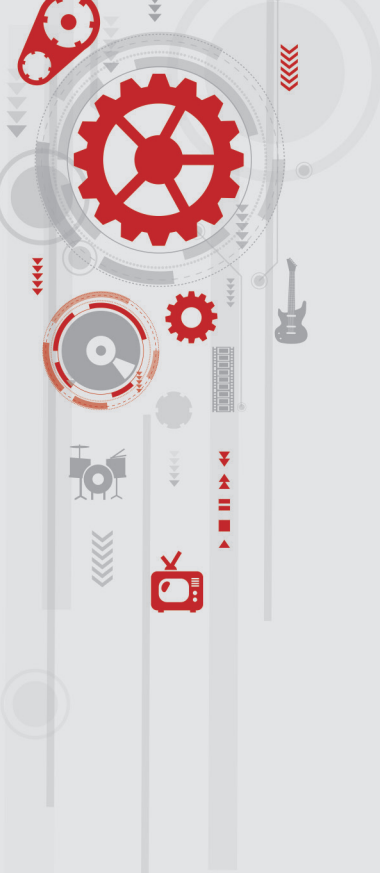


拉近網娛集團有限公司

LAJIN ENTERTAINMENT NETWORK GROUP LIMITED

2018

THIRD QUARTERLY REPORT



Lajin 拉近

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.

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This Report, for which the directors (the “Directors”) of Lajin Entertainment Network Group Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this Report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or in this Report misleading.

UNAUDITED QUARTERLY RESULTS

The board of Directors (the “Board”) of Lajin Entertainment Network Group Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2018, together with the comparative unaudited figures for the corresponding periods in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2018	2017	2018	2017
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	1,594	13,559	36,543	63,692
Cost of sales		(1,205)	(13,113)	(89,622)	(65,709)
Gross (loss)/profit		389	446	(53,079)	(2,017)
Other income and gains	4	2,387	2,535	6,813	4,829
Selling and distribution expenses		(3,691)	(478)	(6,876)	(730)
Administrative expenses		(19,015)	(19,020)	(61,834)	(56,579)
Share-based compensation costs		—	(2,697)	—	(8,178)
Share of profits and losses of:					
Associates		(323)	(1,146)	(2,035)	(2,585)
A joint venture		(880)	(161)	(158)	(407)
Loss before tax	5	(21,133)	(20,521)	(117,169)	(65,667)
Income tax expense	6	—	—	—	—
Loss for the period		(21,133)	(20,521)	(117,169)	(65,667)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2018	2017	2018	2017
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
OTHER COMPREHENSIVE INCOME/(LOSS):					
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations		(23,938)	9,634	(33,071)	23,012
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		(23,938)	9,634	(33,071)	23,012
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(45,071)	(10,887)	(150,240)	(42,655)
Loss for the period attributable to:					
Owners of the parent		(20,849)	(20,132)	(116,385)	(65,150)
Non-controlling interests		(284)	(389)	(784)	(517)
		(21,133)	(20,521)	(117,169)	(65,667)
Total comprehensive loss for the period attributable to:					
Owners of the parent		(44,823)	(10,498)	(149,514)	(42,138)
Non-controlling interests		(248)	(389)	(726)	(517)
		(45,071)	(10,887)	(150,240)	(42,655)
Dividend		—	—	—	—
Loss per share attributable to ordinary equity holders of the parent	7				
— Basic and diluted		HK(0.50) cent	HK(0.48) cent	HK(2.77) cent	HK(1.58) cent

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

The unaudited condensed consolidated statement of profit or loss and other comprehensive income (the "Unaudited Condensed Consolidated Results") are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of the Group are provision of artists management services, and investment in movies, TV programmes and internet contents.

2. BASIS OF PREPARATION

The Unaudited Condensed Consolidated Results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. In addition, the Unaudited Condensed Consolidated Results include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and by the Hong Kong Companies Ordinance.

