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)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 unaudited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019, together with the comparative audited figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	**2019** ***HK$'000*** **(Unaudited)**	2018 *HK$'000* (Audited)
REVENUE	*5*	**31,868**	43,133
Cost of sales		**(34,310)**	(123,540)
Gross loss		**(2,442)**	(80,407)
Other income and gains/(losses)	*5*	**(8,673)**	7,163
Selling and distribution expenses		**(395)**	(7,201)
Administrative expenses		**(49,059)**	(78,265)
Other expenses		**(24,450)**	(76,760)
Finance costs		**(235)**	(854)
Share of profits and losses of:			
Associates		**(363)**	(1,234)
A joint venture		**(3,434)**	548
LOSS BEFORE TAX	*6*	**(89,051)**	(237,010)
Income tax credit	*7*	**742**	92
LOSS FOR THE YEAR		**(88,309)**	(236,918)
Attributable to:			
Owners of the parent	*8*	**(86,721)**	(236,071)
Non-controlling interests		**(1,588)**	(847)
		(88,309)	(236,918)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted		**HK(2.06) cents**	HK(5.61) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
LOSS FOR THE YEAR	**(88,309)**	(236,918)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(6,935)**	(31,316)
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	**(1,137)**	(11,335)
Share of other comprehensive income/(loss) of an associate	**286**	(355)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(851)**	(11,690)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(7,786)**	(43,006)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(96,095)**	(279,924)
Attributable to:		
Owners of the parent	**(94,530)**	(279,127)
Non-controlling interests	**(1,565)**	(797)
	(96,095)	(279,924)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**108,169**	118,784
Financial assets at fair value through profit or loss		**—**	6,512
Investments in associates		**36,211**	40,878
Investment in a joint venture		**—**	17,031
Equity investments designated at fair value through other comprehensive income		**11,056**	12,393
Goodwill		**—**	4,626
Right-of-use assets		**5,645**	—
Other non-current assets		**2,718**	6,711
Total non-current assets		**163,799**	206,935
CURRENT ASSETS			
Trade receivables	*9*	**5**	2,379
Contract assets		**714**	—
Film rights and films and TV programmes under production	*10*	**156,770**	169,144
Investments in film		**6,516**	4,554
Prepayments, other receivables and other assets		**144,895**	137,383
Cash and cash equivalents		**122,454**	180,393
Total current assets		**431,354**	493,853
CURRENT LIABILITIES			
Trade payables	*11*	**2,778**	2,827
Other payables and accruals		**62,195**	76,563
Lease liabilities		**4,871**	—
Total current liabilities		**69,844**	79,390
NET CURRENT ASSETS		**361,510**	414,463
TOTAL ASSETS LESS CURRENT LIABILITIES		**525,309**	621,398

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**—**	744
Lease liabilities	**751**	—
Total non-current liabilities	**751**	744
Net assets	**524,558**	620,654
EQUITY		
Equity attributable to owners of the parent		
Share capital	**42,090**	42,090
Reserves	**484,204**	578,734
	526,294	620,824
Non-controlling interests	**(1,736)**	(170)
Total equity	**524,558**	620,654

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 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and Annual Improvements to HKFRSs 2015–2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *HK$'000* (Unaudited)
Assets	
Increase in right-of-use assets	5,954
Decrease in prepayments, other receivables and other assets	(1,247)
Increase in total assets	4,707
Liabilities	
Increase in lease liabilities	4,707
Increase in total liabilities	4,707

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	**5,242**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	228
Commitments relating to leases of low-value assets	24
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments as at 1 January 2019	4,707
Lease liabilities as at 1 January 2019	**4,707**

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and a joint venture upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and a joint venture continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. As the group did not have intergroup sales, the interpretation did not have any impact on the financial position or performance of 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 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 financial assets at fair value through profit or loss, share of profit/(loss) of a joint venture, share of profits and losses of associates, remeasurement loss on investment in a joint venture, gain on bargain purchase of a subsidiary, impairment loss on goodwill 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	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Segment revenue *(note 5)*						
Revenue to external customers	**2,602**	2,559	**29,266**	40,574	**31,868**	43,133
Segment results	**(9,466)**	(20,740)	**(47,990)**	(168,999)	**(57,456)**	(189,739)
Reconciliation:						
Unallocated other income					**123**	1,365
Corporate and other unallocated expenses					**(2,704)**	(12,325)
Impairment loss recognised in respect of other receivables, net					**(3,619)**	(31,536)
Write-off of a prepayment for an internet TV drama					**(2,074)**	—
Impairment loss on investment in an associate					**(4,359)**	(3,342)
Loss arising on change in fair value in respect of financial assets at fair value through profit or loss					**(6,512)**	(747)
Share of profit/(loss) of a joint venture					**(3,434)**	548
Share of profits and losses of associates					**(363)**	(1,234)
Remeasurement loss on investment in a joint venture					**(4,210)**	—
Gain on bargain purchase of a subsidiary					**168**	—
Impairment loss on goodwill					**(4,611)**	—
Loss before tax					**(89,051)**	(237,010)

