



Lajin Entertainment Network Group Limited
拉近網娛集團有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8172)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

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

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This announcement, 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 announcement 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 announcement misleading.

* For identification only

ANNUAL RESULTS

The board of directors (the “Board”) of Lajin Entertainment Network Group Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2017, together with the comparative audited figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	5	65,126	24,143
Cost of sales		<u>(55,813)</u>	<u>(111,688)</u>
Gross profit/(loss)		9,313	(87,545)
Other income and gains	5	6,258	11,888
Selling and distribution expenses		(4,994)	(4,220)
Administrative expenses		(80,417)	(96,616)
Share-based compensation costs		14,216	(32,984)
Other expenses		(7,033)	(12,504)
Share of losses of:			
Associates		(10,035)	(2,182)
A joint venture		<u>(8,262)</u>	<u>—</u>
Loss before tax	6	(80,954)	(224,163)
Income tax expense	7	<u>38</u>	<u>(93)</u>
Loss for the year		<u>(80,916)</u>	<u>(224,256)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		<u>35,185</u>	<u>(30,692)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		<u>35,185</u>	<u>(30,692)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(45,731)</u>	<u>(254,948)</u>

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss for the year attributable to:			
Owners of the parent		(79,853)	(224,239)
Non-controlling interests		<u>(1,063)</u>	<u>(17)</u>
		<u>(80,916)</u>	<u>(224,256)</u>
Total comprehensive loss for the year attributable to:			
Owners of the parent		(44,656)	(254,931)
Non-controlling interests		<u>(1,075)</u>	<u>(17)</u>
		<u>(45,731)</u>	<u>(254,948)</u>
Loss per share attributable to			
ordinary equity holders of the parent	8		
Basic and diluted		<u>HK(1.93) cents</u>	<u>HK(7.97) cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		135,376	25,400
Convertible notes receivable		5,925	5,427
Conversion options embedded in convertible notes receivable		530	886
Investments in associates		46,432	39,671
Investment in a joint venture		17,418	—
Available-for-sale financial assets		24,954	19,857
Goodwill		4,879	—
Other assets		7,132	—
Deposits paid for acquisition of property, plant and equipment		—	39,971
Total non-current assets		<u>242,646</u>	<u>131,212</u>
Current assets			
Trade receivables	9	38	14,775
Film rights and films and TV programmes under production	10	299,973	219,596
Investments in film		1,981	16,750
Amounts due from related companies		2,172	47,460
Prepayments, deposits and other receivables		130,061	39,335
Cash and cash equivalents		298,481	493,128
Total current assets		<u>732,706</u>	<u>831,044</u>
LIABILITIES			
Current liabilities			
Trade payables	11	2,981	2,773
Amount due to a shareholder		31	3,133
Other payables and accruals		71,791	11,967
Total current liabilities		<u>74,803</u>	<u>17,873</u>
Net current assets		<u>657,903</u>	<u>813,171</u>
Total assets less current liabilities		<u>900,549</u>	<u>944,383</u>
Non current liabilities			
Deferred tax liabilities		878	—
Net assets		<u><u>899,671</u></u>	<u><u>944,383</u></u>
EQUITY			
Share capital — ordinary shares		42,090	28,147
Share capital — preferred shares		—	13,246
Reserves		857,324	902,417
Equity attributable to owners of the parent		899,414	943,810
Non-controlling interests		257	573
Total equity		<u><u>899,671</u></u>	<u><u>944,383</u></u>

Notes:

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 (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in <i>Annual Improvements to HKFRSs 2014-2016 Cycle</i>	<i>Disclosure of interests in Other Entities: Clarification of the Scope of HKFRS 12</i>

The adoption of the above revised standards has had no significant financial effect on these financial statements.

3. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for conversion options embedded in convertible notes receivable which have been measured at fair value. These financial statements 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 when otherwise indicated.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) the artists management segment comprises the provision of artists management services;
- (b) the movies, TV programmes and internet contents segment comprises investment, production and distribution of movies, TV programmes and investment in internet contents.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's loss before tax except that share-based compensation costs, impairment loss recognised in respect of other receivables, loss arising on change in fair value in respect of conversion option embedded in convertible notes receivable, share of loss of a joint venture, share of losses of associates as well as head office and corporate income and expenses are excluded from such measurement.

