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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares of 360 Ludashi Holdings Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED REVISION OF ANNUAL CAPS OF
THE 360 MASTER PURCHASE AGREEMENT 2022-2024
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**

ALTUS CAPITAL LIMITED

Capitalised terms used in this cover page shall have the same meanings as defined in this circular unless otherwise specified.

A notice convening the EGM of the Company to be held on Tuesday, 26 September 2023 at 11:00 a.m. at the conference room of the Company, 11/F, 11-24 Tianfu Software Site E1, 1268 Tianfu Avenue, High-tech Zone, Chengdu, Sichuan Province, PRC is set out on pages EGM-1 to EGM-2 of this circular and a form of proxy for the EGM is despatched together with this circular. Whether or not you are able to attend the EGM, you are requested to complete, sign and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment meeting (as the case may be). The completion of a form of proxy will not preclude you from attending and voting at the EGM in person should you so wish, and in such case, the authority of your proxy will be revoked.

8 September 2023

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DEFINITIONS

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

“360”	360 Security Technology Inc. (三六零安全科技股份有限公司), a joint stock company with limited liability established in the PRC, whose shares are listed on the Shanghai Stock Exchange (上海證券交易所) (stock code: 601360), and one of the controlling shareholders of the Company
“360 Group”	360 and its subsidiaries
“360 Master Purchase Agreement 2022-2024”	the master agreement dated 2 November 2021 entered into between the Company and 360 Technology in relation to the provision of server leasing services, Game Traffic Services, Advertising Traffic Services and other Internet services by 360 Group to the Group
“360 Technology”	360 Technology Group Co., Ltd.* (三六零科技集團有限公司), a limited liability company established in the PRC and directly wholly-owned by 360. As at the Latest Practicable Date, 360 Technology, through its direct wholly-owned subsidiary, True Thrive, is holding 82,745,082 Shares, representing approximately 30.76% of the total issued share capital of the Company. 360 Technology is one of the controlling shareholders of the Company
“Advertising Traffic Services”	advertising traffic services including homepage directing services, mini-page advertising services, banner advertising services and others for online advertising business, a type of online traffic monetization service
“Announcement”	the announcement of the Company dated 21 August 2023
“App(s)”	the mobile Internet application(s)
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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 and is deemed to be a wholly-owned subsidiary of the Company pursuant to the Contractual Arrangements

* For identification purposes only

DEFINITIONS

“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)
“Company”	360 Ludashi Holdings Limited (360魯大師控股有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability, whose Shares are listed on the Main Board of the Stock Exchange (stock code: 3601)
“Company Shareholder Rights Entrustment Agreement”	the agreement dated and taking effect on 4 September 2018 between Dashi Technology and True Thrive, pursuant to which Dashi Technology 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)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transactions”	the continuing connected transactions as contemplated under the 360 Master Purchase Agreement 2022–2024 (as supplemented by the Supplemental Agreement)
“Contractual Arrangements”	a series of contractual arrangements entered into among Chengdu Anyixun Technology Company Limited* (成都安易迅科技有限公司), Chengdu Qilu and the registered shareholders of Chengdu Qilu, i.e. Qihu Technology, Mr. Tian Ye, Shanghai Songheng Network Technology Company Limited* (上海嵩恒網絡科技股份有限公司) and Chengdu Qilu Haochen Enterprise Management Consulting Company Limited* (成都奇魯昊宸企業管理諮詢有限公司)
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“cost-per-active”	an online advertising pricing model, which is recorded according to the amount of newly activated users
“cost-per-mille”	an online advertising pricing model, which is recorded according to the number of impressions (expressed in thousands)
“cost-per-time”	an online advertising pricing model, which is recorded according to the length of duration

DEFINITIONS

“Dashi Technology”	Dashi Technology Holdings Limited (大師控股有限公司), a company incorporated in the British Virgin Islands with limited liability and directly wholly-owned by Mr. Tian Ye, one of the Company’s controlling shareholders
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on Tuesday, 26 September 2023 at 11:00 a.m. at the conference room of the Company, 11/F, 11-24 Tianfu Software Site E1, 1268 Tianfu Avenue, High-tech Zone, Chengdu, Sichuan Province, PRC to consider and, if appropriate, to approve the resolution contained in the notice of meeting which is set out on pages EGM-1 to EGM-2 of this circular, or any adjournment thereof
“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 favour of Dashi Technology and the shareholder rights of Qihu Technology in Chengdu Qilu in favour 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 of the Company dated 26 September 2019
“Game Traffic Services”	online traffic directing services that generate online user traffic by exhibiting the online games on the game platforms operated by the service provider, a type of online traffic monetization service
“Gross Billing”	total amount paid by online game players during a given period of time for purchase of virtual items through a game platform
“Group”	the Company, its subsidiaries and the PRC Operating Entities
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising Mr. Li Yang, Mr. Wang Xinyu and Mr. Zhang Ziyu, all of whom are independent non-executive Directors, formed to advise the Independent Shareholders as to the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the transactions contemplated thereunder and the Revised Annual Caps

DEFINITIONS

“Independent Financial Adviser”	Altus Capital Limited, a licensed corporation to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), which has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the transactions contemplated thereunder and the Revised Annual Caps
“Independent Shareholders”	the Shareholders other than True Thrive, Dashi Technology and their respective associates
“Independent Third Party(ies)”	any person or company and their respective ultimate beneficial owner(s), to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, third party(ies) who is/are independent of, and not connected with, the Company and its connected persons
“IP”	intellectual property
“Latest Practicable Date”	5 September 2023, being the latest practicable date prior to the printing of this circular, for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Liu Liuyou Technology”	Tianjin Liu Liuyou Technology Company Limited* (天津六六遊科技有限公司), a limited liability company established in the PRC and is deemed to be a non-wholly owned subsidiary of the Company pursuant to the Contractual Arrangements
“PCs”	personal computers
“PRC”	the People’s Republic of China, for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“PRC Operating Entities”	collectively, Chengdu Qilu and Liu Liuyou Technology (and “PRC Operating Entity” means any 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
“Qihu Technology”	Beijing Qihu Technology Company Limited* (北京奇虎科技有限公司), a limited liability company established in the PRC, and directly wholly-owned by 360 Technology, one of the Company’s controlling shareholders

DEFINITIONS

“Revised Annual Caps”	the revised annual cap amounts in respect of the procurement of server leasing services, Game Traffic Services, Advertising Traffic Services and other Internet services from 360 Group under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) for the two financial years ending 31 December 2024
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai 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* (上海嵩恒網絡科技股份有限公司)), a limited liability company established in the PRC on 18 March 2014, which is controlled by Shanghai Dongfangwang Company Limited* (上海東方網股份有限公司) which directly and indirectly through its subsidiary held approximately 34.3566% of Shanghai Songheng. As at the Latest Practicable Date, Shanghai Songheng, through its indirect wholly-owned subsidiary, Songchang International Limited, is holding 47,282,819 Shares of the Company, representing approximately 17.58% of the total issued share capital of the Company. Shanghai Songheng is a substantial Shareholder of the Company
“Share(s)”	ordinary share(s) with a par value of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement to the 360 Master Purchase Agreement 2022-2024 entered into between the Company and 360 Technology on 21 August 2023 in relation to the revision of original annual caps to the Revised Annual Caps
“True Thrive”	True Thrive Limited (誠盛有限公司), a limited liability company incorporated in the Cayman Islands, wholly-owned by 360 Technology, and one of the Company’s controlling shareholders
“%”	per cent

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Tian Ye (Chairman)

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

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal place of business in Hong Kong:

40th Floor,

Dah Sing Financial Centre

No. 248 Queen's Road East

Wanchai, Hong Kong

*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

8 September 2023

To the Shareholders,

Dear Sirs/Madams,

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED REVISION OF ANNUAL CAPS OF
THE 360 MASTER PURCHASE AGREEMENT 2022-2024
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement in relation to the Supplemental Agreement and the proposed revision of the original annual caps for the continuing connected transactions under the 360 Master Purchase Agreement 2022-2024. Pursuant to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the

LETTER FROM THE BOARD

annual caps for the continuing connected transactions, the Company will be required to re-comply with the requirements under Chapter 14A of the Listing Rules in relation to the relevant continuing connected transactions.

