting of shareholders and other shareholders' meetings • Interim report and annual report • Corporate communication, such as shareholder letter/ circular and conference notice • Performance announcement • Shareholders' visit • Investor meeting
Employees	• Channels for employees to express their opinions (forms, mailboxes, etc.) • Work performance evaluation • Performance interview • Employee communication meeting
Investors	• Performance announcement • Senior management meeting • Face-to-face meeting
Business partners	• Meeting • Visit

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Main Stakeholders	Communication Channels
Regulatory authorities	• Meeting • Written response to public consultation • Compliance report
Media	• Press conference • Press release • Interview with the senior management • Performance announcement
Community/ non-government organization	• Donation • Seminar/lecture/workshop • Conference
Peers	• Strategic cooperation project • Group notice • Communication conference
Suppliers	• Supplier Management Procedure • Meeting • Field inspection

2.2 Materiality Assessment

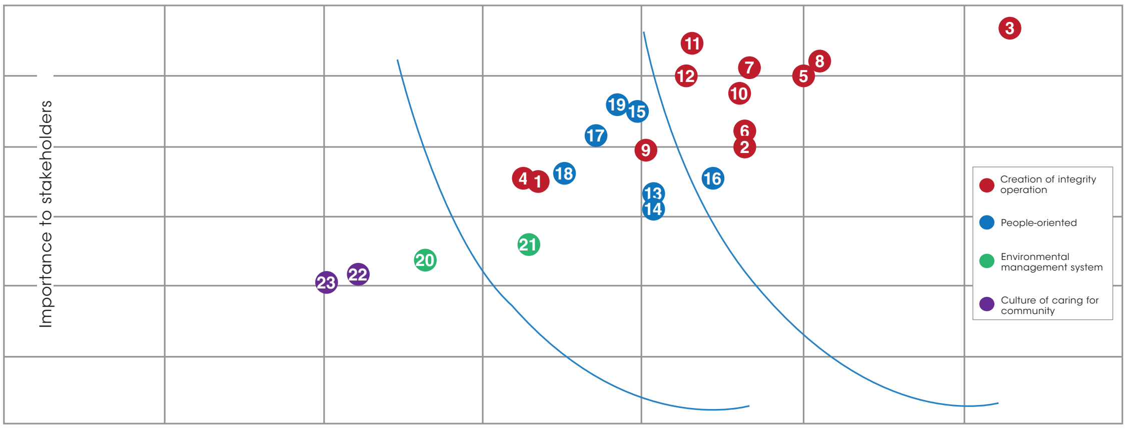
In 2019, we have learned the expectations of the stakeholders through questionnaire targeted at them and have summarized 23 importance issues, including 10 highly important issues, 10 medium-important issues, 3 generally important issues. This Year we conduct an overall review of the importance of ESG issues for the following aspects:

- The expectations and demands of the stakeholders on the ESG issues;
- The correlation and importance of ESG issues to the stakeholders; and
- The correlation and importance of ESG issues to the Group's business.

After reviewing, we decided to follow the importance matrix of 2019 and to respond to the needs of the stakeholders by making relevant disclosure in the Report in accordance with this matrix. The "Economic Performance" will be disclosed accordingly in the annual report. At the same time, we will also manage relevant risks based on the importance of important issues, and explore related opportunities.

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Importance Analysis Matrix



Importance to the Group's business

Important issues for the Group

1. Economic performance
2. Market competitiveness
3. Compliance with laws and regulations
4. Responsible procurement
5. Quality control
6. Technical development and application
7. Privacy protection
8. Anti-fraud and anti-corruption
9. Report mechanism
10. Complaints handling and responding mechanisms
11. Protection of intellectual property rights
12. Propaganda and products/service tags
13. Employee rights
14. Labor relationship
15. Occupational health and safety
16. Employee diversification, non-discrimination and equal opportunity
17. Prevention of child labor and forced labor
18. Employee training and development
19. Qualifications and professional conduct
20. Energy consumption and efficiency
21. Employee's environmental awareness
22. Care for the community
23. Community investment and engagement

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3. CREATION OF INTEGRITY OPERATION

3.1 Information Security

We have cautiously complied with the Cyber Security Law of the People's Republic of China, Provisions on Technical Measures for Internet Security Protection and the laws and regulations of the place of operation. Since our business involves the acquisition, storage and analysis of user information, we have attached importance to information security, and formulated "Operation and Management Mechanism for Information System", "Disaster Recovery Plan", "Management Mechanism for Information System", "Management Specification for Database Operation", "Processing Mechanism for Security Incidents" and "Non-disclosure System".

We have set access right to the system. The relevant department using the system must regularly check whether the permission given to the users for the access to the system account corresponds to the functions of relevant users. In case of any improper permission beyond users' functions or beyond their service term, the relevant department using the system should notify the server to make relevant amendments as soon as possible.

We also established a disaster recovery management team for network system services, which is headed by our Chief Technology Officer to ensure that in the event of a network disaster, the system services of the Group's network can be restored quickly and orderly, so as to ensure information security. The duties of core members of the disaster recovery management team include:

- Responsible for the overall command of system recovery;
- Determine the severity of damage caused by disaster occurred;
- Start the disaster recovery mechanism;
- Notify the relevant recovery team leader and command the recovery process;
- As the communication intermediary of the information department and other departments, keep abreast of the latest progress of the disaster, and coordinate the progress of the disaster recovery.

Once the member of the disaster recovery management team on duty have identified a potential disaster, members of the team would be notified according to the emergency notification process. The general command of disaster recovery would decide whether to declare the disaster. According to the degree and scope of impact of the emergency on the business or the overall operation, based on the "Processing Mechanism for Security Incidents", we would classify security incidents into three levels: minor, serious, and very serious, and deal with them accordingly.

In order to handle disasters more effectively, we regularly organize disaster recovery plan tests and drills. We will also review our disaster recovery plans based on test and exercise results and actual processing results, and update the disaster recovery plan in time by the information department if necessary, and then submit it to the relevant leadership for approval.

In addition, we also require employees not to discuss or share the Group's confidential information with unauthorized people in any case or use the information for any purpose other than the Group's needs or requirements.

3.2 Customer Rights

The Group has strictly abided by the Law of Consumers Rights of People's Republic of China, Law of E-Commerce of the People's Republic of China, Regulations on the Personal Information Protection of Telecommunication and Internet Users, Interim Management Measures for Cyber Games, Notice on the Implementation of Online Game Anti-Addiction System for Protecting the Physical and Mental Health of Minors, Comprehensive Implementation Plan on the Prevention and Control of Children and Adolescents' Myopia, Notice on Strengthening the Management of the Virtual Money of Network Games, so as to protect customer rights.

We have answered questions and solved problems for users by phone, WeChat, email, online customer service, remote software, etc., to promptly respond to relevant requirements, improve the interactive quality with users, and monitor and assess the service process to continuously improve service quality. We also established a complaint mechanism to analyze the cause of complaints, clear responsibilities, offer solutions to customers in time, and collect feedback from customers, thus summarizing and evaluating the complaint handling process and proposing improvement measures.

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Our products and services have been continuously improved by continuously enhancing our professional skills and summarizing customers' opinions and suggestions. The Group has obtained the following awards this Year:

Awarding organization	Awards
China Internet Association	The Second Place in China's 20 Internet Growth Enterprises
Huawei Technologies Co., Ltd	Popular App in Sea Sailing in Start Pilot Plan
360 Intelligent Business	Best Partnership
App ANNIE	2020 Best Publish Award

We also developed and implemented the "Registration Agreement for Game Users of Ludashi", further protecting the legitimate rights and privacy of users. Users have the right to log on the official website of Ludashi or other ways published by Ludashi at any time, to update or modify the information provided by the user when applying for registration. In addition, we focused on the health and safety of the users by putting in place a parent monitoring system, under which, users under 18 or users whose age can't be identified by Ludashi would be restricted by the "Parental Guardianship System for Minors", including but not limited to temporarily or permanently freezing their accounts, and partially or completely discontinuing the provision of products and services by Ludashi. Our "Game Anti-addiction System" regulates long-term continuous gaming by gradually deducting in-game revenue according to the length of gaming time.

This Year, all requests and complaints had been completed, with a customer satisfaction of 91%.

3.3 Product Responsibility

We continuously improved our product performance. As one of the hardware detection software with the largest number of users in China, we have the most complete computer hardware information database in the industry. We also released a number of versions of application for Android system, which product covered a majority of mobile phones in China.

We have established the product testing department to standardize the product test process, in order to ensure that the product could reach the corresponding standard.

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3.4 Integrity Operation

The Group strictly followed laws and regulations such as the Criminal Law of the People's Republic of China, Anti-Money Laundering Law of the People's Republic of China, Anti-Unfair Competition Law of the People's Republic of China. In addition, we have developed policies such as "Anti-fraud Policy", "Reporting Policies and Processes", "Interest Conflict Policy", to prevent fraud, strengthen governance and internal control, reduce the Group's risks, standardize business operation, and ensure the accomplishment of the Group's business goals and the Group's sustainable, stable, healthy development, and protect the legitimate rights and interests of the Group and its shareholders.

We have provided employees with a safe and confidential reporting channel to ensure that no employee would suffer any unfavorable circumstances due to the report.

This Year, the Group did not have any corruption lawsuit cases.

3.5 Supply Chain Management

The Group strictly complied with the Bidding and Tendering Law of the People's Republic of China and the Implementation Regulations on the Bidding and Tendering of the People's Republic of China and other laws and regulations effective in the place of its operation, and has established the "Procurement Service Management System".

Our market department is responsible for the procurement of the Group. The Market Director has determined an actual purchase quantity according to the annual purchase budget plan every year, and instructed the marketing staff to find suppliers. When choosing a supplier, in addition to the supplier's service quality, reputation, product/service quality, the level of its environment and social risk management will also be included in our investigation. Suppliers must provide open and transparent information on ESG risks and response measures. And we will not consider the relevant supplier if any negative news or events on its social responsibility are verified. Marketing staff will pick up a suitable minimum of three suppliers from the qualified suppliers to collect the quotations or quotation emails, and then prepare the "Price Comparison Table" to record the price comparison results and explain the reason why the supplier is chosen and submit the table to the Market Director for approval and signature. The table and quotation need to be properly kept by the market department. We will also regularly evaluate each existing supplier with the test data in promotion service, and rate or give scores to the suppliers based on their annual average performance, which results will be recorded in the "Supplier Assessment Table". The qualified score/rating of the suppliers is 60 points, and suppliers who are recorded more than 3 times of results below the said points will be required to terminate contracts with the Group.

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Year, the Group's main suppliers are from mainland China and Hong Kong, China, which are online traffic suppliers, advertising and promotion services suppliers, server leasing service suppliers and electronic devices suppliers.

3.6 Intellectual Property Protection

We strictly abided by the Anti-Unfair Competition Law of the People's Republic of China, the Copyright Law of the People's Republic of China, Regulations on the Implementation of the Patent Law of the People's Republic of China, Trademark Law of the People's Republic of China, Computer Software Copyright Registration Measures, Internet Network Domain Management Measures of the People's Republic of China, Advertising Law of the People's Republic of China, Advertising Management Regulations and Interim Measures for Internet Advertising Management and other laws and regulations related to the protection of intellectual property rights.

In order to further allow the Group's technologies to enjoy exclusive rights, effectively tap into and develop quality project resources within the Group, promote the sustainable and healthy development of the Group, we have formulated the "Requirements for the Group's Internal Patent Application". We also developed the "Registration Agreement for Game Users of Ludashi", which elaborates that the copyright, patent, trademark exclusive rights, and other intellectual property rights of the game software (including games with or without client software), other software, information, works, and data, provided by the Group through products and services, all belong to Ludashi or their corresponding right holders. Unless legally authorized in writing by the Group in advance, or otherwise expressly provided by law, users shall not use, copy, disseminate, forge, imitate, modify, adapt, translate, compile, publish, decompile or disassemble or other reverse processing in any form without authorization. Otherwise, the Group has the right to immediately terminate the provision of products and services to users, and pursue their infringement liabilities on intellectual property rights in accordance with the law, and require users to compensate for all losses of Ludashi. In addition, we have always strived for business with an aggressive attitude. Changes in prices or service content must be approved by the management with corresponding powers. Without prior authorization, no one is allowed to change the service content or contract terms at will. We have also carefully reviewed the published information to prevent deceptive and misleading information.

