



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

THIRD QUARTERLY REPORT
2020





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 2020, together with the comparative unaudited figures for the corresponding periods in 2019 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	
		2020	2019	2020	2019
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	4,059	877	5,708	23,319
Cost of sales		(7,085)	(276)	(7,140)	(13,424)
Gross profit/(loss)		(3,026)	601	(1,432)	9,895
Other income and gains/(loss)	4	46	432	686	(907)
Selling and distribution expenses		(277)	(274)	(1,689)	(361)
Administrative expenses		(8,936)	(10,320)	(26,007)	(34,520)
Finance costs		(31)	(39)	(103)	(147)
Other expenses		—	(93)	—	(93)
Share of profits and losses of:					
Associates		669	1,163	2,377	823
A joint venture		—	24	—	(2,117)
Loss before tax	5	(11,555)	(8,506)	(26,168)	(27,427)
Income tax expense	6	—	9	(9)	9
Loss for the period		(11,555)	(8,497)	(26,177)	(27,418)





CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the three months ended 30 September		For the nine months ended 30 September	
	2020	2019	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<i>Note</i>				
OTHER COMPREHENSIVE LOSS:				
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	13,458	(15,786)	5,939	(15,859)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	13,458	(15,786)	5,939	(15,859)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	1,903	(24,283)	(20,238)	(43,277)
Loss for the period attributable to:				
Owners of the parent	(11,520)	(8,492)	(25,982)	(27,153)
Non-controlling interests	(35)	(5)	(195)	(265)
	(11,555)	(8,497)	(26,177)	(27,418)
Total comprehensive loss for the period attributable to:				
Owners of the parent	1,997	(24,325)	(20,009)	(43,062)
Non-controlling interests	(94)	42	(229)	(215)
	1,903	(24,283)	(20,238)	(43,277)
Dividend	0	—	0	—
Loss per share attributable to ordinary equity holders of the parent				
— Basic and diluted	7 (0.28) cent	(0.21) cent	(0.62) cent	(0.65) 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 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 2019. These Unaudited Condensed Consolidated Results should be read in conjunction with the annual financial statement of the Group for the year ended 31 December 2019.





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE

	For the three months ended 30 September		For the nine months ended 30 September	
	2020	2019	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Distribution agency fee	(120)	—	1,363	—
TV and internet programme	4,172	—	4,237	—
Artists management	5	876	5	1,568
Sales of film rights	—	—	—	21,634
Others	55	1	103	117
	4,099	877	5,708	23,319

4. OTHER INCOME AND GAINS/(LOSS)

	For the three months ended 30 September		For the nine months ended 30 September	
	2020	2019	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
OTHER INCOME				
Bank interest income	170	85	586	340
Rental income	—	189	171	643
Consultancy service income	—	—	—	26
	170	274	757	1,009
GAINS/(LOSS)				
Exchange differences, net	(124)	—	(71)	—
Gain on acquisition of a subsidiary	—	—	—	3,516
Loss on previously held equity interest remeasured at acquisition-date	—	—	—	(5,590)
Others	—	158	—	158
	(124)	158	(71)	(1,916)
	46	432	686	(907)





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	
	2020	2019	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation of property, plant and equipment	2,447	3,781	7,693	11,177
Amortisation of other assets	183	280	589	861
Lease payment not included in the measurement of lease liabilities	205	105	1,129	312
Impairment loss recognised, in respect of other receivables, net	—	93	—	93
Depreciation of right-of-use assets	346	—	1,030	—
Exchange loss/(gain), net	(18)	135	(71)	(105)
Staff costs including directors' remuneration				
— Salaries and allowances	3,098	3,095	8,340	11,375
— Pension scheme contributions	5	296	92	1,111
	3,103	3,391	8,932	12,486





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 bought forward during the period under review (for the nine months ended 30 September 2019: Nil).