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

(b) Other segment information

	Artists management		Movies, TV programmes and internet contents		Unallocated		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Depreciation of property, plant and equipment	**943**	853	**9,237**	10,861	**—**	516	**10,180**	12,230
Impairment loss recognised in respect of films and TV programmes under production	**—**	—	**7,310**	41,882	**—**	—	**7,310**	41,882
Impairment loss recognised in respect of other receivables, net	**(591)**	1,045	**4,183**	30,491	**27**	—	**3,619**	31,536
Investments in associates	**—**	—	**22,262**	29,082	**13,949**	11,796	**36,211**	40,878
Investment in a joint venture	**—**	—	**—**	17,031	**—**	—	**—**	17,031
Capital expenditure*	**109**	2,242	**1,477**	1,860	**—**	9	**1,586**	4,111

* Capital expenditure consists of additions to property, plant and equipment, assets from acquisition of a subsidiary and other non-current assets during the year.

(c) 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*	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Mainland China	**31,868**	42,665	**130,481**	158,948
Hong Kong	**—**	468	**—**	—
Korea	**—**	—	**22,262**	29,082
	31,868	43,133	**152,743**	188,030

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

(d) **Information about major customers**

Revenue from customers for the years ended 31 December 2019 and 2018 which individually amounted to contributing over 10% of the total revenue of the Group is as follows:

	Reporting segment	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Customer A	Movies, TV programmes and internet contents	—	26,081
Customer B	Movies, TV programmes and internet contents	—	5,134
Customer C	Movies, TV programmes and internet contents	**18,498**	—
Customer D	Movies, TV programmes and internet contents	**3,751**	—
Customer E	Movies, TV programmes and internet contents	**3,684**	—

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

An analysis of revenue is as follows:

	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Revenue from contracts with customers	**31,868**	43,133

Revenue from contracts with customers

(a) Disaggregated revenue information

	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Type of goods or services		
TV and internet programme	**48**	33,773
Film distribution	**7,739**	4,286
Sales of film rights	**21,353**	2,437
Artists management	**2,602**	2,559
Others	**126**	78
Total Revenue from contracts with customers	**31,868**	43,133
Geographical markets		
Mainland China	**31,868**	42,665
Hong Kong	—	468
	31,868	43,133
Timing of revenue recognition		
Transferred at a point in time	**29,266**	40,574
Transferred over time	**2,602**	2,559
	31,868	43,133

Set out below is the reconciliation of the revenue from contracts with customers with to the amounts disclosed in the segment information:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Revenue from contracts with customers		
External customers	**31,868**	43,133

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

TV and internet programme

The performance obligation is satisfied when master tapes and materials have been delivered to television stations and online entertainment content platforms and right to pay has been licenced in accordance with the terms of the underlying agreements.

Film distribution

The performance obligation is satisfied when the film is released.

Sales of film rights

The performance obligation is satisfied when control of assets is transferred to the customers and major obligation in the agreement has been fulfilled.

Artists management

The performance obligation is satisfied over time as services are rendered over the scheduled period on a straight-line basis because the services rendered by the artists of the Group shall not be used for other purpose, and the Group shall be entitled to receive payments for the accumulative part of the performance obligation satisfied to date over the scheduled period.

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Other income		
Income on film investments	**685**	2,492
Bank interest income	**552**	1,276
Consultancy service income	**—**	1,119
Rental income	**—**	2,368
Others	**777**	1,314
	2,014	8,569
Gains/(losses)		
Loss arising on change in fair value in respect of financial assets at fair value through profit or loss	**(6,512)**	(747)
Loss on disposal of other non-current assets	**(357)**	(460)
Loss on disposal of property, plant and equipment	**(45)**	(324)
Remeasurement loss on investment in a joint venture	**(4,210)**	—
Gain on bargain purchase of a subsidiary	**168**	—
Gain on debt offset	**240**	—
Exchange differences, net	**70**	160
Others	**(41)**	(35)
	(10,687)	(1,406)
	(8,673)	7,163