4. ENHANCING TALENT TEAM

4.1 Employment Management

The Company strictly complies with the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Implementation Regulations of the Labor Contract Law of the People's Republic of China, the Law on the Protection of Minors of the People's Republic of China, the Provisions on the Prohibition of Child Labor and other relevant laws and regulations.

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We also formulated the Employee Code of Conduct and the Employee Handbook of Ludashi and endeavored to create an environment to achieve the full potential of employees and avoid discriminations on gender, marital status, age, race, skin color, disability and religion. We formulated a complete employment system. We require job applicants to display their identification cards to verify their age during the process of employment to eliminate the employment of child labor. We also adopt measures to prohibit forced labor, such as the five-day working system, the adoption of flexible working hours and the arrangement of days off for employees working overtime due to work. During the Year, the Group was not involved in the employment of child labor or forced labor.

When employees resign, we will learn about the reasons for their resignation to identify and manage issues on the turnover rate of employees. When employees are dismissed, we will have interviews with employees dismissed and make relevant arrangement on dismissal with the approval of leaders.

During the Year, the Group had 197 employees. The distribution of the employees of the Group during the Year is as follows:

Indicators	Unit	2020
Total number of employees	person	**197**
Number of employees by gender		
Female	person	**55**
Male	person	**142**
Number of employees by employment type		
Short-term contract/part-time employees	person	**8**
Full-time junior employees	person	**186**
Full-time senior management	person	**3**
Number of employees by age group		
Below 30	person	**95**
30-50	person	**100**
Over 50	person	**2**
Number of employees by geographical region		
Southern China	person	**195**
Others (including Hong Kong, Macau and Taiwan)	person	**2**

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4.2 Health Protection

The Group strictly abides by the Law of the People's Republic of China on Work Safety, the Fire Prevention Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases and other laws and regulations.

We require the management to provide employees with information, guidance and trainings on health and safety, establish emergency measures and regularly conduct exercises on rescue and escape under fire. We also arrange annual physical checkups for employees.

We disinfected our office and arranged employees to work at home during the outbreak of the COVID-19 pandemic. We distributed masks to employees after the resumption of work.

During the Year, the Group had no work-related fatalities or working days lost due to work-related injuries.

4.3 Collaborative Development

Valuing talents is the reason for our consistent progress and the key to our future success. We continuously improve the evaluation system to effectively help employees improve their working performance. We carry out regular evaluations on employees and provide incentives to those with outstanding performance. In case of job vacancy, we prioritize fair and equal internal promotion over external appointment. We also establish communication platforms through the internal network and allow the management to understand employees' expectations in a timely manner.

Meanwhile, we provide employees with various trainings to understand the corporate culture and strategies. We also encourage employees to actively participate in external learning.

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4.4 Talent Welfare

We provide competitive salaries to our employees. Salaries of all employees are based on their competitiveness, experiences, skills and the qualification requirements of the position. We also offer quarterly bonus, year-end bonus, share options and share incentive schemes based on the business performance of employees.

Besides five social insurances and one housing fund and statutory holidays, we also provide employees with paid annual leaves, marital leaves, maternity leaves, prenatal check-up leaves, breastfeeding leaves, paternity leaves and funeral leaves. For subsidies, we provide employees with meal subsidies, supplemental medical insurance and birthday gifts. We also hold birthday parties and team-building activities to enhance the communications among teams.

5. ESTABLISHMENT OF GREEN CULTURE

The Group strictly abides by the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China and other relevant laws and regulations. We have formulated the Corporate Environmental Protection Policy and committed to carry out measures on environmental protection to reduce the effects of business operation on the environment. We review environmental performance each year and make appropriate adjustments or amendments to environmental policies. We publicize environmental information among employees, suppliers and other stakeholders through internal communications and trainings and cooperate with peers in the industry and environmental groups to consistently enhance the environmental awareness of employees and the public and promote environmental measures. We organized the "One Fewer Day with Air-conditioners and One More Day with Fans" on 5 June 2020. During the Year, the Group did not violate any laws and regulations related to environmental protection.

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5.1 Energy Management

We further enhance energy conservation based on the actual conditions of our offices. We post signs of saving electricity in public areas and strive to become a conservation-oriented enterprise through the following measures:

Lighting system	• Adoption of lamps of high energy efficiency (LED panel lights and LED downlights) in office areas; • Set up independent switches for lighting in different office areas; • Use of daylight whenever possible; • Keep lighting devices and lamps clean and try to improve their energy efficiency;
Air-conditioning system	• Avoid the installment of air-conditioners in places under direct sunshine; • Clear the filter on a regular basis; • Paste sealing strips on doors and windows to avoid air loss; • Turn off air-conditioners before leaving the office; • Variable speed drivers are used to adjust pump and fan systems according to the actual needs of the air-conditioning; • Use split type air conditioners with the Grade 1 energy label; • Adoption of the Central Control and Monitoring System (CCMS);
Electronic equipment and electric appliances	• Set computers to automatically enter the standby or sleep mode when idling; • Consolidate multiple servers into a single server with higher capacity to reduce energy consumption and save more office space; • Adoption of virtualized computers and equipment to reduce electricity consumption and the installment of hardware; • Purchase electronic devices with energy efficiency certification.

During the Year, the total electricity consumption of the Group was 149,261.24 kWh and the electricity consumption was 38.98 kWh per square meter. Our electricity consumption intensity per square meter reduced by 33.22% as compared with the previous year as a result of the effective implementation of the above-mentioned measures and the impact of the COVID-19 pandemic.

5.2 Greenhouse Gas (GHG) Management

To respond to Chinese President Xi Jinping's declaration that China will achieve carbon neutrality by 2060 at the UN General Assembly on 22 September 2020, we are devoted to reducing the GHG emission. We encourage employees to choose low-carbon ingredients or local foods to reduce carbon emission in food delivery and reduce business travels. We also adopted various measures to reduce carbon emission. Please refer to the section headed "Energy Saving and Emission Reduction" for detailed measures. According to the "Greenhouse Gas Protocol" developed by the World Resources Institute and the World Business Council for Sustainable Development and the ISO14064-1 set by the International Standards Organization, we have invest into GHG for our Chengdu office. During the Year, the GHG emissions of our Chengdu office are summarized as follows:

GHG Emissions Performance	Unit	2020
Direct GHG emissions (Scope 1)	tonnes carbon dioxide equivalent (CO_2e)	**3.42**
Indirect GHG emissions (Scope 2)	tonnes CO_2e	**91.06**
Total GHG emissions (Scope 1 & 2)	tonnes CO_2e	**94.48**
GHG emissions per square meter (Scope 1 & 2)	tonnes CO_2e/square meter	**0.02**

5.3 Emissions Management

Vehicle emission is the main source of emissions of the Group. We reduce emissions through vehicle maintenance (vehicles with low energy efficiency consume more fuels and generate more pollutants), regular inspections and tire inflation, ensuring no operation of engine for idling vehicles and providing low-carbon driving trainings for drivers.

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5.4 Water Resources Management

During the Year, the Group strengthened water resources management and improved the efficiency in the use of water through the use of water taps with water-saving labels, watering plant with rainwater, reducing water pressure, and posting signs of saving water in washrooms.

The Group uses water from municipal supplies with no difficulties in obtaining water. During the Year, the total water consumption of the Group was 1,593.05 cubic meters with an average water consumption of 0.42 cubic meter per square meter. Our water consumption per square meter reduced 22.96% due to the effective implementation of our water-saving measures and the impact of the COVID-19 pandemic.

5.5 Waste Management

The Group carries out paperless office and reduces the printing of documents. We require our employees to adopt small font and line spacing for documents to be printed and try to use recycled paper or double-sided printing to reduce paper consumption. We encourage employees to non-disposable items. For example, we use glass cups in business and routine receptions and encourage employees to bring cups to replace disposable paper cups. We also place garbage sorting and recycling bins and regularly arrange professional recycling personnel to collect wastepaper boxes, paper, newspapers and materials, various plastic items and waste ink cartridges.

6. PARTICIPATION IN COMMUNITY CONSTRUCTION

The Group deeply believes that business development relies on community support. We encourage employees to actively participate in community construction and contribute to community development. We also formulate plans on community investment in view of our business advantages and resources and play an active role in community construction.

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APPENDIX I: OVERVIEW OF KEY PERFORMANCE INDICATORS ON SUSTAINABLE DEVELOPMENT

The sustainability data summary under the environmental scope of Chengdu office of the Group during the Year is as follows:

Environmental scope	Unit	2020
Air emissions[1]		
Nitrogen oxides	kilogram	26.05
Sulfur oxides	kilogram	0.02
Particulate matter	kilogram	2.50
GHG emissions		
Direct GHG emissions (Scope 1)	tonnes CO_2e	3.42
Indirect GHG emissions (Scope 2)	tonnes CO_2e	91.06
Total GHG emissions (Scope 1 & 2)	tonnes CO_2e	94.48
GHG emissions intensity (per square meter) (Scope 1 & 2)	tonnes CO_2e/square meter	0.02
Energy consumption		
Total energy consumption	kWh	160,899.92
Energy consumption intensity (per square meter)	kWh/square meter	42.02
Purchased electricity consumption	kWh	149,261.24
Purchased electricity consumption intensity (per square meter)	kWh/square meter	38.98
Gasoline consumption	litre	1,264.00
Water consumption		
Total water consumption	cubic meter	1,593.05
Water consumption intensity (per square meter)	cubic meter/square meter	0.42
Paper consumption		
Total A4 paper consumption	piece	48,600.00
Paper consumption per capita	piece/person	249.23
Wastes		
Non-hazardous waste produced (such as office and household waste)	kilogram	1,000.00
Non-hazardous waste produced intensity (per person) (such as office and household waste)	kilogram/person	5.13
Hazardous waste produced	kilogram	15.00
Hazardous waste produced intensity (per person)	kilogram/person	0.08

1 Vehicle emissions

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The sustainability data summary under the social scope of the Group during the Year is as follows:

Social scope	Unit	2020
Employment[2]		
Total number of employees	person	197
Total number of employees by gender		
Female	person	55
Male	person	142
Total number of employees by employment type		
Short-term contract/part-time employees	person	8
Full-time junior employees	person	186
Full-time senior management	person	3
Total number of employees by age group		
Below 30	person	95
30-50	person	100
Over 50	person	2
Total number of employees by geographical region		
Southern China	person	195
Others (including Hong Kong, Macau and Taiwan)	person	2
Work safety and health		
Number of work-related fatalities	person	0
Lost days due to work-related injuries	day	0

[2] Calculated based on the roster of current and former employees as of 31 December this Year

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX II: ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX OF THE STOCK EXCHANGE

Environmental scope			Related Section(s)
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste.	5. Establishment of Green Culture; 5.1 Energy Management; 5.5 Waste Management
	A1.1	The types of emissions and respective emissions data.	Appendix I: Overview of Key Performance Indicators on Sustainable Development
	A1.2	Greenhouse gas emissions in total and density.	5.2 GHG Management; Appendix I: Overview of Key Performance Indicators on Sustainable Development
	A1.3	Total hazardous waste produced and density.	Appendix I: Overview of Key Performance Indicators on Sustainable Development
	A1.4	Total non-hazardous waste produced and density.	Appendix I: Overview of Key Performance Indicators on Sustainable Development
	A1.5	Description of measures to mitigate emissions and results achieved.	5.3 Emissions Management
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	5.5 Waste Management