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

	Artists management		Movies, TV programmes and internet contents		Consolidated	
	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Revenue to external customers	<u>1,198</u>	<u>300</u>	<u>63,928</u>	<u>23,843</u>	<u>65,126</u>	<u>24,143</u>
Segment results	<u>(6,825)</u>	<u>13</u>	<u>(54,773)</u>	<u>(115,251)</u>	<u>(61,598)</u>	<u>(115,238)</u>
<i>Reconciliation:</i>						
Unallocated other income					2,499	1,844
Corporate and other unallocated expenses					(17,411)	(67,403)
Share-based compensation costs					14,216	(32,984)
Impairment loss recognised in respect of other receivables, net					(7)	(6,500)
Loss arising on change in fair value in respect of conversion option embedded in convertible notes receivable					(356)	(1,700)
Share of loss of a joint venture					(8,262)	—
Share of losses of associates					(10,035)	(2,182)
Loss before tax					<u>(80,954)</u>	<u>(224,163)</u>

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

(b) Geographical information

In determining the Group's geographical information, revenue information is based on the locations of the customers, and asset information is based on the locations of the assets.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets*	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Mainland China	65,089	23,045	176,007	66,175
Hong Kong	—	1,098	616	1,053
Korea	—	—	34,614	37,814
Japan	37	—	—	—
	<u>65,126</u>	<u>24,143</u>	<u>211,237</u>	<u>105,042</u>

* Non-current assets represent property, plant and equipment, investments in associates, investment in a joint venture, goodwill and other assets.

5. REVENUE, OTHER INCOME AND GAINS

	2017 HK\$'000	2016 HK\$'000
<u>Revenue</u>		
TV and internet programme	61,586	12,837
Film distribution	6	9,215
Sales of film rights	2,231	1,637
Artists management	1,198	300
Others	105	154
	<u>65,126</u>	<u>24,143</u>
<u>Other income</u>		
Interest income on film investment	2,115	1,982
Bank interest income	2,035	1,440
Consultancy service income	1,088	—
Rental income	983	—
Imputed interest income on convertible notes receivable	498	456
Others	35	14
	<u>6,754</u>	<u>3,892</u>

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
<u>Gains</u>		
Loss arising on change in fair value in respect of conversion options embedded in convertible notes receivable	(356)	(1,700)
Loss on disposal of property, plant and equipment	(766)	(37)
Gain on deemed disposal of an associate	791	875
Exchange differences, net	(242)	7,689
Others	77	1,169
	<u>(496)</u>	<u>7,996</u>
	<u>6,258</u>	<u>11,888</u>

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
	<i>Notes</i>	
Cost of film and TV programme rights	54,539	111,448
Cost of artists management services	1,274	240
	<u>55,813</u>	<u>111,688</u>
Total cost of sales		
Auditor's remuneration	874	910
Depreciation of property, plant and equipment	6,500	2,861
Amortisation of other assets	733	—
Impairment loss on available-for-sale financial assets*	1,153	—
Loss on disposal of property, plant and equipment	766	37
Impairment loss recognised in respect of films and TV programmes under production*	10 5,799	6,004
Impairment loss recognised in respect of other receivables, net*	7	6,500
Operating lease rentals in respect of rented premises	9,178	9,167
Staff costs (excluding directors' remuneration):		
— Salaries and allowances	39,873	47,703
— Pension scheme contributions**	3,675	4,484
— Share-based payment expenses	(14,216)	25,424
	<u>29,332</u>	<u>77,611</u>

* These items are included in "other expenses" in the consolidated statement of profit or loss and other comprehensive income.

** As at 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2016: Nil).

7. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits arising in Hong Kong during the year. The subsidiaries operated in Mainland China are subject to the PRC corporate income tax at 25% (2016: 25%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current tax:		
PRC corporate income tax	—	93
Deferred	<u>(38)</u>	<u>—</u>
Total tax charge/(credit) for the year	<u><u>(38)</u></u>	<u><u>93</u></u>

No provision for Hong Kong profits tax and Korea corporate income tax have been made for both years as the Group did not generate any assessable profits arising in Hong Kong and Korea.

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK\$79,853,000 (2016: HK\$224,239,000), and the weighted average number of ordinary shares of 4,136,550,000 (2016: 2,814,801,000) in issue during the year.