During the period under review, the amount of the PRC enterprise income tax was paid in accordance with the rate of 25% of assessable profit, and the income tax paid 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 2020 of approximately HK\$11,520,000 (2019: loss attributable to ordinary equity holders of the parent of approximately HK\$8,492,000) and loss attributable to ordinary equity holders of the parent for the nine months ended 30 September 2020 of approximately HK\$25,982,000 (2019: loss attributable to ordinary equity holders of the parent of approximately HK\$27,153,000 and weighted average of 4,209,130,000 shares in issue during the three months ended 30 September 2020 (2019: 4,209,130,000 shares) and weighted average of 4,209,130,000 shares in issue during the nine months ended 30 September 2020 (2019: 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 2020, 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 2020

	Attributable to owners of the parent											
	Share capital — Ordinary			Share — Fair value based					Non — controlling interests			Total
	shares	premium	reserve	reserve	Contributed surplus	Other reserve	Exchange reserve	Accumulated losses	Sub-total	interests		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
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	—	—	—	
Transfer of 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	
At 1 January 2020	42,090	1,138,909	(12,744)	—	28,294	14,072	(35,898)	(649,572)	525,051	(1,736)	523,315	
Loss for the period	—	—	—	—	—	—	—	(25,982)	(25,982)	(195)	(26,177)	
Other comprehensive (loss)/ income for the period	—	—	—	—	—	—	5,973	—	5,973	(34)	5,939	
Total comprehensive loss for the period	—	—	—	—	—	—	5,973	(25,982)	(20,009)	(229)	(20,238)	
At 30 September 2020 (Unaudited)	42,090	1,138,909	(12,744)	—	28,294	14,072	(29,925)	(675,654)	(505,042)	(1,965)	503,077	





DIVIDEND

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2020 (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The revenue of the Group was approximately HK\$5,708,000 for the nine months ended 30 September 2020 (for the nine months ended 30 September 2019: HK\$23,319,000), representing a decrease of 75.5% as compared with the nine months ended 30 September 2019. 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\$5,600,000 (for the nine months ended 30 September 2019: HK\$21,634,000), representing the income from movie distribution agency fee and shared revenue from internet movies while the revenue represented the sales income from film rights for last year.

ARTISTS MANAGEMENT

During the period under review, the revenue contributed by such segment was approximately HK\$5,000 (for the nine months ended 30 September 2019: HK\$1,568,000).

OTHER

During the period under review, other revenue was approximately HK\$103,000 (for the nine months ended 30 September 2019: HK\$117,000), representing the sales income from song rights and revenue from goods sales through short videos and livestreaming.





Cost of sales for the nine months ended 30 September 2020 decreased to approximately HK\$7,140,000 (for the nine months ended 30 September 2019: HK\$13,424,000), which mainly represented the costs of investment in internet movies. 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\$26,007,000 from approximately HK\$34,520,000 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\$8,932,000 (for the nine months ended 30 September 2019: HK\$12,486,000).

Loss for the period attributable to owners of the parent was approximately HK\$25,982,000 (for the nine months ended 30 September 2019: HK\$27,153,000).

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 investing 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 many internet movies, internet drama and variety show, thus building Lajin Entertainment's internet media ecosystem.

As of 31 December 2019, the management reviewed the status of each project and decided to make impairments for some projects which were considered doubtful and unlikely for further development. These projects mainly represented copyright and script writing costs and were attempted to be developed in prior years but ceased due to careful business consideration. These projects were mainly TV dramas or internet dramas. Considering the relatively long preparation time and difficulty in cost-control, market risk for dramas is higher and the Group has become more cautious in investing drama-type projects recently. Due to the dynamic nature of the entertainment business, the abovementioned hiccups may just be temporary and the management may revive them or realize by transferring out when suitable business opportunities arise.





With the rapid development of video streaming websites and internet movies in Mainland China, the Group has continued to increase its investment in internet movies since last year and invested and produced a series of projects, such as “The Crisis of Young IP Man” (《少年葉問之危機時刻》), “Seven Mahatmas during the Journey to the West” (《西遊七大聖》), New Militiaman Ge Erdan (《新編民兵葛二蛋》), A Wizard in Tang Dynasty (《大唐龍雀衛》), “The Legend of the Condor Heroes” (《射雕英雄傳》) Part I and II, “The Legend of Zu 3” (《蜀山降魔傳3》) and “Monty Python” (《變異巨蟒》). The number of projects and investment scales have been increasing, from which we would be in pursuit of “blockbuster” projects to generate considerable profit contributions to the Group. Internet movie projects, such as “The Legend of Lu Bu” (《鬥破亂世情》), “The Strongest Iron Mr. Nanny” (《最強鐵血奶爸》), “Hey! Tiny Bone” (《嘿！小骨頭》) and “Yan Chixia and St Scorpion” (《燕赤霞之五尾天蠍》), have recently been released, while other internet movies, such as “The Crisis of Young IP Man” (《少年葉問之危機時刻》), “Sea Monster in the Changbaishan Tianchi” (《長白山天池水怪》), “Mega Crocodile” (《巨鱷》), “Heroes of Desert” (《大漠神龍》) and “A Unique Militiaman” (《民兵葛二蛋》), are expected to be released on various internet platforms in the fourth quarter.

