



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 2020

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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 2020, together with the comparative audited figures for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
REVENUE	5	20,660	31,868
Cost of sales		<u>(25,370)</u>	<u>(34,310)</u>
Gross loss		(4,710)	(2,442)
Other income and gains/(losses)	5	537	(11,358)
Selling and distribution expenses		(2,179)	(395)
Administrative expenses		(37,441)	(49,059)
Other expenses		(86,172)	(25,589)
Finance costs		(82)	(235)
Share of profits and losses of:			
A joint venture		—	(477)
Associates		<u>(1,174)</u>	<u>(363)</u>
LOSS BEFORE TAX	6	(131,221)	(89,918)
Income tax (expense)/credit	7	<u>(5)</u>	<u>742</u>
LOSS FOR THE YEAR		<u>(131,226)</u>	<u>(89,176)</u>
Attributable to:			
Owners of the parent	8	(130,339)	(87,588)
Non-controlling interests		<u>(887)</u>	<u>(1,588)</u>
		<u>(131,226)</u>	<u>(89,176)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	11	<u>HK(3.10) Cents</u>	<u>HK(2.08) Cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*Year ended 31 December 2020*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(131,226)</u>	<u>(89,176)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>18,596</u>	<u>(6,971)</u>
Other comprehensive income/(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	(6,114)	(1,477)
Share of other comprehensive (loss)/income of an associate	<u>(17)</u>	<u>286</u>
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	<u>(6,131)</u>	<u>(1,191)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>12,465</u>	<u>(8,162)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(118,761)</u>	<u>(97,338)</u>
Attributable to:		
Owners of the parent	(117,752)	(95,773)
Non-controlling interests	<u>(1,009)</u>	<u>(1,565)</u>
	<u>(118,761)</u>	<u>(97,338)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*31 December 2020*

		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		104,427	108,169
Right-of-use assets		2,401	5,645
Investments in associates		29,085	35,050
Equity investments designated at fair value through other comprehensive income		4,925	10,721
Intangible assets		15,241	2,718
		<hr/>	<hr/>
Total non-current assets		156,079	162,303
		<hr/>	<hr/>
CURRENT ASSETS			
Trade receivables	<i>9</i>	14,108	5
Contract assets		2,370	714
Prepayments, other receivables and other assets		69,388	144,901
Film rights and films and TV programmes under production	<i>10</i>	143,772	157,206
Inventories		409	—
Investments in films		5,764	6,516
Cash and cash equivalents		81,279	122,454
		<hr/>	<hr/>
Total current assets		317,090	431,796
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	<i>11</i>	3,159	2,778
Other payables and accruals		62,929	62,384
Lease liabilities		1,517	4,871
		<hr/>	<hr/>
Total current liabilities		67,605	70,033
		<hr/>	<hr/>
NET CURRENT ASSETS		249,485	361,763
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		405,564	524,066
		<hr/>	<hr/>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Lease liabilities	<u>795</u>	<u>751</u>
Total non-current liabilities	<u>795</u>	<u>751</u>
Net assets	<u>404,769</u>	<u>523,315</u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	42,090	42,090
Reserves	<u>365,209</u>	<u>482,961</u>
	<u>407,299</u>	<u>525,051</u>
Non-controlling interests	<u>(2,530)</u>	<u>(1,736)</u>
Total equity	<u>404,769</u>	<u>523,315</u>

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:

- Artiste management service;
- New media e-commerce business; and
- Movies, TV programmes and internet contents services.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any impact on the financial position and performance of the Group.
- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and 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 (“HKICPA”), 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 three reportable operating segments as follows:

- (a) the artiste management segment comprises the provision of artiste management service;
- (b) the movies, TV programmes and internet contents segment comprises investment, production and distribution of movies, TV programmes and investment in internet contents;
- (c) the new media e-commerce segment comprises the promotion and demonstration through live video on the website.