6. LOSS BEFORE TAX

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

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Cost of film and TV programme rights	**32,683**	121,142
Cost of artists management services	**1,627**	2,398
Total cost of sales	**34,310**	123,540
Auditor's remuneration	**850**	884
Depreciation of property, plant and equipment	**10,180**	12,230
Depreciation of right-of-use assets	**2,935**	—
Operating lease rentals in respect of rented premises	**—**	7,812
Lease payments not included in the measurement of lease liabilities	**624**	—
Amortisation of other non-current assets	**1,131**	1,116
Loss on disposal of other non-current assets	**357**	460
Remeasurement loss on investment in a joint venture	**4,210**	—
Gain on bargain purchase of a subsidiary	**(168)**	—
Impairment loss on goodwill*	**4,611**	—
Impairment loss on other non-current assets*	**2,477**	—
Impairment loss on investments in an associate*	**4,359**	3,342
Loss on disposal of property, plant and equipment	**45**	324
Impairment loss of film rights and firms and TV programmes under production*	**7,310**	41,882
Impairment loss recognised in respect of other receivables, net*	**3,619**	31,536
Write-off of a prepayment for an internet TV drama*	**2,074**	—
Staff costs (excluding directors' remuneration):		
— Salaries and allowances	**13,895**	27,251
— Pension scheme contributions**	**1,292**	2,766
	15,187	30,017

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

** As at 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2018: Nil).

7. INCOME TAX CREDIT

Hong Kong profits tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Deferred	**(742)**	(92)
Total tax credit for the year	**(742)**	(92)

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.

A reconciliation of the tax credit applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax charge for the year is as follows:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Loss before tax	**(89,051)**	(237,010)
Tax at the statutory tax rates	**(20,661)**	(56,447)
Losses attributable to a joint venture and associates	**949**	172
Expenses not deductible for tax	**9,144**	19,290
Income not subject to tax	**(80)**	(166)
Tax losses not recognised	**10,042**	37,059
Tax effect of utilisation of tax losses previously not recognized	**(136)**	—
Tax credit for the year	**(742)**	(92)

There was no share of tax attributable to associates (2018: HK$1,000) and a joint venture (2018: Nil) included in "Share of profits and losses of associates and a joint venture" in the consolidated statement of profit or loss.

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$86,721,000 (2018: HK$236,071,000), and the weighted average number of ordinary shares of 4,209,130,000 (2018: 4,209,130,000) in issue during the year.

As the Company's share options had an anti-dilutive effect on the basic loss per share calculation for the years ended 31 December 2019 and 2018, 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:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**5**	2,379

10. FILM RIGHTS AND FILMS AND TV PROGRAMMES UNDER PRODUCTION

	Films and TV programme rights	**Films and TV programmes under production**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
31 December 2019			
Cost:			
At 31 December 2018 and 1 January 2019	**330,703**	**159,117**	**489,820**
Additions	**—**	**38,332**	**38,332**
Disposals	**—**	**(15,085)**	**(15,085)**
Transfer to film and TV programme rights	**27,454**	**(27,454)**	**—**
Exchange realignment	**(4,828)**	**(2,002)**	**(6,830)**
At 31 December 2019 (Unaudited)	**353,329**	**152,908**	**506,237**
Accumulated amortisation and impairment:			
At 31 December 2018 and 1 January 2019	**(290,864)**	**(29,812)**	**(320,676)**
Charged to Cost of sales	**(20,523)**	**(5,638)**	**(26,161)**
Impairment	**—**	**(7,310)**	**(7,310)**
Exchange realignment	**4,450**	**230**	**4,680**
At 31 December 2019 (Unaudited)	**(306,937)**	**(42,530)**	**(349,467)**
Carrying amount (Unaudited)	**46,392**	**110,378**	**156,770**

	Films and TV programme rights HK$'000	Films and TV programmes under production HK$'000	Total HK$'000
31 December 2018			
Cost:			
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)
At 31 December 2018 (Audited)	330,703	159,117	489,820
Accumulated amortisation and impairment:			
At 31 December 2017 and 1 January 2018	(159,138)	(12,191)	(171,329)
Charged to Cost of sales	(119,383)	—	(119,383)
Impairment	(23,784)	(18,098)	(41,882)
Exchange realignment	11,441	477	11,918
At 31 December 2018 (Audited)	(290,864)	(29,812)	(320,676)
Carrying amount (Audited)	39,839	129,305	169,144