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental scope			Related Section(s)
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	5.1 Energy Management; 5.4 Water Resource Management
	A2.1	Direct and/or indirect energy consumption by type in total and density.	5.1 Energy Management; Appendix I: Overview of Key Performance Indicators on Sustainable Development
	A2.2	Water consumption in total and density.	5.4 Water Resource Management; Appendix I: Overview of Key Performance Indicators on Sustainable Development
	A2.3	Description of energy use efficiency initiatives and results achieved.	5.1 Energy Management
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	5.4 Water Resource Management
	A2.5	Total packaging material used for finished products and, with reference to per unit produced.	Not applicable as the Company's business does not involve packaging materials
A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	5. Establishment of Green Culture
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	5. Establishment of Green Culture

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social scope			Related Section(s)
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	4.1 Employment Management; 4.4 Talent Welfare
	B1.1	Total workforce by gender, employment type, age group and geographical region.	4.1 Employment Management; Appendix I: Overview of Key Performance Indicators on Sustainable Development
	B1.2	Employee turnover rate by gender, age group and geographical region.	To be disclosed next year
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	4.2 Health Protection
	B2.1	Number and rate of work-related fatalities.	4.2 Health Protection; Appendix I: Overview of Key Performance Indicators on Sustainable Development
	B2.2	Lost days due to work injury.	4.2 Health Protection; Appendix I: Overview of Key Performance Indicators on Sustainable Development
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	4.2 Health Protection

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social scope			Related Section(s)
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	4.3 Collaborative Development
	B3.1	The percentage of employees trained by gender and employee category.	To be disclosed next year
	B3.2	The average training hours completed per employee by gender and employee category.	To be disclosed next year
B4: Labor Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	4.1 Employment Management
	B4.1	Description of measures to review employment practices to avoid child and forced labor.	4.1 Employment Management
	B4.2	Description of steps taken to eliminate such practices when discovered.	4.1 Employment Management
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	3.5 Supply Chain Management
	B5.1	Number of suppliers by geographical region.	To be disclosed next year
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	3.5 Supply Chain Management

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social scope			Related Section(s)
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	3.1 Information Safety; 3.2 Customers Rights; 3.3 Product Responsibility; 3.6 Intellectual Property Protection
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable as the Group's business does not involve sales or delivery of products
	B6.2	Number of products and service related complaints received and how they are dealt with.	3.2 Customers Rights
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	3.6 Intellectual Property Protection
	B6.4	Description of quality assurance process and recall procedures.	3.3 Product Responsibility
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	3.1 Information Safety

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social scope			Related Section(s)
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	3.4 Integrity Operation
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	3.4 Integrity Operation
	B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	3.4 Integrity Operation
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	6. Participation in Community Construction
	B8.1	Focus areas of contribution.	To be disclosed next year
	B8.2	Resources contributed to the focus area.	To be disclosed next year

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of 360 Ludashi Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 100 to 176, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables We identified impairment assessment of trade receivables as a key audit matter due to the significant balance of trade receivables to the consolidated statement of financial position and the involvement of subjective judgements and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As disclosed in notes 4, 20 and 31 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables collectively based on the Group's internal credit ratings for not credit-impaired debtors and individually for credit-impaired debtors. Collective assessment is performed by grouping of various debtors based on the Group's internal credit ratings that have similar loss patterns after considering, ageing and past-due status, repayment history, and nature, size and industry of debtors of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and take into consideration of the forward-looking information. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the carrying amount of trade receivables and the present value of estimated future cash flows of trade receivables. As disclosed in notes 4, 20 and 31 to the consolidated financial statements, the carrying amount of trade receivables of the Group amounted to RMB53,623,000, net of loss allowance of ECL amounting to RMB2,711,000 as at 31 December 2020.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Testing the integrity of information used by management for collective assessment of ECL, including trade receivables ageing analysis as at 31 December 2020, on sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgements in assessing credit losses on trade receivables as at 31 December 2020, including their identification of credit-impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories on collective basis, and the basis of estimated loss rates applied in each category (with reference to historical default rates and forward-looking information); • Testing subsequent settlements of credit-impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of current reporting period; and • Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 4, 20 and 31 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

INDEPENDENT AUDITOR'S REPORT

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in the independent auditor's report is Sy, Sunnie.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	5	**347,901**	404,495
Costs of sales and services		**(160,747)**	(210,141)
Gross profit		**187,154**	194,354
Other income	6	**14,424**	9,039
Impairment losses under expected credit loss model, net of reversal		**(2,441)**	99
Other gains and losses	7	**(10,254)**	10,778
Listing expenses		**–**	(17,685)
Selling and distribution expenses		**(24,962)**	(20,171)
Administrative expenses		**(46,219)**	(29,010)
Research and development expenses		**(28,744)**	(27,317)
Share of results of associates		**(1,884)**	10
Finance costs	8	**(205)**	(418)
Profit before taxation		**86,869**	119,679
Taxation	9	**(9,772)**	(13,210)
Profit and total comprehensive income for the year	10	**77,097**	106,469
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**72,669**	104,702
Non-controlling interests		**4,428**	1,767
		77,097	106,469
Earnings per share			
Basic (in RMB cents)	13	**27.01**	48.65
Diluted (in RMB cents)	13	**27.01**	48.59

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	31/12/2020 RMB'000	31/12/2019 RMB'000
Non-current Assets			
Intangible assets	14	**2,870**	3,086
Property, plant and equipment	15	**11,254**	10,028
Interests in associates	16	**10,580**	9,210
Financial assets at fair value through profit or loss ("FVTPL")	17	**25,628**	–
Deferred tax assets	18	**7,535**	4,341
		57,867	26,665
Current Assets			
Exclusive rights to operate licensed online games	19	**6,182**	–
Trade receivables	20	**53,623**	86,010
Other receivables, deposits and prepayments	21	**40,400**	41,987
Inventories	22	**176**	4,278
Tax recoverable		**1,079**	752
Bank balances and cash	23	**369,233**	338,368
		470,693	471,395
Current Liabilities			
Trade and other payables	24	**29,508**	47,829
Contract liabilities	25	**101**	389
Lease liabilities	27	**2,650**	2,388
Income tax payable		**402**	3,472
		32,661	54,078
Net Current Assets		**438,032**	417,317
Total Assets less Current Liabilities		**495,899**	443,982

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	31/12/2020 RMB'000	31/12/2019 RMB'000
Capital and Reserves			
Share capital	*26*	**2,425**	2,425
Reserves		**482,484**	435,930
Equity attributable to owners of the Company		**484,909**	438,355
Non-controlling interests		**7,237**	2,794
		492,146	441,149
Non-current Liabilities			
Lease liabilities	*27*	**3,753**	2,833
		495,899	443,982

The consolidated financial statements on pages 100 to 176 were approved and authorised for issue by the board of directors on 26 March 2021:

Tian Ye
Director

He Shiwei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2020

	Attributable to owners of the Company							
	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	9	37,920	5,000	(9)	161,891	204,811	15,198	220,009
Profit and total comprehensive income for the year	–	–	–	–	104,702	104,702	1,767	106,469
Dividends paid to non-controlling interests shareholders	–	–	–	–	–	–	(7,277)	(7,277)
Capitalisation issue *(Note 26)*	1,794	(1,794)	–	–	–	–	–	–
New ordinary shares issued *(Note 26)*	622	167,316	–	–	–	167,938	–	167,938
Transaction costs related to the issue of new ordinary shares *(Note 26)*	–	(27,588)	–	–	–	(27,588)	–	(27,588)
Conversion of put option liability *(Note(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	2,425	184,052	13,235	(9)	238,652	438,355	2,794	441,149
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**72,669**	**72,669**	**4,428**	**77,097**
Dividends recognised as distribution *(Note 12)*	**–**	**(24,570)**	**–**	**–**	**–**	**(24,570)**	**–**	**(24,570)**
Purchase of non-controlling interests *(Note(ii))*	**–**	**–**	**–**	**–**	**(1,545)**	**(1,545)**	**15**	**(1,530)**
Transfer	**–**	**–**	**9,584**	**–**	**(9,584)**	**–**	**–**	**–**
At 31 December 2020	**2,425**	**159,482**	**22,819**	**(9)**	**300,192**	**484,909**	**7,237**	**492,146**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2020

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 31 December 2020, the non-controlling interest comprise of equity interest in the Tianjin Liu Liuyou Technology Co., Ltd ("Liu Liuyou Technology") held by party other than the Company.

During March 2020, Chengdu Anyixun Technology Co., Ltd. ("Anyixun"), a wholly owned subsidiary of the Group, purchased 100% equity interests of Tianjin Lubang Technology Co., Ltd. ("Lubang Technology") from Tianjin Xiaolu Second-Hand Technology Co., Ltd. ("Xiaolu Second-Hand"), a subsidiary which is 82.86% owned by 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 July 2020, Anyixun purchased the remaining 17.14% equity interests of Xiaolu Second-Hand from the non-controlling shareholder for a consideration of RMB1,530,000, and the equity interest of Xiaolu Second-Hand owned by the Group increased from 82.86% to 100% accordingly. The transaction was accounted for as an equity transaction with non-controlling interests shareholder of an existing subsidiary, and the differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid is recognised directly in equity attributed to owners of the Company.

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

(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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2020

	2020 *RMB'000*	2019 *RMB'000*
Operating activities		
Profit before taxation	**86,869**	119,679
Adjustments for:		
Depreciation of property, plant and equipment	**5,403**	3,903
Share of results of associates	**1,884**	(10)
Amortisation of intangible assets	**1,191**	1,044
Amortisation of exclusive rights to operate licensed online games	**3,932**	–
Finance costs	**205**	418
Impairment loss, net of reversals		
– items subject to expected credit losses	**2,441**	(99)
– interest in an associate	**6,646**	–
Interest income	**(5,132)**	(5,335)
Gain on disposal of property, plant and equipment	**(5)**	–
Gain on changes in fair value on put option liability	**–**	(11,116)
Unrealised exchange loss	**3,022**	218
Operating cash flow before movement in working capital	**106,456**	108,702
Movements in working capital:		
Decrease (increase) in trade receivables	**30,196**	(22,240)
Decrease (increase) in other receivables, deposits and prepayments	**12,601**	(26,158)
Decrease (increase) in inventories	**4,102**	(2,952)
(Decrease) increase in trade and other payables	**(5,403)**	8,450
(Decrease) increase in contract liabilities	**(288)**	345
Cash generated from operating activities	**147,664**	66,147
Interest received	**7,620**	4,401
Income tax paid	**(16,363)**	(15,952)
Net cash from operating activities	**138,921**	54,596

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2020

	2020 *RMB'000*	2019 *RMB'000*
Investing activities		
Proceeds on disposal of interest in an associate	**1,500**	–
Proceeds on disposal of interest in subsidiaries	**500**	–
Proceeds on disposal of property, plant and equipment	**100**	–
Acquisition of interests in associates	**(9,900)**	(9,200)
Purchase of financial assets at FVTPL	**(25,628)**	–
Purchase of property, plant and equipment	**(3,183)**	(3,122)
Purchase of intangible assets	**(11,089)**	(1,112)
Payment for rental deposits	**(80)**	(147)
Repayment from related parties	**–**	1,615
Placement of non-pledged bank deposits with maturity of more than three months	**–**	(26,000)
Withdrawal of non-pledged bank deposits with maturity of more than three months	**26,000**	–
Withdrawal of pledged bank deposits	**–**	6,000
Payment of deposit for investments	**(6,425)**	–
Refund of deposit for investments	**5,600**	–
Prepayment for purchase of intangible assets	**(14,205)**	–
Net cash used in investing activities	**(36,810)**	(31,966)
Financing activities		
Dividends paid	**(24,570)**	–
Dividends paid to non-controlling interests shareholders	**–**	(7,277)
Interest paid	**(205)**	(499)
Purchase of non-controlling interests	**(14,830)**	(13,300)
Repayment of bank loan	**–**	(5,918)
Repayments of lease liabilities	**(1,977)**	(1,849)
Proceeds from issue of shares	**–**	167,938
Deferred issue costs paid	**–**	(22,916)
Net cash (used in) from financing activities	**(41,582)**	116,179
Net increase in cash and cash equivalents	**60,529**	138,809
Cash and cash equivalents at beginning of the year	**312,368**	174,147
Effect of foreign exchange rate changes	**(3,664)**	(588)
Cash and cash equivalents at end of the year, represented by	**369,233**	312,368
Bank balances and cash	**369,233**	338,368
Less: non-pledged bank deposits with maturity of more than three months	**–**	(26,000)
	369,233	312,368

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

1. GENERAL INFORMATION, STRUCTURED CONTRACTS AND BASIS OF PREPARATION

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

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

The Company is an investment holding company. The subsidiaries of the Company, set out in Note 33, are mainly engaged in online advertising services, online game business, sales of certified pre-owned and factory smartphones and certified pre-owned and factory other electronic devices as well as smart accessories in the PRC.

