



Lajin Entertainment Network Group Limited
拉近網娛集團有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8172)

FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2017

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

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This announcement, for which the directors (the “Directors”) of Lajin Entertainment Network Group Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this 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 in this announcement misleading.

* For identification only

UNAUDITED QUARTERLY RESULTS

The board of Directors (the “Board”) of Lajin Entertainment Network Group Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2017, together with the comparative unaudited figures for the corresponding periods in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the three months ended 31 March	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	4,249	445
Cost of sales		<u>(12,269)</u>	<u>(339)</u>
Gross (loss)/profit		(8,020)	106
Other income	4	822	431
Selling and distribution expenses		(107)	(1,318)
Administrative expenses		(20,050)	(17,313)
Share-based compensation costs		(2,814)	(5,051)
Share of profits and losses of associates		<u>(796)</u>	<u>—</u>
Loss before tax	5	(30,965)	(23,145)
Income tax expense	6	<u>—</u>	<u>—</u>
Loss for the period		<u><u>(30,965)</u></u>	<u><u>(23,145)</u></u>
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		<u>4,683</u>	<u>1,859</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>4,683</u>	<u>1,859</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		<u><u>(26,282)</u></u>	<u><u>(21,286)</u></u>

	For the three months ended 31 March	
	2017	2016
	(Unaudited)	(Unaudited)
<i>Notes</i>	HK\$'000	HK\$'000
Loss for the period attributable to:		
Owners of the parent	(30,965)	(23,144)
Non-controlling interests	<u>—</u>	<u>(1)</u>
	<u>(30,965)</u>	<u>(23,145)</u>
 Total comprehensive loss for the period attributable to:		
Owners of the parent	(26,282)	(21,285)
Non-controlling interests	<u>—</u>	<u>(1)</u>
	<u>(26,282)</u>	<u>(21,286)</u>
 Dividend	<u>—</u>	<u>—</u>
 Loss per share		
— Basic and diluted	<u>7</u> <u>HK(0.79) cent</u>	<u>HK(0.82) cent</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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

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

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

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

2. Basis of preparation and consolidation

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

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

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

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

The accounting policies and basis of preparation adopted in the preparation of the Unaudited Condensed Consolidated Results are consistent with those adopted in annual financial statements for the year ended 31 December 2016.

3. Revenue

	For the three months ended 31 March	
	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
TV and internet programme	4,243	—
Artists management	—	300
Others	6	145
	<u>4,249</u>	<u>445</u>

4. Other income

	For the three months ended 31 March	
	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Bank interest income	702	320
Imputed interest income on convertible notes receivables	120	111
	<u>822</u>	<u>431</u>

5. Loss before tax

Loss before tax is arrived at after charging:

	For the three months ended 31 March	
	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation of property, plant and equipment	821	620
Operating leases rentals in respect of rented premises	2,246	2,007
Staff costs including directors' remuneration		
— Salaries and allowances	12,604	10,185
— Retirement benefits schemes contributions	1,147	763
— Share-based payment expenses	2,814	5,051
	<u>16,565</u>	<u>15,999</u>

6. Income tax expense

No provision for Hong Kong profits tax has been made during the period as the Group did not generate any assessable profits arising in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward during the period under review. (2016: Nil).

No provision for PRC Corporate Income Tax and Korea Corporate income Tax have been made during the period as the Group have no assessable profits arising in PRC and Korea. (2016: Nil).

7. Loss per share attributable to ordinary equity holders of the parent

The calculation of the basic loss per share is based on the loss attributable to ordinary equity holders of the parent for the three months ended 31 March 2017 of approximately HK\$30,965,000 (2016: loss attributable to ordinary equity holders of the parent of approximately HK\$23,144,000) and the weighted average of 3,914,773,000 shares in issue during the three months ended 31 March 2017 (2016: 2,814,802,000 shares).

As the Company's share options and preferred shares where applicable had an anti-dilutive effect to the basic loss per share calculation for the three months ended 31 March 2017, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted loss per share.