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 2019 and 2018, 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 2019, there is an impairment loss of approximately HK$7,310,000 (2018: HK$41,882,000) 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:

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Over 1 year	**2,778**	2,827

12. DIVIDEND

No dividend was paid or proposed during 2019, nor has any dividend been proposed since the end of the reporting period (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Movies, TV Programmes and Internet Contents

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

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

With the rapid development of video streaming websites and internet movies in Mainland China, the Group continued to increase its investment in internet movies and invested in a series of projects of larger scale and investment including "Hey! Tiny Bone" (《嘿！小骨頭》), "The Legend of Zu 2" (《蜀山降魔傳2》), "Swordsmanship and Immortality Cultivation" (《天劍修仙傳》), "The Strongest Iron Mr. Nanny" (《最強鐵血奶爸》) and "The Legend of Lu Bu" (《斗破亂世情》) in pursuit of "blockbuster" projects to generate considerable profit contributions to the Group. Among them, "Swordmanship and Immortality Cultivation" (《天劍修仙傳》) recorded over 160 million view counts to date which ranked the second largest number of audiences on all platforms in 2019. "The Legend of Zu 2" (《蜀山降魔傳2》), ranked number one in "iQiyi Internet Movies Shared Revenue Chart" ("愛奇藝網絡電影分賬榜") for 8 consecutive days. As of the end of 2019, the gross shared revenue in video streaming has exceeded RMB14.64 million, ranking 15th in the iQiyi annual Chart. In addition to the positive results of "Swordsmanship and Immortality Cultivation" (《天劍修仙傳》) and " The Legend of Zu 2" (《蜀山降魔傳2》) in box office, both movies also achieved the Best 10 Internet Movies of the Year in Golden Shark Award (金鮫獎) which was known as the "Chinese Oscar in Internet Content" and organized by 20 quality entertainment media companies.

In virtue of its experience in investment in internet movie projects, the Group has deepened its exploration in internet movie market by taking the initiative to consolidate industry resources. The Group commenced to expand its business into internet movie distribution business in 2019, and "Di Renjie-Deep Sea Dragon Palace" (《狄仁杰之深海龍宮》), the first internet movie distributed by the Group, was launched on Youku with the highest popularity of 8648 on the platform, breaking the record in the popularity of Youku's internet movies; and also top in the following 8 Charts: Hot Youku Movies Charts (優酷電影熱度榜), Hot Mainland Movies Chart (內地片熱榜), Hot Action Movies Chart (動作片熱榜), Hot Suspense Movies Chart (懸疑片熱榜), Youku Movies V Chart (優酷V榜電影榜), Internet Movies Ranking Chart (電影排行榜網大榜), Hot Movies Ranking Chart (電影排行榜熱度榜) and Action Movies of the Movies Ranking Chart (電影排行榜動作榜). It also has been ranking top in the Internet Movies of the Youku Movies Ranking Chart (優酷電影排行榜網大榜) for ten consecutive days. The business model of investment-assisted distribution has not only enabled the Group to increase project revenue by increasing collaborative business segments and effectively reduce project risks, but also enabled the Group to continuously deepen project participation and have more opportunities to participate in different stages of mega projects. After effectively evaluating project risks, the Group has given priority in choosing high-quality projects.

Furthermore, the Group has also established its strategic cooperation relationship with numerous established companies that have the capacity for producing theatrical films, and fully leveraged on its experience and advantages in the field of internet-based products to remake classic films and television drama IP to produce quality internet movies with partners. To date, both Parts I and II of the "The Legend of the Condor Heroes" (《射雕英雄傳》) series and the "The Crisis of the Youth" (《少年葉問驚天危機》) of the Ip Man series are being produced through this model. The first draft of the screenplay of "The Legend of the Condor Heroes" (《射雕英雄傳》) has been completed and is scheduled to be shot in the second quarter of 2020. In addition to being produced in conventional format, the "Legend of the Condor Heroes" (《射雕英雄傳》) will also be devised and shot as an interactive film, which is expected to become a super-mega movie of the platform.

In addition to internet movies, the Group also invested in theatrical films "Pegasus" (《飛馳人生》), "The Home Front" (《破陣子》), "Farewell U" (《再見，少年》) and "A Guide to Daily fantasy" (《日常幻想指南》) in 2019. "Pegasus" (《飛馳人生》) was released during the 2019 Lunar New Year period and recorded a satisfactory box office in the Mainland China.