The accounting policies and basis of preparation adopted in the preparation of the Unaudited Condensed Consolidated Results are consistent with those adopted in annual financial statements for the year ended 31 December 2017. These Unaudited Condensed Consolidated Results should be read in conjunction with the annual financial statement of the Group for the year ended 31 December 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
TV and internet programme	1,048	10,862	34,988	60,543
Sales of film rights	—	2,213	—	2,213
Artists management	546	460	1,555	906
Others	—	24	—	30
	1,594	13,559	36,543	63,692

4. OTHER INCOME AND GAINS

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
OTHER INCOME				
Interest income on film investment	1,097	1,926	1,097	1,926
Bank interest income	313	438	1,046	1,642
Imputed interest income on convertible notes receivable	—	123	—	365
Consultancy service income	512	—	2,950	—
Rental income	105	—	899	—
Others	226	48	423	63
	2,253	2,535	6,415	3,996
GAINS				
Gain on disposal of an associate	—	—	—	790
Others	134	—	398	43
	134	—	398	833
	2,387	2,535	6,813	4,829

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. LOSS BEFORE TAX

Loss before tax is arrived at after charging/(crediting):

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	2,886	1,425	9,470	3,115
Amortisation of other assets	258	372	834	421
Written off of other assets	468	—	468	—
Impairment loss recognised, in respect of other receivables, net	119	—	119	—
Loss on disposal of items of property, plant and equipment	—	2	—	533
Operating lease rentals in respect of office premises	1,734	2,360	6,202	6,827
Exchange (gain)/loss, net	(113)	86	(151)	655
Staff costs including directors' remuneration				
— Salaries and allowances	7,233	9,778	23,300	32,614
— Pension scheme contributions	676	840	2,184	2,793
— Share-based payment expenses	—	2,697	—	8,178
	7,909	13,315	25,484	43,585

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax and Korea corporate income tax have been provided as the Group did not generate any assessable profits arising in Hong Kong and Korea or the estimated assessable profit was wholly absorbed by tax losses brought forward during the period under review (for the nine months ended 30 September 2017: Nil).

No provision for PRC Corporate Income Tax has been made during the period under review as the Group has no assessable profits arising in PRC (for the nine months ended 30 September 2017: Nil).

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

The calculation of the basic loss per share is based on the loss attributable to ordinary equity holders of the parent for the three months ended 30 September 2018 of approximately HK\$20,849,000 (2017: loss attributable to ordinary equity holders of the parent of approximately HK\$20,132,000) and loss attributable to ordinary equity holders of the parent for the nine months ended 30 September 2018 of approximately HK\$116,385,000 (2017: loss attributable to ordinary equity holders of the parent of approximately HK\$65,150,000) and weighted average of 4,209,130,000 shares in issue during the three months ended 30 September 2018 (2017: 4,209,130,000 shares) and weighed average of 4,209,130,000 shares in issue during the nine months ended 30 September 2018 (2017: 4,112,000,000 shares).

As the Company's share options and preferred shares where applicable had an anti-dilutive effect to the basic loss per share calculation for the three months and nine months ended 30 September 2018, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted loss per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent										
	Share capital-ordinary shares HK\$'000	Share capital-preferred shares HK\$'000	Share premium HK\$'000	Share-based payment reserve HK\$'000	Contributed surplus HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Accumul-ated losses HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2017 (Audited)	28,147	13,246	1,139,606	35,240	28,294	—	(32,735)	(267,988)	943,810	573	944,383
Loss for the period	—	—	—	—	—	—	—	(65,150)	(65,150)	(517)	(65,667)
Other comprehensive income for the period:											
Exchange differences arising from the translation of foreign operations	—	—	—	—	—	—	23,012	—	23,012	—	23,012
Total comprehensive loss for the period	—	—	—	—	—	—	23,012	(65,150)	(42,138)	(517)	(42,655)
Issue of ordinary shares upon convention of preferred shares	13,943	(13,246)	(697)	—	—	—	—	—	—	—	—
Recognition of equity-settled share-based payment	—	—	—	8,178	—	—	—	—	8,178	—	8,178
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	57	57
At 30 September 2017 (unaudited)	42,090	—	1,138,909	43,418	28,294	—	(9,723)	(333,138)	909,850	113	909,963
At 1 January 2018 (Audited)	42,090	—	1,138,909	21,024	28,294	14,476	2,462	(347,841)	899,414	257	899,671
Loss for the period	—	—	—	—	—	—	—	(116,385)	(116,385)	(784)	(117,169)
Other comprehensive income for the period:											
Exchange differences arising from the translation of foreign operations	—	—	—	—	—	—	(33,129)	—	(33,129)	58	(33,071)
Total comprehensive loss for the period	—	—	—	—	—	—	(33,129)	(116,385)	(149,514)	(726)	(150,240)
At 30 September 2018 (unaudited)	42,090	—	1,138,909	21,024	28,294	14,476	(30,667)	(464,226)	749,900	(469)	749,431