8. Condensed consolidated statement of changes in equity

	Share capital ordinary shares HK\$'000	Share capital preferred shares HK\$'000	Share premium HK\$'000	Share- based payment reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Acc- umulated losses HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
At 1 January 2016 (audited)	28,147	13,246	1,013,768	2,256	28,294	(2,043)	(43,749)	1,039,919	(34)	1,039,885
Net loss for the period	—	—	—	—	—	—	(23,144)	(23,144)	(1)	(23,145)
Other comprehensive income for the period	—	—	—	—	—	1,859	—	1,859	—	1,859
Total comprehensive loss for the period	—	—	—	—	—	1,859	(23,144)	(21,285)	(1)	(21,286)
Settlement of share subscription price of preferred shares	—	—	125,838	—	—	—	—	125,838	—	125,838
Recognition of equity-settled shares based payments	—	—	—	5,051	—	—	—	5,051	—	5,051
At 31 March 2016 (unaudited)	28,147	13,246	1,139,606	7,307	28,294	(184)	(66,893)	1,149,523	(35)	1,149,488
At 1 January 2017 (audited)	28,147	13,246	1,139,606	35,240	28,294	(32,735)	(267,988)	943,810	573	944,383
Net loss for the period	—	—	—	—	—	—	(30,965)	(30,965)	—	(30,965)
Other comprehensive income for the period	—	—	—	—	—	4,683	—	4,683	—	4,683
Total comprehensive loss for the period	—	—	—	—	—	4,683	(30,965)	(26,282)	—	(26,282)
Issue of ordinary shares upon conversion of preferred shares	13,943	(13,246)	(697)	—	—	—	—	—	—	—
Recognition of equity-settled share-based payments	—	—	—	2,814	—	—	—	2,814	—	2,814
At 31 March 2017 (unaudited)	42,090	—	1,138,909	38,054	28,294	(28,052)	(298,953)	920,342	573	920,915

DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 31 March 2017 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The revenue of the Group was approximately HK\$4,249,000 for the three months ended 31 March 2017 (2016: HK\$445,000), representing an increase of 854.8% as compared with the three months period ended 31 March 2016. The increase is due to the recognition of the remaining advertising income from “Birth of the Stars” (明星的誕生).

Cost of sales for the three months ended 31 March 2017 increased to approximately HK\$12,269,000 (2016: HK\$339,000), which was mainly attributed from the cost of films and TV programmes rights.

Loss for the period attributable to owners of the parent was approximately HK\$30,965,000 (2016: HK\$23,144,000). The increase was mainly attributed to the production costs and from the administrative expenses.

Movies, TV programs and internet contents

During the period under review, the revenue contributed by such segment was approximately HK\$4,249,000 (2016: HK\$145,000), representing the recognition of the advertising income from our flagship project — the “Birth of the Stars” (明星的誕生) which we started broadcasting from last November.

Administrative expenses

Administrative expenses were mainly staff costs, operating leases and other general administrative expenses of the Group incurred during the period under review. Administrative expenses increased to approximately HK\$20,050,000 from approximately HK\$17,313,000 in prior quarter. It was mainly attributed to the increase in expenses on operating leases amounted to approximately HK\$2,246,000 (2016: HK\$2,007,000) and salaries and allowances amounted to approximately HK\$12,604,000 (2016: HK\$10,185,000) due to the expansion of offices and increased number of employees to cope with the business development of the Group.

BUSINESS REVIEW

Cross Media Project

The first episode of the “Birth of the Stars” (明星的誕生) had been exclusively broadcasted by the leading video platform “iQiyi” (愛奇藝) on 3rd November 2016, following every Thursday with 12 episodes in total. The marketing of the variety show was a huge success, there recorded a total hit rate of over 300 million for the entire programme. Contestants of the show have also participated physically in various marketing campaigns held in different cities all over the country. “Birth of the Stars” (明星的誕生) is the Group’s first ever invested cross-media programme and without any previous track record, we did not derive much sponsorship and advertising income, rather we have built up our brand reputation successfully.

