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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 the best of their knowledge and belief the information contained in this announcement 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*

ANNUAL RESULTS

The board of directors (the "Board") of Lajin Entertainment Network Group Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2021, together with the comparative audited figures for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	**2021** *HK$'000*	2020 *HK$'000*
REVENUE	*5*	**68,340**	20,660
Cost of sales		**(109,840)**	(25,370)
Gross loss		**(41,500)**	(4,710)
Other income and gains/(losses)	*5*	**4,387**	537
Selling and distribution expenses		**(1,363)**	(2,179)
Administrative expenses		**(55,688)**	(37,441)
Other expenses		**(39,692)**	(86,172)
Finance costs		**(105)**	(82)
Share of losses of associates		**(6,169)**	(1,174)
LOSS BEFORE TAX	*6*	**(140,130)**	(131,221)
Income tax expense	*7*	**(3)**	(5)
LOSS FOR THE YEAR		**(140,133)**	(131,226)
Attributable to:			
Owners of the parent		**(131,259)**	(130,339)
Non-controlling interests		**(8,874)**	(887)
		(140,133)	(131,226)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*8*	**HK(3.12) Cents**	HK(3.10) Cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021	2020
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(140,133)**	(131,226)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**10,838**	18,596
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income ("FVTOCI"):		
Changes in fair value, net of tax	**(1,148)**	(6,114)
Share of other comprehensive income/(loss) of an associate	**371**	(17)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(777)**	(6,131)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**10,061**	12,465
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(130,072)**	(118,761)
Attributable to:		
Owners of the parent	**(121,351)**	(117,752)
Non-controlling interests	**(8,721)**	(1,009)
	(130,072)	(118,761)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**101,263**	104,427
Right-of-use assets		**990**	2,401
Financial assets at fair value through profit or loss ("FVTPL")		**—**	—
Investments in associates		**23,647**	29,085
Equity investments designated at FVTOCI		**3,912**	4,925
Intangible assets		**15,916**	15,241
Total non-current assets		**145,728**	156,079
CURRENT ASSETS			
Trade receivables	*9*	**16,556**	14,108
Contract assets		**—**	2,370
Prepayments, other receivables and other assets		**74,137**	69,388
Film rights and films and TV programmes under production	*10*	**56,503**	143,772
Inventories		**1,259**	409
Investments in films		**15**	5,764
Cash and cash equivalents		**50,666**	81,279
Total current assets		**199,136**	317,090
CURRENT LIABILITIES			
Trade payables	*11*	**84**	3,159
Other payables and accruals		**69,262**	62,929
Lease liabilities		**821**	1,517
Total current liabilities		**70,167**	67,605
NET CURRENT ASSETS		**128,969**	249,485
TOTAL ASSETS LESS CURRENT LIABILITIES		**274,697**	405,564

	2021	2020
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Lease liabilities	—	795
Total non-current liabilities	—	795
Net assets	**274,697**	404,769
EQUITY		
Equity attributable to owners of the parent		
Share capital	**42,090**	42,090
Reserves	**243,858**	365,209
	285,948	407,299
Non-controlling interests	**(11,251)**	(2,530)
Total equity	**274,697**	404,769

Notes:

1. CORPORATE INFORMATION

Lajin Entertainment Network Group Limited (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 (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 3903A, Far East Finance Centre,16 Harcourt Road, Admiralty, Hong Kong, respectively.

During the year, the Group was involved in the following principal activities:

- Artiste management service;
- New media e-commerce business; and
- Movies, TV programmes and internet contents services.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The HKICPA has issued a number of new or amended HKFRSs that first effective for the current accounting period of the Group:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent concessions beyond 30 June 2021*

None of these new or amended HKFRSs has a material impact on the Group's results and consolidated statement of financial position for the current or prior period.

3. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income. These financial statements 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 when otherwise indicated.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the artiste management segment comprises the provision of artiste management service;

(b) the movies, TV programmes and internet contents segment comprises investment, production and distribution of movies, TV programmes and investment in internet contents;

(c) the new media e-commerce segment comprises the promotion and demonstration through live video on the website.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's loss before tax except that impairment loss recognised in respect of other receivables and prepayments, impairment loss on an investment in an associate, recovery of amount due of an impaired financial assets at FVTPL, share of losses of associates, other income as well as head office and corporate and other unallocated expenses are excluded from such measurement.