The Group's upcoming key projects include but not limit to:

"Faithful Dog Hachiko" (《忠犬八公》)

The Group has been granted the license for "Hachi: A Dog's Tale" (《忠犬八公的故事》) (a famous japanese film with Kaneto Shindo as the scriptwriter) by Jiro Shindo, the licence owner of this film, to adapt it into the Chinese version, "Faithful Dog Hachiko" (《忠犬八公》). Script adaptation for this movie has been completed and Mr. Xu Ang has confirmed to direct this movie. Director Xu Ang's representative work include the stage drama "What Makes You Beautiful" (《喜劇的憂傷》), the film "12 Citizens" (《十二公民》) and the internet drama "Medical Examiner Dr. Qin" (《法醫秦明》). At this stage "Faithful Dog Hachiko" (《忠犬八公》) has gained a very positive response either in financing or seeking cooperative teams. Considering the sharing of resources, risk management and beneficial for subsequent distribution and other matters, the Group is under negotiation with numerous powerful companies in PRC to seek cooperation. Form of collaboration is already at early stage. Specific targets were set for the creative team and the leading actors. The filming dog has been in training since end of 2019. Filming will start after the preparation work at early stage is completed.

"The Tibet Code"

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

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

The project is based on the best-selling novel written by the distinguished Japanese novelist Tanaka Yoshiki. The Group has entered into a cooperation agreement with "Linghe Media" (靈河文化) for the development of internet drama under this super IP which has extensive experience in producing "super dramas", in which Bai Yicong, a key person of this company has a nickname of "Internet Dramas No. One". The Chinese New Year holiday in 2019 witnessed the great market potential of Chinese science fiction movies. Therefore, the theatrical film of "Legend of the Galactic Heroes" is actively under study hoping this legendary story can bring new impetus to Chinese science fiction movies.

The above projects are the main focus of our investments in the coming 2–3 years which will receive the Group's full support and plan to shoot and release or online thereafter.

Furthermore, the previously invested theatrical movies like "The Dynasty Warriors" (《真•三國無雙》), "Theory of Ambition" (《風再起時》), "I'm Livin' It" (《麥路人》), "Ori Princess, the Elf is Coming" (《甜心格格之精靈來了》) and "In Winter" (《藍色列車》) are either under post-production or scheduled for release while "Fagara in Mara" (《花椒之味》) and "If You are Happy" (《學區房72小時》) have been released during this year and brought a number of award nominations to the Group. "If You are Happy" (《學區房72小時》) is shortlisted in the nomination of two awards "The Best Small and Medium Budget Story" and "The Best supporting actress" in the 32th Golden Rooster Award. After shown in theatre, the film received positive feedbacks and various film critics call it a "A Masterpiece of Realism". "I'm Livin' It" (《麥路人》) starring "Best Actor" award winner Mr. Aaron Kwok is highly anticipated even before screening. This movie is chosen as the Closing Gala film of London East Asian Film Festival and featured in Tokyo International Film Festival "Asian Future" section. The 39th Hong Kong Film Awards in 2020, Mr. Aaron Kwok and Ms. Sammi Cheng in "I'm Livin' it" (《麥路人》) and "Fagara in Mara" (《花椒之味》) respectively received the Best Actor and Best Actress award nomination. Moreover, the two movies "I'm Livin' it" (《麥路人》) and "Fagara in Mara" (《花椒之味》) received 21 awards nomination in total and both received the Best Film award nomination.

Prospects and Challenges:

The environment for the film and television industry in 2019 was described as the "winter period", but more severe is the unexpected novel coronavirus epidemic crisis in early 2020. The epidemic inevitably swept across various industries, especially the film and television industry. Theatrical films, which were affected by the epidemic, were at a complete standstill: cinemas were closed down, all the films scheduled in the Chinese New Year were withdrawn from cinemas, and the films which were scheduled to be released in February and March are facing a massive re-scheduling. Currently, the progress of films and television programs being filmed and prepared in major film and television production bases has been slowed down, and it is conservatively estimated that the total box office in the country will decrease by 1/4 in 2020, and the window period of release of films and television programs will also bring a period of revenue reduction to the film and television market in the future. Some of the Group's products, such as "Theory of Ambitions" (《風再起時》), "The Dynasty Warriors" (《真•三國無雙》), "A Guide to Daily Fantasy" (《日常幻想指南》) and "Farewell U" (《再見，少年》) which were scheduled to be released in 2020, may suffer from varying degrees of delays.