The new media e-commerce business is a content-driven retail business, which the Group explores as a new segment in 2020.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or 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 prepayments, impairment loss on an investment in an associate, fair value loss 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 for step acquisition, 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:

	Artiste management		Movies, TV programmes and internet contents		New media e-commerce		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue (note 5)								
Revenue to external customers	<u>41</u>	<u>2,602</u>	<u>16,995</u>	<u>29,266</u>	<u>3,624</u>	<u>—</u>	<u>20,660</u>	<u>31,868</u>
Segment results	<u>(4,733)</u>	<u>(8,877)</u>	<u>(88,492)</u>	<u>(47,990)</u>	<u>225</u>	<u>—</u>	<u>(93,000)</u>	<u>(56,867)</u>
<i>Reconciliation:</i>								
Unallocated other income							85	104
Corporate and other unallocated expenses							(6,362)	(3,274)
Impairment loss recognised in respect of other receivables, net							(25,342)	(3,619)
Impairment loss on prepayments							—	(2,074)
Impairment loss on an investment in an associate							(5,428)	(5,498)
Fair value loss of financial assets at fair value through profit or loss							—	(6,512)
Share of profit/(loss) of a joint venture							—	(477)
Share of profits and losses of associates							(1,174)	(363)
Remeasurement loss on investment in a joint venture for step acquisition							—	(6,727)
Impairment loss on goodwill							—	(4,611)
Loss before tax							<u>(131,221)</u>	<u>(89,918)</u>

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

(b) Other segment information

	Artiste management		Movies, TV programmes and internet contents		New media e-commerce		Unallocated		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	863	943	9,218	9,237	15	—	—	—	10,096	10,180
Impairment loss recognised in respect of films and TV programmes under production	—	—	53,340	7,310	—	—	—	—	53,340	7,310
Impairment loss recognised in respect of other receivables, net	—	13	25,342	3,606	—	—	—	—	25,342	3,619
Impairment loss on intangible assets	1,083	2,477	979	—	—	—	—	—	2,062	2,477
Loss on disposal of intangible assets	—	357	—	—	—	—	—	—	—	357
Investments in associates	—	—	10,369	21,123	—	—	18,716	13,927	29,085	35,050
Capital expenditure*	13	109	14,506	1,477	118	—	—	—	14,637	1,586

* Capital expenditure consists of additions to property, plant and equipment, assets from acquisition of a subsidiary and intangible 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*	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China	18,966	31,868	140,786	130,459
Hong Kong	1,694	—	—	—
Korea	—	—	10,368	21,123
	<u>20,660</u>	<u>31,868</u>	<u>151,154</u>	<u>151,582</u>

* Non-current assets represent property, plant and equipment, investments in associates, right-of-use assets and intangible assets.

(d) Information about major customers

Revenue from customers for the years ended 31 December 2020 and 2019 which individually amounted to over 10% of the total revenue of the Group is as follows:

		2020	2019
	Reporting segment	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	Movies, TV programmes and internet contents	3,707	—
Customer B	Movies, TV programmes and internet contents	3,508	—
Customer C	Movies, TV programmes and internet contents	3,231	—
Customer D	New media e-commerce	3,091	—
Customer E	Movies, TV programmes and internet contents	2,297	—
Customer F	Movies, TV programmes and internet contents	2,263	—
Customer G	Movies, TV programmes and internet contents	—	18,498
Customer H	Movies, TV programmes and internet contents	—	3,751
Customer I	Movies, TV programmes and internet contents	—	3,684

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

An analysis of revenue is as follows:

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers	<u>20,660</u>	<u>31,868</u>

Revenue from contracts with customers

(a) Disaggregated revenue information

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Types of goods or services		
TV and internet programmes	24	48
Film distribution	11,733	7,739
License income	3,508	21,353
Artiste management	41	2,602
Distribution agency service	1,671	—
New media e-commerce business	3,624	—
Others	59	126
	<u>20,660</u>	<u>31,868</u>
Geographical markets		
Mainland China	18,966	31,868
Hong Kong	1,694	—
	<u>20,660</u>	<u>31,868</u>
Timing of revenue recognition		
Transferred at a point in time	20,619	29,266
Transferred over time	41	2,602
	<u>20,660</u>	<u>31,868</u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
License income	—	804
Artiste management	—	100
	<u>—</u>	<u>904</u>

(b) Performance obligations

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

TV and internet programmes

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

Film distribution

The performance obligation is satisfied when the film is released.

