



**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 2018**

**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 2018, together with the comparative audited figures for the year ended 31 December 2017 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>REVENUE</b>	5	<b>43,133</b>	65,126
Cost of sales		<u>(123,540)</u>	<u>(55,813)</u>
Gross profit/(loss)		<b>(80,407)</b>	9,313
Other income and gains	5	<b>7,163</b>	6,258
Selling and distribution expenses		<b>(7,201)</b>	(4,994)
Administrative expenses		<b>(78,265)</b>	(80,417)
Share-based compensation costs		—	14,216
Other expenses		<b>(76,760)</b>	(7,033)
Finance costs		<b>(854)</b>	—
Share of profit/(loss) of:			
Associates		<b>(1,234)</b>	(10,035)
A joint venture		<b>548</b>	(8,262)
<b>LOSS BEFORE TAX</b>	6	<b>(237,010)</b>	(80,954)
Income tax credit	7	<b>92</b>	38
<b>LOSS FOR THE YEAR</b>		<b><u>(236,918)</u></b>	<b><u>(80,916)</u></b>
Attributable to:			
Owners of the parent		<b>(236,071)</b>	(79,853)
Non-controlling interests		<b>(847)</b>	(1,063)
		<b><u>(236,918)</u></b>	<b><u>(80,916)</u></b>
<b>LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	8		
Basic and diluted		<b><u>HK (5.61) cents</u></b>	<b><u>HK (1.93) cents</u></b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>LOSS FOR THE YEAR</b>	<b><u>(236,918)</u></b>	<b><u>(80,916)</u></b>
<b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(31,316)</u>	<u>35,185</u>
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value, net of tax	(11,335)	—
Share of other comprehensive loss of an associate	<u>(355)</u>	<u>—</u>
<b>OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX</b>	<b><u>(43,006)</u></b>	<b><u>35,185</u></b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<b><u>(279,924)</u></b>	<b><u>(45,731)</u></b>
<b>Attributable to:</b>		
Owners of the parent	(279,127)	(44,656)
Non-controlling interests	<u>(797)</u>	<u>(1,075)</u>
	<b><u>(279,924)</u></b>	<b><u>(45,731)</u></b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	<i>Notes</i>	<b>2018</b> <b>HK\$'000</b>	2017 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		118,784	135,376
Financial assets at fair value through profit or loss		6,512	—
Convertible notes receivable		—	5,925
Conversion options embedded in convertible notes receivable		—	530
Investments in associates		40,878	46,432
Investment in a joint venture		17,031	17,418
Equity investments designated at fair value through other comprehensive income		12,393	—
Available-for-sale investments		—	24,954
Goodwill		4,626	4,879
Other non-current assets		6,711	7,132
		<hr/>	<hr/>
Total non-current assets		206,935	242,646
<b>CURRENT ASSETS</b>			
Trade receivables	9	2,379	38
Film rights and films and TV programmes under production	10	169,144	299,973
Investments in film		4,554	1,981
Amounts due from a related company		2,059	2,172
Prepayments, other receivables and other assets		135,324	130,061
Cash and cash equivalents		180,393	298,481
		<hr/>	<hr/>
Total current assets		493,853	732,706
<b>CURRENT LIABILITIES</b>			
Trade payables	11	2,827	2,981
Amount due to a shareholder		—	31
Other payables and accruals		76,563	71,791
		<hr/>	<hr/>
Total current liabilities		79,390	74,803
<b>NET CURRENT ASSETS</b>		<hr/>	<hr/>
		414,463	657,903
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<hr/>	<hr/>
		621,398	900,549
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		744	878
		<hr/>	<hr/>
<b>Net assets</b>		620,654	899,671
		<hr/>	<hr/>
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Share capital		42,090	42,090
Reserves		578,734	857,324
		<hr/>	<hr/>
		620,824	899,414
		<hr/>	<hr/>
Non-controlling interests		(170)	257
		<hr/>	<hr/>
<b>Total equity</b>		620,654	899,671
		<hr/>	<hr/>

Notes:

## 1. GENERAL INFORMATION

Lajin Entertainment Network Group Limited (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 3903A, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, respectively.

During the year, the Group was involved in the following principal activities:

- Artists management service; and
- Movies, TV programmes and internet contents services.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards have had no significant financial effect on these financial statements.

- a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

## Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

Name	Notes	HKAS 39 measurement		Re-classification and remeasurement HK\$ '000	ECL HK\$ '000	HKFRS 9 measurement	
		Category	Amount HK\$ '000			Amount HK\$ '000	Category
<b>Financial assets</b>							
Trade receivables		L&R <sup>1</sup>	38	—	—	38	AC <sup>2</sup>
Investment in film		L&R	1,981	—	—	1,981	AC
Amounts due from related companies		L&R	2,172	—	—	2,172	AC
Financial assets included in prepayments, other receivables and other assets		L&R	58,780	—	—	58,780	AC
Cash and cash equivalents		L&R	298,481	—	—	298,481	AC
From: Convertible notes receivable		AC	5,925	(5,925)	—	—	N/A
Conversion options embedded in convertible notes receivable		FVPL <sup>3</sup>	530	(530)	—	—	N/A
To: Financial assets at fair value through profit or loss	(i)	N/A	—	7,259	—	7,259	FVPL
From: Available-for-sale financial assets		AFS <sup>4</sup>	24,954	(24,954)	—	—	N/A
To: Equity investments designated at fair value through other comprehensive income	(ii)	N/A	—	25,022	—	25,022	FVOCI <sup>5</sup> (equity)
			<u>392,861</u>	<u>872</u>	<u>—</u>	<u>393,733</u>	
<b>Financial liabilities</b>							
Trade payables		AC	2,981	—	—	2,981	AC
Financial liabilities included in other payables and accruals		AC	67,225	—	—	67,225	AC
Amount due to a shareholder		AC	31	—	—	31	AC
			<u>70,237</u>	<u>—</u>	<u>—</u>	<u>70,237</u>	