However, “Lost in Russia”(《囧媽》) became the first theatrical film beginning to explore the internet field, which was released online on video platforms under “Toutiao”(「頭條」) family during the Chinese New Year, with more than 600 million plays and 180 million view counts within three days on the four platforms under “Toutiao”(「頭條」), i.e., TikTok(抖音), Jinri Toutiao(今日頭條), Xigua(西瓜) and Vigo Video(火山小視頻), and a smart TV platform Wasu Fresh Time(鮮時光), making it a classical case*. On the other hand, the popularity of this movie also demonstrated that the room for development of streaming platforms is still expanding. In light of the above, the Group will gradually be benefitted from its strength in distribution business of internet movies in the future. In addition, according to the statistics during the period from the Chinese New Year to the Lantern Festival in 2020, the number of plays of online audio-visual products showed a significant increase, especially for internet movies, which more than doubled the number of plays of internet movies in the three major platforms as compared with the corresponding period of 2019. As the business model of internet related products gradually matures, internet users are more used to watch movies online, and internet movies with high quality contents, correct value orientation, balance of entertainment and profitability will be the high quality resources for each platform to strive for. Since 2019, the Group has been in negotiation for investment in and distribution of diversified projects to enrich its project pipeline with clear positioning, which may become a key to cope with risks and overcome obstacles in 2020.

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 developed sources 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 8 singles as well as 4 theme songs for movies/TV and performed in 20 movies/TV since his debut two years ago. The first single of Chen Xinzhe “I Miss You Again”(《我又想你了》), which recorded over 70,000 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 brilliant performance in his debut movie “Exorcism Master”*(《鎮魂法師》) brought him the Best New Actor award in Golden Seagull(金海鷗) Film Festival. In July 2019, he was invited to take part in an event hosted by Mango TV in which he closely interacted with fans and gained vast popularity on the spot. The “New Arbiter Justice Bao Blood Witchcraft”(《新包青天之血酬蠱》), in which he starred, was released on the platform “iQIYI” on 1 December 2019, achieved remarkable results and stood out

* *Source: CBN, Tonghuashun Finance Research Center, and released by ByteDance.*

among numerous movies and TV dramas released at the same time. The movie is divided into two parts and the second part is expected to release in the second half of 2020. In addition, he starred in the movie of "The Evil Thief's White Bone Clothes" (《魔盜白骨衣》), which was adapted from the novel written by Antusheng, an Internet writer. The movie is divided into two parts and the first part has been already released in Youku on 5 February 2020, achieving satisfactory results in box office and reputation during the release. In addition, the movie won the Gold Award at the Jakarta International Film & Art Festival Awards and its second part is expected to release in the second half of 2020. Chen Xinzhe's recently starring in an Internet drama "《我在六扇門的日子》" as the lead actor, which is co-presented by iQiyi Literature has finished filming at end of 2019 and expected to release online after June 2020. Apart from his impressive achievements in the movies/TV and music sectors, his accomplishment also extended to charitable events through participation in the "Charity Walk for Tibet"* (《千里西藏助學行》) of "Xiantou Commonwealth"* (線頭公益) and the "Support! Free Lunch"* (《支持，免費午餐》) of Tencent Foundation, supporting the children in need with actions. We will strive to secure more commercial advertisement jobs for our artists and leverage on the facilities available in our Lajin Base to provide necessary trainings and shooting/production environment, enabling our future stars to shine.

Affected by the COVID-19 pneumonia epidemic, the filming of most film and television projects throughout the country were suspended during this period. It is expected to seriously hit the income of the Group's artists in the first half of the year. In addition, the Group has discharged several artists to remain the quality ones in the past year. These factors affected the profit forecast of the previously acquired artist agency. Therefore, the Group has made impairments for the goodwill and the exclusive agency rights of artists of this subsidiary in 2019. The Group will endeavor to search for more talented artists and create returns and contribution for this business segment.

Music

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

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

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

Lajin Base

Lajin Base (the "Base") located in Yi Zhuang (亦莊), Beijing comprises two 6-storey buildings of approximately 5,600 square metres in total and houses various facilities and functionalities, including top-tier recording studios, dance studios, band rooms, styling salons, theatres, live broadcasting facilities, intelligent programmes productions, talents development, media postproductions and copyrights management. Lajin Base is the most strategic and forward-looking business framework of Lajin Entertainment Network. Equipped with first-class facilities of the country, it possesses independent intellectual property rights and high-tech connectivity combining first-class functions such as Internet entertainment, stars nurturing, movie and video production, interaction with fans and master's studios.