License income

The performance obligation is satisfied when an assignment is granted to the licensee and the Group has no remaining obligations to perform and when the materials have been delivered to licensee.

Artiste management

The performance obligation is satisfied over time because the customers simultaneously receive and consume the services rendered by the artistes of the Group as the Group performs.

Distribution agency service

The performance obligation is satisfied at the point in time when the services are rendered.

New media e-commerce business

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

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2020	2019
	HK\$'000	HK\$'000
Amounts expected to be recognised as revenue:		
Within one year	<u><u>23</u></u>	<u><u>17</u></u>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other income		
Income on film investments	832	685
Bank interest income	667	552
Others	382	777
	<u>1,881</u>	<u>2,014</u>
Gains/(losses)		
Fair value losses of financial assets at fair value through profit or loss	—	(6,512)
Loss on disposal of intangible assets	—	(357)
Loss on disposal of property, plant and equipment	—	(45)
Loss on film investments	(1,230)	—
Remeasurement loss on an investment in a joint venture for step acquisition	—	(6,727)
Exchange differences, net	(209)	70
Others	95	199
	<u>(1,344)</u>	<u>(13,372)</u>
	<u>537</u>	<u>(11,358)</u>

6. LOSS BEFORE TAX

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of film and TV programme rights	23,309	32,683
Cost of new media e-commerce business	1,920	—
Cost of artiste management services	141	1,627
	<hr/>	<hr/>
Total cost of sales	25,370	34,310
	<hr/>	<hr/>
Auditor's remuneration	900	850
Depreciation of property, plant and equipment	10,096	10,180
Depreciation of right-of-use assets	1,779	2,935
Lease payments not included in the measurement of lease liabilities	762	624
Amortisation of intangible assets	645	1,131
Loss on disposal of intangible assets	—	357
Remeasurement loss on an investment in a joint venture for step acquisition	—	6,727
Impairment loss on goodwill*	—	4,611
Impairment loss on intangible assets*	2,062	2,477
Impairment loss on investments in an associate*	5,428	5,498
Loss on disposal of property, plant and equipment	—	45
Impairment loss recognised in respect of film rights and films and TV programmes under production*	53,340	7,310
Impairment loss on other receivables, net*/**	25,342	3,619
Impairment loss on prepayments*	—	2,074
Loss on film investments	1,230	—
Staff costs (excluding directors' remuneration):		
— Salaries and allowances	10,534	13,895
— Pension scheme contributions***	98	1,292
	<hr/>	<hr/>
	10,632	15,187
	<hr/> <hr/>	<hr/> <hr/>

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

** Included in the impairment loss of other receivable was an individually impaired other receivable related to an entity that was credit-impaired or in default payment, of HK\$19,498,000 and nil, respectively, for the year ended 31 December 2020 and 2019.

*** As at 31 December 2020, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2019: Nil).

7. INCOME TAX

Hong Kong profits tax is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits arising in Hong Kong during the years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	5	—
Deferred	—	(742)
	<u>5</u>	<u>(742)</u>
Total tax expense/(credit) for the year	<u><u>5</u></u>	<u><u>(742)</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.

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 expense (credit) for the year is as follows:

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before tax	(131,221)	(89,918)
Tax at the statutory tax rates	(31,047)	(20,383)
Profits and losses attributable to associates	(123)	(24)
Expenses not deductible for tax	575	1,465
Income not subject to tax	(10)	(66)
Tax losses not recognised	31,781	18,402
Tax effect of utilisation of tax losses previously not recognised	(1,171)	(136)
	<u><u>5</u></u>	<u><u>(742)</u></u>
Tax expense/(credit) for the year	<u><u>5</u></u>	<u><u>(742)</u></u>

There was no share of tax attributable to associates (2019: Nil) included in “Share of profits and losses of associates” 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\$130,339,000 (2019: HK\$87,588,000), and the weighted average number of ordinary shares of 4,209,130,000 (2019: 4,209,130,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2020. And no adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2019, as the Company’s share options had an anti-dilutive effect on the basic loss per share calculation.