The Company and its subsidiaries comprising the Group are under the control of 360 Technology Group Co., Ltd. ("360 Technology") and Mr. Tian Ye (the "Controlling Shareholders").

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

- exercise effective financial and operational control over the Structured Entities;
- exercise equity holders' voting rights of the Structured Entities;
- receive substantially all of the economic interest returns generated by the Structured Entities in consideration for the business support, technical and management consultancy services provided by Anyixun;
- obtain an irrevocable and exclusive right to purchase all or part of the interests in Chengdu Qilu and/or any assets that are held by the Structured Entities at the lowest purchase price permitted under PRC laws and regulations and exercise such right from time to time in the event that PRC laws and regulations permitted;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

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

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

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

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

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

	2020 ***RMB'000***	2019 *RMB'000*
Revenue	**107,976**	65,134
Profit before taxation	**45,811**	4,737

	31/12/2020 ***RMB'000***	31/12/2019 *RMB'000*
Non-current assets	**9,138**	4,721
Current assets	**206,610**	181,200
Current liabilities	**14,847**	23,587
Non-current liabilities	**–**	564

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 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*.

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 Impacts on early application of Amendment to HKFRS 16 *Covid-19-Related Rent Concessions*

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.1 Impacts on early application of Amendment to HKFRS 16 *Covid-19-Related Rent Concessions* (continued)

The application of the amendment had no impact to the opening retained profits at 1 January 2020. The Group has benefited from 6 months waiver of lease payments on several leases in China. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of RMB382,000 which has been recognised as variable lease payments in profit or loss for the current year.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform-Phase 2[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of the above new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies

Basis of consolidation

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Basis of consolidation *(continued)*

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Interests in associates *(continued)*

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

Revenue from contracts with customers

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

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

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

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

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Revenue from contracts with customers *(continued)*

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

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

Principal versus agent

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

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

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

The Group recognise revenue from the following major sources:

(a) Service income

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

Online traffic monetization business – online advertising service

Revenue from provision of online advertising service mainly includes provision of homepage directing service, mini-page service and banner advertising service. For provision of homepage directing service and mini-page service, the Group considers the performance obligation is satisfied at a point in time at which the service is provided. For certain banner advertising service, revenue is recognised over time by reference to time passage of service provided, when the customers simultaneously receive and consume the benefits from the Group's performance. The progress towards complete satisfaction of a performance obligation is measured based on output method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Revenue from contracts with customers *(continued)*

Principal versus agent (continued)

(a) Service income (continued)

Online traffic monetization business – online game platform

The Group opens its online game platforms to third-party game developers under certain cooperation agreements, of which the Group pays to the third-party game/application developers a predetermined percentage of the fees paid by and collected from the users of the Group's online game platforms for the virtual products/items purchased. Revenue from online game platform is recognised on net basis as the Group is acting as an agent in the transaction. The Group accounts the grant of right to access the online game platform as a performance obligation satisfied over time.

Online traffic monetization business - Operation of exclusive licensed online game business

Revenue from operation of exclusive licensed online game business includes providing customer service related to game experience. For the revenue from such games, the nature of the Group's performance obligation is considered to be taking primary responsibilities of game operation, including determining distribution channels and payment vendors, providing customer services, hosting game servers, if needed, and controlling games and services specifications and pricing. Accordingly, the Group considered itself as a principal. Revenues from exclusive licensed online game is recognised ratably over the period that the paying players are expected to benefit from an enhanced in-game experience associated with each purchase. At each reporting date, the unamortised portion of income received in respect of exclusive licensed online game operation is recognised as contract liabilities.

(b) Sales income

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

Leases

Definition of a lease

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases *(continued)*

The Group as a lessee

Short-term leases

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

Right-of-use assets

The cost of right-of-use asset includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

Refundable rental deposits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases *(continued)*

The Group as a lessee (continued)

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment;
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

***Leases** (continued)*

The Group as a lessee (continued)

Lease modifications

Except for Covid-19 related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if

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

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

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

Covid-19-related rent concessions

In relation to rent concessions 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Foreign currencies

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

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

Government grants

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

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

Retirement benefit costs

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

Short-term employee benefits

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

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

Taxation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Taxation *(continued)*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

***Taxation** (continued)*

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately

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

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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

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

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

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments

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

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

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

Financial assets

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

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.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or at fair value through other comprehensive income 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.

Amortised cost and interest income

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

Impairment of financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (continued)

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

The Group estimates the amount of lifetime ECL of trade receivables collectively for not credit-impaired debtors based on the Group's internal credit ratings and individually for credit-impaired debtors.

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

(i) Significant increase in credit risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

***Financial instruments** (continued)*

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (continued)

(iii) Credit-impaired financial assets (continued)

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

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

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

Lifetime ECL of trade receivables collectively for not credit-impaired debtors based on the Group's internal credit ratings and individually for credit-impaired debtors.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Repayment history; and
- Nature, size and industry of debtors.

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

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

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

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as debt or equity

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments *(continued)*

Financial liabilities and equity (continued)

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

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

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

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

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

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical accounting judgements

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

Contractual arrangements

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

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

Key sources of estimation uncertainty

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

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

Key sources of estimation uncertainty (continued)

Allowances for impairment of trade receivables

The management of the Group estimates the amount of lifetime ECL of trade receivables collectively for not credit-impaired debtors based on the Group's internal credit ratings and individually for credit-impaired debtors. Collective assessment is performed by grouping of various debtors based on the Group's internal credit ratings that have similar loss patterns after considering, ageing and past-due status, repayment history, and nature, size and industry of debtors of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and take into consideration of the forward-looking information. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the carrying amount of trade receivables and the present value of estimated future cash flows of trade receivables.

The amount of lifetime ECL is sensitive to changes in estimates. As at 31 December 2020, the carrying amounts of trade receivables measured at amortised cost RMB53,623,000(net of loss allowance of RMB2,711,000) (2019: RMB86,010,000 (net of loss allowance of RMB520,000)).

Estimated impairment of associates

As at 31 December 2020, in view of an impairment indicator of the continuous unsatisfactory operation results, the Group performed impairment assessment on an associate. Determining whether impairment loss should be recognised requires an estimation of the recoverable amount of the relevant associate which is the higher of value in use and fair value less costs of disposal. The value in use calculation requires the management of the Group to estimate the present value of the estimated cash flows expected to arise from dividends to be received from the associate and the proceeds from the ultimate disposal of the investment taking into account factors, including discount rate, dividend payout rate, etc.. In cases where the actual cash flows are less or more than expected, or change in facts and circumstances which result in revision of future cash flows estimation or discount rate, a material reversal or further recognition of impairment may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

As at 31 December 2020, the carrying amount of the associates amounted to RMB10,580,000 (2019: RMB9,210,000), after taking into account the impairment of RMB6,646,000 (2019: nil) recognised in profit or loss during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

5. REVENUE AND SEGMENT INFORMATION

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

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

Segment information

The Group's chief operating decision maker has been identified as the chief executive officer who reviews revenue analysis by business 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 business lines, only entity-wide disclosures, major customers and geographic information are presented.

The revenues attributable to the Group's business lines for the years ended 31 December 2020 and 2019 are as follows:

	2020 *RMB'000*	2019 *RMB'000*
Online traffic monetization		
– Online advertising services	**177,718**	220,722
– Online game platform	**92,468**	62,827
– Operation of exclusive licensed online game business	**14,374**	–
Electronic devices sales		
– Smart accessories sales	**218**	5,216
– Certified pre-owned and factory smartphones sales	**62,105**	89,801
– Certified pre-owned and factory other electronic devices sales	**1,018**	25,929
Total	**347,901**	404,495

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

5. REVENUE AND SEGMENT INFORMATION (continued)

Geographical information

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

	2020 RMB'000	2019 RMB'000
PRC	**323,138**	365,429
Overseas	**24,763**	39,066
Total	**347,901**	404,495

Timing of revenue recognition

	2020 RMB'000	2019 RMB'000
A point in time	**241,059**	341,668
Over time	**106,842**	62,827
Total	**347,901**	404,495

Major customers

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

	Business lines	2020 RMB'000	2019 RMB'000
Customer A*	Online advertising & online game platform & operation of exclusive online game business	**94,559**	92,176

* The customer is a related party of the Group. Revenue from customer A includes the revenue from customer A and its subsidiaries within the same group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

6. OTHER INCOME

	2020	2019
	RMB'000	*RMB'000*
Government grants (Note)	**9,292**	3,704
Interest on bank deposits	**5,132**	5,335
	14,424	9,039

Note: The Government grants mainly represented the tax refund and high-tech subsidies received from local government authorities.

7. OTHER GAINS AND LOSSES

	2020	2019
	RMB'000	*RMB'000*
Impairment loss in respect of interest in an associate	**(6,646)**	–
Gain on changes in fair value on put option liability	**–**	11,116
Net foreign exchange loss	**(3,680)**	(218)
Others	**72**	(120)
	(10,254)	10,778

8. FINANCE COSTS

	2020	2019
	RMB'000	*RMB'000*
Interest on borrowing	**–**	148
Interest on lease liabilities	**205**	270
	205	418

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

9. TAXATION

	2020 *RMB'000*	2019 *RMB'000*
Tax expense comprises:		
Current tax – PRC Enterprise Income Tax ("EIT")	**12,966**	16,614
Deferred tax (Note 18)	**(3,194)**	(3,404)
Total	**9,772**	13,210

(i) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. Certain Group's subsidiaries operating in the PRC are eligible for certain tax holidays and concessions, as follows:

1) Pursuant to the Registration Form for Enterprise Income Tax Preference Items certified by Chengdu Hi-Tech Industrial Development Zone State Administration of Taxation, Chengdu Qilu and Anyixun have been satisfied the conditions for software enterprise's tax preference. As such, Chengdu Qilu was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2015 and Anyixun was subject to three years of 50% tax deduction with effect from 2018. The income tax rate for Chengdu Qilu was 25% and 12.5% for the years ended 31 December 2020 and 2019 respectively. The income tax of Anyixun was 12.5% for the years ended 31 December 2020 and 2019.

2) Pursuant to the National Leading Group Office of Hi-Tech Enterprise Identification and Management, Liu Liuyou Technology and Tianjin Zhongzhixing Technology Co., Ltd. ("Zhongzhixing") have been satisfied the conditions for Hi-Tech enterprise's tax preference. As such, Liu Liuyou Technology and Zhongzhixing were subject to PRC EIT at a rate of 15% on its taxable income for three years with effect from 2019 and 2020 respectively.

(ii) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit and no provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong, in both years.