<sup>1</sup> L&R: Loans and receivables

<sup>2</sup> AC: Financial assets or financial liabilities at amortised cost

<sup>3</sup> FVPL: Financial assets at fair value through profit or loss

<sup>4</sup> AFS: Available-for-sale investments

<sup>5</sup> FVOCI: Financial assets at fair value through other comprehensive income

Notes:

- (i) The Group has classified its investment in convertible notes previously classified as convertible notes receivable and conversion options embedded in convertible notes receivable as financial assets at fair value through profit or loss as the debt investment did not pass the contractual cash flow characteristics test in HKFRS 9.
- (ii) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

### Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	<b>Impairment allowances under HKAS 39 at 31 December 2017 HK\$'000</b>	<b>Re-measurement HK\$'000</b>	<b>ECL allowances under HKFRS 9 at 1 January 2018 HK\$'000</b>
Available-for-sale investments under HKAS 39/equity investments at fair value through other comprehensive income under HKFRS 9	1,153	(1,153)	—
Trade receivables	—	—	—
Financial assets included in prepayments, other receivables and other assets	6,581	—	6,581
	<u>7,734</u>	<u>(1,153)</u>	<u>6,581</u>

## Impact on reserves and accumulated losses

The impact of transition to HKFRS 9 on reserves and accumulated losses is as follows:

	<b>Reserves and accumulated losses</b> <i>HK\$'000</i>
<b>Fair value reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39)</b>	
Balance as at 31 December 2017 under HKAS 39	—
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	68
	<hr/>
Balance as at 1 January 2018 under HKFRS 9	68
	<hr/> <hr/>
<b>Accumulated losses</b>	
Balance as at 31 December 2017 under HKAS 39	(347,841)
Reclassification of convertible notes receivable and conversion options embedded in convertible notes receivable to financial assets at fair value through profit or loss	804
	<hr/>
Balance as at 1 January 2018 under HKFRS 9	(347,037)
	<hr/> <hr/>

- (b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations. Based on the contract terms as at 1 January 2018, the adoption of HKFRS 15 did not have a material impact on the Group.



### **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 financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income. 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 loss, which is a measure of adjusted loss before tax. The adjusted 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, impairment loss on investment in an associate, loss arising on change in fair value in respect of conversion option embedded in convertible notes receivable, loss arising on change in fair value in respect of financial assets at fair value through profit or loss, share of profit/(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	
	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue</b>						
Revenue to external customers	<u>2,559</u>	<u>1,198</u>	<u>40,574</u>	<u>63,928</u>	<u>43,133</u>	<u>65,126</u>
<b>Segment results</b>	<u>(20,740)</u>	<u>(6,825)</u>	<u>(168,999)</u>	<u>(54,773)</u>	<u>(189,739)</u>	<u>(61,598)</u>
<i>Reconciliation:</i>						
Unallocated other income					1,365	2,499
Corporate and other unallocated expenses					(12,325)	(17,411)
Share-based compensation costs					—	14,216
Impairment loss recognised in respect of other receivables, net					(31,536)	(7)
Loss arising on change in fair value in respect of conversion option embedded in convertible notes receivable					—	(356)
Impairment loss on investment in an associate					(3,342)	—
Loss arising on change in fair value in respect of financial assets at fair value through profit or loss					(747)	—
Share of profit/(loss) of a joint venture					548	(8,262)
Share of losses of associates					(1,234)	(10,035)
Loss before tax					<u>(237,010)</u>	<u>(80,954)</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*	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	<b>42,665</b>	65,089	<b>158,948</b>	176,007
Hong Kong	<b>468</b>	—	—	616
Korea	—	—	<b>29,082</b>	34,614
Japan	—	37	—	—
	<b>43,133</b>	65,126	<b>188,030</b>	211,237

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

## 5. REVENUE, OTHER INCOME AND GAINS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Revenue from contracts with customers</b>		
TV and internet programme	33,773	61,586
Film distribution	4,286	6
Sales of film rights	2,437	2,231
Artists management	2,559	1,198
Others	78	105
	<u>43,133</u>	<u>65,126</u>
<b>Other income</b>		
Interest income on film investments	2,492	2,115
Bank interest income	1,276	2,035
Consultancy service income	1,119	1,088
Rental income	2,368	983
Imputed interest income on convertible notes receivable	—	498
Others	1,314	35
	<u>8,569</u>	<u>6,754</u>
<b>Gains</b>		
Loss arising on change in fair value in respect of conversion options embedded in convertible notes receivable	—	(356)
Loss arising on change in fair value in respect of financial assets at fair value through profit or loss	(747)	—
Loss on disposal of other non-current assets	(460)	—
Loss on disposal of property, plant and equipment	(324)	(766)
Gain on deemed disposal of an associate	—	791
Exchange differences, net	160	(242)
Others	(35)	77
	<u>(1,406)</u>	<u>(496)</u>
	<u><u>7,163</u></u>	<u><u>6,258</u></u>