9. TRADE RECEIVABLES

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 3 months	14,104	5
3 to 6 months	4	—
	14,108	5

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>
At 1 January 2019	39,839	129,305	169,144
Additions	—	28,014	28,014
Acquisition of a subsidiary	—	2,197	2,197
Transfer to film and TV programme rights	27,454	(27,454)	—
Charged to cost of sales	(20,523)	(12,160)	(32,683)
Impairment	—	(7,310)	(7,310)
Exchange realignment	(378)	(1,778)	(2,156)
At 31 December 2019 and 1 January 2020	<u>46,392</u>	<u>110,814</u>	<u>157,206</u>
Additions	—	63,535	63,535
Transfer to film and TV programme rights	16,800	(16,800)	—
Charged to cost of sales	(19,261)	(3,336)	(22,597)
Derecognition	—	(8,337)	(8,337)
Impairment	(24,574)	(28,766)	(53,340)
Exchange realignment	811	6,494	7,305
At 31 December 2020	<u>20,168</u>	<u>123,604</u>	<u>143,772</u>

In light of the specific circumstances of the film and TV industry, the Group regularly reviewed its film rights and films and TV programmes under production to assess the marketability/future economic benefits of film rights and films and TV programmes under production and the corresponding recoverable amounts.

At 31 December 2020 and 2019, the directors of the Company believe that any reasonably possible change in the key assumptions on which the recoverable amounts are based would not cause the carrying amounts of the film and TV programme rights exceed the recoverable amounts.

During the year ended 31 December 2020, as impairment indicators arose from certain film rights and films and TV programmes under production, an impairment loss of approximately HK\$53,340,000 (2019: HK\$7,310,000) was recognised in respect of film rights and films and TV programmes under production, which belong to Movies, TV programmes and internet contents segment. The impairment was made based on management's estimation of their recoverable amounts against their carrying amounts. The estimated recoverable amount as at 31 December 2020 was determined based on the present value of expected future revenues and related cash flows arising from the distribution of the film rights and films and TV programmes under production.

11. TRADE PAYABLES

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 year	210	—
Over 1 year	2,949	2,778
	3,159	2,778

The trade payables are non-interested bearing.

12. DIVIDEND

No dividend was paid or proposed during 2020, nor has any dividend been proposed since the end of the reporting period (2019: 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 2020, the management had reviewed the position of various projects and made impairment on some projects which were considered to be subject to high uncertainty, unpredictable cost recovery and unlikely to be further developed. These projects include several theatrical movies invested in earlier years by the Group. Due to the changes in overall market factors and audience tastes in recent years, coupled with the impact of the epidemic, the release time and box office of these theatrical movies are more difficult to predict. Therefore, there is a risk of impairment in these film and television projects with relatively large budgets and scales. In addition, the domestic film and television industry has been in recession in recent years, and many companies in the industry have suffered heavy losses or even closed down. As a result, the drama-type projects that the Group planned to co-develop in earlier years have been repeatedly postponed or temporarily terminated, and the advance payment or copyright and script writing costs paid are also at risk. Therefore, after the impairment test of expected future revenue and cash flow of such projects, the management made provision for impairment on individual projects.

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

With the rapid development of video streaming websites and internet movies in Mainland China, the Group has increased its investment in internet movies in 2020 and invested in projects including “The Legend of the Condor Heroes” (《射雕英雄傳》) Part I and II, “Tibet Adventurer” (《藏地奇兵》), “Seven Mahatmas” (《七大聖》), “The Legend of Zu 3” (《蜀山降魔傳3》), “Di Renjie — Dragon Hidden in the Maze” (《狄仁傑之龍隱迷窟》), “Alternative Militiaman Ge Erdan (《另類民兵葛二蛋》)”, “BIGBANG in the Village” (《村裡有情況》), “Transamerica” (《窈窕老爹》), etc. The volume and investment scale of projects have been increasing, including many leading projects with in-depth cooperation with platforms, and the idea of investing in “high-quality products” has become clearer. Meanwhile, in view of the current online movie market preference

