# 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)**

# CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE ESTABLISHMENT OF VIE ARRANGEMENT

**Financial Advisor**

HOORAY 好盈

## THE STRUCTURED AGREEMENTS UNDER THE VIE ARRANGEMENT

The Board is pleased to announce that on 28 August 2020 (after trading hours), Lajin Power entered into the Structured Agreements with the Registered Owners and Wenzhou Zhongbo in relation to the establishment of the VIE Arrangement. The VIE Arrangement will allow Lajin Power to have an effective control over the operations of Wenzhou Zhongbo and to enjoy the entire economic interests and benefits of Wenzhou Zhongbo. Upon the establishment of the VIE Arrangement, the financial results of Wenzhou Zhongbo will be consolidated into the financial statements of the Group and Wenzhou Zhongbo will become an indirect wholly-owned subsidiary of the Company.

## GEM LISTING RULES IMPLICATIONS

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 Exclusive Purchase Right Agreement will constitute connected transactions and the entering into of the Exclusive Consultation and Service Agreement will constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

In view of Ms. Zhai's equity interest in Wenzhou Zhongbo, Ms. Zhai has been abstained from voting on the relevant Board resolutions approving the establishment of VIE Arrangement. The Board (except Ms. Zhai) has approved the VIE Arrangement and the independent non-executive Directors have also confirmed that the terms of the Structured Agreements are fair and reasonable and are on normal commercial terms and the VIE Arrangement is in the interests of the Company and Shareholders as a whole. Save as disclosed above, no other Directors have abstained from voting on the said Board resolutions.

As all the applicable percentage ratios in respect of the Exclusive Purchase Right Agreement are less than 5%, by virtue of Rule 20.74(2)(a) of the GEM Listing Rules, the Exclusive Purchase Right Agreement is subject to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and Shareholders' approval requirements.

The Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 20.100 of the GEM Listing Rules from (i) setting a fixed term for each of the Structured Agreements pursuant to Rule 20.50 of the GEM Listing Rules; and (ii) setting an annual cap pursuant to Rule 20.51 of the GEM Listing Rules for the services fees payable by Wenzhou Zhongbo to Lajin Power under the Structured Agreements.

## INTRODUCTION

The Board is pleased to announce that on 28 August 2020 (after trading hours), Lajin Power entered into the Structured Agreements with the Registered Owners and Wenzhou Zhongbo in relation to the establishment of the VIE Arrangement. The VIE Arrangement will allow Lajin Power to have an effective control over the operations of Wenzhou Zhongbo and to enjoy the entire economic interests and benefits of Wenzhou Zhongbo. Upon the establishment of the VIE Arrangement, the financial results of Wenzhou Zhongbo will be consolidated into the financial statements of the Group and Wenzhou Zhongbo will become an indirect wholly-owned subsidiary of the Company.

## THE STRUCTURED AGREEMENTS

The Structured Agreements consist of (1) the Exclusive Consultation and Service Agreement; (2) the Exclusive Purchase Right Agreement; (3) the Equity Pledge Agreement; (4) the Authorization Letter; and (5) the Spousal Consent Letter.

A summary of the terms of the Structured Agreements is set out below:

### 1. The Exclusive Consultation and Service Agreement

Date: 28 August 2020

Parties: (a) Lajin Power; and

(b) Wenzhou Zhongbo

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|---|---|
| Term: | Effective upon execution for ten years and be extended automatically for ten years. The automatic renewal shall continue until Lajin Power terminates the Exclusive Consultation and Service Agreement. Wenzhou Zhongbo shall accept the renewal unconditionally.<br><br>Lajin Power may at any time terminate the Exclusive Consultation and Service Agreement by giving thirty (30) days' advance written notice to Wenzhou Zhongbo whereas Wenzhou Zhongbo has no right to terminate the Exclusive Consultation and Service Agreement unless Lajin Power acted fraudulently or gross negligently against Wenzhou Zhongbo. |
| Services: | Wenzhou Zhongbo shall engage Lajin Power to provide sales market research and consultation services; short to mid term market development and planning services; management services; consultation services on administration management, internal control and asset management; website establishment, maintenance and security services; software and hardware research and development; technology development, consultation, transfer and promotion services; public relation services; branding services; sales agent services; leasing for operation, production and sales; customer database development, analysis and maintenance consultation; software and related technology support; technology research and promotion management; purchase of equipment for operation; project completion; research and development of new technology; and other services the parties agree from time to time. |
| Exclusiveness: | Lajin Power is appointed as the service provider of Wenzhou Zhongbo on an exclusive basis. Wenzhou Zhongbo shall not accept similar services from any other third party directly or indirectly and/or enter into any similar service agreements with any third party. |
| Fees: | Wenzhou Zhongbo shall pay to Lajin Power a service fee on a quarterly basis as invoiced by Lajin Power to Wenzhou Zhongbo. The service fee payable shall equal to all the profit before tax of Wenzhou Zhongbo. No service fee will be payable to Lajin Power in the event Wenzhou Zhongbo incurs net loss in the relevant period.<br><br>Lajin Power shall be entitled to adjust the service fee standard at any time based on the volume and content of its services provided. |

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| Intellectual property rights: | Lajin Power has the exclusive proprietary rights to all the rights, interests, and intellectual properties including but not limited to copyrights, patents, patent applications, software, registration rights, technology secrets and trade secrets and other arising from the Exclusive Consultation and Service Agreement. |

**2. The Exclusive Purchase Right Agreement**

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| Date: | 28 August 2020 |
| Parties: | (a) Lajin Power;<br>(b) Wenzhou Zhongbo; and<br>(c) Each of the Registered Owners (namely Ms. Zhai and Mr. Chen) |
| Term: | Effective upon execution for ten years and be extended automatically for ten years. The automatic renewal shall continue until Lajin Power terminates the Exclusive Purchase Right Agreement. Wenzhou Zhongbo and the Registered Owners shall have no right to refuse the renewal nor to terminate the Exclusive Purchase Right Agreement. |
| Consideration: | The consideration for the grant of the exclusive right to purchase shall be RMB12,000,000, which shall be paid by Lajin Power to the Registered Owners within 90 days of the date of the Exclusive Purchase Right Agreement.<br><br>The consideration was arrived at after arm's length negotiations between Lajin Power and the Registered Owners after taking into account, among others, (i) the appraised value of Wenzhou Zhongbo conducted by ValQuest Advisory (Hong Kong) Limited, an independent valuer, of approximately RMB22.9 million as at 31 December 2019; (ii) the COVID-19 epidemic causing a heavy blow to the global economy and the domestic entertainment industry, and thus the consideration reflects a discount to the appraised value; and (iii) the commercial benefits as stated under the section headed "Commercial benefits of the transactions" below. |

The above appraised value adopted asset approach for Wenzhou Zhongbo as a whole, and market approach for the License held by Wenzhou Zhongbo, which made reference to transaction prices of comparable deals. The selection criteria of the comparable deals are set out below:

(i) transactions that were completed within 2 years preceding the proposed date of the Structured Agreements; and

(ii) transactions that were involved in the acquisition of the License or an entity where its principal asset was the License.

