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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2020. The consolidated financial statements of the Group for the year ended 31 December 2020 have been audited by the Company's auditor in accordance with Hong Kong Standards on Auditing. These results have been reviewed by the Audit Committee.

SUMMARY OF RESULTS

	For the year ended		Year-on-year change (%)
	31 December 2020 <i>RMB' 000</i>	2019 <i>RMB' 000</i>	
Revenue	347,901	404,495	(14.0)
Gross profit	187,154	194,354	(3.7)
Profit before taxation	86,869	119,679	(27.4)
Profit for the year	77,097	106,469	(27.6)
Profit attributable to equity holders of the Company for the year	72,669	104,702	(30.6)
Earnings per share			
– Basic (RMB cent)	27.01	48.65	(44.5)
– Diluted (RMB cent)	27.01	48.59	(44.4)

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	3	347,901	404,495
Costs of sales and services		<u>(160,747)</u>	<u>(210,141)</u>
Gross profit		187,154	194,354
Other income	4	14,424	9,039
Impairment losses under expected credit loss model, net of reversal		(2,441)	99
Other gains and losses	5	(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	6	<u>(205)</u>	<u>(418)</u>
Profit before taxation		86,869	119,679
Taxation	7	<u>(9,772)</u>	<u>(13,210)</u>
Profit and total comprehensive income for the year		<u>77,097</u>	<u>106,469</u>
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		72,669	104,702
Non-controlling interests		<u>4,428</u>	<u>1,767</u>
		<u>77,097</u>	<u>106,469</u>
Earnings per share			
Basic (in RMB cents)	8	<u>27.01</u>	<u>48.65</u>
Diluted (in RMB cents)	8	<u>27.01</u>	<u>48.59</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

	<i>NOTES</i>	31/12/2020 RMB'000	31/12/2019 <i>RMB'000</i>
Non-current assets			
Intangible assets		2,870	3,086
Property, plant and equipment		11,254	10,028
Interests in associates		10,580	9,210
Financial assets at fair value through profit or loss		25,628	–
Deferred tax assets	<i>9</i>	7,535	4,341
		57,867	26,665
Current assets			
Exclusive rights to operate licensed online games		6,182	–
Trade receivables	<i>10</i>	53,623	86,010
Other receivables, deposits and prepayments	<i>11</i>	40,400	41,987
Inventories	<i>12</i>	176	4,278
Tax recoverable		1,079	752
Bank balances and cash	<i>13</i>	369,233	338,368
		470,693	471,395
Current liabilities			
Trade and other payables	<i>14</i>	29,508	47,829
Contract liabilities		101	389
Lease liabilities		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 (Continued)
AT 31 DECEMBER 2020

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The subsidiaries of the Company are mainly engaged in online advertising services, online game platform, operation of exclusive licensed 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.

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*.

3. 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 <i>RMB'000</i>	2019 <i>RMB'000</i>
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

Geographical information

During the year, the Group principally operated in the 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 <i>RMB'000</i>	2019 <i>RMB'000</i>
PRC	323,138	365,429
Overseas	24,763	39,066
Total	347,901	404,495

Timing of revenue recognition

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

4. OTHER INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Government grants	9,292	3,704
Interest on bank deposits	5,132	5,335
	<u>14,424</u>	<u>9,039</u>

5. OTHER GAINS AND LOSSES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
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)
	<u>(10,254)</u>	<u>10,778</u>

6. FINANCE COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on borrowing	–	148
Interest on lease liabilities	205	270
	<u>205</u>	<u>418</u>

7. TAXATION

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Tax expense comprises:		
Current tax – PRC Enterprise Income Tax (“EIT”)	12,966	16,614
Deferred tax (Note 9)	(3,194)	(3,404)
	<u>9,772</u>	<u>13,210</u>

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 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit before taxation	<u>86,869</u>	<u>119,679</u>
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	<u>(11,821)</u>	<u>(15,002)</u>
Taxation for the year	<u><u>9,772</u></u>	<u><u>13,210</u></u>

8. 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u><u>72,669</u></u>	<u><u>104,702</u></u>
	Number of ordinary shares	
Shares	31/12/2020	31/12/2019
	<i>'000</i>	<i>'000</i>
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	<u>–</u>	<u>280</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u><u>269,000</u></u>	<u><u>215,477</u></u>

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

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 High Tech Limited (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.

9. DEFERRED TAX ASSETS

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

	Allowance for credit losses <i>RMB'000</i>	Provision for inventories <i>RMB'000</i>	Impairment on interest in an associate <i>RMB'000</i>	Unrealised intragroup profit <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Total <i>RMB'000</i>
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	<u>676</u>	<u>280</u>	<u>997</u>	<u>247</u>	<u>5,335</u>	<u>7,535</u>

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.

10. TRADE RECEIVABLES

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

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

11. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	31/12/2020	31/12/2019
	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables		
– a related party	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	4,468	–
– third parties	16,775	17,398
Deposit for an investment	1,825	–
Interest receivables	126	2,614
Online payment platform	6,274	5,044
	<hr/>	<hr/>
Total	40,400	41,987

12. 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.