and forecast of the future movie market, we have also made key deployment in the “monster” and “comedy” genres production, hoping to generate breakout projects that make considerable profit contribution to the Group. It is worth mentioning that 2021 is the 100th anniversary of founding of the Communist Party of China, and in response to the literary advocacy of “little budget, positive energy, great feelings” (小正大), “Comedy+” has become another focus of the Group, such as investing in the remake of “Alternative Militiaman Ge Erdan”, a “Comedy + War” legendary IP production; “BIGBANG in the Village”, a “Comedy + Main Theme” production firmly following the theme of the times and focusing on the construction of new villages; “Transamerica”, a “Comedy + Fantasy” production showing big dreams of grassroots people, and many other projects. Seven projects including internet movies such as “The Legend of Lu Bu” (《斗破亂世情》) and “Hey! Tiny Bone” (《嘿！小骨頭》) have been released in 2020, and twelve including “The Legend of the Condor Heroes” and “Tibet Adventurer” will be released in succession in 2021. Among them, the “BIGBANG in the Village”, as an S-grade project of Youku’s “Fairview Collaboration Scheme” (錦繡合制), has released on Youku in March and was highly recommended on the platform. “Heroes of Desert” (《大漠神龍》) and “Transamerica” (《窈窕老爹》) have both been locked to be A-grade production on the iQIYI platform, and will be released in March to April; other projects are expected to be completed and scheduled for release one after another.

From 2019 onwards, 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 expanded its business into internet movie distribution business, 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, which accumulated RMB13.5 million in box office and ranked 11th in Youku’s annual box office list. In 2020, “investment + distribution” became the main business model for internet movies. The involvement in the distribution business will, on the one hand, increase revenue and help recoup the investments timely; on the other hand, allow the Group to deepen project participation, not only strengthening its relationship with the platform, but also broadening the perspective of its investments in project production. As a result, the Group will have the priority in choosing high-quality projects, gradually build up a “C-end” (consumer) mindset, and accumulate resources and experience in marketing and other ends of the industry chain.

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

“Faithful Dog Hachiko” (《忠犬八公》)

The Group 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》). The project has confirmed an in-depth cooperation with iQIYI platform and has been selected as one of the key projects of iQIYI’s Original Film Program, which is in the process of preparation and starts filming in mid-March 2021 and set for nationwide

release by the end of 2021. The project has already completed its script, with Mr. Xu Ang (his representative work includes the film “12 Citizens” (《十二公民》) and the internet drama “Medical Examiner Dr. Qin” (《法醫秦明》)) as the director, Ms. Ye Rufen (her representative work includes the film “Our Times” (《我的少女時代》) as the executive producer, and Mr. He Shan (his representative work includes “Wrath of Silence” (《爆裂無聲》) and “The Coffin in the Mountain” (《心迷宮》)) as the director of photography. The leading actor and actress are Feng Xiaogang (his representative work includes “Mr. Six” (《老炮兒》), etc.) and Chen Chong (her representative work includes “The Last Emperor” (《末代皇帝》) and “Sheep Without a Shepherd” (《誤殺》), etc.) respectively. Via this theatrical film project produced by the Group, the Group’s experience in film production will become more mature which will help to deepen the closed-loop effect of film research and development, production, distribution and marketing.

“The Tibet Code”

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. The first draft of the screenplay has been completed in June and we will carry out the project based on the market condition.

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

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

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

Furthermore, the previously invested theatrical movies like “The Dynasty Warriors” (《真·三國無雙》), “Theory of Ambition” (《風再起時》), “Farewell U” (《再見，少年》) and “A Guide to Daily fantasy” (《日常幻想指南》) are in post-production or in schedule for release in 2021.

