



2019

Third Quarterly Report

拉近網娛集團有限公司
LAJIN ENTERTAINMENT
NETWORK GROUP LIMITED

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

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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 and nine months ended 30 September 2019, together with the comparative unaudited figures for the corresponding periods in 2018 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	
		2019	2018	2019	2018
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	877	1,594	23,319	36,543
Cost of sales		(276)	(1,205)	(13,424)	(89,622)
Gross profit/(loss)		601	389	9,895	(53,079)
Other income and gains/(loss)	4	432	2,387	(907)	6,813
Selling and distribution expenses		(274)	(3,691)	(361)	(6,876)
Administrative expenses		(10,320)	(19,015)	(34,520)	(61,834)
Finance costs		(39)	—	(147)	—
Other expenses		(93)	—	(93)	—
Share of profits and losses of:					
Associates		1,163	(323)	823	(2,035)
A joint venture		24	(880)	(2,117)	(158)
Loss before tax	5	(8,506)	(21,133)	(27,427)	(117,169)
Income tax expense	6	9	—	9	—
Loss for the period		(8,497)	(21,133)	(27,418)	(117,169)

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	
	2019	2018	2019	2018
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
OTHER COMPREHENSIVE LOSS: Other comprehensive loss to be reclassified to profit or loss in subsequent periods: Exchange differences on translation of foreign operations	(15,786)	(23,938)	(15,859)	(33,071)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(15,786)	(23,938)	(15,859)	(33,071)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(24,283)	(45,071)	(43,277)	(150,240)
Loss for the period attributable to:				
Owners of the parent	(8,492)	(20,849)	(27,153)	(116,385)
Non-controlling interests	(5)	(284)	(265)	(784)
	(8,497)	(21,133)	(27,418)	(117,169)
Total comprehensive loss for the period attributable to:				
Owners of the parent	(24,325)	(44,823)	(43,062)	(149,514)
Non-controlling interests	42	(248)	(215)	(726)
	(24,283)	(45,071)	(43,277)	(150,240)
Dividend	—	—	—	—
Loss per share attributable to ordinary equity holders of the parent	7			
— Basic and diluted	HK(0.21) cents	HK(0.50) cents	HK(0.65) cents	HK(2.77) cents

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 3903A, 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 the Group are provision of artists management services, and investment in movies, TV programmes and internet contents.

2. BASIS OF PREPARATION

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 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 2018. These Unaudited Condensed Consolidated Results should be read in conjunction with the annual financial statement of the Group for the year ended 31 December 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE

	For the three months ended 30 September		For the nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Sales of film rights	—	—	21,634	—
TV and internet programme	—	1,048	—	34,988
Artists management	876	546	1,568	1,555
Others	1	—	117	—
	877	1,594	23,319	36,543

4. OTHER INCOME AND GAINS/(LOSS)

	For the three months ended 30 September		For the nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
OTHER INCOME				
Interest income on film investment	—	1,097	—	1,097
Bank interest income	85	313	340	1,046
Consultancy service income	—	512	26	2,950
Rental income	189	105	643	899
Others	—	226	—	423
	274	2,253	1,009	6,415
GAINS/(LOSS)				
Gain on acquisition of a subsidiary	—	—	3,516	—
Loss on previously held equity interest remeasured at acquisition date fair value	—	—	(5,590)	—
Others	158	134	158	398
	158	134	(1,916)	398
	432	2,387	(907)	6,813

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. LOSS BEFORE TAX

Loss before tax is arrived at after charging/(crediting):

	For the three months ended 30 September		For the nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	3,781	2,886	11,177	9,470
Amortisation of other assets	280	258	861	834
Written off of other assets	—	468	—	468
Impairment loss recognised, in respect of other receivables, net	93	119	93	119
Operating lease rentals in respect of office premises	105	1,734	312	6,202
Exchange loss/(gain), net	135	(113)	(105)	(151)
Staff costs including directors' remuneration				
— Salaries and allowances	3,095	7,233	11,375	23,300
— Pension scheme contributions	296	676	1,111	2,184
	3,391	7,909	12,486	25,484

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX EXPENSE

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 2018: Nil).