(iii) Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

9. TAXATION (continued)

The taxation for the years ended 31 December 2020 and 2019 can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 *RMB'000*	2019 *RMB'000*
Profit before taxation	**86,869**	119,679
Tax at applicable tax rate of 25%	**21,717**	29,920
Tax effect of share of results of associates	**253**	(3)
Tax effect of expenses not deductible for income tax purpose	**2,881**	1,074
Utilisation of tax losses previously not recognised	**(254)**	–
Tax effect of tax losses not recognised	**320**	–
Tax effect of additional deduction of certain research and development expenses	**(3,324)**	(2,779)
Tax effect attributable to tax concession	**(11,821)**	(15,002)
Taxation for the year	**9,772**	13,210

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2020 *RMB'000*	2019 *RMB'000*
Directors' and chief executive's remuneration (Note 11)	**4,833**	2,522
Other staff costs		
– Salaries and other benefits	**46,324**	43,241
– Retirement benefit scheme contributions (Note)	**499**	3,647
Total staff costs	**51,656**	49,410
Cost of inventories sold	**64,475**	118,826
Expenses relating to short-term leases	**388**	159
Depreciation of property, plant and equipment (included in "administrative expenses, selling and distribution expenses and research and development expenses")	**5,403**	3,903
Amortisation of intangible assets (included in "costs of sales and services, administrative expenses and research and development expenses")	**1,191**	1,044
Amortisation of exclusive rights to operate licensed online games (included in "costs of sales and services")	**3,932**	–
Auditor's remuneration	**2,200**	1,800

Note: Due to the outbreak of COVID-19 in the current year, certain amount of retirement benefit scheme contributions from February to December was waived by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

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

Directors' and chief executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

Year ended 31 December 2020

	Salaries and allowances *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
Executive director and chief executive officer			
Mr. Tian Ye	2,418	3	2,421
Executive director			
Mr. He Shiwei	1,989	3	1,992
Non-executive directors			
Mr. Sun Chunfeng	–	–	–
Mr. Liu Wei (Note(i))	–	–	–
Mr. Zhao Dan (Note(i))	–	–	–
Independent Non-executive directors			
Mr. Li Yang	120	–	120
Mr. Wang Xinyu	120	–	120
Mr. Zhang Ziyu	120	–	120
Mr. Zhu Jinglei (Note(ii))	60	–	60
	4,827	6	4,833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

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

Directors' and chief executive's emoluments (continued)

Year ended 31 December 2019

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

Notes:

(i) Mr. Liu Wei and Mr. Zhao Dan were appointed as non-executive directors of the Company on 29 June 2020.

(ii) Mr. Zhu Jinglei was appointed as an independent non-executive director of the Company on 13 July 2020.

There were no arrangement under which a director or the chief executive of the Company waived or agreed to waive any emolument during the years ended 31 December 2020 and 2019.

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

Employees' remuneration

The five highest paid individuals of the Group included two directors (2019: two), details of whose remuneration are set out in the disclosures above. Details of the remuneration for the year of the remaining three (2019: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 *RMB'000*	2019 *RMB'000*
Salaries and allowances	**3,745**	2,545
Retirement benefit scheme contributions	**10**	117
Total	**3,755**	2,662

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
Remuneration bands		
Nil to Hong Kong dollar ("HK$") 1,000,000	**2**	2
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	–
	3	3

During the years ended 31 December 2020 and 2019, no remuneration was paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

12. DIVIDENDS

Subsequent to the end of the reporting period, no dividend was proposed for ordinary shares of the Company of the year ended 31 December 2020. (2019: final dividend in respect of the year ended 31 December 2019 of HK10 cents per share, in an aggregate amount of approximately HK$26,900,000, equivalent to approximately RMB24,570,000).

13. EARNINGS PER SHARE

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

Earnings	**2020** ***RMB'000***	2019 *RMB'000*
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**72,669**	104,702

	Number of ordinary shares	
Shares	**31/12/2020** ***'000***	31/12/2019 *'000*
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**269,000**	215,197
Effect of dilutive potential ordinary shares:		
Over-allotment options (Note 26 (iii))	**–**	280
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**269,000**	215,477

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 Note 26.

The computation of diluted earnings per share for the year ended 31 December 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 year ended 31 December 2020 was presented as there was no potential ordinary shares in issue for this year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

14. INTANGIBLE ASSETS

	Software *RMB'000*	Domain name *RMB'000*	Total *RMB'000*
COST			
At 1 January 2019	7,000	42	7,042
Additions	1,112	–	1,112
At 31 December 2019	8,112	42	8,154
Additions	975	–	975
At 31 December 2020	**9,087**	**42**	**9,129**
AMORTISATION			
At 1 January 2019	(4,000)	(24)	(4,024)
Charge for the year	(1,038)	(6)	(1,044)
At 31 December 2019	(5,038)	(30)	(5,068)
Charge for the year	(1,185)	(6)	(1,191)
At 31 December 2020	**(6,223)**	**(36)**	**(6,259)**
CARRYING VALUES			
At 31 December 2020	**2,864**	**6**	**2,870**
At 31 December 2019	3,074	12	3,086

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

Software	3-7 years
Domain name	7 years

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For the Year Ended 31 December 2020

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Electronic equipment *RMB'000*	Leasehold improvements *RMB'000*	Right-of-use assets – office premises *RMB'000*	Total *RMB'000*
COST						
At 1 January 2019	698	325	1,267	2,451	5,077	9,818
Additions	95	979	320	1,728	–	3,122
Inception of leases	–	–	–	–	4,081*	4,081
At 31 December 2019	793	1,304	1,587	4,179	9,158	17,021
Additions	39	742	1,345	1,057	–	3,183
Inception of leases	–	–	–	–	3,541*	3,541
Expiration of leases	–	–	–	–	(3,073)	(3,073)
Disposals	–	(325)	(17)	–	–	(342)
At 31 December 2020	**832**	**1,721**	**2,915**	**5,236**	**9,626**	**20,330**
DEPRECIATION						
At 1 January 2019	(303)	(160)	(412)	(260)	(1,955)	(3,090)
Provided for the year	(89)	(61)	(400)	(1,125)	(2,228)	(3,903)
At 31 December 2019	(392)	(221)	(812)	(1,385)	(4,183)	(6,993)
Provided for the year	(97)	(249)	(537)	(1,993)	(2,527)	(5,403)
Expiration of leases	–	–	–	–	3,073	3,073
Disposals	–	237	10	–	–	247
At 31 December 2020	**(489)**	**(233)**	**(1,339)**	**(3,378)**	**(3,637)**	**(9,076)**
CARRYING VALUES						
At 31 December 2020	**343**	**1,488**	**1,576**	**1,858**	**5,989**	**11,254**
At 31 December 2019	401	1,083	775	2,794	4,975	10,028

* Right-of-use assets for office premises was arisen due to initial recognition of lease liabilities at the commencement date of the lease amounted to RMB3,541,000 (2019: RMB4,081,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Furniture and fixtures	5 years
Motor vehicles	5 years
Electronic equipment	3 years
Leasehold improvements	Shorter of its estimated useful life and the lease terms
Right-of-use assets	
– office premises	Shorter of its estimated useful life and the lease terms

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

16. INTERESTS IN ASSOCIATES

	31/12/2020	31/12/2019
	RMB'000	*RMB'000*
Cost of investment in associates	**19,100**	9,200
Share of post-acquisition (losses) profits and other comprehensive (expenses) income	**(1,874)**	10
Impairment loss recognised	**(6,646)**	–
	10,580	9,210

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

16. INTERESTS IN ASSOCIATES (continued)

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 2020 %	Proportion of ownership interest held by the Group 2019 %	Proportion of voting rights held by the group 2020 %	Proportion of voting rights held by the group 2019 %	Principal activity	Investment costs 2020 RMB'000	Investment costs 2019 RMB'000
Beijing Sihai chuangwei Technology Co., Ltd. ("Sihai Chuangwei") (Note(i))	PRC	PRC	20%	20%	20%	20%	Online advertising	8,800	8,800
Tianjin Qiyu Information Technology Co., Ltd. ("Tianjin Qiyu") (Note(iv))	PRC	PRC	20%	20%	20%	20%	Technical service	400	400
Shanghai Kaizhan Information Technology Co., Ltd. ("Shanghai Kaizhan") (Note(ii))	PRC	PRC	8%	-	8%	-	Live streaming service	8,000	-
Tianjin Youbenzhiquan Technology Co., Ltd. ("Tianjin Youbenzhiquan") (Note(iv))	PRC	PRC	40%	-	40%	-	Technical service	500	-
Tianjin Mimo Atomization Intelligent Technology Co., Ltd. ("Tianjin Mimo") (Note(iv))	PRC	PRC	20%	-	20%	-	Technical service	100	-
Chengdu Jingtanhao Technology Co., Ltd. ("Chengdu Jingtanhao") (Note(iii))	PRC	PRC	10%	-	10%	-	On-line game development	1,000	-
Chengdu Mijiayou Technology Co., Ltd. ("Chengdu Mijiayou") (Note(iv))	PRC	PRC	30%	-	30%	-	On-line game development	300	-
								19,100	9,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

16. INTERESTS IN ASSOCIATES (continued)

Notes:

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

(ii) During January 2020, the Group acquired 8% interest in Shanghai Kaizhan through capital injection of RMB8,000,000 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 of Shanghai Kaizhan 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.

(iii) During May 2020, the Group acquired 10% interest in Chengdu Jingtanhao through capital injection of RMB1,000,000 to Chengdu Jingtanhao and has the right to appoint one of the three directors of Chengdu Jingtanhao. 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 of Chengdu Jingtanhao is responsible to approve the decision to direct the operation and financing activities of Chengdu Jingtanhao. The directors of the Company consider that the Group has significant influence over Chengdu Jingtanhao and it is therefore classified as an associate of the Group.

(iv) The Group has 20%, 40%, 20% and 30% ownership interests and voting rights in Tianjin Qiyu, Tianjin Youbenzhiquan,Tianjin Mimo and Chengdu Mijiayou respectively. According to the articles of associations, the voting power is exercised with reference to respective percentage of registered share capital. By considering that the Group has no sufficiently dominant voting rights to direct the relevant activities of these companies unilaterally, the directors of the Company conclude that the Group only has significant influence over these companies and therefore they are classified as associates of the Group.

Summarised financial information of material associates

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

All of the associates are accounted for using the equity method in these consolidated financial statements.

Sihai Chuangwei

	31/12/2020 ***RMB'000***	31/12/2019 *RMB'000*
Current assets	**7,145**	8,641
Non-current assets	**2,220**	2,960
Current liabilities	**–**	41
Non-current liabilities	**555**	740

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For the Year Ended 31 December 2020

16. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

Sihai Chuangwei *(continued)*

	2020 RMB'000	For the period from 23/12/2019 to 31/12/2019 RMB'000
Revenue	**461**	108
(Loss) profit and total comprehensive (expense) profit for the year/period	**(2,010)**	50

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

	31/12/2020 RMB'000	31/12/2019 RMB'000
Net assets of Sihai Chuangwei	**8,810**	10,820
Proportion of the Group's ownership interest in Sihai Chuangwei	**20%**	20%
The Group's share of net assets of Sihai Chuangwei	**1,762**	2,164
Goodwill	**6,646**	6,646
Impairment recognised	**(6,646)**	–
Carrying amount of the Group's interest in Sihai Chuangwei	**1,762**	8,810

Note: As at 31 December 2020, in view of the continuous unsatisfactory operation results of Sihai Chuangwei, the management of the Group carried out a review on impairment of the carrying amount of the Group's interest in Sihai Chuangwei by comparing its recoverable amount with its carrying amount. Based on the result of the review, the recoverable amount of the Group's interest in Sihai Chuangwei is estimated to be lower than its carrying amount and, accordingly, an impairment loss of approximately RMB6,646,000 (2019: nil) is recognised in profit or loss during the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of material associates (continued)

Shanghai Kaizhan

	31/12/2020 *RMB'000*
Current assets	8,083
Non-current assets	8,553
Current liabilities	5,708
Non-current liabilities	2,272

	For the period from 31/01/2020 to 31/12/2020 *RMB'000*
Revenue	67,926
Loss and total comprehensive expense for the period	(12,854)

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

	31/12/2020 *RMB'000*
Net assets of Shanghai Kaizhan	8,656
Proportion of the Group's ownership interest in Shanghai Kaizhan	8%
The Group's share of net assets of Shanghai Kaizhan	693
Goodwill	6,279
Carrying amount of the Group's interest in Shanghai Kaizhan	6,972

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. INTERESTS IN ASSOCIATES (continued)

Aggregate information of associates that are not individually material

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
The Group's share of loss and total comprehensive expense for the year	**(454)**	–
Aggregate carrying amount of the Group's interests in these associates	**1,846**	400

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
Unlisted equity investments:		
– Iogo Workshop Investment Ltd. ("Iogo Investment")	**25,628**	–

In May 2020, 360 Ludashi Consulting Limited ("Ludashi Consulting"), a wholly-owned subsidiary of the Group, acquired 10% equity interests of Iogo Investment at a consideration of HK$28,000,000 (equivalent to approximately RMB25,628,000).