The purpose of this circular is to provide you with (i) further information on the details of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the transactions contemplated thereunder and the Revised Annual Caps; (ii) the letter from the Independent Board Committee which contains its recommendation to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser which contains its recommendation to the Independent Board Committee and the Independent Shareholders; (iv) other information as required under the Listing Rules; and (v) the notice of the EGM to the Shareholders on convening the EGM.

THE 360 MASTER PURCHASE AGREEMENT 2022-2024 (AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT) AND THE REVISED ANNUAL CAPS

References are made to (i) the announcement of the Company dated 2 November 2021; and (ii) the circular to Shareholders dated 7 December 2021 in relation to the continuing connected transactions relating to, among others, the entering into of the 360 Master Purchase Agreement 2022-2024 for the procurement of server leasing services, Game Traffic Services, Advertising Traffic Services and other Internet services from 360 Group for a term of three years commencing from 1 January 2022 and ending on 31 December 2024; and (iii) the Announcement.

The Company expects that the original annual caps for the two years ending 31 December 2024 for the 360 Master Purchase Agreement 2022–2024 may not be sufficient to meet the needs of the Group’s business growth in the future. Accordingly, on 21 August 2023, the Company and 360 Technology entered into the Supplemental Agreement to revise the original annual caps to the Revised Annual Caps. Other than the revision of the original annual caps to the Revised Annual Caps, all other terms of the 360 Master Purchase Agreement 2022-2024 remain unchanged.

The principal terms of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) are as follows:

Date: 21 August 2023

Parties: (i) the Company; and
(ii) 360 Technology.

Pursuant to the Supplemental Agreement, the original annual caps for the procurement of server leasing services, Game Traffic Services, Advertising Traffic Services and other Internet services from 360 Group for each of the year ending 31 December 2023 and 31 December 2024 has been revised to the Revised Annual Caps as follows:

LETTER FROM THE BOARD

For the financial year ending 31 December	Original annual caps	Revised Annual Caps
	RMB'000	RMB'000
2023	17,200	100,700
2024	17,200	264,500

Historical transaction amounts

The historical transaction amounts for the procurement of server leasing services, Game Traffic Services, Advertising Traffic Services and other Internet services from 360 Group are as follows:

For the year ended/period ended	Historical transaction amounts
	RMB'000
31 December 2022	305
1 January 2023 to 30 June 2023	16,578

The Directors confirmed that from 1 January 2023 and up to the Latest Practicable Date, the actual transaction amounts of the transactions under the 360 Master Purchase Agreement 2022-2024 had not exceeded the original annual caps for the financial year ending 31 December 2023. The Directors further confirmed that the actual transaction amounts of the transactions under the Master Purchase Agreement 2022-2024 would not exceed the original annual caps for the financial year ending 31 December 2023 before the EGM.

Basis for the Revised Annual Caps for the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement)

The above Revised Annual Caps are determined with reference to:

- (i) the projected increase of demand of the Group for the procurement of the Game Traffic Services from 360 Group for the two years ending 31 December 2024 having regard to:
 - (a) the addition of a new subsidiary to the Group in May 2023 after completion of acquisition of 天津旗魚網絡科技有限公司 (Tianjin Qiyu Network Technology Company Limited*) (“**Tianjin Qiyu**”), which owns two well-performing exclusive licensed online games with well-known online game IP that are launched on the game platform operated by 360 Group. Based on the commission at progressive rate on the Gross Billing of these two well-performing exclusive licensed online games paid to 360 Group for the months of May and June 2023 after completion of the acquisition of an aggregate amount of approximately RMB16.1 million, it is expected that the Group will continue to pay commission at progressive rate on Gross Billing for these two well-performing exclusive licensed online games to 360 Group, which overall Gross Billing is expected to decrease over time for the remainder of the year ending 31 December 2023 and the year ending 31 December 2024 having considered the life cycle of the games;

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- (b) the expected commercial release of a new exclusive licensed online game by Tianjin Qiyu in September 2023, the theme of which belongs to the same well-known online game IP as the two well-performing exclusive licensed online games as stated in paragraph (i)(a) above, on all online game platforms including the game platform operated by 360 Group. Based on the past results of online games with such IP theme as elaborated in paragraph (i)(a) above, it is expected that the new exclusive licensed online game by Tianjin Qiyu in September 2023 will potentially generate similar Gross Billing as that of its two well-performing exclusive licensed online games mentioned above, the Directors expect the new exclusive licensed online game will generate an upward surge in revenue of the operation of exclusive licensed online game business to the Group;
- (c) the expected launch of a new exclusive licensed online game by the end of 2023, which is a strategy game combining operation simulation and card combat, and was developed using the “Kung Fu Panda (功夫熊貓)” licence with its animated character together with the distribution licence for mobile devices and PCs obtained by the Group from Universal Studios, on online game platforms including the online game platform operated by 360 Group; and
- (d) the expected launch in the first half of 2024 of at least three online games of which (1) one is an exclusive licensed online game developed by a well-known external online game development team, which has developed two explosive online games each with an annual Gross Billing of more than RMB300 million; (2) another one is a self-developed online game independently developed by the Group’s online game development team, which is one of the important online games of the Group to open up the self-developed online game market, and the Group expects to invest more in the promotion of this online game; and (3) the third one being an exclusive licensed online game involving role-playing theme. The category of the online games includes role-playing game, which accounts for the highest proportion of the Group’s past online game revenue. All three online games will be launched on the online game platform operated by 360 Group.

Based on the professionalism and popularity of the external online game development team, the expected promotion efforts of the Group, the category and past results of the online games and the online games which have been launched in 2023, it is expected that the Group will need an enlarged annual cap of RMB264.5 million to support its online game business development in 2024. In addition to the expected commission at progressive rate on Gross Billing of the three exclusive licensed online games of Tianjin Qiyu as well as the strategy game using “Kung Fu Panda (功夫熊貓)” to be incurred and payable to 360 Group as elaborated in paragraphs (i)(a) to (i)(c) above which is expected to continue into the year

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ending 31 December 2024, the increase in the enlarged annual cap for the year ending 31 December 2024 as compared to that of the year ending 31 December 2023 of approximately RMB163.8 million was further determined having considered:

- (1) approximately 44% of such increase will be contributed by the expected commission at progressive rate on Gross Billing from the strategy game using “Kung Fu Panda (功夫熊猫)” as elaborated in paragraph (i)(c) above, which the Group made reference to the past performance of the two well-performing exclusive licensed online games of Tianjin Qiyu which are also online games with well-known online game IP;
 - (2) approximately 28% of such increase will be contributed by the expected commission at progressive rate on Gross Billing from the exclusive licensed online game by the well-known external online game development team, which the Group considered the track record of its previous two explosive online games each with an annual Gross Billing of RMB300 million;
 - (3) approximately 18% of such increase will be contributed by the expected commission at progressive rate on Gross Billing from the self-developed online game independently developed by the Group’s online game development team which the Group will spend around RMB30 million to actively promote such self-developed online game as the Group’s important strategy to open up the self-developed online game market and to increase awareness of the Group’s self-developed online game on most online game platforms;
 - (4) approximately 10% of such increase will be contributed by the expected commission at progressive rate on Gross Billing contributed from the role-playing exclusive licensed online game which the Group made reference to the past performance of other role-playing games of other companies available on the market;
 - (5) the Group expects the Gross Billing contribution from its existing exclusive licensed online games to decrease as compared to that for the year ending 31 December 2023 due to life cycle of such online games; and
 - (6) the fees for server leasing services and Advertising Traffic Services and other Internet services for the two years ending 31 December 2024 remain stable;
- (ii) the historical transaction amount paid by the Group to 360 Group for the period from 1 January 2023 to 30 June 2023 of approximately RMB16.6 million, including the period after the acquisition of Tianjin Qiyu by the Group from May to June 2023 (of which approximately RMB16.1 million was derived from the exclusive licensed online games of Tianjin Qiyu) reflecting the increase in demand for the Game Traffic Services from 360 Group attributable to the two well-performing exclusive licensed online games as mentioned in paragraph (i)(a) above; and
- (iii) the procurement by the Group of the Game Traffic Services from 360 Group for its continuous offer of existing exclusive licensed online games in the two years ending 31 December 2024.

