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LAJIN ENTERTAINMENT



2016


First Quarterly Report

Lajin Entertainment Network Group Limited

(formerly known as China Star Cultural Media Group Limited)
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8172)

Lajin 拉匠



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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Lajin Entertainment Network Group Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this report 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 in this report misleading.

UNAUDITED QUARTERLY RESULTS

The board of Directors (the “Board”) of Lajin Entertainment Network Group Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2016, together with the comparative unaudited figures for the corresponding periods in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 31 March	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Revenue	3	445	1,000
Cost of sales		(339)	(750)
Gross profit		106	250
Other revenue and other income	4	431	66
Administrative expenses		(23,682)	(1,711)
Share of results of joint ventures		—	(1)
Loss before tax	5	(23,145)	(1,396)
Income tax expense	6	—	—
Loss for the period		(23,145)	(1,396)

		For the three months ended 31 March	
		2016	2015
		(Unaudited)	(Unaudited)
Notes		HK\$'000	HK\$'000
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
	Exchange differences arising from the translation of foreign operations	1,859	—
	Other comprehensive income for the period	1,859	—
	Total comprehensive loss for the period	(21,286)	(1,396)
	Loss for the period attributable to:		
	Owners of the Company	(23,144)	(1,396)
	Non-controlling interests	(1)	—
		(23,145)	(1,396)
	Total comprehensive loss for the period attributable to:		
	Owners of the Company	(21,285)	(1,396)
	Non-controlling interests	(1)	—
		(21,286)	(1,396)
	Dividend	—	—
	Loss per share		
	— Basic and diluted	7 HK(0.82) cent	HK(0.12) cent

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 4203, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong respectively.

The unaudited condensed consolidated statement of profit or loss and other comprehensive income (the "Unaudited Consolidated Results") are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its subsidiaries and joint ventures are provision of artist management services, and investment in movies, TV programs and internet contents.

2. Basis of preparation and consolidation

The Unaudited Condensed Consolidated Results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. In addition, the Unaudited Condensed Consolidated Results include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of the Unaudited Condensed Consolidated Results is the historical cost convention, as modified for the revaluation of certain financial instruments which are stated at their fair values.

The preparation of Unaudited Condensed Consolidated Results in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2. Basis of preparation and consolidation (continued)

All significant intercompany transactions, balances and unrealised gain on transaction within the Group have been eliminated on consolidation.

The accounting policies and basis of preparation adopted in the preparation of the Unaudited Condensed Consolidated Results are consistent with those adopted in annual financial statements for the year ended 31 December 2015.

3. Revenue

	For the three months ended 31 March	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Artists management	300	1,000
Internet content	145	—
	445	1,000

4. Other revenue and other income

	For the three months ended 31 March	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Bank interest income	320	3
Consultancy fee income	—	63
Imputed interest income on convertible notes receivables	111	—
	431	66

5. Loss before tax

Loss before tax has been arrived at after charging:

	For the three months ended 31 March	
	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation of property, plant and equipment	620	1
Operating leases rentals in respect of rented premises	2,007	—
Staff costs including directors' remuneration		
— Salaries and allowances	10,185	1,049
— Retirement benefits schemes contributions	763	22
— Share-based payment expenses	5,051	—

6. Income tax expense

No provision of Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses bought forward during the period under review. (2015: Nil).

No provision for PRC Enterprise Income Tax and South Korea Corporate income Tax have been made during the period as the Group have no assessable profits arising in PRC and Korea. (2015: Nil).

7. Loss per share

The calculation of the basic loss per share is based on the loss attributable to owners of the Company for the three months ended 31 March 2016 of approximately HK\$23,144,000 (2015: loss attributable to owners of the Company of approximately HK\$1,396,000) and the weighted average of 2,814,802,000 shares in issue during the three months ended 31 March 2016 (2015: 1,119,175,000 shares).

As the Company's share options and preferred shares where applicable had an anti-dilutive effect to the basic loss per share calculation for the three months ended 31 March 2016, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted loss per share.