Iogo Investment is a company established under the Law of the British Virgin Island. Iogo Investment is mainly involved in the provision of shared portable power-bank leasing and other value added services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

18. DEFERRED TAX ASSETS

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

	Allowance for credit losses *RMB'000*	Provision for inventories *RMB'000*	Impairment on interest in an associate *RMB'000*	Unrealised intragroup profit *RMB'000*	Tax losses *RMB'000*	Total *RMB'000*
At 1 January 2019	110	83	–	744	–	937
Credited (charged) to profit or loss	(27)	103	–	(330)	3,658	3,404
At 31 December 2019	83	186	–	414	3,658	4,341
Credited (charged) to profit or loss	593	94	997	(167)	1,677	3,194
At 31 December 2020	**676**	**280**	**997**	**247**	**5,335**	**7,535**

As at 31 December 2020, the Group has unused tax losses of RMB28,864,000 (2019: RMB20,458,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB22,118,000 (2019: RMB14,633,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB6,746,000 (2019: RMB5,825,000) due to the unpredictability of future profit streams.

19. EXCLUSIVE RIGHTS TO OPERATE LICENSED ONLINE GAMES

During the year ended 31 December 2020, the Group obtained exclusive rights from the game developers to operate their online games and such rights are amortised over the expected life of these online games, which is less than one year based on the management's best estimation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

20. TRADE RECEIVABLES

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
Trade receivables		
– related parties	**9,417**	21,327
– third parties	**46,917**	65,203
Less: allowance for credit losses	**(2,711)**	(520)
	53,623	86,010

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

Related parties	Relationship	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
360 Technology	Shareholder of Beijing Qihu	**–**	313
Beijing Qihu Technology Co., Ltd. ("Beijing Qihu")	Shareholder of the Company	**8,689**	13,867
Shanghai Songheng Network Technology Inc. ("Shanghai Songheng")	Shareholder of the Company	**289**	6,870
Beijing World Star Co., Ltd. ("Beijing Star World")	360 Technology's subsidiary	**132**	205
Tianjin Xiaofeiniao Technology Co., Ltd. ("Xiaofeiniao")	Controlled by Tian Ye	**–**	72
Beijing Qifutong Technology Co., Ltd. ("Beijing Qifutong")	360 Technology's Subsidiary	**193**	–
Tianjin Shanhu Information and Technology Co., Ltd. ("Tianjin Shanhu")	Controlled by Tian Ye	**106**	–
Sihai chuangwei	Associate of the Group	**8**	–
Total		**9,417**	21,327

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

20. 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.

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
0-90 days	**39,172**	75,296
91-180 days	**6,669**	7,458
Over 180 days	**7,782**	3,256
	53,623	86,010

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB10,054,000 (2019: RMB8,784,000) which are past due as at the reporting date. Out of the past due balances, RMB3,975,000 (2019: RMB2,944,000) has been past due 90 days or more and is not considered as in default as the Group is satisfied with the subsequent settlements and the credit quality of these customers had not seen deteriorated. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due:

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
Days past due		
0 – 90 days	**6,079**	5,840
91 – 180 days	**3,559**	2,856
181 – 365 days	**416**	88
	10,054	8,784

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed when necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

20. TRADE RECEIVABLES (continued)

In addition, the management of the Group estimates the amount of lifetime ECL of trade receivables collectively based on the Group's internal credit ratings for not credit-impaired debtors and individually for credit-impaired debtors. Collective assessment is performed by grouping of various debtors that have similar loss patterns after considering ageing and past-due status, repayment history and nature, size and industry of debtors of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and take into consideration of the forward-looking information. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the carrying amount of trade receivables and the present value of estimated future cash flows of trade receivables.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade receivables which are assessed on a collective basis within lifetime ECL (not credit-impaired).

As at 31 December 2020

Internal credit rating	**Gross carrying amount** *RMB'000*	**Average loss rate** *%*	**Loss allowance** *RMB'000*
Low risk	**20,033**	**0.05**	**11**
Medium risk	**33,763**	**0.62**	**208**
High risk	**53**	**13.21**	**7**
	53,849		**226**

As at 31 December 2019

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

20. TRADE RECEIVABLES (continued)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates.

During the year ended 31 December 2020, credit-impaired debtors with gross carrying amounts of RMB2,485,000 (2019: RMB337,000), were assessed individually and 100% loss rate was applied.

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

	Lifetime ECL (not credit-impaired) *RMB'000*	Lifetime ECL (credit-impaired) *RMB'000*	Total *RMB'000*
As at 1 January 2019	118	501	619
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses reversed	(17)	(268)	(285)
Changes due to financial instruments recognised during the year:			
– Impairment losses recognised	82	104	186
As at 31 December 2019	183	337	520
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses recognised	4	1,069	1,073
– Impairment losses reversed	(53)	(5)	(58)
Changes due to financial instruments recognised during the year:			
– Impairment losses recognised	92	1,084	1,176
As at 31 December 2020	**226**	**2,485**	**2,711**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
Other receivables		
– a related party (Note (i))	**1,500**	–
– third parties	**2,506**	9,756
Deductible value-added tax	**5,426**	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		
– related parties (Note (ii))	**4,468**	–
– third parties	**16,775**	17,398
Deposit for an investment	**1,825**	–
Interest receivables	**126**	2,614
Online payment platform (Note (iii))	**6,274**	5,044
Total	**40,400**	41,987

Notes:

(i) The amount is unsecured, non-trade, interest-free and with a term of one year from Tianjin Qiyu.

(ii) As at 31 December 2020, it represented the prepayments to online game developer for obtaining operation license for online games currently under development, of which RMB2,475,000 and RMB1,993,000 were paid to Chengdu Jingtanhao and Chengdu Mijiayou, associates of the Group, respectively.

(iii) The amount is unsecured, interest-free and repayable on demand and it represents receivables from independent third party payment platforms in respect of the Group's online game business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

22. INVENTORIES

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

23. BANK BALANCES AND CASH

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

As at 31 December 2020, the Group's bank balances and short-term bank deposits amounting to RMB369,231,000 (2019: RMB312,361,000), which carried interest rates, per annum, ranging from 0.01% to 2.80% (2019: 0.01% to 3.90%) and the Group's cash balances amounting to RMB2,000 (2019: RMB7,000).

As at 31 December 2019, a non-pledged bank deposit amounting to RMB10,000,000 with an original maturity of 29 March 2024 and a non-pledged bank deposit amounting to RMB16,000,000 with an original maturity of 11 November 2024 were included in the bank balances of the Group. The non-pledged bank deposits carry interest rate with fixed interest rate of 3.8225%, per annum. The non-pledged bank deposits can be redeemed before due date at floating rates based on daily bank deposit rates and classified under current assets. The non-pledged bank deposits of RMB26,000,000 have been redeemed during the year ended 31 December 2020.

Details of impairment assessment of bank balances and pledged bank deposits are set out in note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

24. TRADE AND OTHER PAYABLES

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
Trade payables		
– related parties	**300**	315
– third parties	**7,983**	14,991
Other payables		
– a related party (Note (i))	**1,000**	–
– third parties	**3,646**	4,353
Payables arisen from online game platform business (Note (ii))	**6,993**	6,247
Payables arisen from purchase of non-controlling interests	**–**	13,300
Payroll payable	**9,339**	7,585
Other tax payable	**247**	1,038
	29,508	47,829

Notes:

(i) The amount is non-trade, unsecured, interest-free and payable to Mr. Tianye.

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

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

Related parties	**Relationship**	**31/12/2020** *RMB'000*	31/12/2019 *RMB'000*
Beijing Qihu	Shareholder of the Company	**148**	314
Tianjin Shanhu	Control by Tian Ye	**124**	–
360 Technology	Shareholder of the Company	**28**	–
Shanghai Gaoxin Computer System Co., Ltd.("Shanghai Gaoxin")	Shanghai Songheng's subsidiary	**–**	1
		300	315

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

24. TRADE AND OTHER PAYABLES (continued)

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

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
0-90 days	**7,459**	14,528
91-180 days	**435**	681
Over 180 days	**389**	97
Total	**8,283**	15,306

25. CONTRACT LIABILITIES

The balances represents amounts received in advance of delivery of goods or services to customers. The contract liabilities as at 31 December 2019 are recognised as revenue during the year ended 31 December 2020. The contract liabilities as at 31 December 2020 are expected to be recognised as revenue during the year ending 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

26. SHARE CAPITAL

	Number of shares	Amount *HK$*	Amount *RMB*	Shown in the Consolidated Statement of Financial Position *RMB'000*
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January 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 31 December 2019 and 31 December 2020	10,000,000,000	100,000,000	90,320,827	
At 1 January 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 31 December 2019 and 31 December 2020	269,000,000	2,690,000	2,424,676	2,425

Notes:

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

(ii) On 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 (equivalent to approximately RMB1,794,120) 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

27. LEASE LIABILITIES

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
Current liabilities	**2,650**	2,388
Non-current liabilities	**3,753**	2,833
	6,403	5,221
Lease liability payable:		
– within one year	**2,650**	2,388
– more than one year, but not exceeding two years	**3,441**	1,088
– more than two years	**312**	1,745
	6,403	5,221

The Group leased properties for its office premises and the lease liabilities were measured at the present value of the lease payments that are not yet paid using its incremental borrowing rate at the lease commencement date. The rate applied is 4.75% per annum. All leases are entered at fixed rates.

Leases are negotiated and fixed for the terms in the range of 2 to 5 years. Lease terms are negotiated on an individual basis and contain different payment terms and conditions.

The total cash outflows for leases including the payments of lease liabilities for the year were RMB2,570,000 (2019: RMB2,278,000).

28. RETIREMENT BENEFIT PLAN

The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The contributions made by the Group in respect of the retirement benefit scheme amounting to approximately RMB505,000 (2019: RMB3,728,000) are included in cost of sales and services, administrative expenses, research and development expenses or selling and distribution expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

29. RELATED PARTY TRANSACTIONS

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

i Transactions with related parties

	Relationship	2020 RMB'000	2019 RMB'000
Revenue from Beijing Qihu	Shareholder of the Company	**55,019**	64,600
Revenue from 360 Technology	Shareholder of Beijing Qihu	**–**	1,259
Revenue from Shanghai Songheng	Shareholder of the Company	**6,619**	23,637
Revenue from Beijing Star World	360 Technology's subsidiary	**39,182**	26,318
Revenue from Shenzhen Blog Technology Co., Ltd. ("Shenzhen Blog")	Non-controlling interest holder's subsidiary	*	119
Revenue from Tianjin Shanhu	Controlled by Tian Ye	**845**	–
Revenue from Beijing Qiyuan	360 Technology's subsidiary	**419**	–
Revenue from Beijing Qifutong	360 Technology's subsidiary	**214**	–
Revenue from Sihai Chuangwei	360 Technology's subsidiary	**133**	–
Revenue from Xiaofeiniao	Controlled by Tian Ye	**14**	110
Revenue from Shanghai Zhanmeng Technology Co., Ltd. ("Shanghai Zhanmeng")	Shanghai Songheng's subsidiary	**5**	23
Revenue from Shenzhen Fantexi	Non-controlling interest holder	*	20
Cost to Beijing Qihu	Shareholder of the Company	**1,232**	1,485
Cost to 360 Technology	Shareholder of Beijing Qihu	**665**	–
Cost to Beijing Star World	360 Technology's subsidiary	**1,089**	–
Cost to Shanghai Zhanmeng	Shanghai Songheng's subsidiary	**–**	–
Cost to Shanghai Gaoxin	Shanghai Songheng's subsidiary	**7**	2,098
Cost to Tianjin Shanhu	Controlled by Tian Ye	**769**	–
Cost to Shenzhen Fantexi	Non-controlling interest holder	*	20

* Shenzhen Fantexi and Shenzhen Blog have ceased to be the Group's related parties since December 2019.