Two comparables were selected by the valuer for valuing the License, namely Saige Tiande* (北京賽鴿天地) and Shenzhen Dayingjia Network Company Limited* (深圳市大贏家網絡有限公司), and the two comparables either did not have any business operations or incur net liabilities position as at the respective completion dates of the transactions. Both of the comparables held the same License that is also being held by Wenzhou Zhongbo and were in the similar financial situation of Wenzhou Zhongbo. Having said that, the valuer does not consider operating scale a crucial criterion of choosing comparable companies when the values of the License are separated.

The valuer has made their best effort to conduct the search of these comparables based on publicly available information, and confirmed the search is exhaustive.

Equity Interests and Assets Purchase Right: The Registered Owners irrevocably grant Lajin Power the exclusive purchase right to purchase or nominate any individuals/entities to purchase all or part of the Registered Owners' equity interests in Wenzhou Zhongbo at any time at the lowest price permissible under the PRC laws.

Wenzhou Zhongbo irrevocably grants Lajin Power the exclusive purchase right to purchase or nominate any individuals/entities to purchase all or part of the Wenzhou Zhongbo's assets at any time at the lowest price permissible under the PRC laws.

Intellectual Properties Purchase Right: Lajin Power shall have the exclusive right to request the Registered Owners, and the Registered Owners shall not refuse such request, to transfer the intellectual properties related to the business of Wenzhou Zhongbo owned by the Registered Owners to Lajin Power.

Undertakings: Wenzhou Zhongbo undertakes that:

(a) without the prior written consent from Lajin Power, it shall not supplement, amend or modify its articles; it shall not increase or reduce its registered capital; it shall not in any other way to change its registered capital structure;

(b) it shall maintain its financial and operational standards and practices prudently;

(c) without the prior written consent from Lajin Power, it shall not sell, transfer, create encumbrances on or in any other way to dispose any of its business, assets, incomes, and rights;

(d) without the prior written consent from Lajin Power, it shall not incur, inherit, assume, guarantee or allow any debt liability;

(e) it shall operate to maintain its asset value, and it shall refrain from any act or omission that may adversely affect its operation and asset value;

(f) without the prior written consent from Lajin Power, it shall not enter into any material agreements, except for agreements within normal business scope and involving not more than the amount of RMB10,000;

(g) without the prior written consent from Lajin Power, it shall not provide guarantee, loan, or credit to any third party;

(h) it shall provide its operational and financial information to Lajin Power upon Lajin Power's request;

(i) it shall purchase and maintain insurance to its assets and business from an insurer acceptable to Lajin Power, at the amount and type of coverage same as the companies in similar business;

(j) without the prior written consent from Lajin Power, it shall not conduct any merger, acquisition or investment in any entity;

(k) it shall immediately notify Lajin Power any occurrence or possible occurrence of any dispute, litigation, arbitration or administrative proceedings relating to its assets, business or revenue;

(l) to maintain Lajin Power's ownership of all its assets, it shall execute all necessary or appropriate documents, take all necessary or appropriate actions, and file all necessary or appropriate complaints or raise necessary and appropriate defences against all claims;

(m) without the prior written consent from Lajin Power, it shall not distribute any dividend, equity entitlement, or assets; and

(n) unless so designated by Lajin Power, it shall not appoint any person as its director, executive director, chief executive officer, chief financial officer or other senior management officer.

The Registered Owners undertake that:

(a) without the prior written consent from Lajin Power, they shall not, and shall procure Wenzhou Zhongbo not to approve, sell, transfer, create encumbrances on or in any other way to dispose the equity right in Wenzhou Zhongbo;

(b) without the prior written consent from Lajin Power, they shall not, and shall procure Wenzhou Zhongbo not to approve to conduct any merger, acquisition or investment by Wenzhou Zhongbo with any third party;

(c) they shall immediately notify Lajin Power any occurrence or possible occurrence of any dispute, litigation, arbitration or administrative proceedings relating to their equity in Wenzhou Zhongbo;

(d) they shall procure Wenzhou Zhongbo to approve any transfer of Wenzhou Zhongbo's equity and assets to Lajin Power;

(e) they shall execute all necessary or appropriate documents, take all necessary or appropriate actions, and file all necessary or appropriate complaints or raise necessary and appropriate defences against all claims in relation to their equity in Wenzhou Zhongbo;

(f) they shall appoint or procure the appointment of Wenzhou Zhongbo's directors, chief executive officer, chief financial officer or other senior management officers as directed by Lajin Power;

(g) they and their respective associate(s) shall not, directly or indirectly, engage or hold any interests in business which is or may be competitive to the business of Wenzhou Zhongbo;

(h) without the prior written consent from Lajin Power, they and their respective associate(s) shall not engage in business which may harm the reputation of Wenzhou Zhongbo and shall not enter into any agreements which may give rise to conflict of interest with Wenzhou Zhongbo;

(i) in the event of their death, bankruptcy or divorce, the effect of the Exclusive Purchase Right Agreement shall not be affected;

(j) the Exclusive Purchase Right Agreement shall prevail any wills, divorce agreements or debt settlement agreements;

(k) upon the request of Lajin Power, they shall unconditionally transfer their equity and assets in Wenzhou Zhongbo to Lajin Power;

(l) they shall unconditionally transfer any dividend, profit and/or any asset received from Wenzhou Zhongbo to Lajin Power within 3 working days of such receipt;

(m) they shall strictly observe the Exclusive Purchase Right Agreement and any other agreements signed between the Registered Owners, Wenzhou Zhongbo and/or Lajin Power, and perform the obligations under such agreements, and they shall not conduct any action or omission which may adversely affect the legality or enforceability of such agreements; and

(n) they shall use their best endeavour to cause Wenzhou Zhongbo to perform its obligations under the Exclusive Purchase Right Agreement.

Wenzhou Zhongbo and Registered Owners jointly undertake that:

(a) upon Lajin Power's request of acquiring Wenzhou Zhongbo's equity or asset, they shall promptly convene Wenzhou Zhongbo's general meeting and approve such resolution to transfer Wenzhou Zhongbo's equity or assets to Lajin Power; and

(b) without the prior written consent from Lajin Power, they shall not dissolve or liquidate Wenzhou Zhongbo.