TV/Movies

The Group have invested in a TV series named “She is Beautiful” (她很漂亮) and an internet drama series named “Solaso Bistro” (問題餐廳) and the production of which were completed in 2017. The first episode of “Solaso Bistro” (問題餐廳) was broadcasted via Tencent’s video platform on 23 March 2017. A movie named “Twenty” (二十歲) invested by the Group was also completed and is expected to be put on screen in 2017.

Lajin’s Star Base

Lajin’s production base is located in Yi Zhuang (亦莊), Beijing, significant effort has been put in the renovation works for Lajin’s star base in 2016. The base, comprising two 6-storey buildings of approximately 5,600 square metres in total will become our multi-function media and training centre. The base is equipped with top-tier recording studios (video and music), live broadcasting facilities and different function rooms for artists’ trainings. The base is essential for Lajin to foster future stars in the entertainment sector. The whole facility applies the world’s latest live broadcast technology, enabling compatibility and cross media interaction and unites all music and audio programmes production in a single production base. With the integration of our “Lajin App”, the online and offline experiences of audiences would definitely bring “closer” the distance between artists and fans, and this reinforces Lajin’s core business mission. The base is currently under trial run.

Artists Management

An artists' management team has been built and we aimed to search for talented artists from all over the world. By “Birth of the Stars” (明星的誕生), the Group also identified and has signed artists management contracts with a couple of contestants who have impressive potentials. We will give necessary trainings to this group of high potential artists and we believe that they will become real stars in the next few years.

Music

The Group has established its music platform “Huo Miao” (火喵) which forms an essential part of our business model to create another major income stream in the future. We have cooperation agreements with over 200 new song producers, composers and lyricists and have accumulated about 300 original music productions. “Huo Miao” (火喵) is finalising the webpage which can be accessed via internet and wechat in order to attract both audience and music producers. In 2017, we will continue to expand our original songs library and commercialise these productions. We will therefore establish copyright management and sales promotion system. We will also seek integration with our other business segments, including but not limit to, producing music related programmes such as interactive variety shows and internet drama, and to provide such resources to other film or TV productions, and artists of the Group.

Event after the Reporting Period

There is no significant event occurred subsequently after the balance sheet date.

CAPITAL STRUCTURE

As at the date of this announcement, the Company has in issue a total of 4,209,131,046 ordinary shares. During the period under review, 1,324,612,668 convertible preferred shares have been converted into 1,394,329,124 ordinary Shares of the Company based on the adjusted conversion price of HK\$0.19.

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

At 31 March 2017, the interests and short positions of the Directors and chief executives and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange, pursuant to the Model Code were as follows:

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

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

Save as disclosed above, none of the Directors and chief executives, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2017.

SHARE OPTION SCHEME

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

Details of the options outstanding as at 31 March 2017 which have been granted to directors or chief executives under the Share Option Scheme are as follows:

	Option type	Outstanding as at 1 January 2017	Granted	Exercised	Lapsed	Outstanding as at 31 March 2017
Directors						
Ms. Wu Li	2015A	8,000,000	—	—	—	8,000,000
Mr. Chan Kam Kwan, Jason	2015A	12,000,000	—	—	—	12,000,000
Mr. Zhou Ya Fei	2015A	1,000,000	—	—	—	1,000,000
Mr. Zou Xiao Chun	2015A	1,000,000	—	—	—	1,000,000
Mr. Ng Wai Hung	2015A	1,000,000	—	—	—	1,000,000
Mr. Lam Cheung Shing, Richard	2015A	1,000,000	—	—	—	1,000,000
Mr. Wang Ju	2015A	1,000,000	—	—	—	1,000,000
		25,000,000	—	—	—	25,000,000
Other employees						
	2015A	23,000,000	—	—	—	23,000,000
	2016B	15,000,000	—	—	—	15,000,000
Total options outstanding		63,000,000	—	—	—	63,000,000

Details of the specific categories of options are as follows:

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

During the period under review, no options were granted, exercised, lapsed or cancelled under the Share Option Scheme. There are a total of 63,000,000 options outstanding as at 31 March 2017.

