



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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2020

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

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* For identification only

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 ended 31 March 2020, together with the comparative unaudited figures for the corresponding periods in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 31 March	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue	3	1,474	2,335
Cost of sales		<u>(28)</u>	<u>(2,086)</u>
Gross profit		1,446	249
Other income	4	369	409
Selling and distribution expenses		(21)	(37)
Administrative expenses		(8,563)	(12,993)
Share of profit/(loss) of:			
Associates		631	(130)
A joint venture		<u>—</u>	<u>(232)</u>
Loss before tax	5	(6,138)	(12,734)
Income tax expense	6	<u>(9)</u>	<u>—</u>
Loss for the period		<u><u>(6,147)</u></u>	<u><u>(12,734)</u></u>
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		<u>(8,002)</u>	<u>12,394</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		<u><u>(8,002)</u></u>	<u><u>12,394</u></u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		<u><u>(14,149)</u></u>	<u><u>(340)</u></u>

	For the three months ended 31 March	
	2020	2019
	(Unaudited)	(Unaudited)
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period attributable to:		
Owners of the parent	(6,070)	(12,622)
Non-controlling interests	<u>(77)</u>	<u>(112)</u>
	<u>(6,147)</u>	<u>(12,734)</u>
Total comprehensive loss for the period attributable to:		
Owners of the parent	(14,102)	(195)
Non-controlling interests	<u>(47)</u>	<u>(145)</u>
	<u>(14,149)</u>	<u>(340)</u>
Dividend	<u>—</u>	<u>—</u>
Loss per share		
— Basic and diluted	<i>7</i> <u>(0.14) cent</u>	<u>(0.30) cent</u>

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 Growth Enterprise Market ("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.

The unaudited condensed consolidated statement of profit or loss and other comprehensive income (the "Unaudited 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 its subsidiaries and associates are provision of artist management services, and investment in movies, TV programmes and internet contents.

2. BASIS OF PREPARATION AND CONSOLIDATION

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 measurement basis used in the preparation of the Unaudited Condensed Consolidated Results is the historical cost convention, as modified for the revaluation of certain financial instruments which are stated at their fair values.

The preparation of Unaudited Condensed Consolidated Results in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

All significant intercompany transactions, balances and unrealised gain on transaction within the Group have been eliminated on consolidation.

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 2019.

3. REVENUE

	For the three months ended 31 March	
	2020	2019
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Distribution agency fee	1,431	—
Sales of film rights	—	1,915
TV and internet programme	14	—
Artists management	29	413
Others	—	7
	<u>1,474</u>	<u>2,335</u>

4. OTHER INCOME

	For the three months ended 31 March	
	2020	2019
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Bank interest income	198	154
Consultancy service income	—	27
Rental income	171	228
	<u>369</u>	<u>409</u>

5. LOSS BEFORE TAX

Loss before tax is arrived at after charging:

	For the three months ended 31 March	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	2,962	3,300
Amortisation of other assets	205	292
Lease payment not included in the measurement of lease liabilities	175	171
Staff costs including directors' remuneration		
— Salaries and allowances	2,664	5,064
— Retirement benefits schemes contributions	89	494
	<u>2,753</u>	<u>5,558</u>

6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax and Korea corporate income tax has been made during the period 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. (2019: Nil).

During the period under review, the amount of the PRC enterprise income tax paid in accordance with the rate at 25% of assessable profit, and the income tax paid was HK\$9,000 (2019: 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 31 March 2020 of approximately HK\$6,070,000 (2019: loss attributable to ordinary equity holders of the parent of approximately HK\$12,622,000) and the weighted average of 4,209,131,000 shares in issue during the three months ended 31 March 2020 (2019: 4,209,131,000 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 ended 31 March 2020, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted loss per share.

8. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent										
	Ordinary Share Capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Fair value reserve <i>HK\$'000</i>	Share- based payment reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Acc- umulated losses <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019 (audited)	42,090	1,138,909	(11,267)	3,074	28,294	13,786	(28,904)	(565,158)	620,824	(170)	620,654
Net loss for the period	—	—	—	—	—	—	—	(12,622)	(12,622)	(112)	(12,734)
Other comprehensive income for the period	—	—	—	—	—	—	12,427	—	12,427	(33)	12,394
Total comprehensive loss for the period	—	—	—	—	—	—	12,427	(12,622)	(195)	(145)	(340)
Transfer of share-based payment reserve upon expiry of share options	—	—	—	(3,074)	—	—	—	3,074	—	—	—
At 31 March 2019 (unaudited)	<u>42,090</u>	<u>1,138,909</u>	<u>(11,267)</u>	<u>—</u>	<u>28,294</u>	<u>13,786</u>	<u>(16,477)</u>	<u>(574,706)</u>	<u>620,629</u>	<u>(315)</u>	<u>620,314</u>
At 1 January 2020 (audited)	42,090	1,138,909	(12,744)	—	28,294	14,072	(35,898)	(649,672)	525,051	(1,736)	523,315
Net loss for the period	—	—	—	—	—	—	—	(6,070)	(6,070)	(77)	(6,147)
Other comprehensive income for the period	—	—	—	—	—	—	(8,032)	—	(8,032)	30	(8,002)
Total comprehensive loss for the period	—	—	—	—	—	—	(8,032)	(6,070)	(14,102)	(47)	(14,149)
At 31 March 2020 (unaudited)	<u>42,090</u>	<u>1,138,909</u>	<u>(12,744)</u>	<u>—</u>	<u>28,294</u>	<u>14,072</u>	<u>(43,930)</u>	<u>(655,742)</u>	<u>510,949</u>	<u>(1,783)</u>	<u>509,166</u>

DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 31 March 2020 (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The revenue of the Group was approximately HK\$1,474,000 for the three months ended 31 March 2020 (2019: HK\$2,335,000), representing a decrease of 36.8% as compared with the three months period ended 31 March 2019. The decrease was mainly due to the decrease in revenue from the Group's movies, TV programmes and internet content business.

Movies, TV programmes and internet contents

During the period under review, the revenue contributed by such segment was mainly attributable to the distribution agency fee of approximately HK\$1,431,000 (2019: HK\$ Nil) and other related income of this segment of approximately HK\$14,000 (2019: HK\$1,915,000).

Artists Management

During the period under review, the revenue contributed by such segment was approximately HK\$29,000 (2019: HK\$413,000).

Cost of sales for the three months ended 31 March 2020 decreased to approximately HK\$28,000 (2019: HK\$2,086,000), which was mainly attributable to the decrease in cost from the Group's movies, TV programmes and internet content business. Administrative expenses were mainly staff costs, operating leases and other general administrative expenses of the Group incurred during the period under review. Administrative expenses decreased to approximately HK\$8,563,000 from approximately HK\$12,993,000 in the corresponding period. It was mainly attributable to the decrease in expenses on salaries and allowances amounted to approximately HK\$2,400,000 (2019: HK\$3,479,000) due to the cost control of the Group.

Loss for the period attributable to owners of the parent was approximately HK\$6,070,000 (2019: HK\$12,622,000). The reduction in loss was primarily due to the decrease in administrative expenses.

BUSINESS REVIEW

Movies, TV Programmes and Internet Contents

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

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

With the rapid development of video streaming websites and internet movies in Mainland China, the Group continued to increase its investment in internet movies and invested in a series of projects of larger scale and investment including “Hey! Tiny Bone” (《嘿！小骨頭》), “The Legend of Zu 2” (《蜀山降魔傳2》), “Swordsmanship and Immortality Cultivation” (《天劍修仙傳》), “The Strongest Iron Mr. Nanny” (《最強鐵血奶爸》) and “The Legend of Lu Bu” (《斗破亂世情》) in pursuit of “blockbuster” projects to generate considerable profit contributions to the Group. In 2020, “Hey! Tiny Bone” (《嘿！小骨頭》), an internet movie project mainly produced by Lajin Picture, is tentatively scheduled to be released on the platform “iQIYI” in July, and other internet movie projects investment, such as “The Legend of Lu Bu” (《斗破亂世情》), “The Strongest Iron Mr. Nanny” (《最強鐵血奶爸》), “Sea Monster in the Changbaishan Tianchi” (《長白山天池水怪》), “The Crisis of the Youth” (《少年葉問危機時刻》), “Seven Mahatmas during the Journey to the West” (《西遊七大聖》), are expected to be released on various internet platforms starting from the second quarter. In addition, “Fatal Crocodile” (《奪命巨鱷》), “Heroes of Desert” (《大漠神龍》), “Strange Stories from a Chinese Studio Related to Yan Chixia Part II” (《聊齋之燕赤霞》(第二部)) are under post-production and expected to be released at the end of the year. Furthermore, in terms of project distribution, “New Lotus Lantern” (《新編寶蓮燈》) is scheduled to be released on Youku on May 20.