**3. The Equity Pledge Agreement**

Date: 28 August 2020

Parties:

(a) Lajin Power as pledgee;

(b) Wenzhou Zhongbo; and

(c) Each of the Registered Owners as pledgor (namely Ms. Zhai and Mr. Chen)

Term: The pledge shall be effective upon the pledge being duly registered by the relevant administrative authority and shall remain binding until Wenzhou Zhongbo and Registered Owners discharge all their obligations under (1) the Exclusive Consultation and Service Agreement; (2) the Exclusive Purchase Right Agreement; (3) the Equity Pledge Agreement; and (4) the Authorization Letter.

Pledge: Each of the Registered Owners pledges all the equity interests in Wenzhou Zhongbo to Lajin Power to secure the due performance of Wenzhou Zhongbo and the Registered Owners under (1) the Exclusive Consultation and Service Agreement; (2) the Exclusive Purchase Right Agreement; (3) the Equity Pledge Agreement; and (4) the Authorization Letter.

During the term of the pledge, all dividends, if distributed, shall be entitled to Lajin Power unconditionally.

## 4. The Authorization Letter

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| Date: | 28 August 2020 |
| Parties: | (a) Each of the Registered Owners (namely Ms. Zhai and Mr. Chen); and<br>(b) Lajin Power |
| Term: | The authorization shall be effective upon the execution and shall remain in effect until the respective Registered Owners cease to be shareholders of Wenzhou Zhongbo. |
| Authorization: | Each of the Registered Owners irrevocably authorizes Lajin Power and its successor as his/her agent in Wenzhou Zhongbo to exercise all of his/her rights, including but not limited to:<br>(a) attending Wenzhou Zhongbo's shareholders' meeting;<br>(b) exercising voting rights in Wenzhou Zhongbo's shareholders' meeting;<br>(c) signing the minutes and resolutions of Wenzhou Zhongbo's shareholders' meeting;<br>(d) filing and registration to the relevant government authorities;<br>(e) appointing Wenzhou Zhongbo's legal representatives, directors, supervisors and senior management;<br>(f) making decision as to any acquisition or dealing of the Registered Owners' shares in Wenzhou Zhongbo, or any liquidation or dissolution of Wenzhou Zhongbo;<br>(g) deciding on profit allocation;<br>(h) receiving all bonuses, distributions or dividends derived from the equity interests in Wenzhou Zhongbo; and<br>(i) any other rights conferred by the PRC laws, regulation, and/or the articles of Wenzhou Zhongbo on the Registered Owners as shareholders of Wenzhou Zhongbo.<br>The PRC legal advisor confirms that the appointment of Lajin Power as the agent of the Registered Owners, where Lajin Power is an entity rather than an individual, complies with the relevant laws and regulations in the PRC. |

## 5. The Spousal Consent Letter

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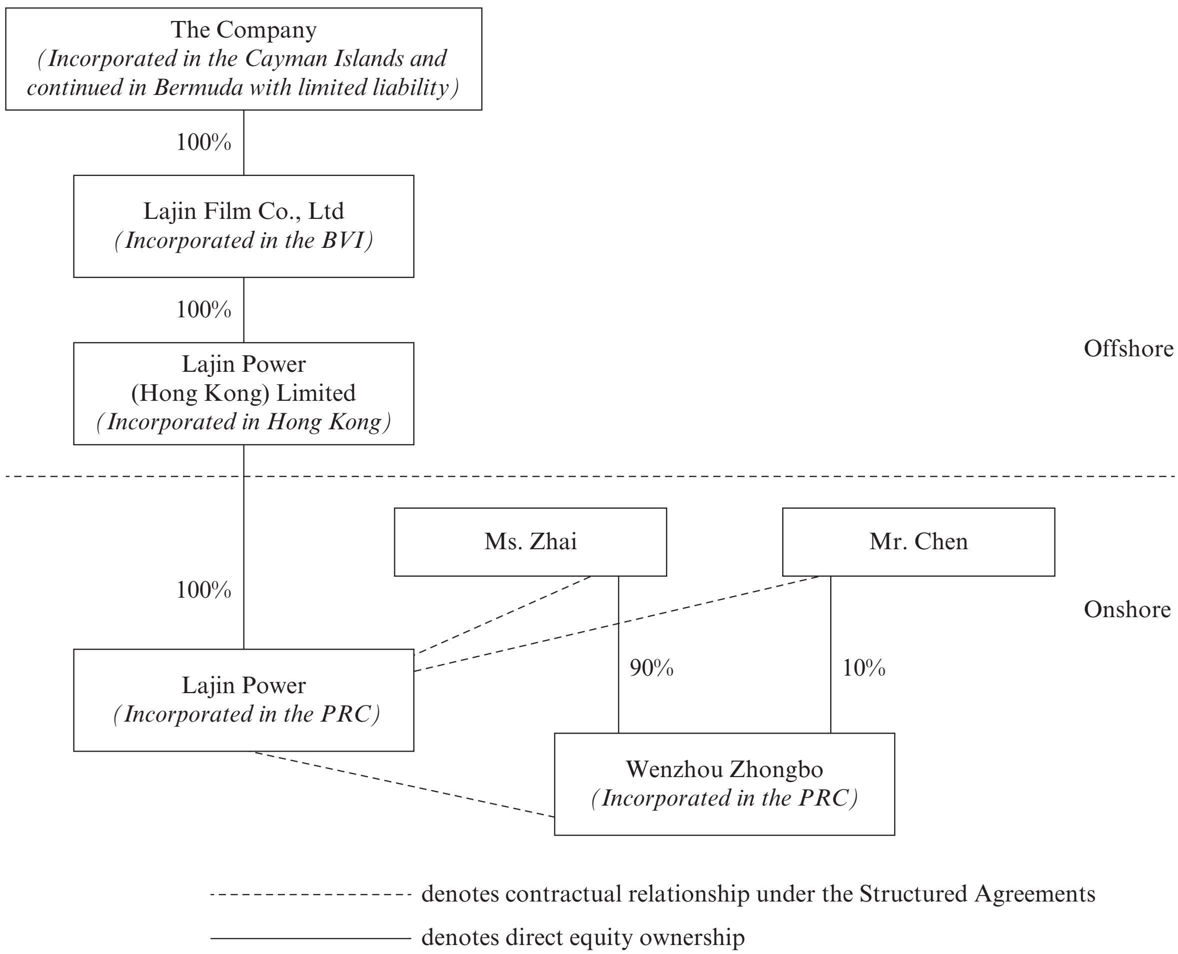
| Date: | 28 August 2020 |
| Party: | Ms. Lin |
| Term: | The consent shall be effective upon the execution and shall remain in effect continuously. |
| Consent: | Ms. Lin irrevocably consents that the shares in Wenzhou Zhongbo owned by and registered under the name of Mr. Chen shall be dealt with in accordance with the Exclusive Purchase Right Agreement; the Equity Pledge Agreement; and the Authorization Letter.<br><br>Ms. Lin undertakes not to take any action to interfere with or cause hindrance over the performance of Mr. Chen's obligations under the Exclusive Purchase Right Agreement; the Equity Pledge Agreement; and the Authorization Letter. Ms. Lin undertakes not to assume or claim the shares in Wenzhou Zhongbo owned by and registered under the name of Mr. Chen form part of their matrimonial properties.<br><br>Ms. Lin unconditionally and irrevocably waives any rights or entitlements to Mr. Chen's equity interests in Wenzhou Zhongbo. |

Ms. Zhai does not have any spouse at the date of this announcement. Should there be any spousal relationship entered by Ms. Zhai during the term of the Structured Agreements, a Spousal Consent Letter will be arranged to sign by her spouse in due course.