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

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme, at no time during the three months ended 31 March 2017 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2017, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

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

Name of substantial shareholder	Capacity	Notes	Interest in shares	Interest in underlying shares	Approximate percentage of the Company's issued share capital
Jiaxuan	Beneficial owner	(i)	1,982,561,725	—	47.10%
Eagle King Investment Holding Limited	Interest of controlled corporation	(i)	1,982,561,725	—	47.10%
Mr. Wong Kwong Yu	Interest of controlled corporation	(i)	1,982,561,725	—	47.10%
Great Majestic Global Holdings Limited	Interest of controlled corporation	(i)	1,982,561,725	—	47.10%
Mr. Xu Zhong Min	Interest of controlled corporation	(i)	1,982,561,725	—	47.10%

Name of substantial shareholder	Capacity	Notes	Interest in		Approximate percentage of the Company's issued share capital
			shares	underlying shares	
CITIC Group Corporation	Interest of controlled corporation	(ii)	459,934,954	—	10.93%
CITIC Limited	Interest of controlled corporation	(ii)	459,934,954	—	10.93%
Famous Peak Investments Limited	Beneficial owner	(ii)	459,934,954	—	10.93%
Vision Path Limited	Beneficial owner	(iii)	424,834,655	—	10.10%
Ms. Yu Nan	Interest of controlled corporation	(iii)	424,834,655	—	10.10%
First charm Investments Limited	Beneficial owner	(iv)	311,545,414	—	7.40%
Mr. Ko Chun Shun, Johnson	Interest of controlled corporation	(iv)	311,545,414	—	7.40%
Best of Us Company Limited	Beneficial owner	(v)	—	228,438,228	5.43%
Ms. Shang Na	Interest of controlled corporation	(v)	—	228,438,228	5.43%

Notes:

- (i) Jiaxuan is owned as to 55% by Eagle King Investment Holding Limited (“Eagle King”) and as to 45% by Great Majestic Global Holdings Limited (“Great Majestic”). Mr. Wong Kwong Yu owns 100% of Eagle King and Mr. Xu Zhong Min owns 100% of Great Majestic.
- (ii) Famous Peak Investments Limited is a wholly-owned subsidiary of CITIC Investment (HK) Limited, being one of the wholly-owned subsidiaries of CITIC Limited. CITIC Group Corporation is the holding company of the CITIC Limited.
- (iii) Ms. Yu Nan owns 100% of Vision Path.
- (iv) Mr. Ko Chun Shun, Johnson owns 100% of First Charm.
- (v) Pursuant to the Shareholders’ Agreement entered into between the Company and Ms. Shang Na, the Company has agreed to subscribe for 51% interest in a joint venture company, Young Film Company Limited, and the rest 49% interest (the “JV Shares”) is agreed to be held by Best of Us Company Limited (the “JV Partner”), a wholly-owned company by Ms. Shang. The joint venture shall engage in the business of sourcing and production of media contents. The Company has also entered into the Deed in relation to the granting of the Shang Put Option and the Company Call Option entitling (i) the JV

Partner to require the Company to purchase the JV Shares beneficially held by it at the Option Price; or (ii) the Company to require the JV Partner to sell the JV Shares beneficially held by it to the Company at the Option Price (as applicable). The Option Price shall be settled by the allotment and issuance of the Consideration Shares in batches, in accordance with the formula and manner as set out in the Deed. The 228,438,228 ordinary shares disclosed above is the maximum number of Consideration Shares to be issued by the Company, with the Option Price being calculated on the basis of an estimated accumulated profit of RMB150 million. Ms. Shang owns 100% of Best of Us Company Limited. Details of this transaction, please refer to the circular of the Company dated 22 December 2016.

Save as disclosed above, at 31 March 2017, the Company has not been notified by any persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

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

During the three months ended 31 March 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

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

The audit committee has reviewed the first quarterly report and results for the three months ended 31 March 2017 before proposing to the Board for approval.

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

Hong Kong, 12 May 2017

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

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.