In order to maximize the value of the Base, the Base will become the focal point to develop two new business segments, which are believed to bring significant revenue and steady growth to the Group:

Performing arts training business

The Group established a joint venture with well-known enterprises and a top artist in the industry. Leveraging on the top-tier hardware configuration of the Base, the Group integrated the resources and experience of each shareholder in film and television, variety shows and internet celebrities over the years to launch the performing arts training business, which set a new direction for the nurturing of stars. The training business has three major aspects, namely film and television, music and variety shows and form the course foundation. The training business fully integrates the artists'skills required for film crews, selection through variety shows and internet celebrity reposition into the courses of the training system. Utilizing the relations resources of each shareholder, the Group invited film and television stars, famous musicians, professional dancers, variety shows casting directors, top traffic internet artists and mentors of top art institutions in Asia to create a comprehensive, professional and standardized star-making service platform.

Internet Celebrity E-commerce Business

According to the statistics of a professional institution*, the number of live streaming and short-form video users in China increased year-on-year, reaching 456,000,000 and 648,000,000, respectively, as of 2018, representing a year-on-year increase of 14.6% and 58.0%, respectively, as compared to 2017. In the same year, the number of internet celebrities with over 100,000 fans in China also increased by 51% year-on-year, and the number of top internet celebrities (with over 1,000,000 fans) increased by 23%, as compared to 2017. As of April 2018, the total number of fans of internet celebrities in China was close to 600,000,000, representing a year-on-year increase of 25%. The

* *Source: Re-discussion on Internet Celebrity E-commerce《扁舟一夜東風起 — 對網紅電商的再討論》 published in Soochow Securities*

continuous growth in both the number of internet celebrities and the number of fans laid a solid foundation for the internet celebrity e-commerce business (that sells goods through live streaming of internet celebrities). Promoting sales by internet celebrities have become a new trend in e-commerce and have great potential for commercial value. According to the forecast of the institutions, the GMV of internet celebrity e-commerce driven by mainstream platforms will reach RMB700,000,000,000 in 2020.

In 2017, the Group made strategic investment in "Face Towards the Sea" (面朝大海) Company to set a stage for developing the internet celebrity e-commerce business. Through years of development, abundant internet celebrity resources, channel resources, brand resources and industry knowledge has been accumulated. Leveraging on the top live streaming system and other hardware and software facilities in Lajin Base, the Group intends to plan and launch a live streaming program for internet celebrity with entertainment features in 2020. Through the program, the Group can shortlist quality internet celebrities and is advantageous in internet celebrity nurturing. Meanwhile, the Group will jointly promote the merchant brand via video platforms and e-commerce platforms to achieve sales in the program, creating a win-win results for all parties.

The Group will take the live e-commerce show as the starting point, and combine its advantages in content production and creative distribution, continue to put more efforts in the area of internet celebrity economy, deliver content materials, serve the brands of merchants, connect the economic industry chain of internet celebrity and e-commerce, and drive the development of internet celebrity economy industry through content output.

CHANGE OF ADDRESS OF HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER

With effect from 11 July 2019, the address of the branch share registrar and transfer office in Hong Kong was changed to Level 54, Hopewell Centre, 183 Queen East, Hong Kong.

CHANGE IN DIRECTOR

After the conclusion of the AGM on 21 June 2019, Mr. Luo Ning retired as a non-executive Director.

FINANCIAL REVIEW

The revenue of the Group was approximately HK$31,868,000 for the year ended 31 December 2019 (2018: HK$43,133,000). It was mainly generated from the provision of artists management and investment in movies, TV programmes and internet contents, representing a decrease of 26.1% as compared to 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 2019 decreased to approximately HK$34,310,000 (2018: HK$123,540,000), was mainly due to that the films and TV series which incurred heavy losses were accounted for in last year.

During the year, loss for the year attributable to owners of the parent was approximately HK$86,721,000 (2018: loss of HK$236,071,000). The decrease in loss was primarily due to the decrease in losses 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$29,266,000 (2018: HK$40,574,000), mainly representing the sales of film rights and film distribution revenue.

Artists Management

During the year under review, the revenue contributed by such segment was approximately HK$2,602,000 (2018: HK$2,559,000).

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$49,059,000 from approximately HK$78,265,000 in the prior year primarily due to the reduction of staff cost during the year.

Liquidity and Financial Resources

At 31 December 2019, the Group had total assets of approximately HK$595,153,000 (2018: HK$700,788,000), including cash and cash equivalents of approximately HK$122,454,000 (2018: HK$180,393,000). 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 structured 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 "WOFE", an indirect wholly-owned subsidiary of the Company). The Structured 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 WOFE. For accounting purposes, OPCOs are regarded as indirect wholly owned subsidiaries of the Company.