As the Company's share options and preferred shares where applicable had an anti-dilutive effect on the basic loss per share calculation for the years ended 31 December 2017 and 2016, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted loss per share.

9. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 3 months	38	12,998
3 to 6 months	<u>—</u>	<u>1,777</u>
	<u><u>38</u></u>	<u><u>14,775</u></u>

As at 31 December 2017, the Group's trade receivables were neither past due nor impaired and relate to customers for whom there was no recent history of default.

10. FILM RIGHTS AND FILMS AND TV PROGRAMMES UNDER PRODUCTION

	Film and TV programme rights <i>HK\$'000</i>	Films and TV programmes under production <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2017			
Cost:			
At 31 December 2016 and 1 January 2017	98,130	225,352	323,482
Additions	—	150,547	150,547
Disposals	—	(26,009)	(26,009)
Transfer to film and TV programme rights	135,386	(135,386)	—
Exchange realignment	9,773	13,509	23,282
	<u>243,289</u>	<u>228,013</u>	<u>471,302</u>
At 31 December 2017			
Accumulated amortisation and impairment:			
At 31 December 2016 and 1 January 2017	(98,130)	(5,756)	(103,886)
Amortisation	(54,496)	—	(54,496)
Impairment	—	(5,799)	(5,799)
Exchange realignment	(6,512)	(636)	(7,148)
	<u>(159,138)</u>	<u>(12,191)</u>	<u>(171,329)</u>
At 31 December 2017			
Carrying amount	<u>84,151</u>	<u>215,822</u>	<u>299,973</u>

	Film and TV programme rights <i>HK\$'000</i>	Films and TV programmes under production <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2016			
Cost:			
At 31 December 2015 and 1 January 2016	36,316	2,483	38,799
Additions	—	298,406	298,406
Disposals	(1,545)	(88)	(1,633)
Transfer to film and TV programme rights	66,058	(66,058)	—
Exchange realignment	(2,699)	(9,391)	(12,090)
	<u>98,130</u>	<u>225,352</u>	<u>323,482</u>
At 31 December 2016			
Accumulated amortisation and impairment:			
At 31 December 2015 and 1 January 2016	—	—	—
Amortisation	(100,816)	—	(100,816)
Impairment	—	(6,004)	(6,004)
Exchange realignment	2,686	248	2,934
	<u>(98,130)</u>	<u>(5,756)</u>	<u>(103,886)</u>
	<u>—</u>	<u>219,596</u>	<u>219,596</u>
Carrying amount			

For the purpose of impairment testing, film rights have been allocated to the cash-generating unit of movies, TV programmes and internet contents operation.

In light of the circumstances of the film industry, the Group regularly reviewed its library of film rights to assess the marketability of film rights and the corresponding recoverable amounts.

At 31 December 2017 and 2016, the directors of the Company believe that any reasonably possible change in the key assumptions on which the recoverable amounts would not cause the carrying amounts of the film and TV programme rights exceed the aggregate recoverable amounts.

During the year ended 31 December 2017, there is an impairment loss of approximately HK\$5,799,000 (2016: HK\$6,004,000) recognised in respect of films and TV programmes under production, based on contractual cash flows less cost to sell which solely related to the Group's TV programmes under production and distribution activities based in Mainland China.

11. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 3 months	—	2,773
Over 3 months	<u>2,981</u>	<u>—</u>
	<u>2,981</u>	<u>2,773</u>

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

12. DIVIDEND

No dividend was paid or proposed during 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the year 2017, Lajin has established sound progress in the areas of TV/movies productions, music, artiste management, the development of our Star Factory, and online cross media marketing. The Company sees our competitive edge being built up gradually with these three core strategies (i) to build our Mega Database of TV/Movies' IP Rights; (ii) to foster our own creative team; and (iii) to maximize the payoff point for our integrated business. The Company focuses on the integration of all the above mentioned multi-level core strengths to create a business ecosystem within the “pan-entertainment industry” (a term which refers to the multi-level products developed from intellectual property rights such as films, dramas, fiction and games and etc.), and we see the gradual shaping up of our integrated business model, with music and TV/Movies being our core, through the creation of media contents, we provide channels of development for our own team of artists in multiple areas such as music, drama and TV/movies.