During the period under review, the net amount of the PRC enterprise income tax paid in accordance with the rate of 25% of assessable profit, and the income tax refund received was HK\$9,000 (for the nine months ended 30 September 2018: Nil).

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share is based on the loss attributable to ordinary equity holders of the parent for the three months ended 30 September 2019 of approximately HK\$8,492,000 (2018: loss attributable to ordinary equity holders of the parent of approximately HK\$20,849,000) and loss attributable to ordinary equity holders of the parent for the nine months ended 30 September 2019 of approximately HK\$27,153,000 (2018: loss attributable to ordinary equity holders of the parent of approximately HK\$116,385,000) and weighted average of 4,209,130,000 shares in issue during the three months ended 30 September 2019 (2018: 4,209,130,000 shares) and weighed average of 4,209,130,000 shares in issue during the nine months ended 30 September 2019 (2018: 4,209,130,000 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 2019, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted loss per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2019

	Attributable to owners of the parent										
	Share capital - Ordinary shares	Share premium	Fair value reserve	Share-based payment reserve	Contributed surplus	Other reserve	Exchange reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
At 31 December 2017	42,090	1,138,909	—	21,024	28,294	14,476	2,462	(347,841)	899,414	257	899,671
Effect of adoption of HKFRS 9	—	—	68	—	—	—	—	804	872	—	872
At 1 January 2018 (restated)	42,090	1,138,909	68	21,024	28,294	14,476	2,462	(347,037)	900,286	257	900,543
Loss for the period	—	—	—	—	—	—	—	(116,385)	(116,385)	(784)	(117,169)
Other comprehensive (loss)/income for the period	—	—	—	—	—	—	(33,129)	—	(33,129)	58	(33,071)
Total comprehensive loss for the period	—	—	—	—	—	—	(33,129)	(116,385)	(149,514)	(726)	(150,240)
At 30 September 2018 (Unaudited)	42,090	1,138,909	68	21,024	28,294	14,476	(30,667)	(463,422)	750,772	(469)	750,303
At 1 January 2019	42,090	1,138,909	(11,267)	3,074	28,294	13,786	(28,904)	(565,158)	620,824	(170)	620,654
Loss for the period	—	—	—	—	—	—	—	(27,153)	(27,153)	(265)	(27,418)
Other comprehensive (loss)/income for the period	—	—	—	—	—	—	(15,909)	—	(15,909)	50	(15,859)
Total comprehensive loss for the period	—	—	—	—	—	—	(15,909)	(27,153)	(43,062)	(215)	(43,277)
Share of reserve reversal of a joint venture	—	—	—	—	—	(7,612)	—	7,612	—	—	—
Share-based payment reserve upon the expiry of share options	—	—	—	(3,074)	—	—	—	3,074	—	—	—
At 30 September 2019 (Unaudited)	42,090	1,138,909	(11,267)	—	28,294	6,174	(44,813)	(581,625)	577,762	(385)	577,377

DIVIDEND

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2019 (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The revenue of the Group was approximately HK\$23,319,000 for the nine months ended 30 September 2019 (for the nine months ended 30 September 2018: HK\$36,543,000), representing a decrease of 36.2% as compared with the nine months ended 30 September 2018. The decrease was mainly due to the decrease in revenue from the Group's movies, TV programmes and internet content business. The Group's revenue is derived from the following segments:

Movies, TV programmes and Internet Contents

During the period under review, the revenue contributed by such segment was approximately HK\$21,634,000 (for the nine months ended 30 September 2018: HK\$34,988,000), representing the sales income from film rights.

Artists Management

During the period under review, the revenue contributed by such segment was approximately HK\$1,568,000 (for the nine months ended 30 September 2018: HK\$1,555,000).

Other

During the period under review, other revenue was approximately HK\$117,000 (for the nine months ended 30 September 2018: nil), representing the sales income from song rights.