Prospects and Challenges

The year 2020 is arguably the worst year of the environment for film and television industry in recent years. It was still difficult to fully restore the order of life in a short period of time with the COVID-19 pandemic still recurring since the beginning of 2020, while the domestic film and television industry was inevitably facing huge losses after a six-month-long hiatus, despite the gradual recovery of upstream and downstream businesses in the industry chain. In terms of cinemas, the global box office for 2020 was estimated to be US\$8–10 billion¹ (approximately RMB55.2–69 billion), 20%-25% of that in 2019, while the total box office of the Mainland China film market for 2020 was RMB20.417 billion², down 66.5% and 68.2% compared to that in 2019 and 2018 respectively. After the orderly resumption of work on July 2020, the box office output declined by 39.2%² compared to the same period in 2019; and against the backdrop of enormous pressure on the entire industry, the number of scenes, average attendance, number of new films and box office in December 2020 all rebounded to 90% of the level of the same period last year, with the social attributes of moviegoing once again coming to the fore. The market demand performance was bright for comedy, romance and animation genre films. The rigid demand for theatrical films cannot be ignored. To a certain extent, nevertheless, the stable market share performance and market forecast in previous years have not been met, and thus the “phenomenal” projects will no longer exist in the long run. The elements of entertainment and theme of films still dominate, which is still a considerable challenge for the theatrical market in the short term; the basic demand of audience is still the entertainment of films, but the overall strength of films is emphasized. The total box office will only be increasingly concentrated on one or two outstanding films in various aspects during the same period, whose change will be a positive adjustment to the development of theatrical film industry. As projected by the research group of the Blue Book of Film, the global box office will gradually recover at a compound annual growth rate of about 30% from 2020 to 2025, and the market size is expected to return to its 2019 level in five years.

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

¹ Source: The Blue Book of Film: Annual Report on Development of Global Film Industry (2020) (《電影藍皮書：全球電影產業發展報告(2020)》), published on 19 December 2020

² Source: China Film Administration

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

In addition, after years of strategic planning, the Group has possessed the Permit to Produce and Distribute Radio and Television Programs (《廣播電視節目製作經營許可證》), Internet Culture Operation Licence (《網絡文化經營許可證》), Value-added Telecommunications Business Operation Licence (《增值電信業務經營許可證》) and the Licence for Spreading Audio-Visual Programs via Information Network (《信息網絡傳播視聽節目許可證》), which are required for the entertainment and culture business in the PRC. With the above-mentioned licences, the Group can take advantage of market changes and identify suitable business models and strategic partners to combine its existing business with its own strengths to inject new impetus into the Group and enhance shareholder value once suitable opportunities arise.

Artiste Management

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

Affected by the COVID-19 pandemic in 2020, production of film and television projects decreased in the PRC, and the Group’s artistes were abroad, which had severely hit the income of the Group’s artiste management segment. After the tests of estimated future

earnings and cash flow, the Group has made impairment for the exclusive agency rights of artistes. By leveraging in combination with our various business segments on artiste management experience, the Group will endeavor to search for more talented artistes/internet celebrities and create returns and contribution for the Group.

Music

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

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

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

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

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

New media e-commerce business

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

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

Based on the opportunities in the industry, the new media e-commerce business of the Group, with pan-entertainment contents from the network as the mainstay, provides professional overall marketing services to the e-commerce industry. Leveraged on the film and television culture industry genes and by virtue of its advantages of high-end short video production and social media accounts operation, the Group creates a collaborative system of people, products and venues to endow the new media e-commerce retail business with a new driving force through planning and production of live shows. During the “Double Eleven Event” period, the Group cooperated with Jingdong (京東) platform and created a popular variety show, “Pretty Plus” (《玩美普拉斯》), to promote consumer products online. It has grown into one of the 13 key accounts officially approved by Jingdong platform in 2021. The show will be live-streamed in Jingdong live-streaming platform in the form of a regular column, in which regular MC, online celebrity with a huge fan base and KOLs in vertical field will be the show guests. The variety show entertainment content will be integrated with good-stuff recommendation, knowledge sharing and interactive games. With the success of the “Pretty Plus”, the Group developed the property located in Yi Zhuang (亦莊), Beijing into a large chain online and offline experience live-streaming base with the integration of hosts incubation, products selection, live e-commerce and brands entry. During the “March 8 Goddess Festival” period, the Group joined hands with Jingdong and Kuaishou (快手) platforms and cooperated with leading hosts with

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

10 million followers, achieving outstanding results with a GMV of more than RMB50 million, over 42 million views and over 10 million clicks on products. During the “March 8” Function, Lajin cooperated with other partners and brought added value to live hosts and continuously improved “product selection center”, “host plaza” and other functions. It will allow more hosts, merchants and quality products to obtain new growth drivers in the live-streaming base and guarantee that consumers can enjoy competitive prices and after-sale services.