DIVIDEND

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2018 (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The revenue of the Group was approximately HK\$36,543,000 for the nine months ended 30 September 2018 (for the nine months ended 30 September 2017: HK\$63,692,000), representing a decrease of 42.6% as compared with the nine months ended 30 September 2017. The decrease was mainly due to the decrease in revenue from the Group's movies, TV programmes and internet content business. The Group's revenue is derived from the following segments:

Movies, TV programmes and Internet Contents

During the period under review, the revenue contributed by such segment was approximately HK\$34,988,000 (for the nine months ended 30 September 2017: HK\$62,786,000), representing the licensing income from internet movies named 《少女茯苓》 and “Bad Together” (《太子書院》), an internet TV drama named 《我才不會被女孩子欺負呢》 and TV drama named “She is beautiful” (《她很漂亮》).

Artists Management

During the period under review, the revenue contributed by such segment was approximately HK\$1,555,000 (for the nine months ended 30 September 2017: HK\$906,000).

Cost of sales for the nine months ended 30 September 2018 increased to approximately HK\$89,622,000 (for the nine months ended 30 September 2017: HK\$65,709,000), which was mainly attributed from the cost of films and TV and Internet programmes of approximately HK\$87,914,000 (for the nine months ended 30 September 2017: HK\$64,692,000). Administrative expenses were mainly the staff costs, operating leases expenses and other general administrative expenses of the Group incurred during the period under review. Administrative expenses increased to approximately HK\$61,834,000 from approximately HK\$56,579,000 in the prior period as a result of the depreciation expense charged in the current period in which the relevant properties were in use since the second half of 2017. Selling and distribution expenses increased to approximately HK\$6,876,000 from approximately HK\$730,000 in the prior period due to the marketing and distribution expenses of TV drama launched during the period.

Loss for the period attributable to owners of the parent was approximately HK\$116,385,000 (for the nine months ended 30 September 2017: HK\$65,150,000), which was mainly attributable to the loss of approximately HK\$57,486,000 suffered from a TV drama “She is Beautiful” (《她很漂亮》) recently released in the second quarter.

BUSINESS REVIEW

Movies, TV Programmes and Internet Contents

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

With the rapid development of video streaming websites and internet movies in the Mainland China, the Group continued to increase its investment in internet movies. The Group’s investment in various projects last year, including “Bad Together” (《太子書院》), “Break out of Taiping Town” (《殺出太平鎮》) and “The Legend of Zu” (《蜀山降魔傳》), have been released on the video

streaming platform “iQIYI”(愛奇藝) this year. However, strategy for the internet movies projects participated earlier emphasized on risk control and payback period, resulted in a smaller project and investment scale and contributed an insignificant amount of profit. Given the success of the above-mentioned projects, the Group invested in a series of projects of larger scale and investment including “The Props Master”(《道具師》), “Hey! Tiny Bone”(《嘿！小骨頭》), “The Legend of Zu 2”(《蜀山降魔傳2》), “Wuji Master”(《無極天師》) in pursuit of “blockbuster” projects to generate considerable profit contributions to the Group.

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

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

The Group has further strengthened the syndicate for the investment and production of “Legend of the Galactic Heroes”(《銀河英雄傳説》). The project is based on the famous novel written by the distinguished Japanese novelist Tanaka Yoshiki and the preparation of the internet TV drama series and theatrical movies is in progress.

