



拉近網娛集團有限公司

LAJIN ENTERTAINMENT NETWORK GROUP LIMITED



2021 FIRST QUARTERLY REPORT



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 small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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 ended 31 March 2021, together with the comparative unaudited figures for the corresponding periods in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 31 March	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue	3	19,846	1,474
Cost of sales		(16,517)	(28)
Gross profit		3,329	1,446
Other income	4	119	369
Selling and distribution expenses		(188)	(21)
Administrative expenses		(9,547)	(8,563)
Share of profit/(loss) of: Associates		(1,632)	631
Loss before tax	5	(7,919)	(6,138)
Income tax expense	6	(3)	(9)
Loss for the period		(7,922)	(6,147)



		For the three months ended 31 March	
		2021	2020
		(Unaudited)	(Unaudited)
<i>Notes</i>		HK\$'000	HK\$'000
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
	Exchange differences on translation of foreign operations	(316)	(8,002)
OTHER COMPREHENSIVE INCOME/ (LOSS) FOR THE PERIOD, NET OF TAX		(316)	(8,002)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(8,238)	(14,149)
Loss for the period attributable to:			
	Owners of the parent	(7,231)	(6,070)
	Non-controlling interests	(691)	(77)
		(7,922)	(6,147)
Total comprehensive loss for the period attributable to:			
	Owners of the parent	(7,555)	(14,102)
	Non-controlling interests	(683)	(47)
		(8,238)	(14,149)
Dividend		—	—
Loss per share			
	— Basic and diluted	7	(0.17) cent
			(0.14) cent



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 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 its subsidiaries and associates are provision of artiste management services, and investment in movies, TV programmes 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 the 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.

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 2020.

3. REVENUE

	For the three months ended 31 March	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
New media e-commerce business	13,924	—
TV and internet programme	4,458	14
Distribution agency fee	1,023	1,431
Sales of film rights	364	—
Artiste management	63	29
Others	14	—
	19,846	1,474

4. OTHER INCOME

	For the three months ended 31 March	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Bank interest income	91	198
Income on film investments	28	—
Rental income	—	171
	119	369



5. LOSS BEFORE TAX

Loss before tax is arrived at after charging:

	For the three months ended 31 March	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	2,816	2,962
Amortisation of other assets	6	205
Lease payment not included in the measurement of lease liabilities	151	175
Staff costs including directors' remuneration		
— Salaries and allowances	4,792	2,664
— Retirement benefits schemes contributions	457	89
	5,249	2,753

6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax and Korea corporate income tax has been made during the period 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 (2020: Nil).

During the period, the amount of the PRC enterprise income tax paid in accordance with the rate at 25% of assessable profit, and the income tax paid was HK\$3,455 (2020: HK\$9,000).

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 31 March 2021 of approximately HK\$7,231,000 (2020: loss attributable to ordinary equity holders of the parent of approximately HK\$6,070,000) and the weighted average of 4,209,131,000 shares in issue during the three months ended 31 March 2021 (2020: 4,209,131,000 shares).

As the Company's share options and preferred shares where applicable had an anti-dilutive effect to the basic loss per share calculation for the three months ended 31 March 2021, 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

	Attributable to owners of the parent									
	Ordinary	Share	Fair value	Contributed	Other	Exchange	Acc-		Non-	
	Share	premium	reserve	surplus	reserve	reserve	umulated	Sub-total	controlling	Total
Capital						losses		interests		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020 (audited)	42,090	1,138,909	(12,744)	28,294	14,072	(35,898)	(649,672)	525,051	(1,736)	523,315
Net loss for the period	—	—	—	—	—	—	(6,070)	(6,070)	(77)	(6,147)
Other comprehensive income for the period	—	—	—	—	—	(8,032)	—	(8,032)	30	(8,002)
Total comprehensive loss for the period	—	—	—	—	—	(8,032)	(6,070)	(14,102)	(47)	(14,149)
At 31 March 2020 (unaudited)	42,090	1,138,909	(12,744)	28,294	14,072	(43,930)	(655,742)	510,949	(1,783)	509,166
At 1 January 2021 (audited)	42,090	1,138,909	(18,858)	28,294	14,055	(17,180)	(780,011)	407,299	(2,530)	404,769
Net loss for the period	—	—	—	—	—	—	(7,231)	(7,231)	(691)	(7,922)
Other comprehensive income for the period	—	—	—	—	—	(324)	—	(324)	8	(316)
Total comprehensive loss for the period	—	—	—	—	—	—	—	—	—	—
At 31 March 2021 (unaudited)	42,090	1,138,909	(18,858)	28,294	14,055	(17,504)	(787,310)	399,744	(3,213)	396,531



DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 31 March 2021 (2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The revenue of the Group was approximately HK\$19,846,000 for the three months ended 31 March 2021 (2020: HK\$1,474,000), representing an increase of 1,246.40% as compared with the three months ended 31 March 2020. The increase was mainly due to the increase in revenue from the Group's movies, TV programmes, internet content business and new media e-commerce business.

