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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)

CONTINUING CONNECTED TRANSACTION IN RELATION TO MASTER SERVICES AGREEMENT, AMENDMENTS TO SHAREHOLDERS' AGREEMENT AND SHAREHOLDER LOAN AGREEMENT AND CLARIFICATION REGARDING THE SHANG PUT OPTION AND THE COMPANY CALL OPTION

MASTER SERVICES AGREEMENT

Having regard to the potential implications of the draft PRC Foreign Investment Law proposed by the Ministry of Commerce and after further negotiations among the parties, in lieu of the structured contracts arrangements, on 21 December 2015 (after trading hours), Young Film (a wholly-owned subsidiary of the JV Company) and the Media Company entered into the Master Services Agreement pursuant to which the Media Company shall provide to Young Film services including the production and promotion of movies, TV dramas and programmes as requested by the Group for a term of three years from the date of the Master Services Agreement.

Following Completion of the Subscription, Ms. Shang has become a substantial shareholder of the JV Company which is a subsidiary of the Company and therefore is a connected person to the Company at the subsidiary level. The Media Company is an associate of Ms. Shang and the entering into of the Master Services Agreement between Young Film (an indirect subsidiary of the Company) and the Media Company constitutes a continuing connected transaction for the Company. As the Master Services Agreement was entered into on normal commercial terms or better, and Ms. Shang is a connected person of the Company at subsidiary level, the entering into of the Master Services Agreement is exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 20.99 of the GEM Listing Rules. The transactions contemplated under the Master Services Agreement is subject to the annual review requirements under Rules 20.53 to 20.57 of the GEM Listing Rules.

* *for identification purpose only*

AMENDMENTS TO SHAREHOLDERS' AGREEMENT AND SHAREHOLDER LOAN AGREEMENT

On 21 December 2015 (after trading hours), (i) Lajin, the JV Partner and Ms. Shang entered into the SA Supplemental Agreement; and (ii) Lajin, the JV Company and Ms. Shang entered into the SL Supplemental Agreement to take into account the entering into of the Master Services Agreement in lieu of the structured contracts arrangements.

CLARIFICATION REGARDING THE SHANG PUT OPTION AND THE COMPANY CALL OPTION

Due to inadvertent mistakes in the formulas regarding the issuance of the Consideration Shares in batches set out in the Announcement, such formulas are corrected and set out in this announcement.

Reference is made to the announcement of Lajin Entertainment Network Group Limited (the “**Company**”) dated 28 August 2015 in relation to the Subscription, the provision of the Shareholder Loan and the Structured Contracts arrangement, and the granting of the Shang Put Option and the Company Call Option (the “**Announcement**”). Capitalised terms used herein shall have the same meanings as those set out in the Announcement unless stated otherwise.

MASTER SERVICES AGREEMENT

Having regard to the potential implications of the draft PRC Foreign Investment Law proposed by the Ministry of Commerce and after further negotiations among the parties, in lieu of the structured contracts arrangements, on 21 December 2015 (after trading hours), Young Film (a wholly-owned subsidiary of the JV Company) and 青島年青時候影視文化傳媒有限公司 (Qingdao Young Times Video Cultural Media Company Limited) (previously defined as OPCO 2 in the Announcement and re-defined as the Media Company herein) entered into the master services agreement (the “**Master Services Agreement**”), the principal terms of which are set out below.

Principal terms of the Master Services Agreement

Date: 21 December 2015

Parties: (i) the Media Company; and
(ii) Young Film.

The Media Company is 99% owned by Ms. Shang and 1% owned by Ms. Song Tao. Ms. Song was Ms. Shang's colleague at Sohu as one of the senior editors of Sohu Video. As set out in the Announcement, the Media Company is principally engaged in the production and distribution of films, TV series, cartoons, special topic film and TV shows.