“The Tibet Code”(《藏地密碼》)

The Group has confirmed to work with some top-tier partners such as Tencent Pictures for the production of the movie series to bring the best-selling fiction “The Tibet Code”(《藏地密碼》) to life. The Group is currently in the process of finalizing the relevant investment agreements and expected to commence shooting in 2019.

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

Furthermore, the previously invested projects like "The Dynasty Warriors" (《真・三國無雙》), "Fagara in Mara" (《花椒之味》), "Theory of Ambition" (《風再起時》), "Ori Princess, the Elf is Coming"* (《甜心格格之精靈來了》), "If You are Happy" (《學區房83弄》) and "In Winter" (《藍色列車》) are either under post-production or scheduled for release and expected to be screened in late 2018 or 2019.

Artists Management

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

Amongst all artists under our management, Chen Xinzhe (陳信喆) shows enormous potential and has been put in the limelight quickly. Chen Xinzhe, a new-born and post-95 generation star, develops his career on multiple fronts: movie, television and music. He has published 7 singles and performed in 9 movies/TV since his debut two years ago. The first single of Chen Xinzhe "I Miss You Again" (《我又想你了》), which recorded over 50,000 comments in the NetEase Cloud Music (網易雲音樂) music platform has entered the Tik Tok Music new song chart shortly after its release online, and subsequently entered the hit song chart of Tik Tok Music also. His debut movie "Exorcism Master"* (《鎮魂法師》) has recorded over 60 million click-rates within 3 months after the exclusive release in Youku. This result has broken many industry records of internet movie production and captured the first championship of profit-sharing in the industry which has become a milestone production in the development of internet movie production. Chen Xinzhe is also the first artist who marked 60 million click-rates in the internet movie industry, and the movie "Exorcism Master2"* (《鎮魂法師2》) in which he is the leading actor is in the process of shooting. Chen Xinzhe was honoured with "The Most Popular Actor" award with his outstanding performance delivered in the movie "Exorcism Master"* (《鎮魂法師》) at "The 3rd Golden Seagull International New Media Film Week" organized by the Communication Centre of Chinese Communist Youth League (共青團中央網絡影視中心), China Film Association, the New Media Research Institute of Communication University of China, Chinese Film Association of Malaysia and Thailand National Film Association on 29 September 2018.

* for illustration purpose only

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

In addition, Duan Xuyu(段旭宇), a member of the boy group “Flying Boys”(飛炫少年) nurtured by us, has been shortlisted as one of the apprentices from thousands of candidates in the upcoming large-scale variety show “Idol Producer”(《偶像練習生》), which is a major project to be produced by the video streaming platform “iQIYI”(愛奇藝). Lajin’s artists including Yang Xiaodong(楊曉東) and Xu Junjie(徐俊杰) are shooting the “The Next Top Bang”(《中國夢之聲·下一站傳奇》), a key programme of Dragon Television. The show is a “large-scale variety competition show featuring dancing and singing for youth talents”, with Chan Waiting(陳偉霆), Tang Tszkei(鄧紫棋), Wu Haiquan(胡海泉), Zhou Bichang(周筆暢), Song Qian(宋茜) and Kris Wu(吳亦凡) being the initial artists for the show. Moreover, our artist Ye Zicheng(葉子誠) acted as Lin Yimu(林一木), the leading actor in the theatre movie “Twentys”(《二十歲》) invested by Lajin, Zhao Shanshan(趙閃閃) and Zhang Linyue(張琳悅) acted as the leading actress Yuan Youqing(原幼清) and main villain Yun Juyan(雲居雁) in the internet movie “The Legend of Zu”(《蜀山降魔傳》) respectively. All of them demonstrated remarkable performance.

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

Music

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

* for illustration purpose only

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

Huo Miao has developed a relatively comprehensive music promotion and distribution network and commenced copyright operation in full swing: Huo Miao collaborated with various domestic music platforms, such as QQ Music, NetEase Cloud Music, KuGou Music, Kuwo Music and TT Music (formerly known as Baidu Music). Besides, it established strategic partnerships with nearly 100 radio stations and internet radio channels in China. The mobile platforms developed by Huo Miao: mini program on Weixin and the exclusive APP will also be launched by the end of the year.