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Having considered (i) the historical results and performance of the two exclusive licensed online games of Tianjin Qiyu for May and June 2023 and the commission at progressive rate on the expected Gross Billing to be incurred and payable to 360 Group for three executive licensed online agrees as elaborated in paragraphs (i)(a) and (i)(b) above; (ii) the historical results and performance of strategy game and role-playing game of the Group and the commission at progressive rate on the expected Gross Billing to be incurred and payable to 360 Group for the three new exclusive online games and one self-developed online game as elaborated in paragraphs (i)(c) to (d) above; (iii) the expected decrease in Gross Billing of existing exclusive licensed online games of the Group due to the life cycle of such online games as elaborated in paragraph (i)(d) above; and (iv) the fees for server leasing services and Advertising Traffic Services and other Internet services for the two years ending 31 December 2024 remain stable, the Board considers the substantial increase in the Revised Annual Caps as compared to the original annual caps for the two years ending 31 December 2024 is fair and reasonable.

Pricing policy

As disclosed in the Company's circular to Shareholders dated 7 December 2021, the fees payable by the Group to 360 Group were determined after arm's length negotiations with reference to prevailing market price determined in accordance with the pricing policy from time to time. In any event, the fees payable by the Group to 360 Group shall not be more favourable than the price offered by Independent Third Party service providers for comparable services.

Game Traffic Services

For Game Traffic Services, the fees in the form of commission payable by the Group are calculated progressively at the rate in the range of 70% to 80% over of the Gross Billing to be generated from the online games of the Group which are launched on the game platform operated by 360 Group, which agreed fixed rate is comparable to those charged by other Independent Third Party service providers to the Group for similar services in the range of 70% to 80%. The agreed fixed rate is determined having regards to (i) credit evaluation by 360 Group on the Group in terms of size, reputation and industry; (ii) historical transactions creditability (in terms of monetary value and quantity of usage); (iii) the level of impression or popularity of the online games of the Group on the online game platform operated by 360 Group; (iv) the prevailing market rate and industry practice for similar services offered in the market as charged by other online game platform service providers; and (v) the potential future business opportunities with the service provider. Gross Billing is the total amount paid by online game players for the purchase of virtual items in the online games of the Group through 360 Group's online game platform. The Gross Billing is accumulated at the end of every month and agreed upon by both the Group and 360 Group within 15 days after the end of every month. 360 Group will pay to the Group the balance of the Gross Billing after retaining 70% to 80% of the Gross Billing (as calculated at progressive rate) within a period of 30 days from the date the invoice from the Group.

Server leasing services

For server leasing services to be procured by the Group from 360 Group, the price payable to 360 Group will be determined based on the number of servers to be leased, traffic or bandwidth volume and storage space volume, with reference to the prevailing market price for the same server leasing services that can be obtained from Independent Third Party service providers on normal commercial terms. For the purpose of

LETTER FROM THE BOARD

determining market prices, the Group obtained quotations from at least two other Independent Third Party service providers for server leasing services based on similar number of servers, traffic or bandwidth volume, storage space volume involved and quality of services. The fees to be paid by the Group to 360 Group will be accumulated and billed by 360 Group at the end of every month with a credit term of 30 days from the date of the invoice.

Other factors that the Group considered included: (i) the brand, and hardware specifications such as processor, memory and storage capacity of the proposed servers listed on the quotations; (ii) the proposed bandwidth, reliability, security and backup systems of the relevant servers; and (iii) the cost of and the possible interruptions that maybe caused by migrating the current servers of the Group from 360 Group to a new service provider.

Advertising Traffic Services and other Internet services

For Advertising Traffic Services and other Internet services to be procured from 360 Group, the fees payable by the Group to 360 Group under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) will be charged at a pricing mechanism based on the following bases, which is also the current prevailing market rate for the fixed charging rate as charged by other Advertising Traffic services and other Internet services service providers for similar services as at the Latest Practicable Date:

- (i) cost-per-time at the standard charging rate of RMB1,000/per day to RMB10,000/per day on PC ends;
- (ii) cost-per-mille at the standard charging rate of RMB1.50/per mille to RMB3.5/per mille on PC ends and RMB5.00/per mille to RMB1,000/per mille on mobile devices ends; and
- (iii) cost-per-active at the standard charging rate of RMB0.20/per active to RMB3.00/per active on PC ends,

depending on the daily volume of traffic by adding up the quantity of advertisements displayed on the device and the amount of online user traffic and specific performance, as the case may be, created by 360 Group's banner advertising services. The pricing mechanism and the charging rate for the Advertising Traffic Services and other Internet services of 360 Group are determined with reference to the prevailing market rate and industry practice for similar services offered in the market as charged by other Advertising Traffic Services and other Internet services service providers. The fees to be paid by the Group to 360 Group will be calculated using the above pricing mechanism, which will be accumulated and billed by 360 Group at the end of every month with a credit term of 30 days from the date of the invoice.

REASONS FOR AND BENEFITS OF THE ADOPTION OF THE REVISED ANNUAL CAPS

In view of the addition of the newly acquired subsidiary to the Group, namely, Tianjin Qiyu, the continuous popularity of the existing exclusive licensed online games and the anticipated popularity of the online games to be launched by Tianjin Qiyu as explained above, as well as the expected launch of new online games by the Group in 2023 and 2024, the procurement by the Group from the 360 Group and the transaction amount under the 360 Master Purchase Agreement 2022-2024 are expected to increase substantially, and the Board envisages that the original annual caps under the 360 Master Purchase Agreement 2022-2024 will not be

LETTER FROM THE BOARD

sufficient to fulfil the additional previously unforeseen transactions that may take place under the 360 Master Purchase Agreement 2022-2024 for the two financial years ending 31 December 2024. Therefore, the Board proposes to adopt the Revised Annual Caps.

360 Technology is one of the largest suppliers in the PRC for Internet security products and services. 360 Group has been providing server leasing services to the Group since 2016, and their server leasing services have proven to be reliable based on the Group's user experience in the past. If the Group were to change its server leasing service provider, it may cause unnecessary and unpredictable interruptions to the Group's operations and may affect the continuous enjoyment of the Group's online game players and software users.

Further, the "360" brand is a relatively well-known brand with a large user base in the PRC. Benefiting from the brand recognition and large user base, the game platform operated by 360 Group also has a large active user base. By placing the Group's online games on the game platform operated by 360 Group, the Group will be able to tap into the large user base of 360 Group's game platform with an aim to increase the Group's game players user base and enhance the Gross Billing of the Group from such online games.

Notwithstanding the above, the Directors do not consider there is a material reliance on 360 Group and any change in the relationship with 360 Group will not have a material adverse impact on the business of the Group because:

- (i) there are at least four other game platforms of similar size of active user base in China as that of 360 Group. The Group has no difficulties to substitute 360 Group with another readily available game platform with similar pricing and credit term, which in fact, it is the Group's practice to place all its online games on all of these five game platforms (including 360 Group) and these game platforms charge similar pricing and credit term. In addition, the Group also places online games on not less than 10 other smaller game platforms as at the Latest Practicable Date, it is ultimately up to the game users to decide which game platforms they would like to play their games at and to recharge the Gross Billing;
- (ii) following from paragraph (i) above, based on the Group's revenue for the six months ended 30 June 2023, revenue from the Gross Billing from the Group's online game placed on the online game platform of 360 Group only represented approximately 16.6% of the Group's total revenue of the Group's online game business, while in terms of gross profit, it only represented approximately 2.4% of the total gross profit of the Group as the gross profit margin of the Group is generally in the range of 7.5% to 19% (after deducting profit sharing to the game development team). Thus, 360 Group is not the only and is not the largest game platform (in terms of Gross Billing) which the Group has placed its exclusive licensed online games, and the reliance on 360 Group in terms of profitability of the Group is not material. In particular, in respect of the two exclusive licensed online games of Tianjin Qiyu, the Gross Billing for the months of May and June 2023 derived from online game platform of 360 Group represented approximately 17.9% of the total Gross Billing on all online game platforms on which the games were placed, and the online game platform of 360 Group was the third largest online game platform that Tianjin Qiyu has placed its two exclusive licensed online games on; and

LETTER FROM THE BOARD

- (iii) the 360 Master Purchase Agreement 2022–2024 (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are not exclusive. The Group is not restricted from working with other online platforms for game distribution, it is a matter of the Group’s choice and it remains at the Group’s absolute discretion as to whether or not to procure the Game Traffic Services by placing its online games on the game platform of 360 Group. Distributing the online games via 360 Group's online game platform corresponds with its market standing and reach to end users it provides as an online gaming platform. In addition, for the same contract duration of the 360 Master Purchase Agreement 2022–2024 (as supplemented by the Supplemental Agreement), the Group also provides similar Game Traffic Services to 360 Group for them to place their online games on the game platform operated by the Group. Therefore, the continuous business cooperations between the Group and 360 Group are mutually beneficial to, and complementary to each other. Hence, the likelihood that the relationship between the Group and 360 Group will materially adversely change or terminate is low.