## DIAGRAM OF THE VIE ARRANGEMENT

The following diagram sets out the VIE Arrangement:




**Information about Lajin Power and Wenzhou Zhongbo**

***Lajin Power***

Lajin Power is an investment holding company incorporated in the PRC. Through Lajin Power (Hong Kong) Limited (拉近動力（香港）有限公司) and Lajin Film Co., Ltd, Lajin Power is an indirectly wholly-owned subsidiary of the Company. Lajin Power is principally engaged in the animation products design and technique development business.

***Wenzhou Zhongbo***

Wenzhou Zhongbo is a limited liability company incorporated on 30 September 2000 and established and subsisting under the laws of the PRC. Wenzhou Zhongbo is wholly owned by the Registered Owners (namely Ms. Zhai and Mr. Chen). Wenzhou Zhongbo is 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 by National Radio and Television Administration for 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. The effective period of the License held by Wenzhou Zhongbo is from 29 July 2019 to 29 July 2022, and is subject to renewal. The registered capital of Wenzhou Zhongbo is RMB12,000,000, which has been fully paid up.

In 2016, Ms. Zhai and Mr. Chen purchased 90% and 10% of shareholding of Wenzhou Zhongbo from independent third parties of the Group, at the consideration of RMB10.8 million and RMB1.2 million, respectively. The total consideration is equivalent to the registered capital of Wenzhou Zhongbo.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Mr. Chen is an acquaintance and a business partner of Ms. Zhai, and he is an independent third party to the Company and does not have any relationship with the Company's connected persons and their respective associates.

The financial information of Wenzhou Zhongbo for the years ended 31 December 2018 and 2019 are set out as below:

| | **For the year ended 31 December 2019 (unaudited)** ***(RMB'000)*** | For the year ended 31 December 2018 (unaudited) *(RMB'000)* |
|---|---|---|
| Revenue | **—** | — |
| Net loss after tax | **(700)** | (995) |
| Total assets | **635** | 425 |
| — Intangible assets | **539** | 353 |
| — Tax recoverable | **8** | 8 |
| — Cash | **88** | 64 |
| Total liabilities | **3,564** | 2,654 |
| — Other payables | **3,564** | 2,654 |

Prior to the new additions of the collection and broadcasting services of audio-visual programs such as films and TV dramas ("**New Additions**") under the fifth category of Class II Internet audio-visual program services of the License, Wenzhou Zhongbo was only permitted to play animations on the website. After the expansion of permitted scope on 29 July 2019, Wenzhou Zhongbo is allowed to have films and TV dramas added to the aforesaid fifth category, and another new category, being the sixth category, which included the collection and broadcasting services of literature and art, entertainment, science and technology, finance, sports, education and other specialized audio-visual programs, is also permitted.

During the two years ended 31 December 2018 and 2019, Wenzhou Zhongbo has licensed 88 and 79 animations respectively and made them available on the website without compensation as the animations selected to play on the Wenzhou Zhongbo website are primarily for the sake of fulfilling the License requirement, acquisition cost of the animations is paramount. As such, the quality and uniqueness of Wenzhou Zhongbo's animations are not competitive enough to charge a fee on these products when viewers have many paid or free channels to watch animations in the PRC, thus charging a fee on animation products only was not commercially viable. However, Wenzhou Zhongbo did have business operations (just not rewarded monetarily) during the said two years in order to fulfil the statutory requirement of the License of Wenzhou Zhongbo to keep the License intact.

As a result, Wenzhou Zhongbo did not generate revenue for the 2 years ended 31 December 2018 and 2019. The net losses after tax were incurred by administrative costs which were amounted to approximately RMB995,000 and RMB700,000 for the year of 2018 and 2019, respectively.

The financial positions of Wenzhou Zhongbo maintained at a stable level for the year of 2018 and 2019, in which the major asset was the license rights of the animation movies, films and variety shows played on Wenzhou Zhongbo website.

As at 31 December 2018 and 31 December 2019, the amounts of total liabilities were approximately RMB2,654,000 and RMB3,564,000 respectively, which were comprised of other payables. The other payables of Wenzhou Zhongbo for the 2 years ended 31 December 2018 and 2019 were mainly administrative costs to maintain the License and for daily operation incurred in the relevant periods.

## BACKGROUND AND REASONS FOR USE OF THE VIE ARRANGEMENT

### Laws and regulations relating to the business of Wenzhou Zhongbo

Wenzhou Zhongbo is holding the License which has been granted the permission to conduct the Licenced Business, namely 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. Other than the Licensed Business as described above, Wenzhou Zhongbo is also allowed to engage in the business of Internet information services (互聯網信息服務) and the value-added telecommunication business (增值電信業務) to provide instant information exchange services to Internet users.

The business of Internet audio-visual program services (網絡視聽節目服務) falls within Article 21 of the Prohibited List concerning Internet audio-visual program services. Foreign direct investment in Internet audio-visual program services business is prohibited.

The business of collection and broadcasting services of audio-visual programs such as films, TV dramas and animations falls within article 21 of the Prohibited List concerning Internet cultural operations (except music) & Internet publishing services (互聯網文化經營（音樂除外）、網絡出版服務) and Article 37 of the Prohibited List concerning investment of broadcasting television programs production operation (投資廣播電視節目製作經營). Foreign direct investment in Internet cultural operations (except music) & Internet publishing services or investment in broadcasting television programs production operation business is prohibited.

The business of Internet information services (互聯網信息服務) falls within Article 21 of the Prohibited List concerning Internet public dissemination information services (互聯網公眾發佈信息服務).

According to the Article 20 of the Prohibited List, as advised by PRC legal advisor, the ratio of investment by a foreign investor in value-added telecommunication services (增值電信業務) shall not exceed 50%.

Based on the foregoing, PRC does not allow a foreign investor to own, whether directly or indirectly, any company that is engaged in the Licensed Business in the PRC.