During the current period, Lajin Music (拉近音樂) and Huo Miao provided support to the Group's film and artist management businesses with its music resources, 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.

Coming up, we will increase marketing effort to promote and publicize the Huo Miao platform with an aim to gain publicity. We firmly believe in the originality of music and such brand new concept of tailor-made music production will prosper in the future.

Lajin Base

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

The Base's first ever production model for the internet entertainment content and the self-developed interactive live broadcasting control system possess complete intellectual property rights which attains an absolutely leading level in the industry. The Base supplies both front stage and backstage talents for the domestic movie, television, music and performing arts industries. It also produces high-quality cultural and entertainment content of positive energy and values for the market.

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

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

CHANGE OF COMPANY SECRETARY AND AUTHORISED REPRESENTATIVE AND RESIGNATION OF DIRECTOR

Subsequent to the reporting period, Mr. Leung Wai Shun Wilson ("Mr. Leung") has been appointed as the company secretary and authorized representative with effect from 1 November 2018 in replacement of Mr. Chan Kam Kwan Jason ("Mr. Chan"). In addition, on the same date, Mr. Chan has resigned as an executive director of the Company.

CAPITAL STRUCTURE

As at 30 September 2018, the Company has in issue a total of 4,209,131,046 ordinary shares.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 30 September 2018, the interests and short positions of the Directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code were as follows:

Long positions in the ordinary shares of HK\$0.01 each of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Number of share options held	Approximate percentage of the issued share capital of the Company
Ms. Wu Li	Beneficial owner	—	8,000,000	0.19%
Mr. Chan Kam Kwan Jason	Beneficial owner	—	12,000,000	0.29%
Mr. Zhou Ya Fei	Beneficial owner	—	1,000,000	0.02%
Mr. Zou Xiao Chun	Beneficial owner	—	1,000,000	0.02%
Mr. Ng Wai Hung	Beneficial owner	—	1,000,000	0.02%
Mr. Lam Cheung Shing Richard	Beneficial owner	—	1,000,000	0.02%
Mr. Wang Ju	Beneficial owner	—	1,000,000	0.02%

Save as disclosed above, none of the Directors and chief executives, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 September 2018.

SHARE OPTION SCHEME

On 10 June 2014, the Company adopted a new share option scheme (“New Share Option Scheme”) and terminated the share option scheme adopted by the Company on 6 March 2002. The purpose of the New Share Option Scheme is to enable the Company to grant options to the eligible participants (“Participants”) in order to recognise and motivate the contribution of the Participants to the Group. The Share Option Scheme is effective for 10 years and will be expired in June 2024.

Details of the options outstanding as at 30 September 2018 which have been granted to directors or chief executives under the Share Option Scheme are as follows:

		Outstanding as at 30 June 2018	Granted	Exercised	Lapsed	Outstanding as at 30 September 2018
Directors						
Ms. Wu Li	2015A	8,000,000	—	—	—	8,000,000
Mr. Chan Kam Kwan, Jason	2015A	12,000,000	—	—	—	12,000,000
Mr. Zhou Ya Fei	2015A	1,000,000	—	—	—	1,000,000
Mr. Zou Xiao Chun	2015A	1,000,000	—	—	—	1,000,000
Mr. Ng Wai Hung	2015A	1,000,000	—	—	—	1,000,000
Mr. Lam Cheung Shing, Richard	2015A	1,000,000	—	—	—	1,000,000
Mr. Wang Ju	2015A	1,000,000	—	—	—	1,000,000
		25,000,000	—	—	—	25,000,000
Other employees	2015A	19,000,000	—	—	—	19,000,000
	2016A	15,000,000	—	—	—	15,000,000
Total options outstanding		59,000,000	—	—	—	59,000,000
Exercisable at the end of the reporting period at HK\$1.088 each						
Weighted average exercise price		HK\$1.088	—	—	—	HK\$1.088

Details of the specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price
2015A	16 November 2015	16 November 2015 to 15 November 2016	16 November 2016 to 16 November 2018	HK\$1.088
2016A	21 January 2016	21 January 2016 to 20 January 2017	21 January 2017 to 21 January 2019	HK\$1.088

During the period under review, no options were granted or exercised, lapsed or cancelled under the Share Option Scheme. There are a total of 59,000,000 options outstanding as at 30 September 2018.