Major terms of the Structured Contracts

Under the Structured Contracts, WOFE 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 Structured 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, WOFE may exercise its option to replace the relevant shareholders and the newly appointed nominee shareholders will still be subject to the Structural Contracts.

Ms. Zhai Shan Shan, an executive director of the Company was appointed as sole 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 WOFE entered into contractual arrangements with the OPCOs, pursuant to which WOFE shall provide to OPCOs consultancy services, including but not limited to management consultation, technology support and marketing strategies.

At the discretion of WOFE, WOFE can assign the rights and novate the obligations under the services agreement to any company nominated by WOFE 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, WOFE 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 WOFE 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 WOFE (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 WOFE or the person as designated by the WOFE.

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 WOFE to irrevocably appoint WOFE as his/her exclusive agent to exercise, inter alia, all his/her rights as shareholder of OPCOs and to execute any documents necessary for giving effect to the Structured 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 WOFE, 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 WOFE, 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 animation 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 animation 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 2018 and 2019, the financial results of OPCOs are as below:

	Revenue				Total Assets			
					As at 31 Dec			As at 31 Dec
	2019 (Unaudited)		2018 (Audited)		**2019 (Unaudited)**		2018 (Audited)	
	HK$'000	*%*	*HK$'000*	*%*	***HK$'000***	*%*	*HK$'000*	*%*
OPCO1	**2,722**	**8.5**	4,377	10.1	**14,327**	**2.4**	42,584	6.1
OPCO2	**985**	**3.1**	2,466	5.7	**33,777**	**5.7**	71,656	10.2
OPCO3	**28,154**	**88.3**	33,868	78.5	**192,216**	**32.2**	186,469	26.6

Risk relating to the Structured Contracts

The following risks are associated with the Structured Contracts:

- the PRC Government may determine that the Structured Contracts do not comply with applicable PRC laws and regulations;
- the Structured Contracts may not provide control as effective as direct ownership;
- failure by the Registered Owners to perform their obligations under the Structured 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 WOFE may be subject to various limitations; and
- the Structured 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 2019, the Company has in issue a total of 4,209,131,046 ordinary 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 13.4% (2018: 12.8%). The change in gearing ratio was mainly derived from the decrease of current liabilities in accruals and other payables from approximately HK$76,563,000 to HK$62,195,000 as compared with that in prior year, and the decrease of total equities attributable to owners of the parent from HK$620,654,000 to HK$526,294,000, also contributed to the increase in the Company's gearing ratio.

Charges on the Group's Assets

At 31 December 2019, 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 2019, the Group had capital commitments of approximately HK$44,062,000 (2018: HK$68,030,000).

Contingent Liabilities

At 31 December 2019, the Group had no contingent liabilities (2018: Nil).

Employees

At at 31 December 2019, the Group had 49 employees, including approximately 45 employees in PRC and 4 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 2019, 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 2019, 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.

Throughout the year ended 31 December 2019, the Company complied with the CG Code in Appendix 15 to the GEM Listing Rules, with the exception of CG Code Provisions A.2.1 (separation of roles of chairman and chief executives), A.4.1 (specific terms of non-executive Directors) and A.6.7 (Directors attending general meetings).

(a) Chairman and Chief Executive Officer

Under the CG Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As of the date of this report, both of the positions of Chairman and Chief Executive Officer 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

As at 31 December 2019, the audit committee has 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 unaudited annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee.

REVIEW OF UNAUDITED ANNUAL RESULTS

Due to the restrictions in force in parts of China and overseas to combat the COVID-19 coronavirus outbreak, certain audit procedures cannot be satisfactorily completed enabling the Company's auditor to obtain sufficient audit evidence to express opinion. The unaudited annual results contained herein have not been agreed by the Company's auditor. An announcement relating to the audited results will be made in due course when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants. The unaudited annual results contained herein have been reviewed by the Audit Committee of the Company.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited annual results for the year ended 31 December 2019 as agreed by the Company's auditor and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

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

Hong Kong, 31 March 2020

As at the date of this announcement, the executive Directors are Ms. Zhai Shan Shan and Ms. Wu Li; the non-executive Directors are Mr. Zou Xiao Chun and Mr. Zhou Ya Fei and the independent non-executive Directors are Mr. Ng Wai Hung, Mr. Lam Cheung Shing Richard and Mr. Wang Ju.

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 remain on the "Latest Listed Company Information" page of the GEM website at www.hkgem.com 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.