**Reasons for adopting the VIE Arrangement**

VIE Arrangement is adopted to enable the Group to have an effective control over the operations of Wenzhou Zhongbo and to enjoy the entire economic interests and benefits of Wenzhou Zhongbo which engages and will engage in the Licensed Business in the PRC. The Licensed Business may in turn create synergistic effect with the existing businesses of the Group. However, due to the foreign investment restrictions under the PRC laws as outlined above, the Group was not able to engage in the Licensed Business without first adopting the VIE Arrangement.

Should the Company decide to conduct the Licensed Business, the Board is of the view that it is the most viable and commercially sensible approach to acquire an effective control of Wenzhou Zhongbo instead of establishing own subsidiary to acquire the License as (i) the License is under the name of Wenzhou Zhongbo exclusively and it is not freely and legally transferrable to another PRC company; and (ii) the domain and platform established for the business are specified in the License and belong to Wenzhou Zhongbo.

Upon the establishment of the VIE Arrangement, Lajin Power 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 businesses conducted by Wenzhou Zhongbo despite the lack of registered equity ownership.

The Company has discussed with its auditor and confirmed that the financial results of the Wenzhou Zhongbo will be consolidated into the consolidated financial statements of the Group under the prevailing accounting principles upon entering into the VIE Arrangement.

## COMMERCIAL BENEFITS OF THE TRANSACTIONS

The Group is principally engaged in the provision of artists management services, and investment in movies, TV programmes and internet contents. The Group has been exploring opportunities with the rapid development of video streaming website and internet movies in the PRC. However, as set out in the section headed "Background and Reasons for Use of the VIE Arrangement" above, due to foreign investment restrictions under the PRC laws, the Group is not eligible to apply for the License or acquire any equity interests in companies directly or indirectly to engage in the Licensed Business in the PRC.

Wenzhou Zhongbo is a company holding the License which has been granted the permission to conduct the Licenced Business in the PRC. Benefiting from the New Additions to the License, Wenzhou Zhongbo will maximize its potential and explore different business opportunities. One easiest option is to cooperate with foreign business partners to establish another streaming platform in the PRC, with content provided by the counterparty and Wenzhou Zhongbo to fulfil the required statutory qualification. However, it is not the scale of business and resources which Wenzhou Zhongbo can fulfill alone with the existing infrastructure. As there are only 588 Licenses issued by the National Radio and Television Administration to date and the Company has confirmed with the officer from National Radio and Television Administration that it has ceased issuing new License, the New Additions to the License of Wenzhou Zhongbo certainly comes with great potentials. Even though the Board acknowledges there is no intrinsic value associated with the License itself in theory, the Board reckons that the potential commercial benefits arising from the VIE Arrangement to the Group are huge as stated above, and such value can only be realized and maximized when the opportunity and timing is right. The Group would evaluate from time to time on the decision of business model adopted pursuant to the prevailing industry circumstances.

Considering the current business of Wenzhou Zhongbo is relatively minimal, the management of the Group can integrate with Wenzhou Zhongbo and directly implement governance. In case the businesses of Wenzhou Zhongbo may get more sophisticated after the acquisition by the Group, the Board is of the view that the management of the Group is still equipped with the relevant experience and expertise to support the new businesses of Wenzhou Zhongbo, and may bring in additional expertise if necessary.

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.

## COMPLIANCE OF STRUCTURED AGREEMENTS WITH THE PRC LAWS, RULES AND REGULATIONS

The PRC legal advisor has confirmed that (1) the Structured Agreements comply with the relevant PRC laws, rules and regulations, including the aforementioned Prohibited List, and shall be effective on the parties; and (2) the Structured Agreements would not be deemed as "concealing illegal intentions with a lawful form", and would not be void under the PRC laws.

Based on the PRC legal advisor's advice, the Directors are of the view that the VIE Arrangement is valid under the relevant laws, rules, and regulations in the PRC.

## DISPUTE RESOLUTIONS, SUCCESSION AND LIQUIDATION UNDER THE STRUCTURED AGREEMENTS

### Dispute resolution clauses

The Structured Agreements are governed by and will be construed in accordance with the PRC laws. Any dispute arising from the Structured Agreements between the parties should first be resolved through negotiation. In case the dispute cannot be resolved within 30 days, any party may submit the said dispute to the China International Economic and Trade Arbitration Commission* (中國國際經濟貿易仲裁委員會) in accordance with its arbitration rules. The arbitration shall take place in Beijing, the PRC. The results of the arbitration shall be final and binding. When the arbitral award is granted, any party can apply for its enforcement in any courts of competent jurisdiction such as courts in Hong Kong, the Cayman Islands, the PRC and locations where the principal assets of the Company or the Wenzhou Zhongbo are located.

### Succession

The provisions set out in the Structured Agreements are also binding on the successors of the Registered Owners. The Registered Owners also covenant that, as the signing party of the Structured Agreement, the binding effect under Structured Agreements shall prevail over any wills, divorce agreements or debt settlement agreement entered into after the signing of the Structured Agreements.

Save as Ms. Lin who has signed the Spousal Consent Letter, the Structured Agreements do not specify the identity of other successors to the Registered Owners. According to the succession law of the PRC, the statutory successors first in order of the Registered Owners include spouse, children and parents; second in order include siblings, paternal grandparents and maternal grandparents. When succession opens, the successor(s) first in order shall inherit to the exclusion of the successor(s) second in order. The successor(s) second in order shall inherit in default of any successor first in order.

In line with the normal practice of the VIE Arrangement to obtain spousal consent only, chance of claims by other successors is considered to be remote and the effort to obtain their consents will be out of proportion.

**Death or divorce of the Registered Owners**

Appropriate provisions have been incorporated in the Authorization Letter to protect the Group's interests in the event of death or divorce of the Registered Owners that the Registered Owners irrevocably authorize Lajin Power to exercise all the rights, such irrevocable authorization last and are effective for the period the Registered Owners hold the shares in Wenzhou Zhongbo.

As the Registered Owners have authorized Lajin Power to exercise all the rights of Wenzhou Zhongbo, even in the event of incapacity of Registered Owners, the Group's interests shall not be affected since the authorizations are irrevocable and valid for good.

Meanwhile, the Registered Owners' identities being the shareholders of Wenzhou Zhongbo are not affected by their physical conditions, e.g. incapacity. Even in the event of incapacity of Registered Owners, their guardians are not legally permitted to revoke the Structured Agreements, nor legally entitled to deal with the properties of the Registered Owners. Therefore, the Group's interests shall not be affected in the event of incapacity of Registered Owners under the PRC laws.

**Liquidation**

Pursuant to the Exclusive Purchase Right Agreement, when Lajin Power approves the liquidation of Wenzhou Zhongbo, Wenzhou Zhongbo shall transfer all assets and proceeds to Lajin Power at the minimal consideration allowed by the PRC laws.