## 6. LOSS BEFORE TAX

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

	<i>Note</i>	<b>2018</b> <b>HK\$'000</b>	2017 <i>HK\$'000</i>
Cost of film and TV programme rights		<b>121,142</b>	54,539
Cost of artists management services		<b>2,398</b>	1,274
		<hr/>	<hr/>
Total cost of sales		<b>123,540</b>	55,813
		<hr/>	<hr/>
Auditor's remuneration		<b>884</b>	874
Depreciation of property, plant and equipment		<b>12,230</b>	6,500
Amortisation of other non-current assets		<b>1,116</b>	733
Loss on disposal of other non-current assets		<b>460</b>	—
Impairment loss on available-for-sale investments*		—	1,153
Impairment loss on investment in an associate*		<b>3,342</b>	—
Loss on disposal of property, plant and equipment		<b>324</b>	766
Impairment loss of film rights and films and TV programmes under production*	<i>10</i>	<b>41,882</b>	5,799
Impairment loss recognised in respect of other receivables, net*		<b>31,536</b>	7
Operating lease rentals in respect of rented premises		<b>7,812</b>	9,178
Staff costs (excluding directors' remuneration):			
— Salaries and allowances		<b>27,251</b>	39,873
— Pension scheme contributions**		<b>2,766</b>	3,675
— Share-based payment expenses		—	(14,216)
		<hr/>	<hr/>
		<b>30,017</b>	29,332
		<hr/> <hr/>	<hr/> <hr/>

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

\*\* As at 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2017: Nil).

## 7. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% (2017: 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% (2017: 25%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Deferred	<u>(92)</u>	<u>(38)</u>
Total tax credit for the year	<u><u>(92)</u></u>	<u><u>(38)</u></u>

No provision for Hong Kong profits tax and Korea corporate income tax has 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\$236,071,000 (2017: HK\$79,853,000), and the weighted average number of ordinary shares of 4,209,130,000 (2017: 4,136,550,000) in issue during the year.

As the Company's share options where applicable had an anti-dilutive effect on the basic loss per share calculation for the years ended 31 December 2018 and 2017, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted loss per share.

## 9. TRADE RECEIVABLES

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

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 3 months	<u><u>2,379</u></u>	<u><u>38</u></u>

## 10. FILM RIGHTS AND FILMS AND TV PROGRAMMES UNDER PRODUCTION

	Films and TV programme Rights <i>HK\$'000</i>	Films and TV programmes under production <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2018</b>			
<b>Cost:</b>			
At 31 December 2017 and 1 January 2018	243,289	228,013	471,302
Additions	343	71,905	72,248
Disposals	—	(33,360)	(33,360)
Transfer to film and TV programme rights	100,407	(100,407)	—
Exchange realignment	(13,336)	(7,034)	(20,370)
	<u>330,703</u>	<u>159,117</u>	<u>489,820</u>
<b>At 31 December 2018</b>			
<b>Accumulated amortisation and impairment:</b>			
At 31 December 2017 and 1 January 2018	(159,138)	(12,191)	(171,329)
Amortisation	(119,383)	—	(119,383)
Impairment	(23,784)	(18,098)	(41,882)
Exchange realignment	11,441	477	11,918
	<u>(290,864)</u>	<u>(29,812)</u>	<u>(320,676)</u>
<b>At 31 December 2018</b>			
<b>Carrying amount</b>	<u>39,839</u>	<u>129,305</u>	<u>169,144</u>

	Films and TV programme Rights HK\$'000	Films and TV programmes under production HK\$'000	Total HK\$'000
<b>31 December 2017</b>			
<b>Cost:</b>			
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	<u>243,289</u>	<u>228,013</u>	<u>471,302</u>
<b>Accumulated amortisation and impairment:</b>			
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	<u>(159,138)</u>	<u>(12,191)</u>	<u>(171,329)</u>
<b>Carrying amount</b>	<u>84,151</u>	<u>215,822</u>	<u>299,973</u>

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 2018 and 2017, 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 2018, there is an impairment loss of approximately HK\$41,882,000 (2017: HK\$5,799,000) recognised in respect of film rights and 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 based in Mainland China and Hong Kong.



## 11. TRADE PAYABLES

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

	<b>2018</b>	2017
	<i>HK\$'000</i>	<i>HK\$ '000</i>
Over 1 year	<u><u>2,827</u></u>	<u><u>2,981</u></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 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### *Movies, TV Programmes and Internet Contents*

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

With the rapid development of video streaming websites and internet movies in the Mainland China, the Group continued to increase its investment in internet movies. The Group's investment in various projects last year, including "Bad Together" (《太子書院》), "Break out of Taiping Town" (《殺出太平鎮》) and "The Legend of Zu" (《蜀山降魔傳》), have been released on the video streaming platform "iQIYI" (愛奇藝) this year. However, strategy for the internet movies projects participated earlier emphasized on risk control and payback period, resulted in a smaller project and investment scale and contributed an insignificant amount of profit. Given the success of the above-mentioned projects, the Group invested in a series of projects of larger scale and investment including "The Props Master" (《道具師》), "Hey! Tiny Bone" (《嘿！小骨頭》), "The Legend of Zu 2" (《蜀山降魔傳 2》), "Swordsmanship and Immortality Cultivation" (《御劍修仙傳》) and "Yan Chixia" (《燕赤霞》) in pursuit of "blockbuster" projects to generate considerable profit contributions to the Group.

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

#### ***"Faithful Dog Hachiko"***

The Group has been granted the license for "Faithful Dog Hachiko" (《忠犬八公的故事》) (a famous Japanese film with Shindo Kaneto as the scriptwriter) by Jiro Shindo, the licence owner of this film, and has adapted it into the Chinese version. Script adaptation for this movie has been completed and Mr. Xu Ang has confirmed to direct this movie. Director Xu Ang's representative work include the stage drama "What Makes You Beautiful" (《喜劇的憂傷》), the film "12 Citizens" (《十二公民》) and the TV series "Medical Examiner Dr. Qin" (《法醫秦明》). At this stage "Faithful Dog Hachiko" (《忠犬八公的故事》) has gained a very positive response either in financing or seeking cooperative teams. The Group is now working to advance this project at full force and is expected to start the production in October 2019.

