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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)

VOLUNTARY ANNOUNCEMENT IN RELATION TO
(I) MEMORANDUM OF UNDERSTANDING IN RELATION TO THE
ESTABLISHMENT
OF THE VIE ARRANGEMENT; AND
(II) POTENTIAL CONNECTED TRANSACTION

Financial Advisor



INTRODUCTION

The Board is pleased to announce that on 24 December 2019 (after trading hours of the Stock Exchange), the Subsidiary, Ms. Zhai and Wenzhou Zhongbo entered into a MOU in relation to the establishment of the VIE Arrangement.

It is proposed that the VIE Arrangement will allow the Subsidiary to have an effective control over the operations and the entire economic interest and benefits of Wenzhou Zhongbo, a company primarily engaged in the production of broadcasting television programmes and internet technical service business among others. Wenzhou Zhongbo is a company holding the License which has been granted the permission to conduct the Licenced Business in the PRC and is expected to expand its scope of business into certain areas of the Licensed Business. Accordingly, upon the establishment of the VIE Arrangement, the financial results of Wenzhou Zhongbo will be consolidated into the financial statements of the Group.

REASONS FOR AND RISKS ASSOCIATED WITH THE USE OF THE VIE ARRANGEMENT

The main reason for the Group to adopt the VIE Arrangement is because the prevailing laws and regulations in the PRC do not allow a foreign investor to own, whether directly or indirectly, any company that is engaged in the restricted business in the PRC, including the existing and potential business conducted by Wenzhou Zhongbo without adopting the VIE Arrangement.

Upon the establishment of the VIE Arrangement, the Subsidiary will not become the registered owner of Wenzhou Zhongbo but will rely on the Structured Agreements to control, operate and be entitled to the economic benefits of the existing and potential business conducted by Wenzhou Zhongbo. Ms. Zhai and the other shareholder will remain as the registered owners of Wenzhou Zhongbo. As such, there are risks associated with the use of the VIE Arrangement.

REASONS FOR AND BENEFITS OF THE PROPOSED TRANSACTION

Wenzhou Zhongbo is a company holding the License which has been granted the permission to conduct the Licenced Business in the PRC and is expected to expand its scope of business into certain areas of the Licensed Business, as such, the Directors are of the view that the VIE Arrangement is beneficial to the Group for expanding the scope of business which may in turn create synergistic effect with the existing businesses of the Group.

GEM LISTING RULES IMPLICATION

Ms. Zhai is an executive Director and the controlling shareholder of Wenzhou Zhongbo, as a result, Ms. Zhai is a connected person of the Company. Accordingly, the entering into of the Proposed Transaction will constitute a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Shareholders and potential investors of the Company should note that the MOU only sets out the intention of the Parties in relation to the Proposed Transaction, and is subject to execution of the Structured Agreements. The Board wishes to emphasize that no binding agreement in relation to the Proposed Transaction has been entered into by the Company as at the date of this announcement. The Proposed Transaction, if materialised, may or may not constitute a notifiable transaction for the Company under the GEM Listing Rules. Further announcement(s) will be made by the Company in respect of the Proposed Transaction as and when appropriate in compliance with the GEM Listing Rules.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

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The MOU

Parties

1. The Subsidiary;
2. Ms. Zhai; and
3. Wenzhou Zhongbo.

Subject Matter

Wenzhou Zhongbo is a company holding the License which has been granted the permission to conduct the Licensed Business in the PRC. Ms. Zhai currently owns 90% shareholding in Wenzhou Zhongbo.

Consideration

The consideration for the Proposed Transaction and the manner of payment shall be subject to further negotiation between the Parties based on the due diligence review.

Due Diligence Review

After the date of the MOU, the Company and the Subsidiary are entitled to conduct due diligence review on Wenzhou Zhongbo and its subsidiaries, if any.

Non-legally Binding Effect

Except for the terms in relation to the Parties using their best endeavours to negotiate between them in relation to the Proposed Transaction, each Party bearing their own costs and expenses, non-disclosure (save for the compliance with the relevant laws and the GEM Listing Rules that are applicable to the Parties), and governing law, the MOU does not constitute a legally-binding commitment of the Parties.

Termination of MOU

The MOU shall expire and terminate and be of no force and effect on the earlier of:

- (a) the execution of the Structured Agreements; or
- (b) 60 days from the date of this announcement (subject to any further extension which may or may not be agreed by the parties).

General Information on Wenzhou Zhongbo

Wenzhou Zhongbo is a PRC incorporated company engaged in the production of broadcasting television programmes and internet technical service business among others. Wenzhou Zhongbo is holding the License which has been granted the permission to conduct the Licenced Business in the PRC and is expected to expand its scope of business into certain areas of the Licensed Business.

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DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms and expressions shall have the following meanings when used herein:

“Board”	the board of Directors
“Company”	Lajin Entertainment Network Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the shares of which are listed on the GEM
“Director(s)”	the director(s) of the Company
“GEM”	The GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“License”	License for Audio Visual Programs Transmitted through Information Network* (信息網絡傳播視聽節目許可證)
“Licensed Business”	the fifth category under Class II Internet audio-visual program services: collection and broadcasting services of audio-visual programs such as films, TV dramas and animations; the sixth category: collection and broadcasting services of literature and art, entertainment, science and technology, finance, sports, education and other specialized audio-visual programs
“Ms. Zhai”	Ms. Zhai Shan Shan, an executive Director and the controlling shareholder of Wenzhou Zhongbo
“MOU”	the non-legally binding memorandum of understanding dated 24 December 2019 entered into between the Parties setting out the preliminary understanding in relation to the Proposed Transaction
“Parties”	the parties to the MOU
“PRC”	the People’s Republic of China
“Proposed Transaction”	The proposed transaction under the MOU which enables the Group to have effective control over the operations and the entire economic interest and benefits of Wenzhou Zhongbo through the Structured Agreements
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Agreements”	The series of agreements entered into between the Parties to establish the VIE Arrangement
“Subsidiary”	A PRC incorporated company which is an indirectly wholly-owned subsidiary of the Company
“VIE Arrangement”	the variable interest entity (VIE) arrangement established through the entering into of the Structured Agreements, which enable the Group to have effective control over the operations and the entire economic interest and benefits of Wenzhou Zhongbo

“Wenzhou Zhongbo”	Wenzhou City Zhongbo Technology Company Limited* (温州市眾博科技有限公司), a company incorporated in the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

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

Hong Kong, 24 December 2019

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. Zhou Ya Fei and Mr. Zou Xiao Chun and the independent non-executive Directors are Mr. Ng Wai Hung, Mr. Lam Cheung Shing Richard and Mr. Wang Ju.

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

* *For identification only*