**Unwinding the VIE Arrangement**

The Company will unwind the VIE Arrangement as soon as the PRC laws allow the Licensed Business to be operated without the VIE Arrangement, and the Company may acquire the equity interests in the Wenzhou Zhongbo held by the Registered Owners and/or the assets of the Wenzhou Zhongbo in relation to the Licensed Business to the extent as permitted by the applicable PRC laws.

In the event Lajin Power exercises the right under the Exclusive Purchase Right Agreement to acquire the equity interests in the Wenzhou Zhongbo held by the Registered Owners and/or the assets of the Wenzhou Zhongbo, the Registered Owners and Wenzhou Zhongbo shall return to Lajin Power any consideration they received.

## RISK FACTORS IN RELATION TO THE VIE ARRANGEMENT

Lajin Power will not directly own any share in Wenzhou Zhongbo and will rely on the Structured Agreements to have an effective control over the operations of Wenzhou Zhongbo and to enjoy the entire economic interests and benefits of Wenzhou Zhongbo. There are risks in using the VIE Arrangement, including:

**There is no assurance that the Structured Agreements could comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the Structured Agreements do not comply with applicable regulations.**

Despite there is currently no indication that the Structured Agreements will be interfered or objected by any PRC regulatory authorities, the PRC legal advisor has advised that there is a possibility that the relevant PRC regulatory authorities may have different opinions on the interpretation of the relevant regulations and would not agree that the Structured Agreements comply with the current PRC laws or those that may be adopted in future, and the authorities may deny the validity, effectiveness and enforceability of the Structured Agreements.

FIL was promulgated by National People's Congress of PRC on 15 March 2019 and has been effective since 1 January 2020. FIL defines the foreign investment as the investment activities of foreign natural persons, enterprises or other organizations (hereinafter referred to as "foreign investors"), whether directly or indirectly, in the PRC, which includes the following situations: (1) foreign investors setting up foreign-invested enterprises in the PRC whether alone or together with other investors; (2) foreign investors acquiring shares, equity interests, sharing in properties or other similar rights and interests of Chinese domestic enterprises; (3) foreign investors investing in new projects in the PRC whether alone or together with other investors; and (4) other forms of investment prescribed by laws, administrative regulations or the State Council.

The PRC legal advisor confirms that the FIL in force does not explicitly include "control Chinese domestic enterprises or holding interests of Chinese domestic enterprises through agreements or trust arrangement" as foreign investment. While the Structured Agreements are not explicitly included as foreign investment, PRC legal advisor opines that the FIL's catch-all clause of "*other forms of investment prescribed by laws, administrative regulations or the State Council*" provides a legal ground and regulation practice area for Structured Agreements in future. Given that similar contractual agreements are also adopted by other non-PRC listed companies, in the event the regulatory authorities implement any regulation in the future to regulate VIE Arrangement, the PRC legal advisor believes that there will be a reasonable transition period at least for the enterprises affected to rectify. Lajin Power and Wenzhou Zhongbo shall adjust the VIE Arrangement according to the new regulation in the future to avoid any adverse effect to the Company's operations and financial position.

The PRC legal advisor confirms that FIL removed the proposed regulations, as in the draft version of FIL, for the foreign investors under the control of Chinese investors to apply to be regarded as Chinese investors. The PRC legal advisor opines that such removal would render such foreign investors no longer able to rely on the FIL (on the ground that the investments are under the control of Chinese investors) to claim that the investments are not subject to prohibition of foreign investments.

The Company shall continue to closely monitor if there is any change to the FIL and discuss with the Company's PRC legal advisor from time to time to assess any possible impact arising from further changes of the FIL on the Structured Agreements and the business operation of the Company.

The Company will timely announce any updates or further changes to the FIL if any material impact on the Structured Agreements and the business operations and financial position of the Company is resulted.

If the PRC regulatory authorities deny the validity, effectiveness and enforceability of the Structured Agreements, the Group would lose control of Wenzhou Zhongbo, and would not be able to properly safeguard and control the assets of Wenzhou Zhongbo. This might result in a material adverse effect on the Group's business, financial performance and operation results.

**Economic risk of the Company may arise from the operation of Wenzhou Zhongbo**

As the primary beneficiary of Wenzhou Zhongbo, the Group will bear economic risks which may arise from the difficulties in the operation of its businesses. Although the Group is not obligated to provide financial support to Wenzhou Zhongbo, the Group may provide financial support in the event of financial difficulty of Wenzhou Zhongbo. Under these circumstances, the Group's financial results and financial position may be adversely affected.

**VIE Arrangement may not be as effective as direct ownership in providing control over Wenzhou Zhongbo**

The VIE Arrangement may not be as effective as direct ownership in providing the Group with control over and entitlement to the economic benefits in Wenzhou Zhongbo. Under the VIE Arrangement, the Group will have to rely on the contractual rights under the Structured Agreements to operate the business of Wenzhou Zhongbo, as opposed to exercising the rights directly as a shareholder to effect changes in the board of directors of Wenzhou Zhongbo at management level.

**The Registered Owners may potentially have conflict of interests with the Group**

Pursuant to the Authorization Letter under the VIE Arrangement, the Registered Owners shall irrevocably appoint Lajin Power (an indirectly wholly-owned subsidiary of the Group) and its successor as his/her agent in Wenzhou Zhongbo to exercise the voting rights in Wenzhou Zhongbo. Furthermore, Ms. Zhai is one of the Registered Owners but also an executive Director, potential conflict of interests between the Group and the Registered Owners may arise. In theory, there is no assurance that when such potential of conflict can be entirely eliminated given the overlapping capacities of Ms. Zhai.

However, the decision making of Lajin Power is controlled by the Directors (including Ms. Zhai) and 2 other senior management of the Company, at least the majority of the abovementioned persons should presumably represent the interests of the Company and Ms. Zhai will abstain from voting on all relevant resolutions in relation to Wenzhou Zhongbo, thus the decision making of Lajin Power rests with the Company or the Group in practice. Should there be any case of material conflict of interest that may jeopardize the interests of the Group and its shareholders, the Group may resolve internally by reporting to the independent executive Directors to seek independent opinion, resort to external authority for dispute resolution, or ultimately exercise the equity purchase right under the Structured Agreements to remove the Registered Owners and to appoint other PRC nationals to be the registered owners of Wenzhou Zhongbo. These measures can be able to protect the investors' confidence in the VIE Arrangement.

**Limitation and costs in acquiring ownership of shares in Wenzhou Zhongbo**

When Lajin Power exercises its rights to acquire all or part of the Wenzhou Zhongbo's shares under the Exclusive Purchase Right Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under the applicable PRC laws. A substantial amount of other costs (if any), and time may be involved in acquiring and transferring the ownership of the Wenzhou Zhongbo's shares, which may have a material adverse impact on Lajin Power and/or Wenzhou Zhongbo's business, prospects and profitability.