Cost of sales for the three months ended 31 March 2021 increased to approximately HK\$16,517,000 (2020: HK\$28,000), which was mainly attributable to the increase in cost from the Group's movies, TV programmes and internet content business and the increase in cost of the new media e-commerce business. Administrative expenses were mainly staff costs, operating leases and other general administrative expenses of the Group incurred during the period under review. Administrative expenses increased to approximately HK\$9,547,000 from approximately HK\$8,563,000 in the corresponding period. It was mainly attributable to the increase in expenses on staff costs due to the increase in staff with the development of e-commerce new business of the Group.

Loss for the period attributable to owners of the parent was approximately HK\$7,231,000 (2020: HK\$6,070,000). The increase in loss was primarily due to the increase in administrative expenses.

Movies, TV Programmes and Internet Contents

During the period under review, the revenue contributed by such segment was mainly attributable to the distribution agency fee of approximately HK\$1,023,000 (2020: HK\$1,431,000) and its income from TV and internet programmes, sales of film rights of approximately HK\$4,458,000 (2020: HK\$14,000).

Artiste Management

During the period under review, the revenue contributed by such segment was approximately HK\$63,000 (2020: HK\$29,000).



New Media E-commerce Business

During the period under review, the revenue contributed by such segment was approximately HK\$13,924,000 (2020: Nil).

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 2020, the management had reviewed the position of various projects and made impairment on some projects which were considered to be subject to high uncertainty, unpredictable cost recovery and unlikely to be further developed. These projects include several theatrical movies invested in earlier years by the Group. Due to the changes in overall market factors and audience tastes in recent years, coupled with the impact of the epidemic, the release time and box office of these theatrical movies are more difficult to predict. Therefore, there is a risk of impairment in these film and television projects with relatively large budgets and scales. In addition, the domestic film and television industry has been in recession in recent years, and many companies in the industry have suffered heavy losses or even closed down. As a result, the drama-type projects that the Group planned to co-develop in earlier years have been repeatedly postponed or temporarily terminated, and the advance payment or copyright and script writing costs paid are also at risk. Therefore, after the impairment test of expected future revenue and cash flow of such projects, the management made provision for impairment on individual projects.



Among the above impaired projects, the Group entered into a co-investment and production agreement in a TV drama and made the first progress payment in 2016. Due to the lack of progress in the project, both contracted parties entered into a cancellation agreement in 2018 and the Group agreed to allow the counterparty (the “Counterparty”) of the said agreements to repay the aforesaid prepayment by four installments. However, rest of the repayments were not able to keep up with original schedule after the first installment. After several round of negotiations, supplemental agreements were signed to secure the full settlement of the outstanding balance. The Counterparty agreed to instruct the TV stations to directly bank-in the distribution fee and royalties income to the Group of two other TV dramas which the Counterparty has interest in when the two dramas are aired. Moreover, in view of the uncertain date of release of the above two TV dramas, the Counterparty agreed to pledge the subcontracting fee of the original TV drama to the Group which was subsequently sold to a video streaming platform and the Counterparty remains in charge of the production as further security. With the above supplemental agreements and security arrangement, the Management remained prudently optimistic about the full settlement of the outstanding balance and no impairment was considered necessary for the financial years prior to 2020.

Until June 2020, the Management became aware of the litigations involved by the Counterparty from public sources. The Counterparty was the co-defendant in several lawsuits and was judged to bear an enormous amount of liability after losing the litigations. Given the new situation of the Counterparty and the lack of progress of the above TV dramas, the Management considered the likelihood of recovering the outstanding balance remote and made a full impairment of the prepayment for the year ended 31 December 2020.

Although the Group has made impairment provision for high-risk film and television projects as a matter of prudence, the Group will make continuous efforts to realize these projects. Due to the dynamic nature of the entertainment business, the relevant adverse factors may just be temporary or of slight effect. If appropriate business opportunities arise, the management may revive suspended projects or realize them by transferring out, and the theatrical movies may even perform well at the box office after release.