8. Condensed consolidated statement of changes in equity

	Share capital Ordinary share (Unaudited) HK\$'000	Share capital Preferred share (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Share- based payment reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Acc- umulated losses (Unaudited) HK\$'000	Sub-total (Unaudited) HK\$'000	Non- controlling interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2015 (audited)	9,198	—	150,700	—	28,294	—	(13,406)	174,786	—	174,786
Net loss for the period	—	—	—	—	—	—	(1,396)	(1,396)	—	(1,396)
Other comprehensive income for the period	—	—	—	—	—	—	—	—	—	—
Total comprehensive loss for the period	—	—	—	—	—	—	(1,396)	(1,396)	—	(1,396)
Subscription of shares	13,798	13,798	262,163	—	—	—	—	289,759	—	289,759
Share issuing expenses	—	—	(13,874)	—	—	—	—	(13,874)	—	(13,874)
At 31 March 2015	22,996	13,798	398,989	—	28,294	—	(14,802)	449,275	—	449,275
At 1 January 2016 (audited)	28,147	13,246	1,013,768	2,256	28,294	(2,043)	(43,749)	1,039,919	(34)	1,039,885
Net loss for the period	—	—	—	—	—	—	(23,144)	(23,144)	(1)	(23,145)
Other comprehensive income for the period	—	—	—	—	—	1,859	—	1,859	—	1,859
Total comprehensive loss for the period	—	—	—	—	—	1,859	(23,144)	(21,285)	(1)	(21,286)
Settlement of share subscription price	—	—	125,838	—	—	—	—	125,838	—	125,838
Recognition of equity-settled share-based payments	—	—	—	5,051	—	—	—	5,051	—	5,051
At 31 March 2016	28,147	13,246	1,139,606	7,307	28,294	(104)	(66,893)	1,149,523	(35)	1,149,488

DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 31 March 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The revenue of the Group was approximately HK\$445,000 for the three months ended 31 March 2016 (2015: HK\$1,000,000), and it was generated from the provision of artist management and investment in movies, TV programs and internet contents, representing a decrease of 55.5% as compared with the three months period ended 31 March 2015. The decrease is due to the change in business strategy and potential income derived from the new business focus has yet to be reflected in the financial statements.

The gross profit margin of the Company decreased to approximately 23.8% (2015: 25.0%).

Artists Management

During the period under review, the revenue contributed by such segment was approximately HK\$300,000 (2015: HK\$1,000,000), which derived from the contracts signed before the change of new management and our business strategy.

The Group has dedicated to develop an integrated and cross-media entertainment platform in China. Such platform will consist of different elements, aiming at fostering new and talented artists and providing massive high quality entertainment media contents, including but not limited to live broadcast, mobile broadcast, interaction between audiences and artists, marketing and promotion of music related contents and resources & etc. Recently we have successfully conducted a small scale trial run of live broadcast programs, and coming up next would be the audition for potential artists (to be conducted online or offline), which is scheduled to commence in June 2016.

Movies, TV programs and internet contents

During the period under review, the revenue contributed by such segment was approximately HK\$145,000 (2015: Nil), representing the income from live broadcasting on the internet platform.

The Group already has more than 20 movies and TV programs in its investment pipeline and all of which are planned to be completed during 2016 to 2017. The Group's very first movie was released to theatres in April 2016 and the revenue of which is recognised in the 2nd quarter.

Besides the local resources, in January 2016, we have reached cooperation agreement with Mr. Jung Hoon-Tak (鄭勳卓) to form joint venture in both Korea and China for investment of movies.

Administrative expenses were mainly the staff costs, operating leases and other general administrative expenses of the Group incurred during the period under review. Administrative expenses increased to approximately HK\$23,682,000 from approximately HK\$1,711,000 in prior quarter. It was mainly attributed to the increase in expenses on operating leases amounted to approximately HK\$2,007,000 (2015: Nil) and salaries and allowances amounted to approximately HK\$10,185,000 (2015: HK\$1,049,000) due to the expansion of offices and increased number of employees to cope with the business development of the Group.

During the period under review, loss for the period attributable to owners of the Company was approximately HK\$23,144,000 (2015: HK\$1,396,000), which was mainly attributed from the administrative expenses amounted to approximately HK\$23,682,000 (2015: HK\$1,711,000).

Event after the Reporting Period

There is no significant event occurred subsequently after the balance sheet date.



Prospects

The Group has committed to develop an integrated and cross-media entertainment platform in China. Although it takes a longer time than expected to lay the ground work for rolling out the business plan, the Group is optimistic of its future going forward. We have paved a clear path of development by formulating the right business strategy and focus, recruiting and co-operating with high calibre personnel, and more importantly, raising sufficient working capital for the time being. In the coming future, we will continue to source for more quality media contents, as well as other acquisition opportunities of reasonable price. We know that competition would be keen in the industry but we are confident that our strategy is right and with the support by our major shareholders, the Group will have a great success.