The Group does not have and cannot identify any insurance product to cover the risks in relation to the VIE Arrangement. The Group may be required to bear any loss arising from the VIE Arrangement, such as costs, expenses, or fees incurred to enforce the Structured Agreements. Such loss may adversely affect the Group's financial performance.

**The Structured Agreements may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed**

The Group could face adverse tax consequences if the PRC tax authorities determine that the arrangements under the Structured Agreements were not entered into based on arm's length negotiations. If the PRC tax authorities determine that these agreements were not entered into on an arm's length basis, they may adjust income and expenses of Lajin Power and/or Wenzhou Zhongbo for the PRC tax purposes, which could result in higher tax liabilities on Lajin Power and/or Wenzhou Zhongbo.

The operating and financial results of Lajin Power may be adversely affected if the tax liabilities of Wenzhou Zhongbo or those of Lajin Power increase significantly or if they are required to pay interest on late payments and other penalties.

**INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP**

Given the nature of the VIE Arrangement, with a view to enhancing effective control over and safeguarding the assets of Wenzhou Zhongbo, the Structured Agreements have stipulated that the Registered Owners shall not sell, transfer, mortgage or otherwise dispose of any of their interests in Wenzhou Zhongbo or be allowed to create any encumbrances on them without the prior written consent of the Lajin Power. Furthermore, the Lajin Power has the right to request for the Wenzhou Zhongbo's financial information to ascertain its consolidated profit before tax from time to time.

Furthermore, for the purpose of good corporate governance, on top of complying with the clauses as described in the section headed "The Structured Agreements", the Group is adopting below conditions upon the completion of the adoption of the VIE Arrangement:

(i) the seals, chops, incorporation documents of Wenzhou Zhongbo are kept at the office of the Group to the extent permitted by the PRC laws;

(ii) the Group is involved in making corporate strategy, business plan and budgets of Wenzhou Zhongbo;

(iii) terms of appointment of senior management of Wenzhou Zhongbo are subject to review by the Group;

(iv) the Group is involved in assessing material financial matters of Wenzhou Zhongbo; and

(v) Ms. Zhai will abstain from voting on all relevant resolutions in relation to Wenzhou Zhongbo.

**THE BOARD'S VIEW ON THE STRUCTURED AGREEMENTS**

Based on the above, the Board is of the view that:

(i) the Structured Agreements enable the Group to have an effective control over the operations of Wenzhou Zhongbo and to enjoy the entire economic interests and benefits of Wenzhou Zhongbo;

(ii) the Structured Agreements are enforceable under the relevant laws and regulations;

(iii) the assumptions and methodology adopted in the valuation are fair and reasonable, that the adopted market approach and asset approach are commonly adopted approaches for appraising valuation of companies that hold assets with marketable value and can be benchmarked to other comparable companies or similar transactions. Such approach is consistent with normal market practice, and the selection criteria of the comparable deals are comprehensive and representative to provide a true and fair valuation. The comparables already captured all the most recent transactions (recent two years ended 31 December 2019) that involving the License which is also being held by Wenzhou Zhongbo, the outcome of the selection, that is the selected comparables, is sufficient to be representative for the sake of the valuation despite the small sample size;

(iv) given the fact that the License has been granted to Wenzhou Zhongbo the first time in 2010 and has been renewed 3 times successfully (with only simple paper work required), it is not anticipated to have any issue in renewing the Licence or reducing the scope of business that has already been permitted as long as the business operation of Wenzhou Zhongbo continues;

(v) the New Additions would allow Wenzhou Zhongbo to enhance its competitiveness and provide more variety and better options to utilize the License to bring in revenue and transform into a profitable business model; and

(vi) the Structured Agreements are fair and reasonable where the Company and the Shareholders as a whole are concerned.

**GEM LISTING RULES IMPLICATIONS**

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 Exclusive Purchase Right Agreement will constitute connected transactions and the entering into of the Exclusive Consultation and Service Agreement will constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

In view of Ms. Zhai's equity interest in Wenzhou Zhongbo, Ms. Zhai has been abstained from voting on the relevant Board resolutions approving the establishment of VIE Arrangement. The Board (except Ms. Zhai) has approved the VIE Arrangement and the independent non-executive Directors have also confirmed that the terms of the Structured Agreements are fair and reasonable and are on normal commercial terms and the VIE Arrangement is in the interests of the Company and Shareholders as a whole. Save as disclosed above, no other Directors have abstained from voting on the said Board resolutions.

The Company has applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 20.100 of the GEM Listing Rules from (i) setting a fixed term for each of the Structured Agreements pursuant to Rule 20.50 of the GEM Listing Rules, and (ii) setting an annual cap pursuant to Rule 20.51 of the GEM Listing Rules for the services fees payable by Wenzhou Zhongbo to Lajin Power under the Structured Agreements.

As all the applicable percentage ratios in respect of the Exclusive Purchase Right Agreement are less than 5%, by virtue of Rule 20.74(2)(a) of the GEM Listing Rules, Exclusive Purchase Right Agreement is subject to the reporting and announcement requirements, but are exempt from the circular, independent financial advice and Shareholders' approval requirements.

**APPLICATION FOR WAIVER**

The Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to the Company, for transactions contemplated under each of the Structured Agreements to be subject to the requirement of setting a fixed term or limiting the term to three years or less under Rule 20.50 of the GEM Listing Rules and the transactions contemplated under the Exclusive Consultation and Service Agreement to be subject to the requirement of setting an annual cap under Rule 20.51 of the GEM Listing Rules.

The Company has applied for, and the Stock Exchange has granted a waiver pursuant to Rule 20.100 of the GEM Listing Rules from (i) setting a fixed term for each of the Structured Agreements pursuant to Rule 20.50 of the GEM Listing Rules, and (ii) setting an annual cap pursuant to Rule 20.51 of the GEM Listing Rules for the services fees payable by Wenzhou Zhongbo to Lajin Power under the Structured Agreements, subject to the following conditions:

1. *No change without independent non-executive Directors' approval:* Save for any mandatory change required under or resulting from applicable laws and regulations, no change to the terms of the Structured Agreements will be made without the approval of the independent non-executive Directors, so long as the transactions contemplated under the Structured Agreements remain as connected transactions of the Company, and the Company shall comply with the requirements under Chapter 20 of the GEM Listing Rules if it proposes to effect a material change to the Structured Agreements.

2. *No change without independent Shareholders' approval:* Save for any mandatory change required under or resulting from applicable laws and regulations, and save as disclosed in condition 5 ("Renewal and reproduction of the Structured Agreements") below which will be subject to the approval of the Board (including independent Directors), no change to the Structured Agreements will be made without the approval of the independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 20 of the GEM Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Structured Agreements as set out in condition 4 ("Ongoing reporting and approvals") below will however continue to be applicable.