In virtue of its experience in investment in internet movie projects, the Group has deepened its exploration in internet movie market by taking the initiative to consolidate industry resources. The Group commenced to expand its business into internet movie distribution business in 2019, and “Di Renjie-Deep Sea Dragon Palace” (《狄仁杰之深海龍宮》), the first internet movie distributed by the Group, was launched on Youku with the highest popularity of 8648 on the platform, breaking the record in the popularity of Youku’s internet movies; and also top in the following 8 Charts: Hot Youku Movies Charts (優酷電影熱度榜), Hot Mainland Movies Chart (內地片熱榜), Hot Action Movies Chart (動作片熱榜), Hot Suspense Movies Chart (懸疑片熱榜), Youku Movies V Chart (優酷V榜電影榜), Internet Movies Ranking Chart (電影排行榜網大榜), Hot Movies Ranking Chart (電影排行榜熱度榜) and Action Movies of the Movies Ranking Chart (電影排行榜動作榜). It also has been ranking top in the Internet Movies of the Youku Movies Ranking Chart (優酷電影排行榜網大榜) for ten consecutive days. As of March 2020, the shared box office of “Di Renjie-Deep Sea Dragon Palace” (《狄仁杰之深海龍宮》) amounted to RMB13.07 million, ranking fourth in the Youku monthly revenue chart, of which Lajin Picture, as the distributor, shared net profit of approximately RMB1.36 million. The project is expected to continue to generate shared box office in the future. The business model of investment-assisted distribution has not only enabled the Group to increase project revenue by increasing collaborative business segments and effectively reduce project risks, but also enabled the Group to continuously deepen project participation and have more opportunities to participate in different stages of mega projects. After effectively evaluating project risks, the Group has given priority in choosing high-quality projects.

Furthermore, the Group has also established its strategic cooperation relationship with numerous established companies that have the capacity for producing theatrical films, and fully leveraged on its experience and advantages in the field of internet-based products to remake classic films and television drama IP to produce quality internet movies with partners. To date, the “The Legend of the Condor Heroes” (《射雕英雄傳》) Part I and II and the “The Crisis of the Youth” (《少年葉問危機時刻》) of the Ip Man series are being produced through this model. The screenplay of “The Legend of the Condor Heroes” (《射雕英雄傳》) has been completed and is scheduled to be shot in June 2020. The premiere promotion of the series of Legends of the Condor Heroes (《射雕英雄傳》) has received widespread attention in the industry. All the three major video platforms have shown their interests in participating in the project by offering favorable terms. At present, a creative team comprising directors, art directors, camera crew and action directors has been established to carry out preparatory work, and the actors are also actively in contact. It is expected to become a super-mega movie of the platform.

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

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

“Faithful Dog Hachiko” (《忠犬八公》)

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

“The Tibet Code”

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

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

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

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

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

Since COVID-19 pandemic continued to wreak havoc in early 2020, from January 24 to February 23, China’s film box office only recorded US\$4.2 million, representing a shrink of US\$1.76 billion from the same period in 2019. It is conservatively estimated that the pandemic will cause or has caused a loss of more than US\$2 billion (equivalent to RMB14 billion) to the Chinese film industry*. Although the pandemic has gradually been brought under control and production has been resumed in various places, the reopening of cinemas, the resumption of the promotion and distribution of traditional movies, and the advancement of large-scale film and television production are still very remote. Additionally, the pandemic is still in a deteriorating stage around the globe, and many blockbuster films originally scheduled for global release have been withdrawn from cinemas. In the short term, even if cinemas resume operation, the absence of foreign blockbusters will affect the entire Chinese film industry to a certain extent. In the long run, due to the characteristics of long production cycle of film and television products, the slowdown in the output of mega theatrical movies will also affect the real recovery of the industry for a long time in the future.