Cost of sales for the nine months ended 30 September 2019 decreased to approximately HK\$13,424,000 (for the nine months ended 30 September 2018: HK\$89,622,000), which was mainly attributable to a high-cost TV drama was accounted last year. Administrative expenses were mainly the staff costs, depreciation and other general administrative expenses of the Group incurred during the period under review. Administrative expenses decreased to approximately HK\$34,520,000 from approximately HK\$61,834,000 in the prior period attributable to the staff cost control of the Group leading to the decrease in salaries and related expenses to approximately HK\$12,486,000 (for the nine months ended 30 September 2018: HK\$25,484,000).

Loss for the period attributable to owners of the parent was approximately HK\$27,153,000 (for the nine months ended 30 September 2018: HK\$116,385,000). The reduction in loss was primarily due to a TV drama with material loss credited in the same period of last year and the decrease in administrative expenses this year.

BUSINESS REVIEW

Movies, TV Programmes and Internet Contents

The Group continued to team up with talented creative teams as well as powerful and affluent media companies in the TV/movies industry for its investments in quality TV/movies projects for the sake of effectively managing and mitigating the risks for our investments. Besides, the Group has produced many internet related media contents in the industry, including internet TV dramas, internet movies, thus building Lajin Entertainment's internet media ecosystem.

As of 31 December 2018, the management reviewed the status of each project and decided to make impairments for seven projects which were considered doubtful and unlikely for further development. Uncertainties or difficulties surrounding these projects include i) the lack of progress in the sales of distribution rights of a TV drama as a result of scandals of some cast members in the drama; ii) the difficulties in developing or sales of some Korea IPs for policies allegedly imposed; iii) the cessation in continuing to develop some projects due to careful business consideration. Due to the dynamic nature of the entertainment business, the abovementioned hiccups may just be temporary and the management may revive them when suitable business opportunities arise.

With the rapid development of video streaming websites and internet movies in Mainland China, the Group will continue to increase its investment in internet movies in 2019. Given the success of the internet-movie projects in 2018, the Group invested in a series of projects of larger scale and investment including “Hey! Tiny Bone” (《嘿！小骨頭》), “The Legend of Zu 2” (《蜀山降魔傳2》), “Swordsmanship and Immortality Cultivation” (《天劍修仙傳》), “Yan Chixia” (《燕赤霞》), “The Strongest Iron Mr. Nanny” (《最強鐵血奶爸》) and “Legend of Lu Bu” (《呂布傳》) in pursuit of “blockbuster” projects to generate considerable profit contributions to the Group. Among them, “Swordsmanship and Immortality Cultivation” (《天劍修仙傳》) has been released on Tencent Video, achieving over ten million view counts in just half-day on the first day and over one hundred million view counts after released for 2 weeks. “Swordsmanship and Immortality Cultivation” (《天劍修仙傳》) was at the top of the “Internet Movie Blockbuster Chart” (《網絡電影霸屏榜》) for 3 consecutive days and recorded over 160 million

view counts to date which ranked the second largest number of audiences on all platforms in 2019. Since the release of “The Legend of Zu 2” (《蜀山降魔傳2》), the box office and popularity has not dropped and ranked number one in “iQiyi Internet Movies Shared Revenue Chart” (“愛奇藝網絡電影分賬榜”) for 8 consecutive days. To date the shared revenue of the movie has exceeded RMB13 million, ranking second in the iQiyi monthly Chart and 12th in the annual Chart.

In addition to internet movies, the Group also invested in theatrical films “Pegasus” (《飛馳人生》), “The Home Front” (《破陣子》), “farewell U” (《再見少年》) and “Daily fantasy” (《日常幻想指南》). “Pegasus” (《飛馳人生》) was released during the Lunar New Year period and recorded a satisfactory box office in the Mainland China.