In virtue of its experience in investment in internet movie projects, the Group has deepened its exploration in internet movie market by taking the initiative to consolidate industry resources. The Group commenced to expand its business into internet movie distribution business in 2019, and “Di Renjie-Deep Sea Dragon Palace” (《狄仁傑之深海龍宮》), the first internet movie distributed by the Group, was launched on Youku with satisfactory results. As of September 2020, the shared box office of “Di Renjie-Deep Sea Dragon Palace” (《狄仁傑之深海龍宮》) has amounted to RMB13.50 million. The business model of investment-assisted distribution has not only enabled the Group to continuously deepen project participation but also have more opportunities to participate in different stages of mega projects. After effectively evaluating project risks, the Group has given priority in choosing high-quality projects so as to raise project revenue.





Furthermore, the Group has also established its strategic cooperation relationship with numerous media companies that have the capacity for producing theatrical films, and fully leveraged on its experience and advantages in the field of internet-based products to remake classic films and television drama IP to produce quality internet movies with partners. To date, the “The Legend of the Condor Heroes” (《射雕英雄傳》) Part I and II, the “The Crisis of Young IP Man” (《少年葉問之危機時刻》) of the Ip Man series and Tibet Adventurer (《藏地奇兵》) are being produced through this model. The series of Legends of the Condor Heroes (《射雕英雄傳》) Part I and II started shooting in Hengdian in July and successfully completed in August. Tibet Adventurer (《藏地奇兵》) with an actress Qin Lan being the producer and art director whose representative works include the Story of Yanxi Palace (《延禧攻略》) and the Princess Pearl III (《還珠格格3》) received extensive attention immediately after such news was first released by media in June.

In addition to internet movies, the Group’s key theatrical film projects include but not limit 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, to adapt 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》). Ms. Yeh Jufeng, a famous executive producer from Taiwan, will act as the executive producer of the movie. She has produced several movies well known to audience, such as Our Times (《我的少女時代》), A Sun (《陽光普照》) and The Village of No Return (《健忘村》). As the project is attracting more and more attention in the industry, and in view of the Group’s strategies to optimize resources utilization and reach cooperation with top domestic film and television companies, the Group will work closely with iQIYI platform. This project was successfully selected as one of the key projects of iQIYI’s “Original Film Plan” (原創電影計劃). Benefiting from the brand effect and resources integration, launching of the project into the market will be accelerated and will speed up return of investment of the Group.





“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 best-selling 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 identifying for a director for this film series. The first draft of the screenplay has been completed in June and we will carry out the project based on the market condition.

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

The project is based on the best-selling novel written by the distinguished Japanese novelist Tanaka Yoshiki. The Group has entered into a cooperation agreement with “Linghe Media” (靈河文化) which has extensive experience in producing “super dramas” for the development of internet drama under this super IP, in which Bai Yicong, a key person of this company has a nickname of “Internet Dramas No. One”. The Chinese New Year holiday in 2019 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 our main focus in the coming 2–3 years which will receive the Group’s full support and are planned to be made and released or online thereafter.