Term: Three years from the date of the Master Services Agreement. The Master Services Agreement provides that the parties may, prior to the expiration of the initial term, further extend the term of the Master Services Agreement subject to compliance with the relevant requirements of the GEM Listing Rules. The Company will consider among others the relevant PRC regulations applicable then before it decides to extend the term of the Master Services Agreement.

Subject: During the term of the Master Services Agreement, the Media Company shall provide to the Group services including production and promotion of movies, TV dramas and programmes as requested by the Group. The Group may invite other parties to co-invest in the production of movies, TV dramas and programmes, and the terms of such co-investment including the proportion to be invested by the co-investor and the Group respectively will be subject to negotiation and agreement between the parties. In case other parties are co-investing and share the costs under the Master Services Agreement with the Group, the copyright of the products produced under the Master Services Agreement will be shared by such investor(s) in accordance with the proportion of investments by the Group and such investor(s).

Pricing and payment terms: The services under the Master Services Agreement shall be charged on cost basis (as incurred by the Media Company). With regard to each production planned by the Group, the Media Company shall prepare a budget for which the Group shall prepay the budgeted amount to the Media Company. Following completion of the production, the parties shall ascertain the actual costs of production. In case of the budgeted amount in excess of the actual costs, the Media Company shall return the excess amount to the Group and in case of the budgeted amount falling short of the actual costs, the Group shall reimburse the shortfall to the Media Company. In case other parties are co-investing and sharing the costs under the Master Services Agreement with the Group, the payment of the services under the Master Services Agreement will be shared by the Group and such investor(s) accordingly.

Annual caps

The table below sets out the annual caps for the transactions contemplated under the Master Services Agreement as follows:

Period	Annual caps <i>RMB in millions</i>
For the period commencing from the date of the Master Services Agreement to 31 December 2015	19.8
For the year ending 31 December 2016	190.9

Period	Annual caps <i>RMB in millions</i>
For the year ending 31 December 2017	182.6
For the year ending 31 December 2018	247.1

The annual caps are determined with reference to the following major factors:

- the amount of RMB19.8 million, being part of the Shareholder Loan, already advanced to the Media Company as prepayment for the services under the Master Services Agreement;
- the movies, internet dramas and TV dramas (the “**Movies and Dramas**”) already identified by the Group with initial story prepared and the relevant film rights secured (if applicable) and targeted to be produced by the Media Company for the year ending 31 December 2016. The numbers of Movies and Dramas to be produced for each of the years ending 31 December 2017 and 2018 are based on the numbers of Movies and Dramas targeted to be produced for the year ending 31 December 2016;
- the budgets for the Movies and Dramas taking into account the casts, the directors, the numbers of episodes with regard to internet and TV dramas and other production costs and with reference to the production costs of typical movies or dramas comparable to those of the Movies and Dramas to be made by the Media Company having regard to Ms. Shang’s past experience and knowledge in making movies and dramas; and
- the proportion of the investment costs targeted to be shared by the Group.

Reasons for the transaction

The Group is principally engaged in the provision of artist management services and film production and distribution. The Group intends to develop more kinds of entertainment business including films, dramas, concerts, sports events, and shows, etc. and to establish an online media platform for different media contents. In view of Ms. Shang’s extensive experience and business network in the industry, the Group has agreed to co-invest in the JV Company with Ms. Shang and through the JV Company to engage in the TV/film production business in the PRC. As set out in the Announcement, the arrangements under the Structured Contracts were to facilitate the JV Company’s engagement in the TV/film production business in the PRC. Given the potential implications of the draft PRC Foreign Investment Law proposed by the Ministry of Commerce, in lieu of the structured contracts arrangements, the JV Company (through Young Film, its wholly-owned subsidiary) entered into the Master Services Agreement with the Media Company to produce films and TV and internet dramas.

