



Lajin

LAJIN ENTERTAINMENT

2016

Third 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

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this Report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Report.

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 and nine months ended 30 September 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 30 September		For the nine months ended 30 September	
		2016	2015	2016	2015
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	278	3,160	6,453	4,440
Cost of sales		(226)	(2,869)	(41,031)	(3,843)
Gross (loss)/profit		52	291	(34,578)	597
Other income	4	393	186	1,273	467
Administrative expenses		(28,755)	(14,612)	(85,937)	(27,334)
Share of profits and losses of associates		2,736	—	2,500	—
Share of profits and losses of joint ventures		—	(3)	—	(4)
Gain arising on change in fair value of financial assets classified as held for trading investments		—	—	—	9,780
Loss before tax	5	(25,574)	(14,138)	(116,742)	(16,494)
Income tax expense	6	(17)	—	(38)	—
Loss for the period		(25,591)	(14,138)	(116,780)	(16,494)

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2016	2015	2016	2015
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Other comprehensive (loss)/ income:					
Other comprehensive (loss)/ income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations		(1,503)	206	(11,909)	102
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		(1,503)	206	(11,909)	102
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(27,094)	(13,932)	(128,689)	(16,392)
Loss for the period attributable to:					
Owners of the Company		(25,591)	(14,129)	(116,769)	(16,485)
Non-controlling interests		—	(9)	(11)	(9)
		(25,591)	(14,138)	(116,780)	(16,494)
Total comprehensive loss for the period attributable to:					
Owners of the Company		(27,094)	(13,923)	(128,678)	(16,383)
Non-controlling interests		—	(9)	(11)	(9)
		(27,094)	(13,932)	(128,689)	(16,392)
Dividend		—	—	—	—
Loss per share	7				
— Basic and diluted		HK(0.91) cent	HK(0.72) cent	HK(4.15) cent	HK(0.84) 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 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 Condensed 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 associates are provision of artists management services, and investment in movie, 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 30 September		For the nine months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Sales of film rights	274	3,160	6,001	3,160
Artists management	—	—	300	1,280
Internet contents	4	—	152	—
	278	3,160	6,453	4,440

4. Other income

	For the three months ended 30 September		For the nine months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Bank interest income	281	127	938	273
Consultancy fee income	—	59	—	185
Sundry income	—	—	1	9
Imputed interest income on convertible notes receivable	112	—	334	—
	393	186	1,273	467

5. Loss before tax

Loss before tax is arrived at after charging:

	For the three months ended 30 September		For the nine months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	790	799	2,115	802
Loss on disposal of items of property, plant and equipment	22	—	37	—
Operating lease rentals in respect of office premises	2,465	3,699	6,840	4,419
Staff costs including directors' remuneration				
— Salaries and allowances	13,461	7,205	36,368	14,418
— Retirement benefit scheme contributions	1,395	597	3,229	1,032
— Share-based payment expenses	5,285	—	15,563	—
	20,141	7,802	55,160	15,450

6. Income tax expense

	For the three months ended 30 September		For the nine months ended 30 September	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Current tax:				
People's Republic of China Corporate Income Tax	17	—	38	—

Under the Law of the People's Republic of China on Corporate Income Tax (the "CIT Law") and Implementation Regulation of the CIT Law, the tax rate of the PRC subsidiaries is 25%.

No provision for Hong Kong profits tax and Korea corporate income tax have been provided as the Group did not generate any assessable profits arising in Hong Kong and Korea or the estimated assessable profit was wholly absorbed by tax losses brought forward during the period under review. (for the nine months ended 30 September 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 30 September 2016 of approximately HK\$25,591,000 (2015: loss attributable to owners of the Company of approximately HK\$14,129,000) and loss attributable to owners of the Company for the nine months ended 30 September 2016 of approximately HK\$116,769,000 (2015: loss attributable to owners of the Company of approximately HK\$16,485,000) and weighted average of 2,814,802,000 shares in issue during the three months ended 30 September 2016 (2015: 1,960,974,000 shares) and weighed average of 2,814,802,000 shares in issue during the nine months ended 30 September 2015 (2015: 1,960,974,000 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 and nine months ended 30 September 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 shares (Unaudited) HK\$'000	Share capital-preferred shares (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Accumulated 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
Loss for the period	—	—	—	—	—	—	(16,485)	(16,485)	(9)	(16,494)
Other comprehensive income for the period:										
Exchange differences arising from the translation of foreign operations	—	—	—	—	—	102	—	102	—	102
Total comprehensive loss for the period	—	—	—	—	—	102	(16,485)	(16,383)	(9)	(16,392)
Non-controlling interests arising on issuing of shares	—	—	—	—	—	—	—	—	4	4
Subscription of shares	18,397	13,798	876,820	—	—	—	—	909,015	—	909,015
Conversion from preferred shares to ordinary shares	552	(552)	—	—	—	—	—	—	—	—
Share issue expenses	—	—	(14,525)	—	—	—	—	(14,525)	—	(14,525)
At 30 September 2015	28,147	13,246	1,012,995	—	28,294	102	(29,891)	1,052,893	(5)	1,052,888
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
Loss for the period	—	—	—	—	—	—	(116,769)	(116,769)	(11)	(116,780)
Other comprehensive income for the period:										
Exchange differences arising from the translation of foreign operations	—	—	—	—	—	(11,909)	—	(11,909)	—	(11,909)
Total comprehensive loss for the period	—	—	—	—	—	(11,909)	(116,769)	(128,678)	(11)	(128,689)
Settlement of share subscription price	—	—	125,838	—	—	—	—	125,838	—	125,838
Recognition of equity-settled share-based payment	—	—	—	15,563	—	—	—	15,563	—	15,563
Capital contribution from non-controlling shareholder	—	—	—	—	—	—	—	—	624	624
At 30 September 2016	28,147	13,246	1,139,606	17,819	28,294	(13,952)	(160,518)	1,052,842	579	1,053,221