Furthermore, the previously invested theatrical movies like “The Dynasty Warriors” (《真•三國無雙》), “Theory of Ambition” (《風再起時》), “Ori Princess, the Elf is Coming” (《甜心格格之精靈來了》), “In Winter” (《藍色列車》) and “A Guide to Daily fantasy” (《日常幻想指南》) are either under post-production or scheduled for release. “Fagara in Mara” (《花椒之味》) and “If You are Happy” (《學區房72小時》) released during last year and “I’m Livin’ It” (《麥路人》) released recently brought a number of award nominations to the Group. “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 Masterpiece of Realism”. “I’m Livin’ It” (《麥路人》) starring “Best Actor” award winner Mr. Aaron Kwok is chosen as the Closing Gala film of London East Asian Film Festival and featured in Tokyo International Film Festival “Asian Future” section. The 39th Hong Kong Film Awards in 2020, Mr. Aaron Kwok and Ms. Sammi Cheng in “I’m Livin’ It” (《麥路人》) and “Fagara in Mara” (《花椒之味》) respectively received the Best Actor and Best Actress award nomination. Moreover, the two movies “I’m Livin’ It” (《麥路人》) and “Fagara in Mara” (《花椒之味》) received 21 awards nomination in total and both received the Best Film award nomination. Cheung Tat Ming of “I’m Livin’ It” (《麥路人》) won the best supporting actor, and Cheung Siu Hong also won the award for best art director in virtue of “Fagara in Mara” (《花椒之味》).

Since COVID-19 pandemic remains recurrent from the beginning of 2020 until now, although domestic cinemas has orderly resumed business from 20 July onwards, the promotion and distribution of traditional movies and the advancement of large-scale film and television production become quite prudent. However, the pandemic does not show any signs of improvement around the globe, and many blockbuster films originally scheduled for global release have been withdrawn from cinemas. Due to the characteristics of long production cycle of film and television products, the slowdown in the output of mega theatrical movies will also affect the real recovery of the industry in the future.





However, compared to traditional theatrical movies, the performance of internet content products infuses a “cardiac stimulant” to the film and television industry. In terms of internet movie products only, 28 internet movies recorded a shared box office of more than RMB10 million each on the iQIYI platform as of September 2020, of which 7 internet movies recorded a shared box office of more than RMB20 million each, and 10 and 9 internet movies recorded a shared box office of more than RMB10 million each on the Tencent and Youku video platform, respectively. Affected by the pandemic, people’s ways of entertainment have undergone major changes and film spectators went out less during the period of pandemic prevention, which has also driven more film and television products to be released via the Internet, further enrich the content and induce more traditional film and television talents flow to the field of internet film and television. Such changes further accelerate the development of internet content products in pursuit of high quality and intensify the competition among various forms of film and television products, such as internet movies, internet dramas and short videos, in content for a long time in the future. In light of the foregoing, the profit margin will increase and thus, a structural transformation to the industry will arise.

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.

Affected by the COVID-19 pandemic, the filming of most film and television projects throughout the country were suspended during this period. It is expected to seriously hit the income of the Group’s artists as the global COVID-19 pandemic has presented no signs of slowdown until now. In addition, the Group has discharged several artists to remain the quality ones in the past year. These factors affected the profit forecast of the previously acquired artist agency. Therefore, the Group has made impairments for the goodwill and the exclusive agency rights of artists of this subsidiary in 2019. By leveraging on past artists’ management experience, the Group will endeavor to search for more talented artists/internet celebrities and create returns and contribution for the Group in combination with our various business segments.





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 distribution 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 distribution 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 in terms of music creation, and also produced and distributed music products for several movies/TV dramas and artists. Lajin/Huo Miao has become one of the three interrelated industry chains of the Group.

In 2020, Lajin Music will initiate a "Searching for Chinese Root Music Program" as a major founder. The project is established based on the cultural foundation of the Chinese nation, blended with the most advanced production technology and media communication methods and the professionalism of the music industry, and plans to establish a copyright database of the most outstanding, best-selling, and symbolic root music signifying the Chinese cultural confidence. In addition, by adopting different media communication methods, the project will be promoted by integrating with music works, local culture, tourism resources and local products. Eventually, with the support of resources from various levels of government, the project will be established into a comprehensive, novel, and commercially closed-loop cultural project.

Lajin Music is also actively exploring a new music variety show to blend idol nurturing and musical bands under a unique program format and concept to direct traffic and flow back to the bands. The rolling candidate pool will produce music copyrights in the show and such integration will recycle the traffic circulations. In this process, stable and effective growth of traffic is guaranteed, which is the main development direction of Lajin Music in the future. Show, band and music copyright are integrated and can also be realized independently, which will eventually contributing to building a unique "platform" for star creation and music promotion, so as to generate a steady flow of musicians and classic works.





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.