At present, various Internet platforms in China join the live e-commerce industry and the customer acquisition cost of traditional e-commerce companies continues to rise, so it is urgent to develop a new low-cost traffic access. High quality content and direct sales of brand products have become the trend of live e-commerce in 2021. The cost-effective way to obtain traffic and reliable sources of products with the sales efforts of leading hosts provide an opportunity for the Group to explore new business.

In addition to leveraging its online content advantage and exploiting the trend of entertaining e-commerce to explore business opportunities, Lajin has been also actively looking for valuable partners in the form of strategic alliances, or joint ventures; negotiating cooperation with different platforms, and at the same time signing flexible and diversified forms of cooperation such as single or multiple products, single or multiple shows, or even binding agency contracts with the head internet celebrities of the platforms, in effect, owning the operation and sales resources of dozens of head internet celebrities, middle-level internet celebrities and small internet celebrities of the large platforms, with a total fan base of over 100 million. After nearly half a year’s experience, Lajin has achieved good results in the establishment of resources for both internet celebrities (“people”) and platforms (“venues”); and having a cost-effective, high-quality, reliable and stable commodity supply chain is a condition precedent for binding head internet celebrities for in-depth cooperation. Through the above strategic deployment, Lajin can truly connect the three major elements of the e-commerce industry — “people”, “goods” and “venues”, and quickly realize the closed-loop ecology of omni-channel resource integration.

Lajin has recruited the team members one after another in the supply chain business. The team members are well-equipped with the current industry’s operational experience no matter they are domestic suppliers or in parallel trade business of multiple countries and channels. They introduce a number of foreign brands at competitive prices, with a complete range of categories, including luxury goods such as bags and shoes, jewelry and watches, beauty and personal care. Upon the operation of Lajin’s own supply chain has matured, in addition to serving various e-commerce platforms and opening the own stores to sell exclusive products, Lajin can also combine brand attributes and product features to allocate to different internet celebrities, and take advantage of their different personalities to highlight the selling points of products and enhance the attractiveness of internet celebrities in return to truly achieve the closed-loop ecological advantage of new media business.

CHANGE IN DIRECTOR

Ms. Wu Li, former Executive Director of the Company, passed away on 10 September 2020.

FINANCIAL REVIEW

The revenue of the Group was approximately HK\$20,660,000 for the year ended 31 December 2020 (2019: HK\$31,868,000). It was mainly generated from the provision of artiste management, new media e-commerce business and investment in movies, TV programmes and internet contents, representing a decrease of 35.2% 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 2020 decreased to approximately HK\$25,370,000 (2019: HK\$34,310,000), 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\$130,339,000 (2019: loss of HK\$87,588,000). 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\$16,995,000 (2019: HK\$29,266,000), mainly representing license income and film distribution revenue.

Artiste Management

During the year under review, the revenue contributed by such segment was approximately HK\$41,000 (2019: HK\$2,602,000).

New Media E-commerce Business

During the year under review, the revenue contributed by such segment was approximately HK\$3,624,000 (2019: Nil).

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\$37,441,000 from approximately HK\$49,059,000 in the prior year primarily due to the reduction of staff cost during the year.

Liquidity and Financial Resources

At 31 December 2020, the Group had total assets of approximately HK\$473,169,000 (2019: HK\$594,099,000), including cash and cash equivalents of approximately HK\$81,279,000 (2019: HK\$122,454,000). During the year under review, the Group financed its operation with the proceeds from fund raising activities of prior years.