#### ***"The Tibet Code"***

The Group has entered into a joint investment and development agreement with Tencent Pictures, Guoying Investment and Dimension Films to collectively produce the film series of "The Tibet Code" (《藏地密碼》) adapted from the best-selling novel of the same name. We have invited Mr.

Huang Jianxin to be the executive producer of the first film of the “The Tibet Code” (《藏地密碼》) series, who acted as the executive producer of films including “The Warlords” (《投名狀》) and “The Taking of Tiger Mountain” (《智取威虎山》) and the producer of films such as “Bodyguards and Assassins” (《十月圍城》) and “Operation Mekong” (《湄公河行動》). Mr. Huang Hai will lead the scriptwriter team for “The Tibet Code” (《藏地密碼》) whose scripting works include “The Devotion of Suspect X” (《嫌疑人X的獻身》), “Wu Kong” (《悟空》) and “Mystery of Antiques” (《古董局中局》). We are now looking for a director for this film series.

### ***“Legend of the Galactic Heroes”***

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

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

Furthermore, the previously invested projects like “The Dynasty Warriors” (《真·三國無雙》), “Fagara in Mara” (《花椒之味》), “Theory of Ambition” (《風再起時》), “I’m Livin’ It” (《麥路人》), “Ori Princess, the Elf is Coming” (《甜心格格之精靈來了》), “If You are Happy” (《學區房83弄》) and “In Winter” (《藍色列車》) are either under post-production or scheduled for release and expected to be released in 2019.

### ***Prospects and Challenges:***

#### *Prospects of Cinema market in 2019<sup>\*1</sup>*

According to the statistics from the National Film Special Fund Office, the total box office in China in 2018 reached RMB 60.696 billion<sup>\*2</sup> which represents an increase of RMB 4.812 billion compared with RMB 55,884 billion of last year. Although this represented a year-on-year growth rate of 8.6%, this rate dropped significantly comparing with that being 13.7%, 11.9% and 49.2% for the year of 2017, 2016 and 2015 respectively and fell under 10% for the first time in the recent three years. In the past three years, growth increase in box office as a result of the increased number of cinemas and screens has faced a bottleneck and the figures above reflect that China’s film industry has entered a stage of rational correction. Under current circumstances, although the box office growth in first-tier cities tends to stabilize, the growth driven by the expansion of cinema infrastructures in third-and fourth-tier cities is slower than the high-speed growth in the previous two years, resulting in the increasing polarization of individual film box offices in the Chinese film market. With respect to relevant policies in 2018, the formulation of many policies or opinions, such as the reform of the governing body of the State Administration of Film, the regulation of ticket prices, the regulation of

film and television taxation and the reform of cinema system, all of which are the preparations made for the changes in the current Chinese film and television industry market and the foundation of future industry development from a macroscopic perspective. In hindsight, the film market of North America also entered into a similar correction period in 1990 which did not rebound until 2005 to gain a larger market. Undoubtedly, China's future film market has huge potentials, but whether the rational correction period will last long or rebound shortly will depend on the performance in the critical year of 2019.

A detailed study of the box office of 2018 shows two distinct features that distinguish it from previous years:

1. It is more and more difficult to attract audiences to go to movies through pre-screening marketing. On the contrary, the word-of-mouth effect is strengthened and affects the box office more and more quickly;
2. While the growth rate of the total box office in China is slowing down, domestic films accounting for 77.5% of the total number of films take up a 60.3% share of the total box office, representing an increase of 3.4% compared with last year and exceeding 60% for the first time in the recent three years. Among the top 20 films ranked by box office, the new generation of directors have contributed 41% of the box office and become the backbone of the industry<sup>\*3</sup>.

In terms of quality and reputation, China's film industry is gradually becoming more mature and at the same time, the audience has also become more mature in watching films and their consumption habits have been reshaped to respond to the market more rationally. Currently, there is still a large crowd of audience with huge demand for movies in China's film market, while the number of cinemas receiving support from national policies is still increasing marginally and the internet made online consumption popular, all these factors have brought great potentials for the film market in 2019. However, it cannot be ignored that the open-up of Hollywood films quota will inevitably impact the existing domestic and imported film patterns in the future. From 2019 onwards, a high-quality and more mature industrialisation system will become an important trend for China's film industry.

#### *Prospects of the Internet Film Market in 2019<sup>\*4</sup>*

Under the background of the film audience segmentation and more precise market strategies, the mode of distribution by traditional cinemas has various limitations in terms of the number and timing of films scheduled, etc., the Internet distribution channel has the intrinsic advantages of high traffic, marketing and long-lasting effect, which directly extends to the crowd of audience that theatrical movies difficult to reach, thus satisfying the diversified needs of audience and creating

<sup>\*1</sup> Source: Fu Ping, New changes and new variables behind the RMB60 billion box office and what kind of black swan events the 2019 movie market might face, (Entertainment & Business Observer, 2 January 2019).