In order to maximize the value of the Base, the Base will become the focal point to develop new media e-commerce business which is believed to bring significant revenue and steady growth to the Group:

NEW MEDIA E-COMMERCE BUSINESS*

As of March 2020, the number of domestic internet broadcasting users reached 560 million, representing an increase of 163 million as compared with the end of 2018 and accounted for 62% of the total internet users, of which the number of fast-growing e-commerce live streaming users was 265 million, accounted for 29.3% of the total internet users. In terms of online video, as of March 2020, the number of domestic online video (including short video) users reached 850 million, representing an increase of 126 million as compared with the end of 2018, which accounted for 94.1% of the total internet users, of which number of short video users was 773 million, representing an increase of 125 million as compared with the end of 2018 and accounted for 85.6% of the total internet users. Early 2020, as affected by the COVID-19 pandemic, the users and time length of using online video applications increased significantly.

In 2019, the total number of internet celebrities rose at an average rate of 1.4% per month, among which active celebrities with more than 500,000 fans maintained a high growth momentum, with average monthly growth rate of more than 3%. Social platforms and internet celebrities such as key opinion leaders (KOL) and key opinion consumers (KOC) have been exerting more influence on users’ consumption decisions. Among the high-value internet celebrities with 3 million-plus followers, celebrities with e-commerce accounted for the highest proportion, exceeding 80%.





The purchase conversion rate of traditional e-commerce was only 0.37%, social media e-commerce was 6% to 10%, and the top internet celebrity e-commerce can reach 20%. The total number of followers of internet celebrities were more than 600 million, indicating that in the e-commerce sector, internet celebrity e-commerce has an obvious advantage of conversion rate.

The new media e-commerce business is a content-driven retail business with the core concept of “new media content incubation + chic brands management”. Leveraged on the film and television culture industry foundation and by virtue of its advantages of high-end content production, celebrity operation and media operation, the Group creates a collaborative system of people, products and markets to endow the retail business with a new driving force. During the “Double Eleven Event” period, the Group will cooperate with Jingdong (京東) platform to create a popular variety show, “Pretty Plus” (《玩美普拉斯》), to promote consumer products online. The show will be live-streamed in Jingdong live-streaming platform in the form of a regular column, in which regular MC, online celebrity with a huge fan base and KOLs in vertical field will be the show guests. The variety show entertainment content will be integrated with good-stuff recommendation, knowledge sharing and interactive games. At present, the competition among Internet platforms and content providers in China is fierce, and the customer acquisition cost of traditional e-commerce companies continues to rise, so it is urgent to develop a new low-cost traffic access. High quality content has become a cost-effective way to obtain traffic, which opens a new traffic entrance for traditional e-commerce companies, and provides an opportunity for the Group to explore new business.

Recently, the Group has reached cooperation intentions with numerous large-scale e-commerce platform companies and brands, in relation to the provision of new media branding services based on short video and live streaming for clients to facilitate their brand marketing and to realize the transformation of their sales model. The Company has also reached a cooperation with a company engaged in the operation of fashion and luxury brands, to strengthen its supply chain capabilities and create the “vertical e-commerce celebrity” driven by supply chain (i.e. an e-commerce celebrity who mainly specialises in selling a particular type of products at the beginning of opening his or her account serving as a specialist to build a sense of trust with users.), and meanwhile promote new products.

* Source of data: China Internet Development Report 2020 — China Internet Network Information Center
Big Trend! Interpretation of the Trend of “People, Product and Place” under Live-streaming E-commerce (《大風口！直播電商「人貨場」趨勢解讀》) — Northeast Securities





CAPITAL STRUCTURE

As at 30 September 2020, the Company has in issue a total of 4,209,131,046 ordinary shares.

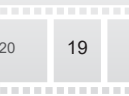
SHARE OPTION SCHEME

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.

As at 30 September 2020, there were no outstanding options.

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 2020 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 2020, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that 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 2020, 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.

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

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 2020.

COMPETING INTEREST

At 30 September 2020, 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 2020, 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 the Director(s) of the Company is as set out below:

Ms. Wu Li passed away on 10 September 2020.

CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasize 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 2020, 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 2020, 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 2020 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, 13 November 2020

As at the date of this report, the executive director is Ms. Zhai Shan Shan; 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.