With the rapid development of video streaming websites and internet movies in Mainland China, the Group continued to implement its investment strategy of internet movies and invested in projects including “The Legend of the Condor Heroes” (《射雕英雄傳》) Part I and II, “Tibet Adventurer” (《藏地奇兵》), “Seven Mahatmas” (《七大聖》), “The Legend of Zu 3” (《蜀山降魔傳3》), “Di Renjie — Dragon Hidden in the Maze” (《狄仁傑之龍隱迷窟》), “Alternative Militiaman Ge Erdan (《另類民兵葛二蛋》)”, “BIGBANG in the Village” (《村裡有情況》), “Transamerica” (《窈窕老爹》), etc., which will be released in succession in 2021. The volume and investment scale of projects have been increasing, including many leading projects with in-depth cooperation with platforms, and the idea of investing in “high-quality products” has become clearer. Meanwhile, in view of the current online movie market preference and forecast of the future movie market, we have also made key deployment in the “monster” and “comedy” genres production, hoping to generate breakout projects that make considerable profit contribution to the Group. It is worth mentioning that 2021 is the 100th anniversary of founding of the Communist Party of China, and in response to the literary advocacy of “little budget, positive energy, great feelings” (小正大), “Comedy+” has become another focus of the Group, such as investing in the remake of “Alternative Militiaman Ge Erdan”, a “Comedy + War” legendary IP production; “BIGBANG in the Village”, a “Comedy + Main Theme” production firmly following the theme of the times and focusing on the construction of new villages; “Transamerica”, a “Comedy + Fantasy” production showing big dreams of grassroots people, and many other projects. The internet movies, “BIGBANG in the Village” and “Transamerica” have released in the first quarter of 2021, and “Monty Python” (《變異巨蟒》), as an S-grade project of Youku, has been scheduled to make debut on 2 May 2021 and will be highly recommended on the platform equipped with top marketing resource; other projects will also lock on platforms one after another and release after completion and scheduling for release.

“Investment + distribution” became the main business model for internet movies. The involvement in the distribution business will, on the one hand, increase revenue and help recoup the investments timely; on the other hand, allow the Group to deepen project participation, not only strengthening its relationship with the platform, but also broadening the perspective of its investments in project production. As a result, the Group will have the priority in choosing high-quality projects, gradually build up a “C-end” (consumer) mindset, and accumulate resources and experience in marketing and other ends of the industry chain.



In addition to internet contents, the Group's upcoming key projects include but not limit to:

"Faithful Dog Hachiko" (《忠犬八公》)

The Group was 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". iQIYI Pictures is the executive producer of the project, in association with the Group which has also been contracted for production. It has been selected as one of the key projects of the "Films Presented by iQIYI" program, and has started filming on 18 March 2021. At present, it is in the process of filming and set for nationwide release on 31 December 2021. The project has Mr. Xu Ang (his representative work includes the film "12 Citizens" (《十二公民》) and the internet drama "Medical Examiner Dr. Qin" (《法醫秦明》)) as the director, Ms. Ye Rufen (her representative work includes the film "Our Times" (《我的少女時代》)) as the executive producer, Mr. He Shan (his representative work includes "Wrath of Silence" (《爆裂無聲》) and "The Coffin in the Mountain" (《心迷宮》)) as the director of photography, and Mr. Lu Wei (his representative work includes "The Liquidator" (《心理罪之城市之光》) and "The Monkey King" (《西遊記之三打白骨精》)) as the art director. The leading actor and actress are Feng Xiaogang (his representative work includes "Mr. Six" (《老炮兒》), etc.) and Chen Chong (her representative work includes "The Last Emperor" (《末代皇帝》) and "Sheep Without a Shepherd" (《誤殺》), etc.). Via this theatrical film project produced by the Group, the Group's experience in film production will become more mature which will help to deepen the closed-loop effect of film research and development, production, distribution and marketing.

"The Tibet Code" (《藏地密碼》)

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" 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" 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” 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) for the development of internet 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 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 the main focus of our investments in the coming 2–3 years which will receive the Group’s full support and plan to shoot and release 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》), “Farewell U” (《再見·少年》) and “A Guide to Daily Fantasy” (《日常幻想指南》) are in post-production or in schedule for release in 2021. Among them, “The Dynasty Warriors” is scheduled to be released on 1 May.