13. 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.

14. TRADE AND OTHER PAYABLES

	31/12/2020	31/12/2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables		
– related parties	300	315
– third parties	7,983	14,991
Other payables		
– a related party	1,000	–
– third parties	3,646	4,353
Payables arisen from online game platform business	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

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

BUSINESS REVIEW AND OUTLOOK

Business Review

During 2020, the widespread of the COVID-19 epidemic (the “**Epidemic**”) caused a severe recession in the global economy. In China, while the Epidemic prevention and control continued to improve and the economy has been recovering steadily, external risks and challenges increased significantly and the recovery of the domestic economy 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. Especially, 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.

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.

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 a number of acquisitions to enrich its 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.

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

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	
	<i>RMB' 000</i>	<i>%</i>	<i>RMB' 000</i>	<i>%</i>
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

(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.

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	
	<i>RMB' 000</i>	<i>%</i>	<i>RMB' 000</i>	<i>%</i>
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.

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	
	<i>RMB' 000</i>	<i>%</i>	<i>RMB' 000</i>	<i>%</i>
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	<u>187,154</u>	<u>53.8</u>	<u>194,354</u>	<u>48.0</u>

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 100.0% 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.

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.

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.

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
	<i>RMB' 000</i>	<i>RMB' 000</i>
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.

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 referred to as 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 stated 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.

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 announcement.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of final dividend for the year ended 31 December 2020 (2019: HK\$10 cents per Share).

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting will be held 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 Annual General Meeting, during which period no share transfers will be registered. To be eligible to attend the Annual General Meeting, 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.

COMPLIANCE WITH CG CODE

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures and to enhance the transparency and accountability of the Board to all Shareholders. During the Reporting Period, except for code provision A.2.1 of the CG Code, the Company has complied with all the applicable code provisions as set out in Appendix 14 to the Listing Rules.

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 our Board and the chief executive officer of our Company to ensure appropriate and timely arrangements are in place to meet changing circumstances.

THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

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

AUDIT COMMITTEE

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

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2020 and agreed to the accounting principle and practices adopted by the Group.

SCOPE OF WORK OF THE COMPANY'S AUDITOR ON THE RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This annual result announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.ludashi.com). The annual report of the Group for the year ended 31 December 2020 containing all information required by the Listing Rules will be dispatched to Shareholders and published on the websites of the Stock Exchange and the Company in due course.

DEFINITIONS

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

“Annual General Meeting”	the annual general meeting of the Company to be held on 28 May 2021;
“Audit Committee”	the audit committee of the Board;
“Anyixun Technology”	Chengdu Anyixun Technology Company Limited* (成都安易迅科技有限公司), a limited liability company established in the PRC on 20 October 2015 and a wholly-owned subsidiary of the Company;
“Board” or “Board of Directors”	the board of Directors of the Company;
“CG Code”	the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules;

“Chengdu Qilu”	Chengdu Qilu Technology Company Limited* (成都奇魯科技有限公司), a limited liability company established in the PRC on 25 November 2014 and is deemed to be a wholly-owned subsidiary of the Company pursuant to the Contractual Arrangements;
“China” or the “PRC”	the People’s Republic of China, but for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan;
“Company,” “our Company” or “the Company”	360 LUDASHI HOLDINGS LIMITED (360魯大師控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 3601);
“Contractual Arrangements”	a series of contractual arrangements entered into among Anyixun Technology, Chengdu Qilu and relevant Shareholders;
“Director(s)”	director(s) of the Company;
“Group,” “we,” “our,” “us,” “our Group” or “the Group”	the Company, its subsidiaries and the PRC Operating Entities;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HKFRSs”	Hong Kong Financial Reporting Standards;
“HKICPA”	Hong Kong Institute of Certified Public Accountants;
“HKASs”	Hong Kong Accounting Standards;
“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 Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“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;
“PC(s)”	Personal computers;
“PRC Operating Entities”	collectively, Chengdu Qilu and Liu Liuyou Technology (and “PRC Operating Entity” means any one of them), the financial results of which have been consolidated and accounted for as the subsidiaries of the Company by virtue of the Contractual Arrangements;
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC;
“Reporting Period”	the year ended 31 December 2020;
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“%”	per cent.

By order of the Board of
360 Ludashi Holdings Limited
Mr. TIAN Ye
Chairman

Hong Kong, 26 March 2021

As at the date of this announcement, the Board comprises: Mr. Tian Ye and Mr. He Shiwei, as executive Directors; Mr. Sun Chunfeng, Mr. Liu Wei and Mr. Zhao Dan, as non-executive Directors; and Mr. Li Yang, Mr. Wang Xinyu, Mr. Zhang Ziyu and Mr. Zhu Jinglei, as independent non-executive Directors.

* *For identification purposes only*