*Source: Artisan Gateway, The Hollywood Reporting

However, compared to traditional theatrical movies, the performance of internet content products infuses a “cardiac stimulant” to the film and television industry. In terms of internet movie products only, 13 internet movies recorded a shared box office of more than RMB10 million each and 2 internet movies recorded a shared box office of more than RMB20 million each on the iQiyi platform in the first quarter, and 4 internet movies recorded a shared box office of more than RMB10 million each on the Tencent video platform. Affected by the pandemic, people’s ways of entertainment have undergone major changes and the uncertain resumption schedule of cinemas has also driven more film and television products to release via the Internet, further enrich the internet content induce and more traditional film and television talents flow to the field of internet film and television. This further accelerates the development of internet products in pursuit of high quality and intensifies the competition among various forms of film and television products, such as internet movies, internet dramas, short videos, in content for a long time in the future. In light of the foregoing, the profit margin will increase and bring about a structural transformation to the industry.

Artists Management

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

Amongst all artists under our management, Chen Xinzhe (陳信喆) shows enormous potential and has been put in the limelight quickly. Chen Xinzhe, a new-born and post-95 generation star, develops his career on multiple fronts: movie, television and music. He has published 8 singles as well as 4 theme songs for movies/TV and performed in 20 movies/TV since his debut two years ago. The first single of Chen Xinzhe “I Miss You Again” (《我又想你了》), which recorded over 70,000 comments in the NetEase Cloud Music (網易雲音樂) music platform has entered the Tik Tok Music new song chart shortly after its release online, and subsequently entered the hit song chart of Tik Tok Music also. His brilliant performance in his debut movie “Exorcism Master”* (《鎮魂法師》) brought him the Best New Actor award in Golden Seagull (金海鷗) Film Festival. In July 2019, he was invited to take part in an event hosted by Mango TV in which he closely interacted with fans and gained vast popularity on the spot. The “New Arbiter Justice Bao Blood Witchcraft” (《新包青天之血酬蠱》), in which he starred, was released on the platform “iQIYI” on 1 December 2019, achieved remarkable results and stood out among numerous movies and TV dramas released at the same time. The movie is divided into two parts and the second part is expected to release in the second half of 2020. In addition, he starred in the movie of “The Evil Thief’s White Bone Clothes” (《魔盜白骨衣》), which was adapted from the novel written by Antusheng, an Internet writer. The movie is divided into two parts and the first part has been already released in Youku on 5 February 2020, achieving satisfactory results in box office and reputation during the release. In addition, the movie won the Gold Award

at the Jakarta International Film & Art Festival Awards and its second part is expected to release in the second half of 2020. Chen Xinzhe's recently starring in an Internet drama “《我在六扇門的日子》” as the lead actor, which is co-presented by iQiyi Literature has finished filming at end of 2019 and expected to release online after June 2020. Apart from his impressive achievements in the movies/TV and music sectors, his accomplishment also extended to charitable events through participation in the “Charity Walk for Tibet” (《千里西藏助學行》) of “Xiantou Commonwealth” (線頭公益) and the “Support! Free Lunch”* (《支持，免費午餐》) of Tencent Foundation, supporting the children in need with actions. We will strive to secure more commercial advertisement jobs for our artists and leverage on the facilities available in our Lajin Base to provide necessary trainings and shooting/production environment, enabling our future stars to shine.