Cross Media Project

As disclosed previously, all episodes of the “Birth of the Stars” (明星的誕生) have been fully broadcast in the first quarter of 2017 via a leading video streaming platform “IQiyi” (愛奇藝). The program was a huge success with a total hit rate of 300 million times. The Company has identified various talented contestants to join our team, leveraging on the Group's platform and expertise to foster celebrities by our team hired from Korea, we strived to foster our own creative artist team all with different specialties.

The Board is of the view that the production of “Birth of the Stars” (明星的誕生) concurs with our principal strategy to foster our own talents and artists from scratch, at the same time creating an integrated platform to establish an online/offline business ecosystem. We have successfully established our own brand ever since the broadcast of the program. As such, the Group continues to proceed with the production of the sequel to the program, which is tentatively named “Birth of the Bands” (樂隊的誕生).

“Birth of the Bands”, the completely upgraded version of “Birth of the Stars”, has been in its preparation stage since 2017. It is a variety show featuring the nurturing of artists developed by the Company, with its shooting done at Lajin Star Factory. Combined with the most advanced multi-media live interactive technology today, it will be fully launched in 2018.

Artists Management

An artists' management team has been built, with the “Birth of the Stars”, our Company has identified and signed new artists management contracts with a couple of contestants who have impressive potentials. Furthermore, our subsidiary company, Xin Mei Xing Xiu has further enriched our artists base, both in terms of quantity and exposure. The artists under Xin Mei Xing Xiu's management include key opinion leaders and online celebrities with huge number of followers and fans, some of them have already been gaining popularity.

To date, our team comprises more than 20 artists, many of which have already been active in the TV/movies and commercial advertising industry, and have gained popularity with increased exposure. The Company will provide them with necessary trainings and shooting/production environment leveraging on the facilities provided in our Lajin Star Factory, to enable these future stars to sparkle.

Movies, TV and internet programmes

In 2017 the Group has created quite a number of internet related media contents, including internet drama, short movies, and interactive media contents & etc., weaving all such into Lajin’s web of contents within our interactive business ecosystem has been our main focus for the year.

The Group partners with renowned creative teams and media companies with abundant resources for its investments in TV/Movies projects and will only select and invest in quality projects. Such selection criteria would effectively reduce the risks for our investments. The TV series named “She is Beautiful”《她很漂亮》and a movie named “Twenty”《二十歲》invested by the Group had finished filming in 2016 and are currently in post-production stage, aiming to be screened in 2018.

The Group participates in media investments of quality TV/movie related projects either by owning/co-owning the IP rights and partnering with other investors for production, or by simply investing into minority stakes of these projects. Among which, the very first internet drama production of our own named “Solaso Bistro”《問題餐廳》has gained a total hit rate of over 180 million times shortly after its broadcast, setting a new record for women’s topics. The Group has completed the shooting of another internet series drama, 《我才不會被女孩子欺負呢》(*hereby translated as “I am so Not Going to be Bullied by Girls”) and it is expected to be broadcasted exclusively by Youku.com (優酷網) in mid-April 2018.

Another project named《花椒之味》(*hereby translated as “Fagara in Mara”), the Group has invested into 30% of the project and is the lead investor of the project. It is expected that production will commence in March 2018, with core creative team and members of casts already confirmed. The source of such IP right originates from a famous Hong Kong composer Ms. Amy Cheung (張小嫻), she has enormous number of fans and her works enjoyed great popularity. It is believed that this piece is an award-winning one and could earn huge box office hit.

It has been confirmed that Bai Yicong, the “Big Brother of Internet Drama”, will take the helm of the production of “Legend of the Galactic Heroes”《銀河英雄傳說》, a super internet drama bearing the same name, based on the famous Japanese novelist Tanaka Yoshiki’s acclaimed work.

During the reporting period, all of our invested projects have commenced shooting. Amongst all, an individualistic internet movie named “Bad together”《太子書院》has engaged extensively all our artists and talents under Lajin’s management, and the respective movie soundtracks are products from Lajin’s music platform – Huo Miao (火喵), being sung by Lajin’s own artists. This is a project to practice and integrate all our production functions within our business ecosystem. “Bad Together”《太子書院》has been released online in 2018. Furthermore, film shooting of another significant project that the Company has invested in – “the Dynasty Warriors”《真·三國無雙》has commenced

since 11 July 2017 and is currently wrapped, ready for post-production, and is expected to be put on the big screen in spring 2019. We have also invested a detective themed TV series named《深淵行者》, it will be released in 2018. In the program, well-experienced artists including Wu Xiubo, Zhang Fengyi, Zhang Jiayi, Bao Beier, Zhai Tianlin, and a number of young actors, together will demonstrate their acting skills. This represents a return of a strong positive energy to the movie and television market, which has been dominated by “little fresh meat” and misfits. It will surely earn high rating and help to set the direction of the movie television drama with the come-back of the positive energy.