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 (withdrawn), the State Administration of Radio, Film and Television (國家廣播電影電視總局) (withdrawn), the General Administration of Press and Publication (新聞出版總署) (withdrawn), 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 23 June 2020, the NDRC and the MOFCOM jointly promulgated the Special Management Measures for Foreign Investment Access (Negative List) (2020 version) (《外商投資準入特別管理措施 (負面清單) (2020年版)》), which came into force on 23 July 2020. 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 theatre.

To operate the Group's media contents business in the PRC, The Group has established controls over 5 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”);
3. Beijing Lajin Yingye Company Limited (北京拉近影業有限公司) (“OPCO3”).
4. Wenzhou City Zhongbo Technology Company Limited (“OPCO4”); and
5. Lajin Woxing Films (Tianjin) Co., Ltd. (拉近沃星影業(天津)有限公司) (“OPCO5”).

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

The registered owners of the OPCO1-3 are Ms. Zhai Shan Shan and an employee of the Group, the registered owners of OPCO4 is Ms. Zhai Shan Shan and an independent party, and a registered owner of OPCO5 is an employee of the Group (“Registered Owners”). The OPCO1-3, 5 and 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), and the OPCO4 and Registered Owners have respectively entered into the Structural Contracts with Beijing Lajin Power Technology Limited (北京拉近動力科技有限公司) (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 also hold some key requisite PRC permits, licences 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 31 May 2019 renewed to OPCO1-3, dated 1 April 2019 renewed to OPCO4 and dated 3 February 2021 issued to OPCO5 by National Radio and Television Administration (國家廣播電視總局), 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

Licence (營業性演出許可證) dated 11 June 2020 renewed 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 artiste management for a period from 11 June 2020 to 10 June 2022.

Under the Internet Culture Operation Licence (《網絡文化經營許可證》) dated 5 September 2018 renewed to OPCO4 by Jiangsu Provincial Department of Culture (江蘇省文化廳), OPCO4 is allowed to operate the business of animation and comic products and music products using information network during the period from 5 September 2018 to 4 September 2021; under the Licence for Spreading Audio-Visual Programs via Information Network (《信息網絡傳播視聽節目許可證》) dated 29 July 2019 renewed to OPCO4 by the National Radio and Television Administration (國家廣播電視總局), OPCO4 is allowed to provide Internet audio-visual program services from 29 July 2019 to 29 July 2022; under the Value-added Telecommunications Business Operation Licence of the People's Republic of China (《增值電信業務經營許可證》) dated 20 November 2019 renewed to OPCO4 by the Jiangsu Communications Administration (江蘇省通信管理局), OPCO4 are allowed to engage in information service business from 20 November 2019 to 19 November 2024.

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 2019 and 2020, the financial results of OPCOs are as below:

	Revenue				Total Assets			
	2020		2019		As at 31 Dec 2020		As at 31 Dec 2019	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
OPCO1	88	0.4%	2,722	8.5	11,614	2.5%	19,995	3.4
OPCO2	—	—	985	3.1	15,231	3.2%	33,777	5.7
OPCO3	14,648	70.9%	28,154	88.3	182,971	38.7%	192,216	32.4
OPCO4	—	—	—	—	443	0.1%	—	—
OPCO5	34	0.2%	—	—	3,819	0.8%	—	—

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 2020, 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 16.8% (2019: 13.5%). The change in gearing ratio was mainly derived from the decrease of current liabilities in accruals and other payables from approximately HK\$62,384,000 to HK\$62,929,000 as compared with that in prior year, and the decrease of total equities attributable to owners of the parent from HK\$525,051,000 to HK\$407,299,000, also contributed to the increase in the Company’s gearing ratio.

Charges on the Group’s Assets

At 31 December 2020, 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 2020, the Group had capital commitments of approximately HK\$36,510,000 (2019: HK\$34,501,000).

Contingent Liabilities

At 31 December 2020, the Group had no contingent liabilities (2019: Nil).

Employees

At at 31 December 2020, the Group had 61 employees, including approximately 58 employees in PRC and 3 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 2020, 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 2020, 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 2020, 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 2020, 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 annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee.

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 2020 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, 31 March 2021

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

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.