CAPITAL STRUCTURE

As at the date of this report, the Company has in issue a total of 2,814,801,922 ordinary shares, and 1,324,612,668 convertible preferred shares which are convertible to 1,394,329,124 ordinary Shares based on the adjusted conversion price of HK\$0.19.

USE OF PROCEEDS

The Company has conducted the following fund raising activities and the details of the use of proceeds are as follows:

Date of Completion of the fund raising activities	Fund raising activities	Net proceeds (approximate)
19 March 2015	Subscription of 1,379,804,865 new ordinary shares and 1,379,804,862 new preferred shares ("First Subscription")	HK\$538.4 million
14 September 2015	Subscription of 459,934,954 new ordinary shares ("Second Subscription")	HK\$482.6 million

As at the date of this quarterly report, the Group had utilised approximately HK\$304.5 million of the net proceeds from the first Subscription as follows:

- (i) As to approximately HK\$204.8 million was used in investment in movies, TV programs and internet contents and other related investments in Korean entertainment companies;
- (ii) As to approximately HK\$39.3 million for acquisition of properties in PRC; and
- (iii) As to approximately HK\$60.4 million for general working capital and acquisition of fixed assets.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 March 2016, the interests and short positions of the Directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code were as follows:

(i) Long positions in the ordinary shares of HK\$0.01 each of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Number of share options held	Approximate percentage of the issued share capital of the Company
Ms. Wu Li	Beneficial owner	—	8,000,000	0.28%
Mr. Chan Kam Kwan Jason	Beneficial owner	—	12,000,000	0.43%
Mr. Zhou Ya Fei	Beneficial owner	—	1,000,000	0.04%
Mr. Zou Xiao Chun	Beneficial owner	—	1,000,000	0.04%
Mr. Ng Wai Hung	Beneficial owner	—	1,000,000	0.04%
Mr. Lam Cheung Shing Richard	Beneficial owner	—	1,000,000	0.04%
Mr. Wang Ju	Beneficial owner	—	1,000,000	0.04%

Save as disclosed above, none of the Directors and chief executives, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2016.



SHARE OPTION SCHEME

On 10 June 2014, the Company adopted a new share option scheme (“Share Option Scheme”) and terminated the share option scheme adopted by the Company on 6 March 2002. The purpose of the Share Option Scheme is to enable the Company to grant options to the eligible participants (“Participants”) in order to recognise and motivate the contribution of the Participants to the Group. The Share Option Scheme is effective for 10 years and will be expired in June 2024.

During the quarter ended 31 March 2016, 15,000,000 options has been granted. The exercise price of the options granted was HK\$1.088. The basis of determination of the exercise price was in accordance to rule 23.03(9) of the GEM Listing Rules, in which the exercise price was at least the higher of (i) the closing price of the shares of the Company as stated in the Stock Exchange’s daily quotation sheet on the date of grant, (ii) the average closing price of the shares of the Company as stated in the Stock Exchanges’ daily quotations sheets for the five business days immediately preceding the date of grant, or (iii) nominal value of the shares of the Company.

The total number of options outstanding amounts to 73,000,000 as at 31 March 2016, with exercise price being HK\$1.088.

The total number of shares of the Company available for issue under the Share Option Scheme amounts to 156,967,477 shares as at the date of this report, representing 5.58% of the issued share capital outstanding.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme, at no time during the three months ended 31 March 2016 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2016, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:


Long positions in ordinary shares of HK\$0.01 each of the Company

Name of substantial shareholder	Capacity	Notes	Interest in shares	Interest in underlying shares (vi)	Total interest in shares	Approximate percentage of the Company's issued share capital
Jiaxuan	Beneficial owner	(i)	965,863,405	1,016,698,320	1,982,561,725	70.43%
Eagle King Investment Holding Limited	Interest of controlled corporation	(i)	965,863,405	1,016,698,320	1,982,561,725	70.43%
Mr. Wong Kwong Yu	Interest of controlled corporation	(i)	965,863,405	1,016,698,320	1,982,561,725	70.43%
Great Majestic Global Holdings Limited	Interest of controlled corporation	(i)	965,863,405	1,016,698,320	1,982,561,725	70.43%
Ms. Ma Qing	Interest of controlled corporation	(i)	965,863,405	1,016,698,320	1,982,561,725	70.43%