Accordingly, to accommodate the expansion of the Group’s online games operations and the anticipated increase in transaction volume contemplated under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), whereby the transactions to be entered into are expected to be recurring in nature and will be agreed on an arm’s length basis and on normal commercial terms or better, the Directors consider that it is in the best interest of the Group to adopt the proposed Revised Annual Caps.

The Directors (including the independent non-executive Directors whose view is set out in “Letter from the Independent Board Committee” of this circular after taking into account the advice of the Independent Financial Adviser, but excluding Mr. Tian Ye, Mr. Liu Wei and Mr. Zhao Dan who are interested in the 360 Master Purchase Agreement (as supplemented by the Supplemental Agreement) are of the view that the terms of the 360 Master Purchase Agreement (as supplemented by the Supplemental Agreement) have been negotiated and arrived at an arms-length basis and in the ordinary and usual course of business of the Group and on normal commercial terms between the Group and 360 Group and/or its associates, are fair and reasonable, and in the interest of the Company and the Shareholders as a whole in line with, and with reference to, the industry practice and prevailing market prices. The Directors, including the independent non-executive Directors consider that (i) the continuing connected transactions contemplated under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement); and (ii) the proposed Revised Annual Caps for the two years ending 31 December 2024 under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES

As a general principle, the price and terms of the individual service agreements in respect of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) will be determined in the ordinary course of business, on normal commercial terms, negotiated on arm’s length basis, on similar basis as the Group transacts business with other independent service providers and shall be on terms which are no less favourable to the Group than those offered by other independent service providers.

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To ensure that all the continuing connected transactions are conducted on normal commercial terms and in accordance with the pricing policies of the Group and will not be prejudicial to the interests of the Company and the Shareholders as a whole, and the annual caps under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) will not exceed the Revised Annual Caps, the Group has adopted the following internal control measures:

- (i) before entering into individual procurement agreements contemplated under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the procurement department or the project team will regularly, or at least once yearly, keep track of the offered prices for the server leasing services, Game Traffic Services, Advertising Traffic Services and other Internet services and, where available, compare with those offered by at least two Independent Third Parties in accordance with the Group's management systems on connected transaction, so as to ensure that the fees or prices for the aforementioned services are conducted on normal commercial terms and in accordance with the pricing policies in respect of the 360 Master Purchase Agreement 2022-2024 and conform to the prevailing market rate and industry practice;
- (ii) the Group's internal control department is responsible to conduct a yearly review on the pricing mechanism for the transactions under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) to ensure that the prices are determined in accordance with the pricing policies adopted by the Group on normal commercial terms, the Group's internal control department will report to the Board, the audit committee of the Board and the independent non-executive Directors at the end of each review period;
- (iii) all individual procurement agreements contemplated under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) must be entered into prior to the procurement of such services. The Group's internal control department is responsible to review the pricing mechanism for the transactions under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) to ensure that the prices charged for a specific transaction are fair and reasonable and are determined in accordance with the applicable pricing policy and on normal commercial terms. The terms of the agreements and the prices will be reviewed by the Group's finance and legal departments to ensure that they are determined in accordance with the pricing policies and do not exceed the Revised Annual Caps;
- (iv) the Group's finance department will be responsible to monitor the transaction amount of all the connected transaction agreements including 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) individually and collectively on a monthly basis to ensure that on a standalone basis and an aggregate basis, they would comply with the Listing Rules and will not exceed the Revised Annual Caps. The Group's finance department will report to the Board and the audit committee of the Board on a yearly basis regarding the amounts conducted during the period to facilitate the Board to monitor the actual amount of transaction amount, assess whether the Revised Annual Caps will be exceeded. In the event that the Revised Annual Caps are exceeded, the Group shall enter into further supplemental agreement with the relevant connected persons to agree on further revision of the annual caps and comply with the relevant requirements of the Listing Rules prior to the entering into further transactions with the connected persons in this regard;

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- (v) the independent non-executive Directors will continue to review the transactions contemplated under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) and the auditors of the Company will also conduct an annual review on, among others, whether the pricing terms have been adhered to and whether the Revised Annual Caps have been exceeded; and
- (vi) Mr. Tian Ye and any Directors related to 360 Group shall abstain from voting on the relevant Board resolutions in relation to such continuing connected transactions.

Accordingly, the Directors consider that the internal control mechanism is effective to ensure that the transactions contemplated under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) have been and will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE PARTIES INVOLVED IN THE 360 MASTER PURCHASE AGREEMENT 2022-2024 (AS SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT)

The Group

The Company is incorporated in the Cayman Islands with limited liabilities. The Group develops a series of PC and mobile devices utility software and offer them to users free-of-charge in exchange of online traffic that the Group monetizes from online advertising services, online game platforms and operation of exclusive licensed online game business.

360 Technology

360 Technology is a limited liability company established in the PRC on 15 September 2011 and is principally engaged in the research and development of Internet technology with a particular focus on Internet and computer security, and the provision of online advertising and other value-added services and commercialisation of intelligent devices based on its Internet security products. 360 Technology is directly wholly-owned by 360. 360 is a joint stock company with limited liabilities established in the PRC whose shares are listed on the Shanghai Stock Exchange (stock code: 601360). As at the Latest Practicable Date, 360 Technology, through its direct wholly-owned subsidiary, True Thrive, is holding 82,745,082 Shares of the Company, representing approximately 30.76% of the total issued share capital of the Company. 360 Technology is a controlling shareholder of the Company.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, 360 Technology, through its direct wholly-owned subsidiary, True Thrive, is interested in approximately 30.76% of the total issued share capital of the Company, and is one of the controlling shareholders of the Company. Accordingly, 360 Technology is a connected person of the Company under the Listing Rules, and the transactions under the 360 Master Purchase Agreement 2022-2024 constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, Mr. Tian Ye, an executive Director, is the sole shareholder of Dashi Technology, which is deemed to be interested in all Shares and voting rights held by 360 Technology through True Thrive pursuant to the Entrustment Arrangements. Mr. Tian is therefore deemed to be interested in all the Shares held by True Thrive. Accordingly, each of True Thrive, Dashi Technology and

LETTER FROM THE BOARD

their respective associates will abstain from voting in the EGM to be convened for the approval of the continuing connected transactions as contemplated under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) and the Revised Annual Caps.

In addition, each of Mr. Liu Wei and Mr. Zhao Dan is a vice president of 360 Group. Accordingly, each of Mr. Tian Ye, Mr. Liu Wei and Mr. Zhao Dan has abstained from voting on the Board resolutions to approve the entering into of the Supplemental Agreement. Save for Mr. Tian Ye, Mr. Liu Wei and Mr. Zhao Dan, no other Directors have a material interest in the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) and the continuing connected transactions contemplated thereunder.

As one or more of the applicable percentage ratios (excluding profits ratio) under Rule 14.07 of the Listing Rules for the Revised Annual Caps under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) are, on an annual basis, over 5% and the Revised Annual Caps are more than HK\$10,000,000, the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the continuing connected transactions contemplated thereunder and the Revised Annual Caps are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Any Shareholders with a material interest in the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) or the continuing connected transactions contemplated thereunder and their associates will be required to abstain from voting at the relevant resolution at the EGM.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, save for Dashi Technology and its associates (including the shareholder rights of True Thrive in the Company in favour of Dashi Technology pursuant to the Entrustment Arrangements) held an aggregate of 128,664,057 Shares, representing approximately 47.83% of the issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting at the EGM, no other Shareholders had a material interest and would be required to abstain from voting at the EGM in respect of the resolutions in relation to the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the transactions contemplated thereunder and the Revised Annual Caps.

ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Li Yang, Mr. Wang Xinyu and Mr. Zhang Ziyu, has been established to advise the Independent Shareholders in relation to terms of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) and the continuing connected transactions contemplated thereunder (including the Revised Annual Caps for those transactions). No member of the Independent Board Committee has any material interest in the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) and the continuing connected transactions contemplated thereunder (including the Revised Annual Caps for those transactions).