The Group is the lead investor and producer in the following key projects, including but not limited to:

“Faithful Dog Hachiko” (《忠犬八公》)

The Group has been granted the license for “Hachi: A Dog’s Tale” (《忠犬八公的故事》) (a famous Japanese film with Kaneto Shindo as the scriptwriter) by Jiro Shindo, the licence owner of this film, and has adapted it into the Chinese version, “Faithful Dog Hachiko” (《忠犬八公》). Script adaptation for this movie has been completed and Mr. Xu Ang has confirmed to direct this movie. Director Xu Ang’s representative work include the stage drama “What Makes You Beautiful” (《喜劇的憂傷》), the film “12 Citizens” (《十二公民》) and the internet drama “Medical Examiner Dr. Qin” (《法醫秦明》). At this stage “Faithful Dog Hachiko” (《忠犬八公》) has gained a very positive response either in financing or seeking cooperative teams. The Group is proactively identifying suitable leading actor and training dogs for filming after the completion of preparative works at early stage.

“The Tibet Code”

The Group has entered into a joint investment and development agreement with Tencent Pictures, Guoying Investment and Dimension Films to collectively produce the film series of “The Tibet Code” (《藏地密碼》) adapted from the bestselling novel of the same name. We have invited Mr. Huang Jianxin, a famous director, executive producer and producer, to be the executive producer of the first film of the “The Tibet Code” (《藏地密碼》) series, who acted as the executive producer of films including “The Warlords” (《投名狀》) and “The Taking of Tiger Mountain” (《智取威虎山》) and the producer of films such as “My People, My Country” (《我和我的祖國》), “Bodyguards and Assassins” (《十月圍城》) and “Operation Mekong” (《湄公河行動》). Mr. Huang Hai will lead the scriptwriter team for “The Tibet Code” (《藏地密碼》) whose scripting works include “The Devotion of Suspect X” (《嫌疑人X的獻身》), “Wu Kong” (《悟空傳》) and “Mystery of Antiques” (《古董局中局》). We are now looking for a director for this film series.

“Legend of the Galactic Heroes” (《銀河英雄傳說》)

The project is based on the famous novel written by the distinguished Japanese novelist Tanaka Yoshiki. The Group has entered into a cooperation agreement with “Linghe Media” for the development of TV drama under this super IP which has extensive experience in producing “super dramas”, in which Bai Yicong, a key person of this company has a nickname of “Internet Dramas No. One”. The last Chinese New Year holiday witnessed the great market potential of Chinese science fiction movies. Therefore, the theatrical film of “Legend of the Galactic Heroes” is actively under study hoping this legendary story can bring new impetus to Chinese science fiction movies.

The above projects are the main focus of our investments in the coming 2-3 years which will receive the Group’s full support and plan to release or distribute in or after 2020.

Furthermore, the previously invested theatrical movies like “The Dynasty Warriors” (《真·三國無雙》), “Theory of Ambition” (《風再起時》), “I’m Livin’ It” (《麥路人》), “Ori Princess, the Elf is Coming” (《甜心格格之精靈來了》) and “In Winter” (《藍色列車》) are either under post-production or scheduled for release while “Fagara in Mara” (《花椒之味》) and “If You are Happy” (《學區房72小時》) have been released during this year. “If You are Happy” (《學區房72小時》) is shortlisted in the nomination of two awards “The Best Small and Medium Budget Story” and “The Best supporting actress” in the 32th Golden Rooster Award. After shown in theatre, the film received positive feedbacks and various film critics call it a “A Masterpiece of Realism”. “I’m Livin’ It” (《麥路人》) starring “Best Actor” award winner Mr. Aaron Kwok is highly anticipated even before screening. This movie is chosen as the Closing Gala film of London East Asian Film Festival and featured in Tokyo International Film Festival “Asian Future” section.

Artists Management

The Group continuously optimizes the portfolio of artists. The Group provides customized performance opportunities for the development of our new artists through the media and music projects produced or invested by the Group. On the other hand, the Group has developed a new source of advertising income for artists via various channels such as online marketing and e-commerce.