Note: The above transactions with related parties also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and were conducted in accordance with the terms of relevant agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

29. 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:

	2020 *RMB'000*	2019 *RMB'000*
Salaries and allowances	**6,765**	3,685
Retirement benefit scheme contributions	**10**	130
	6,775	3,815

30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Group, comprising issued share capital and reserves.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares and new debts, if necessary.

31. FINANCIAL INSTRUMENTS

Categories of financial instruments

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
Financial assets		
FVTPL	**25,628**	–
Amortised cost		
Trade receivables	**53,623**	86,010
Other receivables	**11,906**	20,914
Bank balances and cash	**369,233**	338,368
	460,390	445,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

31. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
Financial liabilities		
Amortised cost		
Trade and other payables*	19,922	39,206

* Payroll payable and other tax payable are excluded

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, financial assets at FVTPL, other receivables, amounts due from related parties, pledged bank deposit, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (mainly foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Market risk

(i) Foreign Currency risk

The Group has bank balances, trade receivables and trade payables which are denominated in US dollars (the "USD"). The Group also has bank balances which are denominated in HK$. The carrying amounts of the Group's USD and HK$ denominated monetary assets and liabilities at the end of the reporting period are as follows:

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
USD		
Assets	49,274	41,608
Liabilities	(615)	(5,679)
HK$		
Assets	14,064	139,370

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

***(a) Market risk** (continued)*

(i) Foreign Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the USD and HK$. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD and HK$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in profit after tax where RMB strengthens 5% against USD and HK$. For a 5% weakening of RMB against USD and HK$, there would be an equal and opposite impact on the profit.

	2020 *RMB'000*	2019 *RMB'000*
Profit or loss related to USD	**2,231**	1,666
Profit or loss related to HK$	**693**	6,957

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk in relation to lease liabilities. The Group is also exposed to cash flow interest rate risk on the variable rate of interest earned on the bank balances.

The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate risk exposure and will consider interest rate hedging should the need arise.

No sensitivity analysis is prepared for variable-rate interest bearing bank balances as the exposure is insignificant.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in unquoted equity securities measured at FVTPL. The Group has appointed a special team to monitor the price risk.

Sensitivity analyses for unquoted equity securities with fair value measurement categorised within Level 3 were disclosed in note 31 (d).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

31. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise credit risk, the Group has tasked its credit management team to develop and maintain the credit risk grading for the Group's trade and other receivables and other financial assets at amortised costs and to categorise exposures according to their degree of risk of default. The credit management team uses publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

For trade receivables, please refer to Note 20.

For other receivables and other financial assets at amortised cost, the management makes periodic individual assessment on the recoverability based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2020 and 2019, the Group assessed the ECL for other receivables and deposits are insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(b) Credit risk *(continued)*

The Group's current credit risk grading framework in respect of other receivables and other financial assets at amortised cost comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

Bank balances

For bank deposits, no impairment allowance was recognised was made since the directors of the Company consider the probability of default is negligible as such amounts are receivable from or placed in banks having good reputation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(c) Liquidity risk

In management of the liquidity risk, the management of Group monitors and maintains level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates of financial liabilities and lease liabilities based on the earliest date on which the Group can be required to pay). The table includes both interest and principal cash flows, where applicable.

	Weighted average effective interest rate *%*	On demand or within 3 months *RMB'000*	3 months-1 year *RMB'000*	1-2 years *RMB'000*	2-5 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amounts *RMB'000*
As at 31 December 2020							
Non-interest bearing							
Trade and other payables	N/A	19,922	–	–	–	19,922	19,922
Interest bearing							
Lease liabilities	4.75%	627	2,240	3,597	314	6,778	6,403
		20,549	2,240	3,597	314	26,700	26,325

	Weighted average effective interest rate *%*	On demand or within 3 months *RMB'000*	3 months-1 year *RMB'000*	1-2 years *RMB'000*	2-5 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amounts *RMB'000*
As at 31 December 2019							
Non-interest bearing							
Trade and other payables	N/A	39,206	–	–	–	39,206	39,206
Interest bearing							
Lease liabilities	4.75%	590	1,846	1,160	2,020	5,616	5,221
		39,796	1,846	1,160	2,020	44,822	44,427

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For the Year Ended 31 December 2020

31. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

(d) Fair value measurement

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

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

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at	Fair value hierarchy	Valuation and techniques key inputs	Significant unobservable inputs	Relationship unobservable inputs to fair value
Unlisted equity investment classified at financial assets at FVTPL	31 December 2020 – RMB25,628,000 31 December 2019 – Nil	Level 3	Discount cash flow models	Discount rate/ revenue growth rates	The higher the discount rate, the lower the fair value The lower the revenue growth rates, the lower the fair value

The management of the Group considers that the carrying amounts of other financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate to their fair values. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES/NET DEBT RECONCILIATION

	Dividend payable *RMB'000*	Borrowing *RMB'000*	Other payables *RMB'000*	Lease liabilities *RMB'000*	Put option liability *RMB'000*	Accrued share issue costs *RMB'000*	Total *RMB'000*
At 1 January 2019	–	5,918	81	2,989	19,314	679	28,981
Inception of leases	–	–	–	4,081	–	–	4,081
Interest expenses	–	–	148	270	–	–	418
Financing cash flows	–	(5,918)	(20,806)	(2,119)	–	(22,916)	(51,759)
Deferred issue costs	–	–	–	–	–	22,237	22,237
Dividends payable to non-controlling interests shareholders	–	–	7,277	–	–	–	7,277
Purchase of non-controlling interests	–	–	26,600	–	–	–	26,600
Fair value changes on put option liability	–	–	–	–	(11,116)	–	(11,116)
Conversion of put option liability	–	–	–	–	(8,198)	–	(8,198)
At 31 December 2019	–	–	13,300	5,221	–	–	18,521
Inception of leases	–	–	–	3,541	–	–	3,541
Interest expenses	–	–	–	205	–	–	205
Lease remission	–	–	–	(382)	–	–	(382)
Dividends payable to shareholders	24,570	–	–	–	–	–	24,570
Payable of purchasing of non-controlling interests	–	–	1,530	–	–	–	1,530
Financing cash flows	(24,570)	–	(14,830)	(2,182)	–	–	(41,582)
At 31 December 2020	**–**	**–**	**–**	**6,403**	**–**	**–**	**6,403**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

33. PARTICULARS OF SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiary	Date and place of establishment/ incorporation	Class of shares held	Paid up issued/ registered capital	Effective equity interest and voting rights attributable to the Company at 31 December 2020 %	2019 %	Principal activities
Ludashi Consulting	27 March 2018 the British Virgin Islands	directly held	Nil/ US$50,000	100	100	Investment holding
360 Ludashi Technology Limited	15 February 2018 HK	indirectly held	Nil/ HK$10,000	100	100	Investment holding
Anyixun	20 October 2015 the PRC	indirectly held	RMB50,300,000/ RMB50,300,000	100	100	Online advertising
Chengdu Qilu	25 November 2014 the PRC	contractual arrangement	RMB8,500,000/ RMB10,500,000	100	100	Online game business/ Online advertising
Liu Liuyou Technology	17 April 2017 the PRC	contractual arrangement	RMB6,500,000/ RMB12,500,000	88	88	Online game business
Xiaolu Second-Hand (Note (iii))	25 April 2017 the PRC	indirectly held	RMB9,500,000/ RMB17,500,000	100	82.86	Certified pre-owned and factory smartphones sales
Lubang Technology (Note (ii))	23 November 2017 the PRC	indirectly held	RMB3,000,000/ RMB5,000,000	100	82.86	Certified pre-owned and factory smartphones sales
Zhongzhixing	27 June 2017 the PRC	indirectly held	Nil/ RMB100,000	100	100	Homepage directory services
Zhonghe Yilian Technology Co., Ltd. (Note (i))	4 December 2017 The PRC	indirectly held	RMB1,900,000/ RMB10,000,000	100	100	Smart accessories sales

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

33. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary	Date and place of establishment/ incorporation	Class of shares held	Paid up issued/ registered capital	Effective equity interest and voting rights attributable to the Company at 31 December 2020 %	2019 %	Principal activities
Chengdu Xiaolu Zhidian Technology Co., Ltd.	17 July 2018 the PRC	indirectly held	RMB1,500,000/ RMB5,000,000	100	100	Smartphone and computer maintenance
Shanghai Qilu Network Technology Co., Ltd.	15 January 2019 the PRC	indirectly held	RMB1,000,000/ RMB10,000,000	100	100	Online advertising
Zhenjiang Jintao E-commerce Co., Ltd. ("Zhenjiang Jintao") (Note (iv))	21 July 2020 the PRC	indirectly held	Nil/ RMB10,000,000	100	N/A	E-commerce advertising
Chengdu Luyi technology Co., Ltd. ("Chengdu Luyi") (Note (v))	17 December 2020 the PRC	indirectly held	RMB100,000/ RMB1,000,000	100	N/A	E-commerce advertising

Note:

(i) Despite the fact that the Group's legal equity ownership in this investee is below 50% during the year, the Group has control over it as relevant decisions require only simple majority vote and the remaining majority legal ownership is held by the Group's employees who are also key management of the investee. In addition, since all the capital and working capital of these investee were solely contributed by the Group, based on the relevant shareholders' agreements, the Group has rights to all the net assets of the investee. Therefore, the Group considers it has power over the investee, and has exposure and rights to variable returns from its involvement with the investee.

(ii) In March 2020, the Group purchased 100% equity interest of Lubang Technology from a non-wholly owned subsidiary, Xiaolu Second-Hand. The Group's equity interest in Lubang Technology increased from 82.86% to 100% as a result of the acquisition as stipulated in Note (ii) to the consolidated statement of changes in equity.

(iii) In July 2020, the Group acquired 17.14% interest of Xiaolu Second-Hand from non-controlling interest shareholder. As a result, the Group's equity interest in Xiaolu Second-Hand increased from 82.86% to 100% as stipulated in Note (ii) to the consolidated statement of changes in equity.

(iv) In July 2020, Anyixun established Zhenjiang Jintao with equity interest of 100%.

(v) In December 2020, Anyixun established Chengdu Luyi with equity interest of 100%.

No subsidiaries have material non-controlling interests as at 31 December 2020.

None of subsidiaries had issued any debt securities at the end of the year.

The Company's financial year end date is 31 December, which is consistent with all other group entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

34. EVENTS AFTER THE REPORTING PERIOD

The Group had no material events for disclosure subsequent to 31 December 2020 and up to the date of approval of these consolidated financial statements.