The Directors (including the independent non-executive Directors) consider that the transactions contemplated under the Master Services Agreement are in the ordinary and usual course of business of the Group and the terms of the Master Services Agreement are on normal commercial terms and fair and reasonable and in the interests of the Company and its shareholders as a whole. None of the Directors have a material interest in the Master Services Agreement that requires them to abstain from voting at the Board's resolution regarding the Master Services Agreement.

GEM Listing Rules implications

Ms. Shang is the Group Vice President and CEO of the Group's TV and movie business which is one of the Group's four business segments namely, TV and movie business, music business, sports and shows segment, and online platform segment. Each of the heads of the aforesaid respective business segments reports directly to the two executive Directors, namely, Ms. Wu Li and Mr. Chan Kam Kwan, Jason. Following Completion of the Subscription, Ms. Shang has become a substantial shareholder of the JV Company which is a subsidiary of the Company and therefore is a connected person to the Company at subsidiary level.

The Media Company is an associate of Ms. Shang and the entering into of the Master Services Agreement between Young Film (an indirect subsidiary of the Company) and the Media Company constitutes a continuing connected transaction for the Company. As the Master Services Agreement was entered into on normal commercial terms or better, and Ms. Shang is a connected person of the Company at subsidiary level, the entering into of the Master Services Agreement is exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 20.99 of the GEM Listing Rules. The transactions contemplated under the Master Services Agreement is subject to the annual review requirements under Rules 20.53 to 20.57 of the GEM Listing Rules.

AMENDMENTS TO SHAREHOLDERS' AGREEMENT AND SHAREHOLDER LOAN AGREEMENT

On 21 December 2015 (after trading hours), (i) Lajin, the JV Partner and Ms. Shang entered into a supplemental agreement to the Shareholders' Agreement (the "**SA Supplemental Agreement**"); and (ii) Lajin, the JV Company and Ms. Shang entered into a supplemental agreement to the Shareholder Loan Agreement (the "**SL Supplemental Agreement**") to take into account the entering into of the Master Services Agreement in lieu of the structured contracts arrangements.

Pursuant to the SA Supplemental Agreement, the JV Partner has undertaken to procure that the Media Company shall enter into the Master Services Agreement with Young Film in the form and substance satisfactory to Lajin at the same time of signing of the SA Supplemental Agreement (instead of procuring the WFOE to enter into the Structured Contracts with the OPCOs and their registered shareholders within one month from the date of incorporation of the WFOE as previously disclosed in the Announcement).

Pursuant to the SL Supplemental Agreement, among other things,

- (i) The use of proceeds from the Shareholder Loan has been amended to be used solely for payment including prepayment to the Media Company for the services provided under the Master Services Agreement. As at the date of this announcement, an amount of RMB19.8 million (equivalent to approximately HK\$24.0 million) of the Shareholder Loan has been advanced by Lajin to the JV Company which has advanced the fund to the JV Company to the Media Company as prepayment by Young Film under the Master Services Agreement. The parties have agreed that the remaining balance of the Shareholder Loan amounting to RMB31.2 million shall be advanced by Lajin to the JV Company on demand by the JV Company. It is expected such remaining amount of the Shareholder Loan will be advanced to the JV Company in the first quarter of 2016;
- (ii) The Specified Events under the Shareholder Loan Agreement have been amended to the earlier of:
 - (a) the JV Company fails to apply the Shareholder Loan in accordance with the purpose described in the Shareholder Loan Agreement (as amended by the SL Supplemental Agreement) or other purposes as Lajin agrees to;
 - (b) Young Film and the Media Company fail to enter into the Master Services Agreement; or
 - (c) the Media Company fails to duly perform or breaches any of its contractual obligations under the Master Services Agreement; and
- (iii) Ms. Shang shall procure the Media Company to repay all amounts advanced by the JV Company to the Media Company within 2 weeks of the occurrence of the Specified Events to enable the JV Company to fulfill its repayment obligation under the Shareholder Loan Agreement. In the event that the JV Company fails to fulfill its repayment obligation as a result of the Media Company's failure, Ms. Shang shall on Lajin's demand in writing indemnify and keep indemnified fully Lajin against any loss or damage (including all reasonable costs and expenses) Lajin may have suffered or incurred as a result of such failure.