<sup>\*2</sup> Total box office of China's film industry in 2018: statistics from the National Film Special Fund Office.

new room for growth. This also contributes to the shaping and booming of the Internet film market. From 2014 to 2017, Internet films experienced explosive growth with the output increased by 4.2 times and the market size 20 times in four years. In 2018, its market size was estimated to have exceeded 3 billion, representing 1/10 of the box office of domestic theatrical films. Currently, Internet films have formed a market with a certain scale which is going to embrace more mainstream audience. When production costs consistently increase and profit sharing schemes from all platforms has become mature and stable gradually, more capital is therefore attracted and traditional cinema companies even attempted to release movies in cinemas and the Internet at the same time. As regulation tightened in 2018, the number of Internet films dropped sharply and the box office could not maintain despite their overall quality improved. Over-consumption of public IPs revealed the weakness in film content innovation. It is expected that Internet films will have higher expectations for film theme innovation, content quality improvement and accurate market positioning with a broadened horizon in 2019. With the standardization of policies and regulations, the formation of the competitive pattern and the improved production standards, we are looking forward to a vibrant Internet film market in 2019.

Having an overall understanding of the current situation, the Group's future strategies in the film and television industry include: establishing a reputation in the industry by leading and producing high-quality film and television projects; utilizing resources efficiently by stimulating the market with contents and creativity; maintaining long-term collaboration relationship with the industry tycoons to create a win-win situation by continuously investing in high-quality film and television projects and increasing influence in the industry; and vigorously developing internet film projects as a new breakthrough.

### *Artists Management*

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

Amongst all artists under our management, Chen Xinzhe (陳信喆) shows enormous potential and has been put in the limelight quickly. Chen Xinzhe, a new-born and post-95 generation star, develops his career on multiple fronts: movie, television and music. He has published 10 singles and performed in 13 movies/ TV since his debut two years ago. The first single of Chen Xinzhe "I Miss You Again" (《我又想你了》), which recorded over 50,000 comments in the NetEase Cloud Music (網易雲音樂) music platform has entered the Tik Tok Music new song chart shortly after its release online, and subsequently entered the hit song chart of Tik Tok Music also. His debut movie "Exorcism Master"\* (《鎮魂法師》) has recorded over 60 million click-rates within 3 months after the exclusive release in Youku. This result has broken many industry records of internet movie production and captured the

\*3 Statistics from Maoyan Statistics, Maoyan Statistics Research Institute.

first championship of profit-sharing in the industry which has become a milestone production in the development of internet movie production. Chen Xinzhe is also the first artist who marked 60 million click-rates in the internet movie industry, and the movie “Exorcism Master2”\* (《鎮魂法師2》) in which he is the leading actor has finished shooting and will be released in mid-2019. In addition, “The Evil Thief’s White Bone Clothes” (《魔盜白骨衣》), an Internet drama produced by Youku, will be released soon. The TV series “Crazy Troupe” (《瘋狂劇團》) will also be released in 2019. Chen Xinzhe was honoured with “The Most Popular Actor” award with his outstanding performance delivered in the movie “Exorcism Master”\* (《鎮魂法師》) at “The 3rd Golden Seagull International New Media Film Week” organized by the Communication Centre of Chinese Communist Youth League (共青團中央網絡影視中心), China Film Association, the New Media Research Institute of Communication University of China, Chinese Film Association of Malaysia and Thailand National Film Association on 29 September 2018.

Although Chen Xinzhe has started his career for only a short period of two years, he has already starred in 13 TV/movie productions. Apart from his impressive achievements in the TV/movie and music sectors, his accomplishment also extended to charitable events through participation in the “Charity Walk for Tibet”\* (《千里西藏助學行》) of “Xiantou Commonwealth”\* (線頭公益) and the “Support! Free Lunch”\* (《支持·免費午餐》) of Tencent Foundation, supporting the children in needs with actions.

In addition, Lajin’s artists including Yang Xiaodong (楊曉東) and Xu Junjie (徐俊杰) have shot the “The Next Top Bang” (《中國夢之聲·下一站傳奇》), a key programme of Dragon Television. The show is a “large-scale variety competition show featuring dancing and singing for youth talents”, with Chan Waiting (陳偉霆), Tang Tszkei (鄧紫棋), Wu Haiquan (胡海泉), Zhou Bichang (周筆暢), Song Qian (宋茜) and Kris Wu (吳亦凡) being the initial artists for the show. Moreover, our artist Xu Junjie (徐俊傑) took part in “Avenue of Stars” (《星光大道》), a large-scale variety show held by CCTV, on March 7, 2019 and gave outstanding performance in the four rounds of competition to become the champion of the week. Currently, he is preparing for the next monthly competition. In addition, Ye Zicheng (葉子誠) acted as Lin Yimu (林一木), the leading actor in the theatre movie “Twentys” (《二十歲》) invested by Lajin, Zhao Shanshan (趙閃閃) and Zhang Linyue (張琳悅) acted as the leading actress Yuan Youqing (原幼清) and main villain Yun Juyan (雲居雁) in the internet movie “The Legend of Zu” (《蜀山降魔傳》) respectively. All of them demonstrated remarkable performance.

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

\*4 Statistics from “Zhang Hong of China Film Association: with the Explosive Growth in Scale, the Internet Film Market Has A Great Potential”, a speech given by Zhang Hong, the sub-party secretary of China Film Association, on “iQIYI World Meeting — Internet Film Summit Forum”.

## ***Music***

The Group has put enormous effort in building the Huo Miao Original Music Service Platform “Huo Miao” (火喵). Huo Miao is an incubation project focused on the creation of original music which aims to help musicians to get rewarded and realize their value through restructuring the mechanism for profit sharing, and in turn stimulates the creativity of musicians in order to nurture more new artists to produce in the music industry. Huo Miao is committed to building the biggest new ecosystem of original music in China.

The musician team of Huo Miao is continuously expanding with young song producers, composers, lyricists and arrangers and has augmented the copyright of a large number of high quality original music compositions, covering a variety of mainstream and non-mainstream music in styles of pop, rock, classical, folk, electronic, rap, etc.