Amongst all artists under our management, Chen Xinzhe (陳信詰) shows enormous potential and has been put in the limelight quickly. Chen Xinzhe, a new-born and post-95 generation star, develops his career on multiple fronts: movie, television and music. He has published 8 singles as well as 4 theme songs for movies/TV and performed in 20 movies/TV since his debut two years ago. The first single of Chen Xinzhe “I Miss You Again” (《我又想你了》), which recorded over 50,000 comments in the NetEase Cloud Music (網易雲音樂) music platform has entered the Tik Tok Music new song chart shortly after its release online, and subsequently entered the hit song chart of Tik Tok Music also. His debut movie “Exorcism Master” (《鎮魂法師》) has recorded over 60 million click-rates within 3 months after the exclusive release in Youku. This result has broken many industry records of internet movie production and captured the first championship of profit-sharing in the industry which has become a milestone production in the development of internet movie production. Chen Xinzhe is also the first artist who marked above 60 million click-rates in the internet movie industry. In July 2019, he was invited to take part in an event hosted by Mango TV in which he closely interacted with fans and gained vast popularity on the spot. Chen Xinzhe’s recently starring in an Internet drama “《我在六扇門的日子》” as the lead actor, which is co-presented by iQiyi Literature and currently

intensively shot in Hengdian. In addition, “The Evil Thief’s White Bone Clothes” (《魔盜白骨衣》), an Internet drama produced by Youku, and the satellite TV series “Crazy Troupe” (《瘋狂劇團》) are both scheduling for release. Apart from his impressive achievements in the movies/TV and music sectors, his accomplishment also extended to charitable events through participation in the “Charity Walk for Tibet” (《千里西藏助學行》) of “Xiantou Commonwealth” (線頭公益) and the “Support! Free Lunch” (《支持·免費午餐》) of Tencent Foundation, supporting the children in need with actions.

In addition, artist Ye Zicheng (葉子誠) had demonstrated remarkable performance in the theatrical movie “Twentys” (《二十歲》) and in the TV drama “Leverage” (《槓桿》) invested by Lajin Picture, and the romantic drama 《不說謊的戀人》 adapted from the popular anime with the same name is currently shooting in Jiangsu. In addition, our artist Zhang Linyue (張琳悅) who participated in the internet movies “The Legend of Zu” (《蜀山降魔傳》) and “The Legend of Zu 2” (《蜀山降魔傳2》) also had outstanding performance.

We will strive to secure more commercial advertisement jobs for our artists and leverage on the facilities available in our Lajin Base to provide them with necessary trainings and shooting/production environment, enabling these future stars to shine.

Music

Lajin Music has augmented the copyright of a large number of high quality original music compositions through the past 2-year efforts, covering a variety of mainstream and non-mainstream music in styles of pop, rock, classical, folk, electronic, rap, etc.

The Group has developed a comprehensive music promotion and dissemination network and commenced copyright operation in full swing: Lajin Music collaborated with various domestic mainstream music platforms, such as QQ Music, KuGou Music, Kuwo Music, NetEase Cloud Music, Xiami Music as well as TikTok and gradually opened overseas issuance channels. It also established strategic partnerships with nearly 100 radio stations and internet radio channels in China.

During the current period, Lajin Music (拉近音樂) provided support to the Group’s film and artist management businesses with its music creation, and also produced and distributed music products for several movies/TV dramas and artists. Lajin Music/Huo Miao has become one of the three interrelated industry chains of the Group.

Lajin Base

Lajin Base (the “Base”) located in Yi Zhuang (亦莊), Beijing comprises two 6-storey buildings of approximately 5,600 square metres in total and houses various facilities and functionalities, including top-tier recording studios, dance studios, band rooms, styling salons, theatres, live broadcasting facilities, intelligent programmes productions, talents development, media postproductions and copyrights management.

Lajin Base is the most strategic and forward-looking business framework of Lajin Entertainment Network. Equipped with first-class facilities of the country, it possesses independent intellectual property rights and high-tech connectivity combining first-class functions such as Internet entertainment, stars nurturing, movie and video production, interaction with fans and master’s studios.

Lajin Base supplies both front stage and backstage talents for the domestic movie, television, music and performing arts industries. It also produces high-quality cultural and entertainment content of positive energy and values for the market.