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

Music

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

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

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

In 2020, Lajin Music will initiate a “Searching for Chinese Root Music Program” as a founder. Based on the cultural foundation of the Chinese nation, the project is equipped with the most advanced production technology and media communication methods and the professionalism of the music industry, and plans to establish a copyrights database of the most outstanding, best-selling, and symbolic root music signifying Chinese cultural confidence. In addition, by adopting different media communication methods, the project

will be marketed by integrating with music works, local culture, tourism resources and local products. Eventually, with the resources support of various levels of government, the project will be established into a comprehensive, novel, and commercially closed-loop cultural project.

Lajin Base

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

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

Performing arts training business

The Group established a joint venture with well-known enterprises and a top artist in the industry. Leveraging on the top-tier hardware configuration of the Base, the Group integrated the resources and experience of each shareholder in film and television, variety shows and internet celebrities over the years to launch the performing arts training business, which set a new direction for the nurturing of stars. The training business has three major aspects, namely film and television, music and variety shows and form the course foundation. The training business fully integrates the artists’ skills required for film crews, selection through variety shows and internet celebrity reposition into the courses of the training system. Utilizing the relations resources of each shareholder, the Group invited film and television stars, famous musicians, professional dancers, variety shows casting directors, top traffic internet artists and mentors of top art institutions in Asia to create a comprehensive, professional and standardized star-making service platform. Affected by the COVID-19 pandemic in China, the enrollment of students has been delayed and we will readily resume the teaching plan according to the signs of improvement of the pandemic.

It is delighted is that Yao Hui (姚慧), one of our first-generation students, becomes prominent in Tencent’s large-scale talent show “Creation Camp 2020” (《創造營2020》) and successfully secured a seat in the starting team. Her future performance is highly anticipated. Yao Hui’s brilliant performance in the show has created a promotion effect of the branding of the performing arts training business of the Group.

Internet Celebrity E-commerce Business

According to the statistics of a professional institution*, the number of live streaming and short-form video users in China increased year-on-year, reaching 456,000,000 and 648,000,000, respectively, as of 2018, representing a year-on-year increase of 14.6% and 58.0%, respectively, as compared to 2017. In the same year, the number of internet celebrities with over 100,000 fans in China also increased by 51% year-on-year, and the number of top internet celebrities (with over 1,000,000 fans) increased by 23%, as compared to 2017. As of April 2018, the total number of fans of internet celebrities in China was close to 600,000,000, representing a year-on-year increase of 25%. The continuous growth in both the number of internet celebrities and the number of fans laid a solid foundation for the internet celebrity e-commerce business (that sells goods through live streaming of internet celebrities). Promoting sales by internet celebrities have become a new trend in e-commerce and have great potential for commercial value. According to the forecast of the institutions, the GMV of internet celebrity e-commerce driven by mainstream platforms will reach RMB700,000,000,000 in 2020.

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

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

CAPITAL STRUCTURE

As at the date of this announcement, the Company has in issue a total of 4,209,131,046 ordinary shares.

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

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

At 31 March 2020, no interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations 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 held by the Directors and chief executives and their respective associates.

SHARE OPTION SCHEME

On 10 June 2014, the Company adopted a new share option scheme (“Share Option Scheme”) and terminated the share option scheme adopted by the Company on 6 March 2002. The purpose of the 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.

There was no option outstanding as at 31 March 2020 (2019: Nil) which have been granted to directors or chief executives under the Share Option Scheme.

During the period under review, no options were granted or exercised under the Share Option Scheme. There is no option outstanding as at 31 March 2020 (2019: Nil).

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 announcement, representing 3.73% of the issued share capital outstanding.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme, at no time during the three months ended 31 March 2020 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 31 March 2020, 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	Interest in underlying 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 31 March 2020, 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.

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

During the three months ended 31 March 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee consists of three members, namely Mr. Lam Cheung Shing, Richard (chairman of the audit committee), Mr. Zhou Ya Fei and Mr. Ng Wai Hung, all being independent non-executive directors except for Mr. Zhou Ya Fei who is a non-executive director of the Company. The primary duties of the audit committee are to review the Company's annual report and financial statements, quarterly reports and interim 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 first quarterly report and results for the three months ended 31 March 2020 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, 15 May 2020

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