The sharp decrease in theatrical film production in 2020 has brought new opportunities and challenges for internet movies. Throughout the year, the number of movies that have a shared box office of more than RMB10 million has doubled compared to that of 2019. The overall production quality, investment volume and profitability of internet movies are rapidly improving, and the power of top projects and quality projects is obviously increasing, with the internet movies entering a more mature, quality, high-ranking competition track. More traditional film and television companies have also begun to tap into the internet movie industry, and even some



of them have regarded internet movies as their main business and are committed to cultivation in the internet movie market for a long run. In terms of platforms, the cooperation model between iQIYI, Youku and Tencent has been upgraded. In addition to the traditional sharing model, a new “Premium Video on Demand” (PVOD) model has been added for leading internet movies, which brings a wider scope for the development of internet movies. With the introduction of incentive policies by platforms, optimization of sharing rules, attraction of professional talents by producers, and the obvious boutique of content, it can be predicted that the total box office volume of internet movies will still have more room for improvement. However, the most serious challenge faced by the internet movie market is no longer fierce competition in content, but follow-suit of popular genre films and overexploitation of homogeneous IP. A large number of products with lower quality content have caused serious internal consumption in the industry and resulted in a scarcity of investors willing to invest in top-tier projects in the market. The innovation of internet movie content will be a major opportunity and challenge in the future. With the rapid development of short-form video market, the Group also cooperated with traditional film and television companies to tap into the short-form video field by investing in the short video drama “Whatever Star You Come From” (《管你來自哪顆星》). The Group has combined the concept of e-commerce to find a new way of business with an “online film and television products + entertainment + sales” pattern with entertainment content oriented, and then secondary realisation.

Artiste Management

The Group continuously optimizes the portfolio of artistes. The Group provides customized performance opportunities for the steady development of our new artistes through the film, TV and music projects developed, produced and invested by the Group. On the other hand, the Group developed new sources of advertising income for artistes via various channels such as online marketing and e-commerce.

Affected by the COVID-19 pandemic in 2020, production of film and television projects decreased in the PRC, and the Group’s artistes were abroad, which had severely hit the income of the Group’s artiste management segment. After the tests of estimated future earnings and cash flow, the Group has made impairment for the exclusive agency rights of artistes. By leveraging in combination with our various business segments on artiste management experience, the Group will endeavor to search for more talented artistes/internet celebrities and create returns and contribution for the Group.



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 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 artiste management businesses with its music creation, and also produced and distributed music products for several movies/TV dramas and artistes. Lajin Music/Huo Miao has become one of the three interrelated industry chains of the Group.

In 2020, Lajin Music initiated 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 be contributing to building a unique “platform” for star creation and music promotion, so as to generate a steady flow of musicians and classic works.

New media e-commerce business

As of January 2021, the number of domestic online video (including short video) users reached 1,040 million, representing a significant increase of 22.35% as compared with 850 million as of March 2020. Early 2020, as affected by the COVID-19 pandemic, citizens’ daily life was greatly affected with few outdoor activities or group gatherings and the users and time length of using online video applications surged significantly. Users on video websites and platforms had an extremely high login rate with daily active followers of 600 million.

Meanwhile, due to the impact of the pandemic in the first half of 2020, almost all catering, tourism and other traditional consumption completely suspended and citizens to stay at home has become a norm. As of February 2021, the number of domestic internet streaming users reached 620 million*, representing an increase of 10.7% as compared with 560 million as of March 2020. The increase in users boosted shopping and consumption at home and adversely affected the traditional economy. To the contrast, the “Stay-at-Home Economy” derived from live e-commerce boomed. According to the Monthly Operation and Year-end Review Data Monitoring Report of China’s Live e-commerce Industry, the scale of the domestic internet live e-commerce market is expected to increase from RMB961 billion in 2020 to RMB1,201.2 billion in 2021. Analysts believe that the domestic internet live e-commerce market can maintain high growth, but it will raise increasingly higher expectation on the freshness of the models and contents of broadcasting.

Since its establishment, the Group dedicated itself to the deployment of the pan-entertainment industry chain, continuously cultivating high-quality contents, and enhancing the entertainment, fun and branding elements of contents. The Group accurately studies and judges the form and direction of entertaining consumption in future, realizing a two-way empowerment by entertainment contents and the e-commerce industry.