3. *Economic benefits and flexibility:* The Structured Agreements shall continue to enable the Group to receive the economic benefits derived from Wenzhou Zhongbo through: (i) the Group's rights (if and when so allowed under applicable PRC laws) to purchase, all or part of the entire equity interests and assets in Wenzhou Zhongbo at the minimum price as permitted under the applicable PRC laws; (ii) the business structure under which the net profits generated by Wenzhou Zhongbo are retained by the Group; and (iii) the Group's absolute right to control the management and operation of, as well as, in substance, all of the shareholders' rights (which include the voting rights) of Wenzhou Zhongbo.

4. *Ongoing reporting and approvals:* The Group will disclose details relating to the VIE Arrangement on an ongoing basis as follows:

   (a) the Structured Agreements in place during each financial period will be disclosed in the Company's annual reports and accounts in accordance with the relevant provisions of the GEM Listing Rules;

   (b) the independent non-executive Directors will review the Structured Agreements annually and confirm in the Company's annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Structured Agreements, and have been operated so that the profit generated by Wenzhou Zhongbo has been retained by the Group; (ii) no dividends or other distributions have been made by Wenzhou Zhongbo to the Registered Owners which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and Wenzhou Zhongbo during the relevant financial period under condition 5 ("Renewal and reproduction of the Structured Agreements") below are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole;

   (c) the Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Structured Agreements and will provide a letter to the Directors with a copy to the Stock Exchange, at least ten business days before bulk printing of the Company's annual report, confirming that the transactions have received the approval of the Directors, have been entered into in accordance with the relevant Structured Agreements and that no dividends or other distributions have been made by Wenzhou Zhongbo to the Registered Owners which are not otherwise subsequently assigned or transferred to the Group;

(d) for the purpose of Chapter 20 of the GEM Listing Rules, and in particular the definition of "connected person", Wenzhou Zhongbo will be treated as the Company's subsidiary, but at the same time its directors, chief executives or substantial shareholders and their respective associates will be treated as the Company's connected persons, and transactions between these connected persons and the Group other than those under the Structured Agreements shall comply with Chapter 20 of the GEM Listing Rules; and

(e) Wenzhou Zhongbo will undertake that, during the term of the Exclusive Consultation and Service Agreement under the Structured Agreements, Wenzhou Zhongbo will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of auditors' review of the connected transactions pursuant to the Structured Agreements.

5. *Renewal and reproduction of the Structured Agreements:* On the basis that the Structured Agreements provide an acceptable framework for the relationship between the members of the Group in which the Company has direct shareholding on the one hand, and Wenzhou Zhongbo on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Structured Agreements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of the Group which the Group might wish to establish will, upon renewal and, or reproduction of the Structured Agreements, however be treated as connected persons of the Company and transactions between these connected persons and the Company other than those under similar contractual arrangements shall comply with Chapter 20 of the GEM Listing Rules. This condition is subject to the relevant laws, regulations and approvals of the PRC.

**DEFINITIONS**

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

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| "associate(s)" | has the meaning ascribed to it under the GEM Listing Rules; |
| "Authorization Letter(s)" | the authorization letter(s) (授權委託書) entered into by each of Ms. Zhai, Mr. Chen and Lajin Power on 28 August 2020; |
| "Board" | the board of Directors; |

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| "BVI" | British Virgin Islands; |
| "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 GEM; |
| "connected person(s)" | has the meanings ascribed to it under the GEM Listing Rules; |
| "Director(s)" | the director(s) of the Company; |
| "Equity Pledge Agreement" | the equity pledge agreement (股份質押協議) entered into by Ms. Zhai, Mr. Chen, Lajin Power and Wenzhou Zhongbo on 28 August 2020; |
| "Exclusive Consultation and Service Agreement" | the exclusive consultation and service agreement (獨家諮詢及服務協議) entered into by Lajin Power and Wenzhou Zhongbo on 28 August 2020; |
| "Exclusive Purchase Right Agreement" | the exclusive purchase right agreement (獨家購買權合同) entered into by Ms. Zhai, Mr. Chen, Lajin Power and Wenzhou Zhongbo on 28 August 2020; |
| "FIL" | means the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》); |
| "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 and associates; |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China; |
| "Lajin Film Co., Ltd" | a company incorporated in the BVI and is a directly wholly-owned subsidiary of the Company; |
| "Lajin Power" | Beijing Lajin Power Technology Limited* (北京拉近動力科技有限公司), a PRC incorporated company and is an indirectly wholly-owned subsidiary of the Company; |
| "Lajin Power (Hong Kong) Limited" | Lajin Power (Hong Kong) Limited, a company incorporated in Hong Kong and is an indirectly wholly-owned subsidiary of the Company; |
| "License" | License for Audio Visual Programs Transmitted through Information Network* (信息網絡傳播視聽節目許可證); |

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| "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; |
| "Mr. Chen" | Mr. Chen Xin Lin, the shareholder of Wenzhou Zhongbo; |
| "Ms. Lin" | Mrs. Lin Hui Chan, the spouse of Mr. Chen |
| "Ms. Zhai" | Ms. Zhai Shan Shan, an executive Director and the controlling shareholder of Wenzhou Zhongbo; |
| "PRC" | the People's Republic of China; |
| "Prohibited List" | Special Administrative Measures (Prohibited List) for the Access of Foreign Investment (2019) (外商投資准入特別管理措施（負面清單）(2019年版)); |
| "Registered Owners" | Ms. Zhai and Mr. Chen; |
| "RMB" | Renminbi, the lawful currency of the PRC; |
| "Shareholder(s)" | holder(s) of share(s) of the Company; |
| "Spousal Consent Letter" | the spousal consent letter（配偶同意函）entered into by Ms. Lin on 28 August 2020; |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; |
| "Structured Agreements" | collectively the Exclusive Consultation and Service Agreement; the Exclusive Purchase Right Agreement; the Equity Pledge Agreement; the Authorization Letter; and the Spousal Consent Letter; |
| "subsidiary" | any entity within the meaning of the term "subsidiary" as defined in the GEM Listing Rules; |
| "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 of Wenzhou Zhongbo and to enjoy the entire economic interests and benefits of Wenzhou Zhongbo; |

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| "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, which is legally owned as to 90% and 10% by Ms. Zhai and Mr. Chen respectively; and |
| "%" | per cent |

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

Hong Kong, 28 August 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.*

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

*This announcement will remain on the "Latest Listed Company Information" page of the GEM website at www.hkgem.com for at least 7 days from the date of publication and on the Company's website at www.irasia.com/listco/hk/lajin/index.htm.*

* *For identification only*