DIVIDEND

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The revenue of the Group was approximately HK\$6,453,000 for the nine months ended 30 September 2016 (for the nine months ended 30 September 2015: HK\$4,440,000), and it was generated from the provision of artists management and investment in movies, TV programs and internet contents, representing an increase of 45.3% as compared with the nine months ended 30 September 2015. The increase is due to the recognition of the sales of film rights of the first movie, which was released in April 2016.

During the period under review, loss for the period attributable to owners of the Company was approximately HK\$116,769,000 (for the nine months ended 30 September 2015: HK\$16,485,000), which was mainly attributed from (i) the increase in cost of sales to approximately HK\$41,031,000 (for the nine months ended 30 September 2015: HK\$3,843,000); (ii) the increase in administrative expenses to approximately HK\$85,937,000 in the current period (for the nine months ended 30 September 2015: HK\$27,334,000). The significant increase in cost of sales was due to the first movie released in current period.

Artists Management

During the period under review, the revenue contributed by such segment was approximately HK\$300,000 (for the nine months ended 30 September 2015: HK\$1,280,000), which derived from the contracts signed before the change of new management and our business strategy.

Movies, TV programs and Internet Contents

During the period under review, the revenue contributed by such segment was approximately HK\$6,153,000 (for the nine months ended 30 September 2015: HK\$3,160,000), representing the sales of film rights owned by the Group (“The Guest” — 不速之客) to an internet video platform; the sales of film rights to overseas and the income from live broadcasting on the internet platform. Although the movie “The Guest” (不速之客) had been released during the second quarter, its contribution from the box office will only be recognized in the end of the year when such income is received.

Administrative Expenses

Administrative expenses were mainly the staff costs, operating leases expenses and other general administrative expenses of the Group incurred during the period under review. Administrative expenses increased to approximately HK\$85,937,000 from approximately HK\$27,334,000 in prior period. It was mainly attributable to (i) the increase in expenses on operating leases amounted to approximately HK\$6,840,000 (for the nine months ended 30 September 2015: HK\$4,419,000); (ii) Salaries and allowances amounted to approximately HK\$36,368,000 (for the nine months ended 30 September 2015: HK\$14,418,000) due to the expansion of offices and increased number of employees to cope with the business development of the Group; (iii) Share options expenses of HK\$15,563,000 (for the nine months ended 30 September 2015: Nil).

Business Plan

Cross-media project

The first episode of the flagship internet variety show “Birth of the Stars (明星的誕生)” invested by the Group has been exclusively broadcasted by the leading video platform “iQiyi (愛奇藝)” on 3rd November, following every Thursday with 12 episodes in total. As at the date of this report, the 1st episode has reorded a hit rate of over 30 million. “Birth of the Stars (明星的誕生)” is the first internet variety show displaying the potential and the growth of 80 contestants, and to witness one of them to become a star. With this spectacular program, Lajin aims at fostering a group of new talented artists, and building a successful brand of variety show in China.



The Group's self-developed mobile application "Lajin APP" will continue to serve as an interactive platform between contestants and their fans and provide the latest updates of "Birth of the Stars". Contestants can display their talent and skills by sharing photos, videos and other media contents and host a live broadcast through "Lajin APP". In addition, audiences can interact with contestants through live broadcast and support their favourite artist by giving credits and virtual gifts.

TV/Movies

The Group continues to invest in greater varieties of TV/Movies.

Among our production timeline, a TV series named "She is Pretty" (她很漂亮) was completed and we are in negotiation with our customers for the sale of such programme. As for movies productions, "Twenty" (二十歲), a movie invested and produced by the Group, was completed at the end of August while another movie "A Restaurant with Problems" (問題餐廳) began shooting at the end of September.