Altus Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) and the Revised Annual Caps are

LETTER FROM THE BOARD

fair and reasonable so far as the Independent Shareholder are concerned, whether the transactions contemplated under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) are conducted on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, as well as how to vote on 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder including the Revised Annual Caps.

EXTRAORDINARY GENERAL MEETING

The Company will convene the EGM or any adjourned meeting hereof at conference room of the Company, 11/F, 11-24 Tianfu Software Site E1, 1268 Tianfu Avenue, High-tech Zone, Chengdu, Sichuan Province, PRC on Tuesday, 26 September 2023 at 11:00 a.m. to approve matters referred to in this circular at which relevant resolution will be proposed to the Shareholders to consider, and if thought fit, approve the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the continuing connected transactions as contemplated thereunder and the Revised Annual Caps. The notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use in connection with the EGM is enclosed herewith. Whether or not you intend to be present and vote at the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). The completion and delivery of a form of proxy will not preclude you from attending and voting at the EGM (or any adjourned meeting thereof) in person should you so wish, and in such case, the authority of your proxy will be revoked.

Pursuant to the Rule 13.39(4) of the Listing Rules and Article 66(1) of the Articles of Association, any votes of shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith and in compliance with the Listing Rules, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. An announcement on the poll vote results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

The register of members of the Company will be closed, for the purpose of determining the Shareholders' entitlement to attend and vote at the meeting, from Thursday, 21 September 2023 to Tuesday, 26 September 2023 (both days inclusive), during this period no transfer of shares will be registered. In order to attend and vote at the meeting, unregistered Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 20 September 2023.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that the terms of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the continuing connected transactions contemplated thereunder and Revised Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of the EGM.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 20 to 21 of this circular and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 22 to 33 of this circular in connection with the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the continuing connected transactions contemplated thereunder and the Revised Annual Caps and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the continuing connected transactions contemplated thereunder and the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms or better and in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

Your attention is drawn to additional information set out in the appendix to this circular.

By Order of the Board
360 Ludashi Holdings Limited
Tian Ye
Chairman and executive Director



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)

8 September 2023

To the Independent Shareholders,

Dear Sir/Madam,

**PROPOSED REVISION OF ANNUAL CAPS OF
THE 360 MASTER PURCHASE AGREEMENT 2022-2024 (AS SUPPLEMENTED
BY THE SUPPLEMENTAL AGREEMENT)**

We refer to the circular of the Company dated 8 September 2023 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you the terms of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the continuing connected transactions contemplated thereunder (including the Revised Annual Caps), whether such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole and how to vote on the resolution at the EGM approving the continuing connected transactions.

Altus Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the continuing connected transactions contemplated thereunder and the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, whether such terms are in the interests of the Company and the Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 22 to 33 of the Circular.

We wish to draw your attention to the letter from the Board set out on pages 6 to 19 of the Circular and the additional information set out in the appendix of the Circular.

Having taken into account (i) the terms and conditions of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement); and (ii) the advice and recommendations of the Independent Financial Adviser as set out from pages 22 to 33 of the Circular, we are of the opinion that the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the continuing connected transactions contemplated thereunder and the Revised Annual Caps are on normal commercial

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

terms and the terms of thereof are fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms or better and in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the continuing connected transactions contemplated thereunder and the Revised Annual Caps.

Yours faithfully,
Independent Board Committee
360 Ludashi Holdings Limited

Mr. Li Yang
*Independent non-executive
Director*

Mr. Wang Xinyu
*Independent non-executive
Director*

Mr. Zhang Ziyu
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Altus Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders in respect of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the transactions contemplated thereunder (including the proposed Revised Annual Caps), which has been prepared for the purpose of incorporation in the Circular.

ALTUS .

Altus Capital Limited
21 Wing Wo Street
Central, Hong Kong

8 September 2023

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS PROPOSED REVISION OF ANNUAL CAPS OF THE 360 MASTER PURCHASE AGREEMENT 2022-2024

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the transactions contemplated thereunder (the “**Transactions**”) and the proposed Revised Annual Caps. Details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 8 September 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

References are made to the Announcement in relation to the Supplemental Agreement and the proposed revision of the original annual caps for the continuing connected transactions under the 360 Master Purchase Agreement 2022-2024.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, 360 Technology, through its direct wholly-owned subsidiary, True Thrive, is interested in approximately 30.76% of the total issued share capital of the Company, and is one of the controlling shareholders of the Company. Accordingly, 360 Technology is a connected person of the Company under the Listing Rules, and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for the continuing connected transactions, the Company will be required to re-comply with the requirements under Chapter 14A of the Listing Rules in relation to the relevant continuing connected transactions. To this end,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

as one or more of the applicable percentage ratios (excluding profits ratio) under Rule 14.07 of the Listing Rules for the Revised Annual Caps under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) are, on an annual basis, over 5% and the Revised Annual Caps are more than HK\$10,000,000, 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the Transactions and the Revised Annual Caps are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, save for Dashi Technology and its associates (including the shareholder rights of True Thrive in the Company in favour of Dashi Technology pursuant to the Entrustment Arrangements) held an aggregate of 128,664,057 Shares, representing approximately 47.83% of the issued share capital of the Company as at the date of this announcement, will be required to abstain from voting at the EGM, no other Shareholders had a material interest and would be required to abstain from voting at the EGM in respect of the resolution in relation to the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the Transactions and the Revised Annual Caps.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprise all the independent non-executive Directors, namely Mr. Li Yang, Mr. Wang Xinyu and Mr. Zhang Ziyu. The Independent Board Committee has been established to advise the Independent Shareholders as to (i) whether the terms of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) and the Transactions (including the Revised Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole; (ii) whether the Transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) how to vote in respect of the relevant resolution to be proposed at the EGM approving the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the Transactions and the Revised Annual Caps (the "**Resolution**"), taking into account the recommendations of the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) and the Transactions (including the Revised Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole; (ii) whether the Transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) how to vote in respect of the Resolution.

We have not acted as an independent financial adviser or financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that the remuneration for our engagement to opine on the proposed Transactions is at market level and not conditional upon successful passing of the Resolution, and our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder, or connected person(s).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, among others (i) the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement); (ii) the announcement of the Company dated 2 November 2021; (iii) the Announcement; (iv) the annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”); (v) the interim results announcement of the Company for the six months ended 30 June 2023 (“**Interim Results**”) and (vi) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the “**Management**”). We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and will continue to be so up to the Latest Practicable Date. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business, financial conditions and affairs or future prospects of the Group. The Company will notify the Shareholders of any material change after the Latest Practicable Date and after the despatch of the Circular.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

a. Principal business of the Group and the 360 Group

The Group develops a series of PC and mobile devices utility software and offer them to users free-of-charge in exchange of online traffic that the Group monetises from online advertising services, online game platforms, and operation of online game business. In its ordinary and usual course of business, it procures the services prescribed under the 360 Master Purchase Agreement 2022-2024 from external service providers including the 360 Group and other Independent Third Parties.

360 Technology is principally engaged in the research and development of Internet technology with a particular focus on Internet and computer security, and the provision of online advertising and other value-added services and commercialisation of intelligent devices based on its Internet security products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company and 360 Technology first entered into the master purchase agreement on 18 September 2019 (“**360 Master Purchase Agreement**”) for a term of three years beginning 1 January 2019. On 23 October 2020, the Company and 360 Technology entered into a supplemental agreement to (i) revise the existing scope under the 360 Master Purchase Agreement; and (ii) increase the original annual caps for the years ending 31 December 2020 and 2021. Subsequently, on 2 November 2021, the Company and 360 Technology entered into the 360 Master Purchase Agreement 2022-2024 which renewed the previous contract. Presently, the Board proposes to amend the existing annual caps to accommodate for new growth as further elaborated below.

b. Prospects of the Group

We note from the 2022 Annual Report that one of the Group’s strategic focus going forward is online games whereby the Group’s core strategies include ongoing creation of diverse online games and exploration of optimal distribution avenue for premium products. Additionally, the Group aims to make additional investment in expanding its online game business promotions to enhance its competitiveness and facilitating the expansion of its operational revenue.