In 2017, the Group has also acquired the right to produce the most popular expedition movie series in China, “the Tibet Code” (藏地密碼), and will work together with the top tier cooperation partners such as Tencent Video in production. This is going to be the first of our movie series that will have global market coverage. Currently, a team of American screenwriters have been engaged to write, its plots and screenplays. This project is going to receive the Group’s full support and is expected to commence shooting in 2019, aiming for release and distribution in 2020.

In the meantime, the Group strives to procure popular “IP movies/dramas”, and we aim to extend our income streams to other income generated from fans’ interaction, peripherals and products represented by online celebrities, other than from original box office income. The Group has invested in a world-famous movie based on Japanese true stories named《忠犬八公》(translated as “Faithful Dog Hachiko”), and is expected to commence shooting in 2018. We are in the progress of designing and commercializing peripheral products made according to the Faithful Dogs’ image, and planning reality shows for pets. These strategies were to prolong the span of popularity of this IP and to maximize income generated. Furthermore, our investment in an action/adventure IP movie with famous celebrities cast crew named “Europe raiders”《歐洲攻略》is expected to be screened in 2018.

Last but not least, the Group strives to develop strategic partnerships with media companies equipped with quality resources, and we have partnered with Beijing Dadi Century Limited and Bona Film Group to co-produce the movie “Theory of Ambition”《風再起時》, a Hong Kong based crime themed movie with its storyline focusing on corruption. The movie was wrapped during mid-December 2017, and is expected to be screened during Chinese New Year 2019.

Lajin’s Star Factory

Lajin’s Star Factory is located in Yi Zhuang (亦莊), Beijing. Significant effort has been put in the renovation works for Lajin’s Star Factory in 2016. The premises, comprising two 6-storey buildings of approximately 5,600 square metres in total has become the Group’s centre for artists incubation and nurturing as well as for intelligent entertainment contents production, complete with all functions including internet entertainment contents, stars nurturing, movie and video production and master’s studios, thus cited as a model of absolute advanced level in the industry.

Lajin's Star Factory owns complete independent intellectual property rights, It's is equipped with top-tier recording studios and applies the world's latest live broadcast technology, enabling compatibility and cross media interaction and unites all music and audio programs production in a single production base. With the integration of our "Lajin App", the online and offline experiences of audiences would definitely bring "closer" the distance between artists and fans, and this reinforces Lajin's core business mission. The Lajin's Star Factory is currently in use.

The Lajin's Star Factory operates in a continuous improvement model with constant progress in technology upgrading and review, so as to enhance more online-to-offline cross media contents and variety programs to be produced. Lajin's Star Factory has attracted attention from various production groups and performers from within the country and overseas for rental of its state-of-the-art facilities and performance venues for live broadcasts and production of audio-visual contents. Income derived from the intellectual property rights of these productions, rental income, production and broadcasting income would be another stable source of income anticipated in the near future. With the progress of the Group's strategy, Lajin's Star Factory is destined to demonstrate its huge strategic value.

Music

The Group has put enormous effort in conceiving the music platform "Huo Miao" (火喵), an incubation project focused on the creation of original music, which is committed to becoming the biggest original music ecosystem. "Huo Miao" (火喵) has aligned with more than a thousand young music producers, composers and lyricists, and has completed the reserve of nearly 300 pieces of original music compositions. It has signed up exclusively with over 60 musicians, producing a variety of mainstream and non-mainstream music in styles of pop, rock, classical, folk, electronic, rap, etc.

To date, the early structure of the Huo Miao new internet media platform has been set up, and has been publishing "Huomiao Music Stories" regularly, with visual, audio and text element being the "new media language", leveraging on the already established network to attract more audiences and music producers, ultimately enriching our collection of original music productions. During the period, the "Huo Miao" music platform has worked in collaboration with some large-scale entertainment programs and renowned brands, and has completed quite a number of tailor-made music productions. It also synergistically provides music contents to the Group's business operation segments. To date, the music platform has already completed quality music works for a number of our internet dramas.