35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31/12/2020 *RMB'000*	31/12/2019 *RMB'000*
Non-current asset		
Investment in a subsidiary	82,160	–
Current assets		
Other receivables, deposits and prepayments	355	1,027
Amount due from a subsidiary	12,364	6,432
Bank balances and cash	40,078	157,847
	52,797	165,306
Current liabilities		
Other payables	1,145	90
Amounts due to subsidiaries	38,498	38,498
	39,643	38,588
Net current assets	13,154	126,718
Total assets less current liabilities	95,314	126,718
Capital and reserves		
Share capital	2,425	2,425
Reserves	92,889	124,293
	95,314	126,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 31 December 2020

35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves

	Share premium *RMB'000*	Other reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January, 2019	–	(9)	(15,931)	(15,940)
Loss and total comprehensive expense for the year	–	–	(5,899)	(5,899)
Capitalisation issue	(1,794)	–	–	(1,794)
New ordinary shares issued	167,316	–	–	167,316
Transaction costs related to the issue of new ordinary shares	(27,588)	–	–	(27,588)
Conversion of put option liability	8,198	–	–	8,198
At 31 December, 2019	146,132	(9)	(21,830)	124,293
Loss and total comprehensive expense for the year	**–**	**–**	**(6,834)**	**(6,834)**
Dividends recognised as distribution	**(24,570)**	**–**	**–**	**(24,570)**
At 31 December 2020	**121,562**	**(9)**	**(28,664)**	**92,889**

FINANCIAL SUMMARY

SUMMARIZED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

RMB'000	2016	2017	2018	2019	**2020**
Revenue	69,812	122,561	320,266	404,495	**347,901**
Gross profit	60,391	102,441	159,504	194,354	**187,154**
Profit before taxation	32,801	65,429	92,051	119,679	**86,869**
Profit and total comprehensive income for the year	31,702	56,182	75,984	106,469	**77,097**
Profit attributable to equity holders of the Company for the year	31,702	53,168	71,913	104,702	**72,669**

SUMMARIZED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RMB'000	2016	2017	2018	2019	**2020**
Non-current assets	9,406	7,603	10,683	26,665	**57,867**
Current assets	71,007	155,482	266,612	471,395	**470,693**
Current liabilities	7,982	18,363	36,595	54,078	**32,661**
Non-current liabilities	588	697	20,691	2,833	**3,753**
Total equity	71,843	144,025	220,009	441,149	**492,146**

SUMMARIZED CONSOLIDATED STATEMENT OF CASH FLOWS

RMB'000	2016	2017	2018	2019	**2020**
Cash and cash equivalents at beginning of the year	28,488	42,990	115,703	174,147	**312,368**
Net cash generated from operating activities	28,849	52,559	41,439	54,596	**138,921**
Net cash (used in) generated from investing activities	(13,448)	4,161	(1,228)	(31,966)	**(36,810)**
Net cash (used in) generated from financing activities	(899)	15,993	18,233	116,179	**(41,582)**
Net increase in cash and cash equivalents	14,502	72,713	58,444	138,809	**60,529**
Effect of foreign exchange rate changes	–	–	–	(588)	**(3,664)**
Non-pledged bank deposits with maturity of more than three months	–	–	–	26,000	**–**
Cash and cash equivalents at end of the year	42,990	115,703	174,147	338,368	**369,233**

DEFINITION AND GLOSSARY

"360"	360 Security Technology Inc. (三六零安全科技股份有限公司) (formerly known as Jiangnan Jiajie Elevator Stock Company Limited* (江南嘉捷電梯股份有限公司)), a joint stock company with limited liability incorporated in the PRC and ultimately controlled by Mr. Zhou Hongyi, one of our controlling shareholders, 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
"360 Group"	360 and its subsidiaries
"360 Technology"	360 Technology Group Co., Ltd.* (三六零科技集團有限公司) (formerly known as Tianjin Qisi Technology Company Limited* (天津奇思科技有限公司), 360 Technology Inc.* (三六零科技股份有限公司) and 360 Technology Co., Ltd.* (三六零科技有限公司)), a limited liability company established in the PRC on 15 September 2011 and directly wholly owned by 360, one of our controlling shareholders, and one of our controlling shareholders
"AGM"	the annual general meeting of the Company to be held on 28 May 2021
"Anyixun Technology" or "WFOE"	Chengdu Anyixun Technology Company Limited* (成都安易迅科技有限公司), a limited liability company established in the PRC on 20 October 2015 and a wholly-owned subsidiary of the Group
"Articles of Association" or "Articles"	the articles of association of the Company, as amended, supplemented or otherwise modified from time to time
"Audit Committee"	the audit committee of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"CG Code"	the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules

DEFINITION AND GLOSSARY

"Chengdu Qilu"	Chengdu Qilu Technology Company Limited* (成都奇魯科技有限公司), a limited liability company established in the PRC on 25 November 2014 and is deemed to be a wholly-owned subsidiary of the Group pursuant to the Contractual Arrangements
"Chengdu Qilu Shareholder Rights Entrustment Agreement"	the agreement dated 15 January 2018 and taking effect from 29 December 2016 among Mr. Tian Ye, Qihu Technology and Chengdu Qilu, pursuant to which Mr. Tian Ye is entrusted by Qihu Technology to exercise all of Qihu Technology's rights as a shareholder of Chengdu Qilu (including but not limited to Qihu Technology's voting power at general meetings of Chengdu Qilu)
"China" or the "PRC"	the People's Republic of China
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Company," "our Company" or "the Company"	360 LUDASHI HOLDINGS LIMITED (360魯大師控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands, whose shares are listed on the Main Board of the Stock Exchange
"Company Shareholder Rights Entrustment Agreement"	the agreement dated and taking effect on 4 September 2018 between Dashi Technology Holdings and True Thrive, pursuant to which Dashi Technology Holdings is entrusted by True Thrive to exercise all of True Thrive's rights as a Shareholder (including but not limited to True Thrive's voting power at general meetings of the Company)
"Contractual Arrangements"	a series of contractual arrangements entered into among WFOE, Chengdu Qilu and the Relevant Shareholders, details of which are described in "Contractual Arrangements" in the Prospectus
"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

DEFINITION AND GLOSSARY

"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
"Deed of Non-Competition"	the deed of non-competition dated 9 September 2019 entered into by Mr. Tian Ye and Dashi Technology Holdings with and in favor of the Company (for ourselves and as trustee for each of our subsidiaries) with particulars set out in the paragraph headed "Relationship with Controlling Shareholders – Non-competition undertaking by Mr. Tian and Dashi Technology Holdings" in the Prospectus
"Director(s)"	director(s) of the Company
"Entrustment Arrangements"	the entrustment arrangements under the Company Shareholder Rights Entrustment Agreement and the Chengdu Qilu Shareholder Rights Entrustment Agreement in relation to the shareholder rights of True Thrive in the Company in favor of Dashi Technology and the shareholder rights of Qihu Technology in Chengdu Qilu in favor of Mr. Tian Ye, respectively, details of which are set out in the paragraph headed "History, Reorganization and Corporate Structure – Entrustment Arrangements" in the Prospectus
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group", "we", "us" and "our", "360 Ludashi" or "Ludashi"	the Company, our subsidiaries and the PRC Operating Entities
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	Hong Kong Financial Reporting Standards
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited

DEFINITION AND GLOSSARY

"Hongmeng Investment"	Hongmeng Investment Co. Ltd (鴻蒙投資有限公司), a limited liability company incorporated in the British Virgin Islands on 16 March 2018 and directly wholly owned by Mr. He Shiwei, a Director
"H5"	a markup language used for structuring and presenting content on the World Wide Web, which is the fifth and current major version of the HTML Standard
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	10 October 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Liu Liuyou Technology"	Tianjin Liu Liuyou Technology Company Limited* (天津六六遊科技有限公司), a limited liability company established in the PRC on 17 April 2017
"Ludashi Software"	hardware and system benchmarking and monitoring software and App operated by Chengdu Qilu
"MAU(s)"	monthly active user(s), a key performance indicator for software, Apps and online games. Monthly active users are calculated by counting the number of unique devices that activate the software, Apps or online games for at least once during a calendar month
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Company
"PC(s)"	Personal Computers

DEFINITION AND GLOSSARY

"PRC Operating Entities"	collectively, Chengdu Qilu and Liu Liuyou Technology (and "PRC Operating Entity" means any one of them), the financial results of which have been consolidated and accounted for as the subsidiaries of the Group by virtue of the Contractual Arrangements
"Prospectus"	the prospectus of the Company dated 26 September 2019
"Qihu Technology"	Beijing Qihu Technology Company Limited* (北京奇虎科技有限公司), a limited liability company incorporated in the PRC on 13 August 2007, one of the Relevant Shareholders and directly wholly owned by 360 Technology, one of our controlling shareholders
"Qilu Haochen"	Chengdu Qilu Haochen Enterprise Management Consulting Company Limited* (成都奇魯昊宸企業管理諮詢有限公司), a limited liability company incorporated in the PRC on 7 February 2018, and one of the Relevant Shareholders, owned as to 43.76% by Mr. He Shiwei, a Director, and 56.24% aggregately by three Independent Third Parties
"Qixin Zhicheng"	Tianjin Qixin Zhicheng Technology Company Limited* (天津奇信志成科技有限公司), a limited liability company established in the PRC on 2 December 2015 and one of our controlling shareholders for the purpose of the Listing Rules, ultimately controlled by Mr. Zhou Hongyi, one of our controlling shareholders for the purpose of the Listing Rules
"Relevant Shareholder(s)"	Qihu Technology, Mr. Tian Ye, Shanghai Songheng and Qilu Haochen, being the registered shareholders of Chengdu Qilu
"Remuneration Committee"	the remuneration committee of the Company
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the period from 1 January 2020 to 31 December 2020
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITION AND GLOSSARY

"Shanghai Dongfangwang"	Shanghai Dongfangwang Stock Company Limited* (上海東方網股份有限公司), a limited liability company established in the PRC on 5 July 2000
"Shanghai Gaoxin"	Shanghai Gaoxin Computer System Company Limited* (上海高欣計算機系統有限公司), a limited liability company established in the PRC on 4 January 2013 and wholly owned by Shanghai Songheng, one of our Relevant Shareholders and a substantial shareholder of the Company
"Shanghai Songheng"	Shanghai Songheng Network Technology Company Limited* (上海嵩恒網絡科技股份有限公司) (formerly known as Shanghai Songheng Network Technology Company Limited* (上海嵩恒網絡科技有限公司)), a limited liability company established in the PRC on 18 March 2014 and owned aggregately by 20 Independent Third Parties, and one of the Relevant Shareholders and a substantial shareholder of the Company
"Songheng Group"	Shanghai Songheng and its subsidiaries
"Share(s)"	ordinary share(s) with nominal value of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	the Share option scheme conditionally adopted by the Company on 9 September 2019, a summary of the principal terms and conditions of which are set forth in "Appendix IV – Statutory and General Information – D. Share Option Scheme" in the Prospectus
"Shareholder(s)"	holder(s) of the Share(s)
"Songchang International"	Songchang International Limited, a limited liability company incorporated in the British Virgin Islands on 9 May 2018, wholly owned by Songyuan International, a substantial shareholder of the Company, and a substantial shareholder of the Company

DEFINITION AND GLOSSARY

"Songyuan International"	Hong Kong Songyuan International Limited (香港嵩遠國際有限公司), a limited liability company incorporated in Hong Kong on 1 December 2017, indirectly wholly owned by Shanghai Songheng, one of the Relevant Shareholders and a substantial shareholder of the Company, and a substantial shareholder of the Company
"Star World"	Beijing Star World Technology Company Limited* (北京世界星輝科技有限責任公司), a limited liability company incorporated in the PRC on 12 October 2009, wholly owned by 360 Technology, one of our controlling shareholders, and a connected person of the Company
"True Thrive"	True Thrive Limited (誠盛有限公司), a limited liability company incorporated in the Cayman Islands on 12 October 2015, wholly owned by 360 Technology, one of our controlling shareholders, and one of our controlling shareholders
"%"	per cent.