2. Reasons for and benefits of the 360 Master Purchase Agreement (as supplemented by the Supplemental Agreement)

a. 360 Master Purchase Agreement (as supplemented by the Supplemental Agreement)

As outlined in the paragraph headed “1. Background” above, the Group requires the services stipulated under the 360 Master Purchase Agreement (as supplemented by the Supplemental Agreement) in its ordinary and usual course of business. We also note from the “Letter from the Board” in the Circular that the “360” brand is relatively well-known with a large user base in the PRC. Notably, the 360 Technology is one of the largest suppliers in the PRC for Internet security products and services.

We understand from the Management that with the advantage of this brand visibility and user community, the game platform operated by 360 Group has garnered a large active user base. By placing the Group’s online games on this platform, the Group will be able to tap into the extensive user base of 360 Group’s game platform with an aim to amplify the Group’s roster of game players and software users, ultimately enhancing the Gross Billing generated from such online games.

Moreover, the Management has advised that 360 Group has been a provider of server leasing services to the Group since 2016, demonstrating a consistent track record of reliability as attested by the Group’s past user experience. The stability of these services and their impact on the Group’s continued operations is a critical factor in maintaining uninterrupted engagement for the Group’s users. As such, the Management is of the view, and we concur, that the 360 Master Purchase Agreement will afford the Group with the flexibility to procure server leasing services while balancing factors such as costs and users’ experience.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given (i) the purpose of the 360 Master Purchase Agreement 2022-2024 is to govern the general terms of the future cooperation between the Group and the 360 Group, enabling the Group to procure the stipulated services from the 360 Group provided the terms offered by 360 Group is at least as favourable as those offered by Independent Third Parties; (ii) the Transactions are expected to be of a recurrent nature and in the ordinary and usual course of business for the Group, we consider that maintaining the continuity of the 360 Master Purchase Agreement 2022-2024 is in the interest of the Company and the Shareholders as a whole.

b. Revised Annual Caps

Considering the inclusion of the newly acquired subsidiary Tianjin Qiyu (the acquisition of which completed on 1 May 2023), along with the expected sustained popularity of existing exclusive licensed online games and the projected performance of Tianjin Qiyu's upcoming releases (as further elaborated under the paragraph headed "3b. Proposed Revised Annual Caps" below), the Group anticipates an increase in procurement from 360 Group for services stipulated under the 360 Master Purchase Agreement 2022-2024. This heightened demand is further bolstered by the forthcoming launch of the Group's own new online games in the second half of 2023 and 2024.

Accordingly, given these developments, the Board anticipates that the current annual caps will fall short in accommodating the expected demand for the two financial years ending 31 December 2024 and the Directors consider that it is in the best interest of the Group to adopt the proposed Revised Annual Caps.

Considering (i) the continuing business development of the Group's business operations and the growing demand for more services from the 360 Group which is in line with the Group's strategy outlined under paragraph headed "1b. Prospects of the Group" above; (ii) that all terms and conditions under the 360 Master Purchase Agreement 2022-2024 remained the same (except for the Revised Annual Cap); and (iii) our analysis set out under the paragraph headed "3b. Proposed Revised Annual Caps" below, we believe that it is in the interests of the Company and the Shareholders as a whole to enter into the Supplemental Agreement to adopt the Revised Annual Caps.

3. Principal terms of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement)

The services to be provided under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) are substantially the same as those prescribed in the 360 Master Purchase Agreement (as supplemented on 23 October 2020). To assess the fairness and reasonableness of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), we have considered the following:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

a. Pricing Policy

As outlined in the “Letter of the Board” contained in the Circular, the Company’s pricing policy is such that the fees payable by the Group to the 360 Group will be established through arm’s length negotiations and consideration for prevailing market prices determined by the current pricing policy. In any event, the fees payable by the Group to 360 Group shall not be more favorable terms than those offered by Independent Third Party service providers for comparable services. In particular, we understand the Company has adopted the following pricing mechanism for each of the services prescribed under the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement).

Game Traffic Services

Regarding Game Traffic Services, the Group incurs fees in the form of commission, which are calculated progressively in the range of 70% to 80% of the Gross Billing (being the total payments player pay for virtual in-game items through the 360 Group’s online game platform) generated from its online games on the 360 Group’s platform. The fixed rate is in line with the charges imposed by other Independent Third Party services providers to the Group for similar services. We understand the agreed fixed rate is determined with reference to (i) 360 Group’s credit evaluation on the Group based on size, reputation and industry standing; (ii) the Group’s track record in respect of monetary value and usage quantity; (iii) level of impression or popularity of the Group’s online games on 360 Group’s platform; (iv) prevailing market rates and industry norms for comparable services; and (v) potential for future business prospects. In terms of payment arrangements, the Gross Billing is consolidated at the close of each month and mutually agreed upon by both the Group and 360 Group within 15 days following month-end. The 360 Group shall remit payment to the Group within 30 days from the receipt of the Group’s invoice, withholding 70% to 80% of the Gross Billing as per a progressive rate calculation.

Server leasing services

The pricing for server leasing services to be acquired from the 360 Group will be determined based on several factors, including the quantity of servers, the volume of traffic or bandwidth, and the amount of storage space required. This determination will reference prevailing market rates for similar services from Independent Third Party providers under regular business terms. To this end the Group is required to collect quotes from at least two Independent Third Party providers that involve comparable device numbers, traffic, storage space, and service quality.

Additionally, the Group will also take into account other considerations, including (i) specifications of the proposed servers in the quotes, including brand and hardware details like processor, memory, and storage; (ii) proposed features of the servers, including bandwidth, reliability, security, and backup systems; and (iii) potential costs and disruptions from migrating Group’s current servers from 360 Group to a new service provider. The fees to be paid by the Group to 360 Group will be accumulated and billed by 360 Group at the end of every month with a credit term of 30 days from the date of the invoice.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Advertising Traffic Services and other Internet services

Fees for Advertising Traffic Services and other Internet services sourced from 360 Groups are based on cost-per-time and cost-per-click model, using the standard charging rate which is applied to the daily traffic volume, calculated by combining the quantity of displayed advertisements on devices, the level of online user traffic and specific performance metrics from 360 Group's banner advertising services, as the case may be. The pricing mechanism and the charging rate for the Advertising Traffic Services and other Internet services of 360 Group are determined with reference to the prevailing market rate and industry practice for similar services offered in the market, where available, as charged by other Advertising Traffic Services and other Internet services service providers. The fees to be paid by the Group to 360 Group will be calculated using the pricing mechanism detailed under the paragraph "Advertising Traffic Services and other Internet services" under the "Letter from the Board", which will be accumulated and billed by 360 Group at the end of every month with a credit term of 30 days from the date of the invoice.

Analysis

We understand the Group has established internal control procedures to monitor the implementation of the pricing mechanism of the Transactions, including, amongst others, (i) making reference to relevant market information; and (ii) comparing quotations and/or market practice from Independent Third Parties. Please refer to our analysis under the paragraph headed "5. Internal Control) for details.

In this respect, we have (i) obtained and reviewed the pricing policy of the Group with regards to related party transactions; and (ii) conducted comparison analysis of contracts entered into with, and fees charged by 360 Group and Independent Third Party for each of the Services procured. The Group did not procure any Advertising Traffic Services from 360 Group during the year ended 31 December 2022 and the six months ended 30 June 2023, as such no sample was available for comparison. To this end, we have obtained and examined contracts with the 360 Group covering 100% of the historical transaction amount for the six months ended 30 June 2023, during which there was a substantial surge in the utilisation of the historical annual caps, as detailed under the paragraph headed "Proposed Revised Annual Cap" in this Letter. We note from the comparison analysis that the pricing basis contained therein and those offered by comparable Independent Third Parties service providers are consistent with the Management's representation outlined in the "Pricing Policy" paragraph within the "Letter from the Board". Considering that the substantial increase in the annual cap utilisation in the first half of 2023 mainly stems from growth in the Group's operation of online game business following the acquisition of Tianjin Qiyu (as defined below) and that the expected growth trajectory of this business serves as the primary basis for the upward adjustment of the proposed Revised Annual Caps (please refer to the paragraph headed "Proposed Revised Annual Cap" for details), we are of the view that the contract samples selected are fair and representative. Based on our work done, it is noted that the pricing arrangements between the Group and the 360 Group for each category of the services procured were generally comparable to those obtained from independent third party service providers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In light of the above and considering (i) the Transactions will be on a non-committed and non-exclusive basis in that the Group will have flexibility to opt for other service providers if terms are more favourable than those offered by the 360 Group; and (ii) the monitoring measures undertaken as set out under the section headed “5. Internal Control” below, we are of the view that the Group’s internal control measures to ensure fair pricing of the Transactions have been adhered to. Accordingly, we are of the view that there exist procedures to ensure the Transactions will be continually carried out on normal commercial terms and with reference to prevailing market price and as such, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

b. Proposed Revised Annual Caps

(i) Existing caps and historical transaction amount

Below is a table setting out the existing caps under the 360 Master Purchase Agreement 2022-2024 and the utilisation rate of the existing caps for the year ended 31 December 2022 and the six months ended 30 June 2023 respectively.