Name of substantial shareholder	Capacity	Notes	Interest in shares	Interest in underlying shares (vi)	Total interest in shares	Approximate percentage of the Company's issued share capital
CITIC Group Corporation	Interest of controlled corporation	(ii)	459,934,954	—	459,934,954	16.34%
CITIC Limited	Interest of controlled corporation	(ii)	459,934,954	—	459,934,954	16.34%
Famous Peak Investments Limited	Beneficial owner	(ii)	459,934,954	—	459,934,954	16.34%
Vision Path Limited	Beneficial owner	(iii)	206,970,730	217,863,925	424,834,655	15.09%
Ms. Yu Nan	Interest of controlled corporation	(iii)	206,970,730	217,863,925	424,834,655	15.09%
First charm Investments Limited	Beneficial owner	(iv)	151,778,535	159,766,879	311,545,414	11.07%
Mr. Ko Chun Shun Johnson	Interest of controlled corporation	(iv)	151,778,535	159,766,879	311,545,414	11.07%
Best of Us Company Limited	Beneficial owner	(v)	228,438,228	—	228,438,228	8.12%
Ms. Shang Na	Interest of controlled corporation	(v)	228,438,228	—	228,438,228	8.12%

Notes:

- (i) Jiaxuan is owned as to 55% by Eagle King Investment Holding Limited (“Eagle King”) and as to 45% by Great Majestic Global Holdings Limited (“Great Majestic”). Mr. Wong Kwong Yu owns 100% of Eagle King and Ms. Ma Qing owns 100% of Great Majestic.
- (ii) Famous Peak Investments Limited is a wholly-owned subsidiary of CITIC Investment (HK) Limited, being one of the wholly-owned subsidiaries of CITIC Limited. CITIC Group Corporation is the holding company of the CITIC Limited.
- (iii) Ms. Yu Nan owns 100% of Vision Path.
- (iv) Mr. Ko Chun Shun, Johnson owns 100% of First Charm.
- (v) Pursuant to the Shareholders’ Agreement entered into between the Company and Ms. Shang Na, the Company has agreed to subscribe for 51% interest in a joint venture company, Young Film Company Limited, and the rest 49% interest (the “JV Shares”) is agreed to be held by Best of Us Company Limited (the “JV Partner”), a wholly-owned company by Ms. Shang. The joint venture shall engage in the business of sourcing and production of media contents. The Company has also entered into the Deed in relation to the granting of the Shang Put Option and the Company Call Option entitling (i) the JV Partner to require the Company to purchase the JV Shares beneficially held by it at the Option Price; or (ii) the Company to require the JV Partner to sell the JV Shares beneficially held by it to the Company at the Option Price (as applicable). The Option Price shall be settled by the allotment and issuance of the Consideration Shares in batches, in accordance with the formula and manner as set out in the Deed. The 228,438,228 ordinary shares disclosed above is the maximum number of Consideration Shares to be issued by the Company, with the Option Price being calculated on the basis of an estimated accumulated profit of RMB150 million. Ms. Shang owns 100% of Best of Us Company Limited.

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- (vi) The underlying shares represent the number of shares in which preferred shares can be converted into as mentioned in Notes (i), (iii) and (iv) above. Assuming such preferred shares are fully paid up and converted, a total of 1,394,329,124 new ordinary shares of the Company will be issued accordingly (subject to applicable adjustments). The Subscribers have been granted a whitewash waiver, waiving the obligation of the Subscribers to make a general offer under Rule 26 of the Takeovers Code upon conversion of such preferred shares

Save as disclosed above, at 31 March 2016, the Company has not been notified by any persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

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

During the three months ended 31 March 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee consists of three members, namely Mr. Lam Cheung Shing, Richard (chairman of the audit committee), Mr. Zhou Ya Fei and Mr. Ng Wai Hung, all being independent non-executive directors except for Mr. Zhou Ya Fei who is a non-executive director of the Company. The primary duties of the audit committee are to review the Company's annual report and financial statements, quarterly reports and interim report and to provide advice and comment thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company. The audit committee has reviewed the first quarterly report and results for the three months ended 31 March 2016 before proposing to the Board for approval.

By order of the Board
Lajin Entertainment Network Group Limited
Chan Kam Kwan Jason
Company Secretary

Hong Kong, 13 May 2016

As at the date of this report, the executive directors are Ms. Wu Li and Mr. Chan Kam Kwan Jason; the non-executive directors are Mr. Luo Ning, Mr. Zou Xiao Chun and Mr. Zhou Ya Fei and the independent non-executive directors are Mr. Ng Wai Hung, Mr. Lam Cheung Shing Richard and Mr. Wang Ju.