The Group considers the Huo Miao music platform as an integral part of the Group's music strategy. Its copyright income will also become another major source of the Group's revenue. We will continue to expand the team's resources of the platform and increase effort in promotion to gain publicity, with an aim to becoming a well-known original music ecosystem in China.

Lajin's investment

To cope with our strategic development, the Group has actively seek for investments/projects which can create synergy effect. During the year 2017, we have placed significant effort in seeking for quality investment projects.

The Group saw significant potentials in our investment in “Moko!” (美空網, www.moko.cc). As of 31 December 2017, the Group held 7.79% equity rights in “Moko!”. During the period, “Moko!” again received several rounds of funding, after the strategic investment by our Company, from parties including an investment company in Qingdao Hi-tech Zone. With strategic cooperation agreed with the management of Qingdao High-tech Zone, “Moko!” will move in to Qingdao Huanwan and become the first leading internet enterprise moving its headquarters to Qingdao Huanwan.

The Group has invested 51% stake in “大早晚集”, which involves a collaboration with the Cui Yongyuan Team in producing a series of movies based on real stories to make up a repository of intellectual properties known as “Cui's collection of Stories” (崔永元故事庫). The team spent over 30 years, conducted interviews for more than 10,000 times and recorded 1,000,000 minutes of personal live history interviews. The Group will work with Cui's team in compiling and telling this collection of true stories, and engage first-rate writers, script writers and directors in creating the elements stories and incubating TV/movies intellectual property rights. Today, the shootings of a number of TV/movies productions have already commenced.

The Group entered into a comprehensive strategic partnership relationship with Liu Guang, a well-known director of detective themed movies. Full cooperation in areas including production of TV/movies dramas and artist agency will commence in 2018. With the complementary advantages of both parties, it is expected that there will be an integration of complete industry chain together with innovations and breakthroughs.

Prospects and challenges

The Group is committed to develop an integrated and cross-media entertainment platform in China, and become one of the most renowned players in the entertainment industry in the years to come. We see human capital being the most invaluable asset of the Company – Therefore, the official launch of our Lajin's Star Factory is considered the best tool for the Group to cope with such expansion, as the state-of-the-art facility is filled with huge potential to foster Lajin's future super stars.

With “Birth of the Stars” as a good head start to build our own team of artists, we have also put into practice to link up all our resources within this business ecosystem. From fostering our artists from scratch, to investment in IP rights and production of media contents, creating soundtracks with our own music App “Huo Miao”, to utilizing our own online platform to promote our celebrities and peripheral products, we are dedicated to perfect each segment of our assets and we strive to follow this model within this business ecosystem for our future projects to come. The project, “Bad Together” 《太子書院》, being the very first prototype internet movie which we have put forth a great deal of effort in pulling and linking up our in-house resources, is set to provide a guidance

in measuring our potential returns for other similar projects applying such business model. We are confident that our strategy will greatly reduce the cost of production and will maximize profitability for our future projects to come.

However, due to the depth of our investment spectrum which requires heavy capital injection, we foresee that the continuing expansion of the group would require significant capital to be raised. The Company will continue to monitor our budget and will carry out fund raising activities when required.

Furthermore, increasing cost of production, keen competition and regulatory environment remains our core challenges during the year, as stringent limitations were imposed over the contents of movies and origins of media programmes for various reasons. Furthermore, tighter controls were implemented over the internet by government policies, these created immense burden to implement some of our innovative ideas. We must therefore carefully set our strategy right for the market, control our cost and be close enough to follow the everchanging policies.

ACQUISITION OF SUBSIDIARY AND SET UP OF JV COMPANY

In April 2017, Lajin Hu Yu (an indirect wholly-owned subsidiary of the Company) has entered into the Sale and Purchase Agreements in relation to the acquisition of a further 38% of the registered share capital in Xin Mei Xing Xiu for a total consideration of RMB3,040,000. Before the acquisition, Lajin Hu Yu already owned 32% of the registered share capital in Xin Mei Xing Xiu and after the acquisition, Xin Mei Xing Xiu became a 70% owned subsidiary of the Group.