Lajin's Star Base

The renovation of Lajin's star base in Beijing is due to be completed by end of 2016. The base, comprising two 6-storey buildings of approximately 5,600 square meters in total will become our multi-function media and training centre. The base is equipped with top-tier recording studios (video and music), live broadcasting facilities and different function rooms for artists' trainings. The base is essential for Lajin to create future stars in the entertainment sector.

Event after the Reporting Period

There is no significant events occurred subsequently after the reporting period.

ACQUISITION OF AMAZING VIEW LIMITED

On 20 May 2016, Frontier Services Group Limited ("Frontier Services"), as vendor, entered into the Sale and Purchase Agreement with the Company, as purchaser, pursuant to which Frontier Services has agreed to sell and the Company has agreed to acquire the entire issued share capital of Amazing View Limited as at the date of the Sale and Purchase Agreement, at a consideration of HK\$250,250,000. The consideration was determined through arm's length negotiations between Frontier Services and the Company on a commercial basis with reference to the unaudited consolidated net assets of the disposed group. The directors of the Company consider that the consideration for the acquisition is fair and reasonable and on normal commercial terms, and in the interests of the shareholders as a whole. Please refer to the announcement of the Company dated 20 May 2016 for details of this transaction.

CAPITAL STRUCTURE

As at 30 September 2016, 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

Date of Completion of the fund raising activities	Fund raising activities	Net proceeds (approximate)
14 September 2015	Subscription of 459,934,954 new ordinary shares ("Second Subscription")	HK\$482.6 million

As at the date of this quarter report, the Group had utilised approximately HK\$632.8 million of the net proceeds from the First and Second Subscription as follows:

- (i) As to approximately HK\$446.0 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\$57.0 million for acquisition and renovation of properties in PRC; and
- (iii) As to approximately HK\$129.8 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 30 September 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:

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

Name of Director	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company	
			Number of share options held	
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 30 September 2016.

SHARE OPTION SCHEME

On 10 June 2014, the Company adopted a new share option scheme (“New Share Option Scheme”) and terminated the share option scheme adopted by the Company on 6 March 2002. The purpose of the New 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 period ended 30 September 2016, 15,000,000 options has been granted. The exercise price of the options granted was HK\$1.088 per share. 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 on the Stock Exchange daily quotation sheet on the date of grant, (ii) the average closing price of the Shares of the Company as stated on the Stock Exchange's daily quotation sheets for the five business days immediately proceeding 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 30 September 2016, with weighted average exercise price of HK\$1.088 per share. No options were exercised, cancelled nor lapsed during the period.

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 of the Company.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes and employee award plan, at no time during the nine months ended 30 September 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 30 September 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 (Note vi)	Total interest in shares	Approximate percentage of the Company's issued share capital
Jiaxuan Group Company Limited	Beneficial owner	(i)	965,863,405	1,016,698,320	1,982,561,725	70.43%
Eagle King International 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%
Mr. Xu Zhongmin	Interest of controlled corporation	(i)	965,863,405	1,016,698,320	1,982,561,725	70.43%
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. ShangNa	Interest of controlled corporation	(v)	228,438,228	—	228,438,228	8.12%

Notes:

- (i) Jiakuan 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 Mr. Xu Zhongmin 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.
- (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 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 30 September 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.

COMPETING INTEREST

At 30 September 2016, none of the Directors, the substantial shareholders nor their respective associates had an interest in any business which competes or may compete with the business of the Group.

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

During the nine months ended 30 September 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. By applying rigorous corporate governance practices, the Group believes that its accountability and transparency will be improved thereby instilling confidence to shareholders and the public.

The Company has complied with the code provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules for the nine months ended 30 September 2016, with the exception of CG Code Provisions A.2.1 (separation of roles of chairman and chief executives) and A.4.1 (specific terms of non-executive Directors).

(a) Chairman and Chief Executive Officer

Under the CG Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As of the date of this Report, both of the positions of Chairman and Chief Executive Officer of the Company were still left vacant. The Company will continue to look for the appropriate candidate to fill the vacancy as chairman and the chief executive officer.

(b) Terms of non-executive Directors

Under the CG Code provision A.4.1, all non-executive Directors should be appointed for a specific term, subject to re-election. The term of office for non-executive Directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the Directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this Code provision.

(c) Non-executive Directors attending general meeting

Under the Code provision A.6.7 of CG Code, non-executive Directors should attend general meetings. Certain non-executive directors were unable to attend the annual general meeting and special general meeting of the Company held on 28 June 2016 due to other business commitment.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2016, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, the Company's Directors confirmed they have complied with the required standards of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

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 non-executive Directors or independent non-executive Directors. 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 third quarterly report and results for the nine months ended 30 September 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, 11 November 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. Wang Ju, Mr. Ng Wai Hung and Mr. Lam Cheung Shing Richard.