* Source of data: The 47th China Statistical Report on Internet Development of the China Internet Network Information Center



Leveraging on the pan-entertainment background and resources accumulated by it over years, the Group actively caters to industry trends, enhances the entertainment elements and traffic of contents to enlarge content potential, maximizes the benefits of brands, and creates a new closed-loop content-driven full industry chain model. After different stages of exploration and practice, the Group's new media e-commerce business has the following deployment in the three major categories of "people", "goods" and "venues" in the industry:

I. CREATE A TRAFFIC POOL EXCLUSIVE TO LAJIN

By cooperating with top internet celebrities from major platforms in different forms, a matrix of top internet celebrities for the Kuaishou and TikTok platforms is realized and represents nearly over 500 million traffics on the Kuaishou and TikTok platforms. At the same time, through the mid-tier hosts population signed by the top internet celebrities, the Group increases the number of live shows and hot-selling products to build momentum and bring more high-quality products into the product pool of Lajin, thus a positive cycle is created.

II. TRAFFIC OPERATION AND INCUBATION OF MID TO LOW TIER INTERNET CELEBRITIES

At present, the Group has a mature traffic operation and planning team. Through data analysis and experience, it can get the largest traffic entry for the hosts, increase the volume of followers and marketing effect, and can also access to more mid to low-tier internet celebrities with potential to promote more beneficial cooperation.

III. INTEGRATE THE SUPPLY CHAIN

At present, Lajin has entered into strategic collaboration with major e-commerce companies and brands or signed annual framework agreements. An integrated supply chain combines brand attributes and product features to allocate to different internet celebrities, and take advantage of their different personalities to highlight the selling points of products and enhance the attractiveness of internet celebrities in return to truly achieve the closed-loop ecological advantage of new media business.



IV. E-COMMERCE OF CONTENTS

As it is becoming more prevalent for enterprises to market through account contents (such as the Blue V account and Blue V store broadcast, which have been vigorously developed by TikTok in recent years), the short video team of Lajin has extensive experience in all respects, including planning, production and operation, and is able to provide professional content production services.

V. LIVE SHOWS

The new media e-commerce retail is endowed with a new driving force through planning and production of live shows. During the “Double Eleven Event” period, the Group cooperated with Jingdong (京東) platform and created a popular variety show, “Pretty Plus” (《玩美普拉斯》), to promote consumer products online. It has grown into one of the 13 key accounts officially approved by Jingdong platform in 2021. 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. With the success of the “Pretty Plus”, the Group developed the property located in Yi Zhuang (亦莊), Beijing into a large chain online and offline experience live-streaming base with the integration of hosts incubation, products selection, live e-commerce and brands entry. During the “March 8 Goddess Festival” period, the Group joined hands with Jingdong and Kuaishou (快手) platforms, cooperated with leading hosts with 10 million followers, and cooperated with other partners and brought added value to live hosts and continuously improved “product selection center”, “host plaza” and other functions. It will allow more hosts, merchants and quality products to obtain new growth drivers in the live-streaming base and guarantee that consumers can enjoy competitive prices and after-sale services.



At present, various Internet platforms in China join the live e-commerce industry 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 and direct sales of brand products have become the trend of live e-commerce in 2021. The cost-effective way to obtain traffic and reliable sources of products with the sales efforts of leading hosts provide an opportunity for the Group to explore new business.

CAPITAL STRUCTURE

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

There was no option outstanding as at 31 March 2021.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Scheme, at no time during the three months ended 31 March 2021 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

As at 31 March 2021, 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	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)	377,834,655	—	8.98%
Ms. Yu Nan	Interest of controlled corporation	(iii)	377,834,655	—	8.98%
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 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, as at 31 March 2021, 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 31 March 2021.

COMPETING INTEREST

As at 31 March 2021, 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 three months ended 31 March 2021, 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 (the "CG Code") and Corporate Governance Report as set out in Appendix 15 of the GEM Listing Rules for the three months ended 31 March 2021, with the exception of CG Code Provisions A.2.1 (separation of roles of chairman and chief executive officer), A.4.1 (specific terms of non-executive directors) and A.6.7 (non-executive directors attending 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 Meetings

Under the Code provision A.6.7 of CG Code, non-executive directors and independent non-executive directors should attend general meetings. Certain non-executive Directors and independent non-executive Directors were unable to attend the annual general meeting and extraordinary general meeting of the Company due to other business commitments.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2021, 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 independent non-executive Directors except for Mr. Zhou Ya Fei who is a non-executive Director of the Company. The primary duties of the audit committee are to review the Company's annual report and financial statements, quarterly reports and interim report and to provide advice and comment thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

The audit committee has reviewed the first quarterly report and results for the three months ended 31 March 2021 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 May 2021

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.