Xin Mei Xing Xiu is a PRC incorporated company principally engaged in artiste management, advertising and promotion, event management and production & etc. Its management team has extensive experience in the industry and has access to an abundant amount of resources including song and film producers, directors, artists, stylists, models and dancers. The Board considers that the consideration and the terms for the acquisition are fair and reasonable, and is in the interests of the Company and its shareholders as a whole.

In April 2017, Lajin Hu Yu entered into a joint venture agreement with Mr. Cui Yong Yuan and Ms. Lin Wei, whom are both famous media persons in mainland China, in relation to the formation of a joint venture through Lajin Hu Yu for the investment of our new project – Power of “Truth” based on “Cui’s Collection of Stories” (崔永元故事庫). The joint venture is owned as to 51% , 44% and 5% respectively by the Group’s variable interest entity (Lajin Hu Yu), Mr. Cui and Ms. Lin. The Group has agreed to invest RMB15,000,000 for the joint venture, and other joint venture partners will contribute their technical knowhow in production and the sources of the stories to be filmed. The joint venture will focus on the production of films and internet dramas based on Cui’s collection of true stories, and it was also agreed that a certain portion of the future profit (if any) would be donated to charitable organisations, as a means to give back to the communities in which we operate.

FINANCIAL REVIEW

The revenue of the Group was approximately HK\$65,126,000 for the year ended 31 December 2017 (2016: HK\$24,143,000). It was mainly generated from the provision of artists management and investment in movies, TV programmes and internet contents, representing an increase of 169.8% as compared to the same period last year. The increase was mainly attributable to the increase in revenue from the Group's Movies, TV programmes and internet content business.

Cost of sales for the year ended 31 December 2017 decreased to approximately HK\$55,813,000 (2016: HK\$111,688,000), which was mainly attributed from the cost of film and TV programme rights to approximately HK\$54,539,000 (2016: HK\$111,448,000)

During the year, loss for the period attributable to owners of the parent was approximately HK\$79,853,000 (2016: loss of HK\$224,239,000). The reduction in loss was primarily due to the increase in revenue, the decline in operating and administrative expenses and the decrease in share-based compensation costs.

Movies, TV programmes and internet contents

During the year under review, the revenue contributed by such segment was approximately HK\$63,928,000 (2016: HK\$23,843,000), representing the sales of film rights owned by the Group, licensing income from the internet drama named “Solaso Bistro” (問題餐廳) and《我才不會被女孩子欺負呢》(*hereby translated as “I am so not Going to be Bullied by Girls”, and the remaining advertising income from our flagship project — the “Birth of the Stars”.

Artists Management

During the year under review, the revenue contributed by such segment was approximately HK\$1,198,000 (2016: HK\$300,000), which derived from the newly signed artists management contracts.

Administrative expenses

Administrative expenses were mainly the staff costs, operating leases and other general administrative expenses of the Group incurred during the year under review. Administrative expenses decreased by 16.8% to approximately HK\$80,417,000 from approximately HK\$96,616,000 in prior year due to the cost control of the Group. Salary and allowances amounted to approximately HK\$39,873,000 (2016: HK\$47,703,000) was recorded, representing an decrease of 16.4%.

Liquidity and Financial Resources

At 31 December 2017, the Group had total assets of approximately HK\$975,352,000 (2016: HK\$962,256,000), including cash and cash equivalents of approximately HK\$298,481,000 (2016: HK\$493,128,000). During the year under review, the Group financed its operation with the proceeds from fund raising activities.

Capital Structure

As at 31 December 2017, the Company has in issue a total of 4,209,131,046 ordinary shares.

During the year, all Preferred Shares in issue which have been fully paid-up were converted into ordinary shares of the Company on 20 January 2017. Accordingly, 1,394,329,124 ordinary shares of the Company were issued as a result of the exercise of the conversion rights attached thereto. The Subscribers have been granted a whitewash waiver, waiving the obligation of the Subscribers to make a general offer under Rule 26 of the Takeovers Code upon conversion of such preferred shares.