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Artiste management		Movies, TV programmes and internet contents		New media e-commerce		Consolidated	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue *(note 5)*								
Revenue to external customers	**1,480**	41	**31,637**	16,995	**35,223**	3,624	**68,340**	20,660
Segment results	**(3,011)**	(4,733)	**(98,523)**	(88,492)	**(25,951)**	225	**(127,485)**	(93,000)
Reconciliation								
Unallocated other income							**4,965**	85
Corporate and other unallocated expenses							**(8,721)**	(6,362)
Impairment loss recognised in respect of other receivables, net							**(6,196)**	(25,342)
Impairment loss on an investment in an associate							**—**	(5,428)
Recovery of amount due of an impaired financial assets at FVTPL							**3,476**	—
Share of losses of associates							**(6,169)**	(1,174)
Loss before tax							**(140,130)**	(131,221)

Segment revenue reported above represents revenue generated from external customers. There were no intersegment sales in both years.

(b) Other segment information

	Artiste management		Movies, TV programmes and internet contents		New media e-commerce		Unallocated		Consolidated	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation of property, plant and equipment	**9**	863	**—**	9,218	**9,735**	15	**—**	—	**9,744**	10,096
Impairment loss recognised in respect of films and TV programmes under production	**—**	—	**33,496**	53,340	**—**	—	**—**	—	**33,496**	53,340
Impairment loss recognised in respect of other receivables, net	**—**	—	**6,196**	25,342	**—**	—	**—**	—	**6,196**	25,342
Impairment loss on intangible assets	**—**	1,083	**—**	979	**—**	—	**—**	—	**—**	2,062
Investments in associates	**—**	—	**5,401**	10,369	**—**	—	**18,246**	18,716	**23,647**	29,085
Capital expenditure*	**9**	13	**5**	14,506	**3,626**	118	**—**	—	**3,640**	14,637

* Capital expenditure consists of additions to property, plant and equipment, assets from acquisition of a subsidiary and intangible assets during the year.

(c) Geographical information

In determining the Group's geographical information, revenue information is based on the locations of the customers, and asset information is based on the locations of the assets.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets*	
	2021	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Mainland China	**67,617**	18,966	**136,415**	140,786
Hong Kong	**723**	1,694	**—**	—
Korea	**—**	—	**5,401**	10,368
	68,340	20,660	**141,816**	151,154

* Non-current assets represent property, plant and equipment, investments in associates, right-of-use assets and intangible assets.

(d) Information about major customers

Revenue from customers for the years ended 31 December 2021 and 2020 which individually amounted to over 10% of the total revenue of the Group is as follows:

	Reporting segment	2021 *HK$'000*	2020 *HK$'000*
Customer A	New media e-commerce	**10,276**	—
Customer B	Movies, TV programmes and internet contents	**9,491**	—
Customer C	Movies, TV programmes and internet contents	—	3,707
Customer D	Movies, TV programmes and internet contents	—	3,508
Customer E	Movies, TV programmes and internet contents	—	3,231
Customer F	New media e-commerce	—	3,091
Customer G	Movies, TV programmes and internet contents	—	2,297
Customer H	Movies, TV programmes and internet contents	—	2,263

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES)

An analysis of revenue is as follows:

	2021 *HK$'000*	2020 *HK$'000*
Revenue from contracts with customers	**68,340**	20,660

Revenue from contracts with customers

(a) Disaggregated revenue information

	2021	2020
	HK\$'000	*HK\$'000*
Types of goods or services		
TV and internet programmes	**—**	24
Film distribution	**26,905**	11,733
License income	**366**	3,508
Artiste management	**1,480**	41
Distribution agency service	**4,366**	1,671
New media e-commerce business	**35,223**	3,624
Others	**—**	59
Total revenue from contracts with customers	**68,340**	20,660
Geographical markets		
Mainland China	**67,617**	18,966
Hong Kong	**723**	1,694
	68,340	20,660
Timing of revenue recognition		
Transferred at a point in time	**66,860**	20,619
Transferred over time	**1,480**	41
	68,340	20,660

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2021	2020
	HK\$'000	*HK\$'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Artiste management	**3**	—
New media e-commerce business	**20**	—
	23	—

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

TV and internet programmes

The performance obligation is satisfied when master tapes and materials have been delivered to television stations and online entertainment content platforms and the right to play has been licensed in accordance with the terms of the underlying agreements.

Film distribution

The performance obligation is satisfied when the film is released.

License income

The performance obligation is satisfied when an assignment is granted to the licensee and the Group has no remaining obligations to perform and when the materials have been delivered to licensee.

Artiste management

The performance obligation is satisfied over time because the customers simultaneously receive and consume the services rendered by the artistes of the Group as the Group performs.

Distribution agency service

The performance obligation is satisfied at the point in time when the services are rendered.