Following the decision by the parties to enter into the Master Services Agreement with the Media Company in lieu of the structured contracts arrangements, the Company will not enter into any agreement with Ms. Shang on the management or operation of OPCO 1. Ms. Shang has undertaken that during the period that she is employed by the Company, its subsidiaries, related companies and controlled companies (the "**Subject Companies**") and during the period that the JV Partner holds shares in the JV Company, she, companies in which she holds shares, such companies' subsidiaries and related companies and entities controlled by her shall not directly or indirectly engage in any business competing with or similar to the business of the Subject Companies.

CLARIFICATION REGARDING THE SHANG PUT OPTION AND THE COMPANY CALL OPTION

Due to inadvertent mistakes in the formulas regarding the issuance of the Consideration Shares in batches (on page 16 of the Announcement), the formulas are corrected and set out as follows.

The Total Consideration Shares will be issued subject to the following:

- (i) 40% of the Total Consideration Shares (“**Batch 1**”) shall be allotted and issued to the JV Partner within 1 month from the date of exercise of the Shang Put Option (the “**Exercise Date**”);
- (ii) at the end of the financial year immediately following the Exercise Date (“**FY1**”), the second batch of Consideration Shares (“**Batch 2**”) to be allotted and issued to the JV Partner shall be calculated as follows:

$$\frac{\text{the lower of } \left(\begin{array}{l} \text{Accumulated Profit/2} \\ \text{and} \\ \text{Consolidated net profits of the JV Company for FY1} \end{array} \right)}{\text{Accumulated Profit/2}} \times 30\% \text{ of the Total Consideration Shares}$$

- (iii) at the end of the second financial year immediately following the Exercise Date (“**FY2**”), the third batch of Consideration Shares (“**Batch 3**”) to be allotted and issued to the JV Partner shall be calculated as follows:

$$\frac{\text{the lower of } \left(\begin{array}{l} \text{Accumulated Profit} \\ \text{and} \\ \text{Accumulated consolidated net profits of the JV Company for FY1 and FY2} \end{array} \right)}{\text{Accumulated Profit}} \times 60\% \text{ of the Total Consideration Shares} \text{ less } \left(\begin{array}{l} \text{the number of} \\ \text{Consideration Shares issued} \\ \text{under Batch 2} \end{array} \right)$$

(iv) at the end of the third financial year immediately following the Exercise Date (“FY3”), the fourth batch of Consideration Shares (“**Batch 4**”), if any, to be allotted and issued to the JV Partner shall be calculated as follows:

$$\frac{\text{the lower of } \left(\begin{array}{l} \text{Accumulated Profit} \\ \text{and} \\ \text{Accumulated consolidated net profits of the JV Company for FY1, FY2 and FY3} \end{array} \right)}{\text{Accumulated Profit}} \times 60\% \text{ of the Total Consideration Shares less } \left(\begin{array}{l} \text{the number of Consideration Shares issued under Batch 2 and Batch 3} \end{array} \right)$$

By order of the Board
Lajin Entertainment Network Group Limited
Chan Kam Kwan Jason
Company Secretary

Hong Kong, 21 December 2015

As at the date of this announcement, the executive Directors are Ms. Wu Li and Mr. Chan Kam Kwan Jason, the non-executive Directors are Mr. Zou Xiao Chun, Mr. Zhou Ya Fei and Mr. Luo Ning and the independent non-executive Directors are Mr. Wang Ju, Mr. Ng Wai Hung and Mr. Lam Cheung Shing Richard.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will be published on the GEM website on the “Latest Company Announcement” page for at least 7 days from the date of publication and on the Company’s website at www.irasia.com/listco/hk/lajin/index.htm.