The Base has discussed cooperation with several production houses in relation to the provision of the Base’s venue and facilities and the advanced programmes productions technology for the production of some specific variety shows. In addition, the Base also cooperated with various platforms, such as providing venues and professional services to artist management companies for nurturing artist and “internet celebrity” anchor.

The Group will continue to promote the Base’s competitive edge and strive to secure cooperation of similar nature so as to deepen the cooperative relationship with the leading streaming platforms in the industry through quality content production in forms of livestreaming, short videos, music, artists and variety entertainment, to increase the stable income stream, as well as to ensure the maximum utilization of our facilities. The management will regularly evaluate the utilization and positioning of the Base and formulate the best strategy for its deployment, together with optimizing the operational model and human resources management for the Base in order to maximize the return for the Company and its shareholders.

CAPITAL STRUCTURE

As at 30 September 2019, the Company has in issue a total of 4,209,131,046 ordinary shares.

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.

Details of the options outstanding as at 30 September 2019 which have been granted to directors or chief executives under the Share Option Scheme are as follows:

		Outstanding as at 1 January 2019	Granted	Exercised	Lapsed	Outstanding as at 30 September 2019
Other employees	2016A	15,000,000	—	—	(15,000,000)	—
Total options outstanding		15,000,000	—	—	(15,000,000)	—

Details of the specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price
2016A	21 January 2016	21 January 2016 to 20 January 2017	21 January 2017 to 21 January 2019	HK\$1.088

During the period under review, no options were granted or exercised under the Share Option Scheme and the total of 15,000,000 options under the Share Option Scheme have been lapsed. No option has been outstanding as at 30 September 2019.

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 3.73% of the issued share capital outstanding.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Scheme and employee award plan, at no time during the nine months ended 30 September 2019 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 2019, 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	Approximate percentage of the Company's issued share capital
Jiaxuan Group Company Limited ("Jiaxuan")	Beneficial owner	(i)	1,982,561,725	47.10%
Eagle King Investment Holding Limited	Interest of controlled corporation	(i)	1,982,561,725	47.10%
Mr. Wong Kwong Yu	Interest of controlled corporation	(i)	1,982,561,725	47.10%
Great Majestic Global Holdings Limited	Interest of controlled corporation	(i)	1,982,561,725	47.10%
Mr. Xu Zhong Min	Interest of controlled corporation	(i)	1,982,561,725	47.10%
CITIC Group Corporation	Interest of controlled corporation	(ii)	459,934,954	10.93%
CITIC Limited	Interest of controlled corporation	(ii)	459,934,954	10.93%
Famous Peak Investments Limited	Beneficial owner	(ii)	459,934,954	10.93%
Vision Path Limited	Beneficial owner	(iii)	424,834,655	10.10%
Ms. Yu Nan	Interest of controlled corporation	(iii)	424,834,655	10.10%
First Charm Investments Limited	Beneficial owner	(iv)	311,545,414	7.40%
Mr. Ko Chun Shun, Johnson	Interest of controlled corporation	(iv)	311,545,414	7.40%

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 Mr. Xu Zhong Min 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.

Save as disclosed above, at 30 September 2019, 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 2019, 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 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

PROVISION OF INFORMATION IN RESPECT OF AND BY DIRECTOR(S)

Updated information with regard to the change in other directorships of the Directors of the Company is as set out below:

Mr. Ng Wai Hung has been appointed as an independent non-executive director of Winshine Science Company Limited (Stock Code: 209) on 21 May 2019.

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 2019, with the exception of CG Code Provisions A.2.1 (separation of roles of chairman and chief executives), A.4.1 (specific terms of non-executive Directors) and A.6.7 (non-executive Directors to attend general meetings).

(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 CG Code provision A.6.7, non-executive Directors should attend general meetings. Certain non-executive directors were unable to attend the annual general meeting due to other business commitments.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2019, 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 2019 before proposing to the Board for approval.

By order of the Board
Lajin Entertainment Network Group Limited
Leung Wai Shun Wilson
Company Secretary

Hong Kong, 14 November 2019

As at the date of this report, the executive director is Ms. Zhai Shan Shan and Ms. Wu Li; the non-executive directors are 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.