	Existing caps/historical transaction amount	
	For the year ended 31 December 2022 RMB'000	For the six months ended 30 June 2023 RMB'000
Existing cap	17,200	17,200
Historical transaction amount	305	16,578
Utilisation rate	1.8%	96.4%

As shown in the above table, the utilisation rates for the historical annual caps were approximately 1.8% and 96.4%. As advised by the Management, the substantial increase in 2023 is mainly attributable to Game Traffic Services employed by the Group’s newly acquired subsidiary, 天津旗鱼网络科技有限公司 (Tianjin Qiyu Network Technology Co., Ltd.*) (“**Tianjin Qiyu**”) following its acquisition completion on 1 May 2023. Tianjin Qiyu possesses two well-performing exclusive licensed online games launched on 360 Group’s game platform.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *Proposed Revised Annual Caps*

	Existing caps/historical transaction amount	
	For the year ended 31 December	
	2023	2024
	RMB'000	RMB'000
Existing cap	17,200	17,200
Proposed Revised Annual Caps	100,700	264,500

In determining the above proposed Revised Annual Caps, we understand from the Management that the Group has taken into consideration the following:

- (i) historical transaction amount paid by the Group to 360 Group for the six months ended 30 June 2023, which reflects the substantial surge in demand for Game Traffic Services following the acquisition of Tianjin Qiyu's on 1 May 2023 as mentioned above;
- (ii) pipeline of new exclusive licensed online games to be launched by Tianjin Qiyu and the Group respectively in the second half of 2023 and 2024, the more noteworthy being:
 1. the anticipated September 2023 commercial release of a new exclusive licensed online game by Tianjin Qiyu, featuring a theme belonging to the same well-regarded online game IP as the two aforementioned well-performing exclusive licensed online games. The game is expected to be launched on all online game platforms including the game platform operated by 360 Group. Based on the past results of online games with such theme, it is expected that the new exclusive licensed online game will generate an upward surge in turnover to the Group (being the balance after deducting the commission charged by the service providers from the Gross Billing);
 2. the expected launch by end of 2023 of a strategy game combining operation simulation and card combat, developed using the "Kung Fu Panda (功夫熊猫)" licence, which will be distributed on all online game platforms including the online game platform operated by 360 Group; and
 3. the expected launch in the first half of 2024 of at least three online games. This assortment includes an exclusive licensed online game developed by a well-known external online game development team (with past development record of two viral online games, each with more than RMB300 million annual Gross Billing), a self-developed online game by the Group and another exclusive licensed online game. All three games,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

including a role-playing game, a category accounting for the highest proportion of the Group's past online game revenue contribution, will be launched on 360 Group's platform, amongst others.

In estimating the expected Game Traffic Service required, we understand the Management has made reference to established appeal of games developed by the external online game development team, the Group's planned promotion endeavours, the gaming category, past results of comparable online games and the hype cycle surrounding each game launch; and

- (iii) the procurement by the Group of the Game Traffic Services from 360 Group for its continuous offer of existing exclusive licensed online games in the two years ending 31 December 2024.

In assessing whether the proposed Revised Annual Caps are fair and reasonable, we have taken into consideration (i) the fact that the quantum of Revised Annual Caps mostly stem from the expected increase in Game Traffic Services while the fees estimated for server leasing services as well as Advertising Traffic Services and other Internet Services for the two years ending 31 December 2024 remain stable; (ii) that in respect of the Game Traffic Services, Management has based their estimates for each of the aforementioned upcoming online games releases after taking into account (a) the expected appeal of each game which is estimated with reference to established appeal of games developed by the external online game development team and/or past results of comparable online games, the hype cycle surrounding each game and the Group's planned promotion endeavours; (b) historical revenue and costs of the exclusive online games under Tianjin Qiyu across all platforms, including contributions from platform operated by the 360 Group; and (c) the commission to be charged by the 360 Group on the Gross Billing. Given that the assumptions adopted correspond with the pricing mechanism outlined in the paragraph under "Pricing Policy" above, historical trends in transaction amount as detailed in the paragraph "Existing Caps and historical transaction amount" above and the Group's business plan for the operations of online games, we believe the estimates are reasonable.

In light of the above and having taken into consideration (i) the proposed Revised Annual Caps is in line with the Company's strategy to expand the operations of online games, as evident by its acquisition of Tianjin Qiyu on 1 May 2023, which led to a substantial increase in related revenue and corresponding utilisation of the existing annual caps; (ii) the acquisition of Tianjin Qiyu took place subsequent to the entering of the 360 Master Purchase Agreement 2022-2024 dated 2 November 2021, necessitating the adjustment of annual caps to accommodate the Group's latest growth trajectory; (iii) the Revised Annual Cap will afford the Group with the flexibility to continue distributing Tianjin Qiyu's existing lineup and launching its online games on the platform operated by the 360 Group, which is expected to augment the Group's revenue; and (iv) the revenue model of this line of business is such that Game Traffic

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Services fees are only incurred once revenue-generating activities have occurred, we concur with the Directors that the proposed Revised Annual Caps are fair and reasonable.

4. Internal control

According to the “Letter from the Board” in the Circular to ensure that (i) all the continuing connected transactions are conducted on normal commercial terms and in accordance with the pricing policies of the Group and non-prejudicial to the interests of the Company and the Shareholders; (ii) the annual caps under the 360 Master Purchase Agreement will not exceed the Revised Annual Caps, the Group adopted a set of internal control measures, details of which are set out in the paragraph headed “Internal control” under the “Letter from the Board” in the Circular.

In particular, we noted that there are controls in place for (i) regular market price monitoring by the procurement team through comparison with terms offered by Independent Third Parties; (ii) annual pricing mechanism review by the internal control department to ensure adherence to the pricing policies; (iii) individual agreement clearance by multiple departments to ensure terms are determined according to pricing policies and do not exceed the Revised Annual Caps; (iv) monthly monitoring of transaction amounts conducted by the finance department to ensure compliance with the Listing Rules and Revised Annual Caps.

We also note that the independent non-executive Directors of the Company have reviewed the continuing connected transactions and have confirmed that the continuing connected transactions have been entered into, amongst other, (i) on normal commercial terms or better; and (ii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

In addition, the Company’s independent auditor was engaged to report on the Group’s continuing connected transaction and confirmed that nothing has come to their attention that causes them to believe the continuing connected transactions, among others, in all material respects, (i) were not in accordance with the pricing policies of the Group or the relevant agreements governing such transactions; and (ii) had exceeded the relevant annual caps.

Having reviewed (i) confirmation made by the independent non-executive Directors’ on the Group’s 2022 Annual Report; and (ii) independent auditors’ report on continuing connected transactions for the year ended 31 December 2022; and as an additional check, we have obtained and reviewed one sample report of the cross departmental clearance for each financial year beginning from 2021 (in total three) which is consistent the measures outlined under the paragraph “Internal control measures” within the “Letter from the Board”, we are of the view that the internal control measures for monitoring the annual caps had been adhered to and we consider there exists appropriate procedures and arrangements to ensure the Transactions will be conducted on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that (i) the terms of the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement) and the Transactions (including the proposed Revised Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Transactions are on normal commercial terms or better and in the ordinary and usual course of business of the Group.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the Resolution approving the 360 Master Purchase Agreement 2022-2024 and the propose Revised Annual Caps to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Charlotte Khoo
Partner

Ms. Charlotte Khoo (“Ms. Khoo”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. Ms. Khoo has over 10 years of experience in corporate finance and advisory in Hong Kong, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Ms. Khoo is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS OF DIRECTORS

(a) Directors' interest or short positions in shares and underlying shares of the Company and its associated corporations

As at the Latest Practicable Date, save as disclosed below, none of the Directors or the chief executive of the Company or their respective associates had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

(i) Long position in shares and underlying shares of the Company

Name of Director	Nature of interest	Number of ordinary shares	Approximate percentage of holding
Mr. Tian Ye ⁽¹⁾	Interest in controlled corporations	128,664,057	47.83%
Mr. He Shiwei ⁽²⁾	Interest in controlled corporations	2,342,712	0.87%

Notes:

1. Dashi Technology and True Thrive hold approximately 17.07% 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 the Company to Dashi Technology. Dashi Technology is deemed to be interested in all the Shares and voting rights held by True Thrive. Dashi Technology is directly and wholly-owned by Mr. Tian Ye who is therefore deemed to be interested in all the Shares held by Dashi Technology.