Gearing Ratio

The gearing ratio, expressed as percentage of total liabilities excluding deferred tax liabilities over total equity attributable to owners of the parent, was approximately 8.3% (2016: 1.9%). The change in gearing ratio was mainly derived from the increase of current liabilities in accruals and other payables from approximately HK\$11,967,000 to HK\$71,791,000 as compared with that in prior year. At the same time, the increase of trade payable from HK\$2,773,000 to HK\$2,981,000 and the decrease of amount due to a shareholder from HK\$3,133,000 to HK\$31,000 also contributed to the change in the Company's gearing ratio.

Charges on the Group's Assets

At 31 December 2017, the Group did not have any charge on its assets.

Foreign Exchange Risk

Most of the income and expense of the Group are determined in RMB. The Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management closely monitors the exposures and will consider hedging the exposures should the need arise.

Commitments

At 31 December 2017, the Group had capital commitments of approximately HK\$96,019,000 (2016: HK\$126,013,000).

Contingent Liabilities

At 31 December 2017, the Group had no contingent liabilities (2016: Nil).

Employees

At 31 December 2017, the Group had 142 employees, including approximately 133 employees in PRC and 9 employees in Hong Kong and Korea. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performances, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme. Other benefits include share options granted or to be granted under the share option scheme.

EVENT AFTER THE REPORTING PERIOD

Termination of the Deed and the Master Service Agreement with Ms. Shang

Reference is made to the voluntary announcement dated 9 February 2018 and the circular of the Company dated 23 December 2015, capitalized terms used herein shall have the same meaning as defined in the above mentioned documents.

Pursuant to the Shareholders' Agreement, Lajin and the JV Partners (wholly-owned by Ms. Shang Na) had formed the JV Company and Lajin and the JV Partners respectively held 51% and 49% of the JV Company. The JV Company had been accounted for as a subsidiary of the Company and was engaged in the investment of movies and other media contents. Pursuant to the Deed, upon satisfaction of certain conditions, including that the accumulated net profit for the JV Company for the period up to 31 December 2018 being not less than RMB50 million, or the Accumulated Profit being not less than RMB150 million, the JV Partner could exercise the Shang Put Option for the Option Price, whereby the Company would then issue Consideration Shares for such settlement. A maximum of 228,438,228 Consideration Shares would be issued if the conditions could be met.

The management had reviewed the latest development of the business of the JV Company and had also discussed its prospect with Ms. Shang. As it was not expected that the profit of the JV Company could reach at least RMB50 million, it was considered that neither the Shang Put Option could be, nor the Company Call Option would be exercised before the expiry of such options. Therefore, Ms. Shang and the Company had mutually agreed to terminate the Deed and the Master Service Agreement and Ms. Shang resigned from all position from the JV Company and the Group ("Termination"). The Termination gave the market a clear message that no Consideration Shares would be issued in the future. Accordingly the recognised share-based payment expenses was reversed, giving rise to a credit to the profit and loss account. As the Deed was terminated, the JV Partner had agreed to dispose of its 49% of the JV Company for a consideration of HK\$1 to Lajin. The Shareholders' Agreement ceased to have effect accordingly.

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

During the year ended 31 December 2017, 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.

Throughout the financial year ended 31 December 2017, the Group 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 save for certain deviations, details of which will be explained in the relevant paragraphs in this report. The Board has, since the amendments to the GEM Listing Rules regarding corporate governance practices were first proposed by the Stock Exchange, continued to monitor and review the Group's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to Directors and senior management of the Group to ensure awareness to issues regarding corporate governance practices.

(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 at the Group level were still left vacant. However, the Company has appointed a number of Chief Executive Officers at subsidiary level for each business segments, who will be held responsible for the oversight of each business segments' operations. The Company will continue to look for the appropriate candidate to fill the vacancy as chairman and the chief executive officer where appropriate.

(b) Non-executive Directors attending general meeting

Under the CG Code provision A.6.7, non-executive Directors should attend general meetings. During the year, due to directors' other commitments and travels, not all of the non-executive directors of the Company attended all general meetings.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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 reports and to provide advice and comment thereon to the Board. The audit committee is responsible for reviewing and supervising the financial reporting, internal control and risk management procedures of the Group.

The audit committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2017.

SCOPE OF WORK OF ERNST & YOUNG ON THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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

Hong Kong, 27 March 2018

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement 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 this announcement misleading.

This announcement will be published on the GEM website on the "Latest Company Announcement" page for at least 7 days from the date of publication and on the Company's website at www.irasia.com/listco/hk/lajin/index.htm.