Huo Miao has developed a relatively comprehensive music promotion and distribution network and commenced copyright operation in full swing: Huo Miao collaborated with various domestic mainstream music platforms, such as QQ Music, KuGou Music, Kuwo Music, NetEase Cloud Music and Xiami Music and gradually opened overseas issuance channels. It also established strategic partnerships with nearly 100 radio stations and internet radio channels in China. The mobile platforms developed by Huo Miao have been successfully launched.

During the current period, Lajin Music (拉近音樂) and Huo Miao provided support to the Group’s film and artist management businesses with its music creation, and also produced and distributed music products for several movies/TV dramas and artists. Lajin Music/Huo Miao has become one of the three interrelated industry chains of the Group. We firmly believe in the originality of music and such brand new concept of tailor-made music production will prosper in the future.

## ***Lajin Base***

Lajin Base (the “Base”) located in Yi Zhuang (亦莊), Beijing comprises two 6-storey buildings of approximately 5,600 square metres in total and houses various facilities and functionalities, including top-tier recording studios, dance studios, band rooms, styling salons, theatres, live broadcasting facilities, intelligent programmes productions, talents development, media postproductions and copyrights management, providing the youngsters with dreams with a comprehensive system of incubation and nurturing and offering them solid opportunities to practice in the TV/movies and music fields.

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

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

The Base has signed the joint production agreement with several production houses in relation to the provision of the Base's venue and facilities and the advanced programmes productions technology for the production of some specific variety shows, for example "Chao Yin Zhan Ji" (《潮音戰紀》), a variety show produced by Tencent Video (騰訊視頻). In addition, the Base will cooperate with various platforms, such as providing venues for nurturing "internet celebrity" anchor, and expect to generate sustainable revenue starting from 2019. The Base also cooperated with Huo Miao Music to launch short music video projects, aiming to create quality short music videos together.

The Group will continue to promote the Base's competitive edge and will strive to secure cooperation of similar nature so as to deepen the cooperative relationship with the leading streaming platforms in the industry through quality content production in forms of livestreaming, short videos, music, artists and variety entertainment, to increase the stable income stream, as well as to ensure the maximum utilization of our facilities.

#### **CHANGE IN DIRECTORS AND SECRETARY**

On 1 November 2018, Mr. Chan Kam Kwan Jason has resigned as the executive director, authorized representative and company secretary of the Company. On the same date, Mr. Leung Wai Shun Wilson was appointed as the company secretary and authorized representative following Mr. Chan's resignation.

On 1 December 2018, Ms. Zhai Shan Shan has been appointed as an executive director of the Company.

#### **FINANCIAL REVIEW**

The revenue of the Group was approximately HK\$43,133,000 for the year ended 31 December 2018 (2017: HK\$65,126,000). It was mainly generated from the provision of artists management and investment in movies, TV programmes and internet contents, representing a decrease of 33.8% as compared to the same period last year. The decrease was mainly attributable to the decrease in revenue from the Group's Movies, TV programmes and internet content business.

Cost of sales for the year ended 31 December 2018 increased to approximately HK\$123,540,000 (2017: HK\$55,813,000), which was mainly due to that the TV series named "She is Beautiful"《她很漂亮》and the films named "Twenty"《二十歲》and "Europe raiders"《歐洲攻略》issued during the year were accounted during the year.



During the year, loss for the period attributable to owners of the parent was approximately HK\$236,071,000 (2017: loss of HK\$79,853,000). The increase in loss was primarily due to the loss recorded by the aforesaid TV/film related projects and the impairment of other TV/film related projects.

### **Movies, TV programmes and internet contents**

During the year under review, the revenue contributed by such segment was approximately HK\$40,574,000 (2017: HK\$63,928,000), representing the sales of film rights owned by the Group and the licensing income from the TV series named “She is Beautiful”《她很漂亮》and “I Am So Not Going to Be Bullied by Girls”《我才不會被女孩子欺負呢》.

### **Artists Management**

During the year under review, the revenue contributed by such segment was approximately HK\$2,559,000 (2017: HK\$1,198,000).

### **Administrative expenses**

Administrative expenses were mainly the staff costs, operating lease expenses, depreciation of fixed assets and amortization expenses and other general administrative expenses of the Group incurred during the year under review. Administrative expenses decreased to approximately HK\$78,265,000 from approximately HK\$80,417,000 in the prior year due to the net effect of the reduction of human resource cost and the increase of depreciation expenses.

### **Liquidity and Financial Resources**

At 31 December 2018, the Group had total assets of approximately HK\$700,788,000 (2017: HK\$975,352,000), including cash and cash equivalents of approximately HK\$180,393,000 (2017: HK\$298,481,000). During the year under review, the Group financed its operation with the proceeds from fund raising activities.

## **CONTRACTUAL ARRANGEMENTS UNDER THE STRUCTURED CONTRACTS**

The Group has been using the Structured Contracts arrangements to indirectly own and control companies engaged in production and distribution of media contents in the PRC.

### **PRC rules and regulations**

On 25 December 2001, the State Council promulgated the Regulations on the Administration of Films (《電影管理條例》), which came into force on 1 February 2002. Pursuant to the Regulations on the Administration of Films, foreign organizations or individuals are prohibited to engage in the film production within the territory of the PRC without a PRC partner.