2. Hongmeng Investment Co. Ltd (“**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.

As at the Latest Practicable Date, save for (i) Mr. Tian Ye who is a director of Dashi Technology; (ii) each of Mr. Liu Wei and Mr. Zhao Dan is a vice president of 360 Group; and (iii) Mr. Sun Chunfeng is the chairman of the board of directors of Shanghai Songheng, none of the Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(ii) *Long position in shares of associated corporations*

Name of Director	Name of associate corporation	Nature of interest	Number of shares interested	Approximate percentage of interest
Mr. Tian Ye	Dashi Technology	Beneficial owner	5,000	100%
Mr. He Shiwei	Hongmeng Investment	Beneficial owner	5,000	100%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives of the Company had, or were deemed to have, any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

(b) **Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

So far as was known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, persons other than a Director or chief executive of the Company who had interests or short positions in the Shares and underlying Shares which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, were as follows:

Long position in shares of the Company

Name of Shareholder	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of holding
Dashi Technology <i>(Notes 1 and 3)</i>	Beneficial owner	128,664,057	47.83%
True Thrive <i>(Notes 2 and 3)</i>	Beneficial owner	82,745,082	30.76%
360 Technology <i>(Notes 2 and 3)</i>	Interest in a controlled corporation	82,745,082	30.76%
360 <i>(Notes 2 and 3)</i>	Interest in a controlled corporation	82,745,082	30.76%
Tianjin Qixin Zhicheng Technology Company Limited* (天津奇信志成科技 有限公司) (“ Qixin Zhicheng ”) <i>(Notes 2 and 3)</i>	Interest in a controlled corporation	82,745,082	30.76%
Zhou Hongyi (周鴻禕) <i>(Notes 2 and 3)</i>	Interest in a controlled corporation	82,745,082	30.76%
Songchang International Limited (“ Songchang International ”) <i>(Note 4)</i>	Beneficial owner	47,282,819	17.58%
Hong Kong Songyuan International Limited (“ Songyuan International ”) <i>(Note 4)</i>	Interest in a controlled corporation	47,282,819	17.58%
Shanghai Gaoxin Computer System Company Limited* (上海高欣計算機系 統有限公司) (“ Shanghai Gaoxin ”) <i>(Note 4)</i>	Interest in a controlled corporation	47,282,819	17.58%
Shanghai Songheng <i>(Note 4)</i>	Interest in a controlled corporation	47,282,819	17.58%
Shanghai Dongfangwang Stock Company Limited* (上海東方網股份有限公司) (“ Shanghai Dongfangwang ”) <i>(Note 4)</i>	Interest in a controlled corporation	47,282,819	17.58%

Notes:

1. Dashi Technology 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.
2. True Thrive is wholly-owned by 360 Technology, which is wholly-owned by 360, which is ultimately held by Mr. Zhou Hongyi and Qixin Zhicheng. Each of 360 Technology, 360, Mr. Zhou Hongyi and Qixin Zhicheng is therefore deemed to be interested in all the Shares held by True Thrive.
3. Pursuant to the Entrustment Arrangements, True Thrive has entrusted its shareholder rights including its voting power at general meetings with respect to its shareholding in the Company to Dashi Technology. Dashi Technology 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, so far as was known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, no persons other than a Director or chief executive of the Company had any interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or required to be recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which would not expire or would not be determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTOR'S INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors has or had any interest, either directly or indirectly, in any assets which have since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up), been acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

5. DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up).

7. COMPETING INTERESTS OF DIRECTORS AND ASSOCIATES

As at the Latest Practicable Date, none of the Directors and their respective close associates had any interest in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder) or have or may have any other conflict of interest with the Group pursuant to the Listing Rules.

8. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance was pending or threatened against any member of the Group.

9. EXPERT QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
Altus Capital Limited	A corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, Altus Capital Limited did not have (i) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and (ii) any direct or indirect interest in any assets which had, since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Company were made up), been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

Altus Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<https://www.ludashi.com>) from the date of this circular up to and including the date of the EGM:

- (a) the 360 Master Purchase Agreement 2022-2024;
- (b) the Supplemental Agreement;

- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (d) the letter from Altus Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” in this circular;
- (e) the letter of consent referred to the paragraph headed “Qualification and Consent of Expert” in this appendix; and
- (f) this circular.

11. MISCELLANEOUS

- (a) The Company’s branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (b) The Cayman Islands principal share registrar and transfer office is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (c) The company secretary of the Company is Mr. Cheng Ching Kit. Mr. Cheng is an associate member of both of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.
- (d) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of the shareholders of 360 Ludashi Holdings Limited (the “**Company**”) will be held at 11:00 a.m. on Tuesday, 26 September 2023 at the conference room of the Company, 11/F, 11-24 Tianfu Software Site E1, 1268 Tianfu Avenue, High-tech Zone, Chengdu, Sichuan Province, PRC to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) the 360 Master Purchase Agreement 2022-2024 (as defined in the circular of the Company dated 8 September 2023 (the “**Circular**”)) (as supplemented by the supplemental agreement dated 21 August 2023 (“**Supplemental Agreement**”)) entered into between the Company and 360 Technology Group Co., Ltd.* (三六零科技集團有限公司) a copy of which has been produced at the EGM marked “A” and signed by the chairman of the EGM for the purpose of identification, and the execution thereof and implementation of the continuing connected transactions contemplated thereunder, as well as the revised annual caps contemplated thereof, be and are hereby approved, confirmed and ratified; and
- (b) the directors of the Company are authorised to do all such acts and/or things and/or execute all such documents incidental to, ancillary to or in connection with matters contemplated in or relating to the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the continuing connected transactions contemplated thereunder and the revised annual caps they may in their absolute discretion consider necessary, desirable or expedient to give effect to the 360 Master Purchase Agreement 2022-2024 (as supplemented by the Supplemental Agreement), the implementation of the continuing connected transactions contemplated thereby and thereunder and the revised annual caps and to agree to such variation, amendment or waiver as are, in the opinion of the directors of the Company, in the interest of the Company.”

* *For identification purpose only*

By Order of the Board
360 Ludashi Holdings Limited
Tian Ye
Chairman and executive Director

NOTICE OF EXTRAORDINARY GENERAL MEETING

Hong Kong, 8 September 2023

Registered office:

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

Principal place of business in Hong Kong:

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai, Hong Kong

Notes:

1. Any shareholder entitled to attend and vote at the EGM shall be entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A proxy need not be a shareholder of the Company. A shareholder who is the holder of two or more Shares may appoint more than one proxy to attend and vote on the same occasion.
2. A form of proxy for use at the EGM is enclosed. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not less than 48 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude members from attending and voting at the EGM or any adjournment thereof (as the case may be) should they so wish and in such event, the form of proxy shall be deemed to be revoked.
3. A form of proxy must be signed by you or your attorney duly authorized in writing or, in the case of a corporation, must be either executed under seal or under the hand of an officer or attorney duly authorized to sign the same.
4. Where there are joint holders of any Share(s), any one of such persons may attend and vote at the EGM, either in person or by proxy in respect of such Share(s) as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the EGM or any adjournment thereof (as the case may be), the more senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. On a poll, every shareholder present at the EGM shall be entitled to one vote for every fully paid-up share of which he is the holder. The result of such poll shall be deemed to be the resolution of the EGM at which the poll was so required or demanded.
6. The register of members of the Company will be closed from Thursday, 21 September 2023 to Tuesday, 26 September 2023, both days inclusive, during which period no transfer of shares will be registered. In order to determine the identity of the shareholders who are entitled to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Wednesday, 20 September 2023.