The total number of shares of the Company available for issue under the Share Option Scheme amounts to 156,967,477 shares as at the date of this report, representing 3.73% of the issued share capital outstanding.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes and employee award plan, at no time during the nine months ended 30 September 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2018, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long positions in ordinary shares of HK\$0.01 each of the Company

Name of substantial shareholder	Capacity	Notes	Interest in shares	Approximate percentage of the Company's issued share capital
Jiaxuan Group Company Limited ("Jiaxuan")	Beneficial owner	(i)	1,982,561,725	47.10%
Eagle King Investment Holding Limited	Interest of controlled corporation	(i)	1,982,561,725	47.10%
Mr. Wong Kwong Yu	Interest of controlled corporation	(i)	1,982,561,725	47.10%
Great Majestic Global Holdings Limited	Interest of controlled corporation	(i)	1,982,561,725	47.10%
Mr. Xu Zhong Min	Interest of controlled corporation	(i)	1,982,561,725	47.10%
CITIC Group Corporation	Interest of controlled corporation	(ii)	459,934,954	10.93%
CITIC Limited	Interest of controlled corporation	(ii)	459,934,954	10.93%
Famous Peak Investments Limited	Beneficial owner	(ii)	459,934,954	10.93%
Vision Path Limited	Beneficial owner	(iii)	424,834,655	10.10%
Ms. Yu Nan	Interest of controlled corporation	(iii)	424,834,655	10.10%
First Charm Investments Limited	Beneficial owner	(iv)	311,545,414	7.40%
Mr. Ko Chun Shun, Johnson	Interest of controlled corporation	(iv)	311,545,414	7.40%

Notes:

- (i) Jiaxuan is owned as to 55% by Eagle King Investment Holding Limited (“Eagle King”) and as to 45% by Great Majestic Global Holdings Limited (“Great Majestic”). Mr. Wong Kwong Yu owns 100% of Eagle King and Mr. Xu Zhong Min owns 100% of Great Majestic.
- (ii) Famous Peak Investments Limited is a wholly-owned subsidiary of CITIC Investment (HK) Limited, being one of the wholly-owned subsidiaries of CITIC Limited. CITIC Group Corporation is the holding company of the CITIC Limited.
- (iii) Ms. Yu Nan owns 100% of Vision Path.
- (iv) Mr. Ko Chun Shun, Johnson owns 100% of First Charm.

Save as disclosed above, at 30 September 2018, the Company has not been notified by any persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

COMPETING INTEREST

At 30 September 2018, none of the Directors, the substantial shareholders nor their respective associates had an interest in any business which competes or may compete with the business of the Group.

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

During the nine months ended 30 September 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. By applying rigorous corporate governance practices, the Group believes that its accountability and transparency will be improved thereby instilling confidence to shareholders and the public.

The Company 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 for the nine months ended 30 September 2018, 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 (non-executive Directors to attend general meetings).

(a) Chairman and Chief Executive Officer

Under the CG Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As of the date of this Report, both of the positions of Chairman and Chief Executive Officer of the Company were still left vacant. The Company will continue to look for the appropriate candidate to fill the vacancy as chairman and the chief executive officer.

(b) Terms of non-executive Directors

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

(c) Non-executive Directors attending general meeting

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2018, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, the Company's Directors confirmed they have complied with the required standards of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

AUDIT COMMITTEE

The audit committee consists of three members, namely Mr. Lam Cheung Shing Richard (chairman of the audit committee), Mr. Zhou Ya Fei and Mr. Ng Wai Hung, all being non-executive Directors or independent non-executive Directors. The primary duties of the audit committee are to review the Company's annual report and financial statements, quarterly reports and interim report and to provide advice and comment thereon to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company. The audit committee has reviewed the third quarterly report and results for the nine months ended 30 September 2018 before proposing to the Board for approval.

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

Hong Kong, 13 November 2018

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