On 6 July 2005, the Ministry of Culture (the “MOC”), the State Administration of Radio, Film and Television (國家廣播電影電視總局) (as one of the predecessors for the State Administration of Press, Publication, Radio, Film and Television (the “SARFT”) 國家新聞出版廣電總局), the General Administration of Press and Publication (新聞出版總署) (the “GAPP”, which is one of the predecessors for the SARFT), the National Development and Reform Commission (the “NDRC”) and the Ministry of Commerce (the “MOFCOM”) jointly promulgated the Several Opinions on Introduction of Foreign Investment into the Cultural Sector (《關於文化領域引進外資的若干意見》), which came into force on 6 July 2005. Pursuant to such opinions, foreign investment is prohibited to establish and operate companies for production and broadcast of radio and television programme, film production, and film import and distribution.

On 10 March 2015, the NDRC and the MOFCOM jointly promulgated the Catalogue of Industries for Guiding Foreign Investment (2015 Revision) (《外商投資產業指導目錄(2015年修訂)》) (the “Catalogue”), which came into force on 10 April 2015. Pursuant to the Catalogue, (i) the foreign investment is restricted to engage in the production of radio and television programmes and the film production by way of cooperation with domestic investors; (ii) the companies for production and operation of radio and television programmes are prohibited from foreign investment; (iii) the foreign investment is not allowed in film production, film distribution and film theater.

To operate the Group’s media contents business in the PRC, The Group has established controls over 3 entities by contractual arrangements under the structural contracts, which are:

1. Beijing Lajin Huyu Wenhua Chuanmei Company Limited (北京拉近互娛文化傳媒有限公司) (“OPCO1”);
2. Jiaxuan Huanqiu Yingye Company Limited (稼軒環球影業有限公司) (“OPCO2”); and
3. Beijing Lajin Yingye Company Limited (北京拉近影業有限公司) (“OPCO3”).

“OPCOs” below shall mean any or all of the above entities.

The registered owners of the OPCOs are Ms. Zhai Shan Shan, director of the Company who has been appointed on 1 December 2018, and an employee of the Group (“Registered Owner”). The OPCOs, Registered Owners have respectively entered into the relevant structured contracts (the “Structural Contracts”) with Beijing Lajin Hudong Chuanmei Keji Company Limited (北京拉近互動傳媒科技有限公司) (the “WFOE”, an indirect wholly-owned subsidiary of the Company). The Structural Contracts are designed to provide the Company with an effective control over and the right to enjoy the economic benefits and risks in and/or assets of OPCOs. Through the Structural Contracts, the control and economic benefits and risks from the business of OPCOs will flow to WFOE. For accounting purposes, OPCOs are regarded as indirect wholly owned subsidiaries of the Company.

## **Major terms of the Structural Contracts**

Under the Structural Contracts, WFOE has an irrecoverable and exclusive priority right to acquire directly and/or through one or more nominees, the equity interests held by the Registered Owners in OPCOs, as permitted by applicable PRC laws and regulations. Further, each agreement under the Structural Contracts includes a provision that each such agreement is binding on the legal assignees or heirs of the parties to each such agreement. In the event of death, bankruptcy or divorce of any of the Registered Owners, WFOE may exercise its option to replace the relevant shareholders and the newly appointed nominee shareholders will still be subject to the Structural Contracts.

Ms. Wu Li, an executive director of the Company was appointed as director of the OPCOs to oversee the daily operation of the OPCOs. The Directors consider that the possibility of material potential conflicts of interest between the Company and the Registered Owners is remote. In case of any material potential conflicts of interest between the Company and the Registered Owners, the Board will ensure that any material potential conflict of interests will be reported to the independent non-executive Directors as soon as practicable when the Company becomes aware of such potential conflict. The Board will review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities and alert the Board, including the independent non-executive Directors, to take any precautionary actions where necessary.

The Contractual Arrangements comprised of (a) Exclusive Business Cooperation Agreements, (b) Exclusive Option Agreement, (c) Powers of Attorney of the registered owners, (d) Equity Pledge Agreements and (e) Spouse Undertaking. Key provisions of the Contractual Arrangements are as follows:

### **Exclusive Business Cooperation Agreements (獨家業務合作協定)**

Given the aforementioned prohibition/restriction of foreign investments in the production and distribution of media contents in the PRC, the WFOE entered into contractual arrangements with the OPCOs, pursuant to which WFOE shall provide to OPCOs consultancy services, including but not limited to management consultation, technology support and marketing strategies.

At the discretion of WFOE, WFOE can assign the rights and novate the obligations under the services agreement to any company nominated by WFOE without the consent of OPCOs and the Registered Owners.

The initial term of the services agreement is a fixed term of 10 years from the date of the execution of the services agreement. Upon expiry of the services agreement, WFOE has the sole discretion to renew the services agreement for further extensions of the terms once every 10 years. OPCOs are not allowed to refuse the renewal of the services agreement.

In consideration for the provision of the aforesaid consultancy services and subject to compliance with PRC laws and regulations, the OPCOs shall pay WFOE a service fee every year equivalent to 100% of the pre-tax profit of the OPCOs during such period.

### **Exclusive Option Agreement (獨家購買權合同)**

The respective Registered Owners of the OPCOs have granted to WFOE (or its designated nominee(s)), to the extent permitted under the laws of the PRC, (i) an irrevocable option to acquire all or part of their respective equity interests in the OPCOs; and (ii) an irrevocable option to acquire all or part of the assets of the OPCOs.

The exercise price in respect of each of the above options shall be the minimum price as required by PRC laws and regulations at the time of exercising such options. The respective registered shareholders of the OPCOs and/or the respective OPCOs shall convey any proceeds which they will receive upon the exercise of the aforesaid options in a gratuitous manner to the WFOE or the person as designated by the WFOE.

### **Powers of Attorney of the registered owners (授權委託書)**

Each of the Registered Owners has executed a power of attorney in favour of WFOE to irrevocably appoint WFOE as his/its exclusive agent to exercise, inter alia, all his/its rights as shareholder of OPCOs and to execute any documents necessary for giving effect to the Structural Contracts.

### **Equity Pledge Agreements (股權質押協議)**

The Registered Owner of the OPCOs have pledged all of their respective equity interests in the OPCOs to WFOE, as security for the performance of their obligations and/or that of the OPCOs under the Exclusive Option Agreements, Exclusive Business Cooperation Agreements, the Shareholder's Entrustment Letters and such other agreements as concluded to supplement the abovementioned agreements.

### **Spouse Undertaking (配偶同意函)**

A spouse undertaking signed by the spouse of each of the Registered Owners, in favor of WFOE, acknowledging and consenting the signing of the Structured Contracts by registered owners.

There were no material changes to the Structured Contracts and/or the circumstances under which they were adopted, nor was there any unwinding of them or of a failure to do the same due to the restrictions that led to their adoption being removed.

### **OPCOs' Business activities**

OPCOs are companies established in the PRC with limited liability which are principally engaged in the production and distribution of cartoon or television programmes (other than production of political news and other relevant radio and television programmes) and other related business. OPCOs hold some key requisite PRC permits, licenses and approvals for our business operations, including the Permit to Produce and Distribute Radio or Television Programs (廣播電視節目製作

經營許可證), the Commercial Performance License (營業性演出許可證). Some of our intellectual property rights, including copyrights, trademarks, and domain names, are also held by the PRC contractual Entities. OPCOs are also used as the investment vehicle to invest in movies or other companies which give rise to business collaboration with the OPCOs.

Under the Permit to Produce and Distribute Radio or Television Programs (廣播電視節目製作經營許可證) dated 11 May 2018, 2 September 2018 and 23 June 2017 issued to OPCOs by Beijing Municipal bureau of Press, Publication, Radio, Film and Television (北京市新聞出版廣電局), OPCOs are allowed to engage in the provision and distribution of Cartoon or Television Programmes (other than production of political news and relevant radio and television programmes) and other related business permitted under the relevant PRC rules for a period of two years. Under the Commercial Performance License (營業性演出許可證) dated 14 April 2016 issued to OPCO1 by Beijing Municipal Bureau Of Culture (北京市文化局), OPCO1 is allowed to engage in business of performance brokerage and artists management for a period from 14 April 2016 to 10 June 2020.

The Group has consolidated the financial results of OPCOs and its subsidiaries in its consolidated financial statements in accordance with HKFRSs. For the year ended 31 December 2017 and 2018, the financial results of OPCOs are as below:

	Revenue				Total Assets			
	2018		2017		As at 31 Dec 2018		As at 31 Dec 2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
OPCO1	4,377	<b>10.1</b>	1,198	1.8	42,584	<b>6.1</b>	53,693	5.5
OPCO2	2,466	<b>5.7</b>	Nil	Nil	71,656	<b>10.2</b>	125,533	12.9
OPCO3	33,868	<b>78.5</b>	63,369	97.3	186,469	<b>26.6</b>	180,127	18.5

### Risk relating to the Structural Contracts

The following risks are associated with the Structural Contracts:

- the PRC Government may determine that the Structural Contracts do not comply with applicable PRC laws and regulations;
- the Structural Contracts may not provide control as effective as direct ownership;
- failure by the Registered Owners to perform their obligations under the Structural Contracts;
- the Company may lose the ability to use and enjoy assets held by OPCOs if those companies declares bankruptcy or becomes subject to a dissolution or liquidation proceeding;

- the shareholders of OPCOs may have potential conflicts of interest with the Company;
- the Company's ability to acquire the entire equity interests and/or assets of OPCOs through WFOE may be subject to various limitations; and
- the Structural Contracts may be challenged by the PRC tax authorities.

Despite the above, as advised by the PRC legal advisers to the Company, the contractual arrangements are in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under, the current PRC laws. The Company will monitor the relevant PRC laws and regulations relevant to the contractual arrangement and will take all necessary actions to protect the Company's interest in the Structured Entities.

### **Capital Structure**

As at 31 December 2018, the Company has in issue a total of 4,209,131,046 ordinary shares. A total of 44,000,000 share options have been lapsed during the year.

### **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 12.8% (2017: 8.3%). The change in gearing ratio was mainly derived from the increase of current liabilities in accruals and other payables from approximately HK\$71,791,000 to HK\$76,563,000 as compared with that in prior year, and the decrease of total equities attributable to owners of the parent from HK\$899,414,000 to HK\$620,824,000, also contributed to the increase in the Company's gearing ratio.

### **Charges on the Group's Assets**

At 31 December 2018, 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 2018, the Group had capital commitments of approximately HK\$68,030,000 (2017: HK\$96,019,000).

## ***Contingent Liabilities***

At 31 December 2018, the Group had no contingent liabilities (2017: Nil).

## ***Employees***

At 31 December 2018, the Group had 92 employees, including approximately 87 employees in PRC and 5 employees in Hong Kong. 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.

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

During the year ended 31 December 2018, 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 2018, 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) Terms of non-executive Directors**

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

**(c) Non-executive Directors attending general meeting**

Under the CG Code provision A.6.7, non-executive Directors should attend general meetings. 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 2018.



## **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 2018 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**  
**Leung Wai Shun Wilson**  
*Company Secretary*

Hong Kong, 29 March 2019

*As at the date of this announcement, the executive directors are Ms. Wu Li and Ms. Zhai Shan Shan; the non-executive directors are Mr. Zou Xiao Chun, Mr. Zhou Ya Fei and Mr. Luo Ning 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](http://www.irasia.com/listco/hk/lajin/index.htm).*