New media e-commerce business

The performance obligation is satisfied when control of assets is transferred to the customers and major obligations in the agreement have been fulfilled.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2021	2020
	HK$'000	*HK$'000*
Amounts expected to be recognised as revenue:		
Within one year	**1,045**	23

	2021	2020
	HK$'000	*HK$'000*
Other income		
Income on film investments	**297**	832
Bank interest income	**939**	667
Others	**4,026**	382
	5,262	1,881
Gains/(losses)		
Recovery of amount due of an impaired financial assets at FVTPL	**3,476**	—
Loss on film investments	**(4,271)**	(1,230)
Exchange differences, net	**(80)**	(209)
Others	**—**	95
	(875)	(1,344)
	4,387	537

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2021	2020
	HK$'000	*HK$'000*
Cost of film and TV programme rights	**65,694**	23,309
Cost of new media e-commerce business	**43,529**	1,920
Cost of artiste management services	**617**	141
Total cost of sales	**109,840**	25,370
Auditor's remuneration*	**1,580**	900
Depreciation of property, plant and equipment*	**9,744**	10,096
Depreciation of right-of-use assets*	**1,461**	1,779
Lease payments not included in the measurement of lease liabilities*	**1,289**	762
Amortisation of intangible assets*	**31**	645
Impairment loss on intangible assets*	**—**	2,062
Impairment loss on investments in an associate*	**—**	5,428
Impairment loss recognised in respect of film rights and films and TV programmes under production*	**33,496**	53,340
Impairment loss on other receivables, net*/**	**6,196**	25,342
Loss on film investments	**4,271**	1,230
Legal and professional fees*	**5,991**	5,023
Office operating expenses*/****	**5,395**	3,411
Management and service expenses*/****	**1,224**	1,422
Others*/****	**442**	446
Staff costs (including directors' remuneration):*/***		
— Salaries, allowances and other benefits	**25,978**	12,859
— Pension scheme contributions***	**2,553**	98
	28,531	12,957

* These items are included in "administrative expenses" and "other expenses" in the consolidated statement of profit or loss.

** Included in the impairment loss of other receivable was an individually impaired other receivable related to an entity that was credit-impaired or in default payment, of HK$173,000 and HK$22,218,000, respectively, for the year ended 31 December 2021 and 2020.

*** As at 31 December 2021, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2020: Nil).

**** These items are mainly included in entertainment, telephone and internet expense, repair and maintenance, cleansing and others.

7. INCOME TAX

Hong Kong profits tax is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits arising in Hong Kong during the years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2021	2020
	HK$'000	HK$'000
Current	3	5
Deferred	—	—
Total tax expense for the year	3	5

No provision for Hong Kong profits tax and Korea corporate income tax has been made for both years as the Group did not generate any assessable profits arising in Hong Kong and Korea.

Pursuant to the PRC Corporate Income Tax Law and its implementation regulations, provision for PRC income tax of the Group is calculated based on the statutory income tax rate of 25%.

A reconciliation of the tax credit applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense for the year is as follows:

	2021	2020
	HK$'000	HK$'000
Loss before tax	(140,133)	(131,221)
Tax at the statutory tax rates	(35,033)	(31,047)
Profits and losses attributable to associates	(1,542)	(123)
Expenses not deductible for tax	11,748	575
Income not subject to tax	(1,104)	(10)
Tax losses not recognised	25,934	31,781
Tax effect of utilisation of tax losses previously not recognised	—	(1,171)
Tax expense for the year	3	5

There was no share of tax attributable to associates (2020: Nil) included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK$131,259,000 (2020: HK$130,339,000), and the weighted average number of ordinary shares of 4,209,130,000 (2020: 4,209,130,000) in issue during the year.

Diluted loss per share were the same as the basic loss per share as the Group had no potential dilutive ordinary shares during the years ended 31 December 2021 and 2020.

9. TRADE RECEIVABLES

	2021	2020
	HK$'000	*HK$'000*
Trade receivables	**16,556**	14,108
Impairment	**—**	—
	16,556	14,108

The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 months to 6 months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2021	2020
	HK$'000	*HK$'000*
Within 3 months	**12,955**	14,104
Over 3 months	**3,601**	4
	16,556	14,108

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by customer type and rating, and other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

10. FILM RIGHTS AND FILMS AND TV PROGRAMMES UNDER PRODUCTION

	Films and TV programme rights	Films and TV programmes under production	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2020	46,392	110,814	157,206
Additions	—	63,535	63,535
Transfer to film and TV programme rights	16,800	(16,800)	—
Charged to cost of sales	(19,261)	(3,336)	(22,597)
Derecognition	—	(8,337)	(8,337)
Impairment	(24,574)	(28,766)	(53,340)
Exchange realignment	811	6,494	7,305
At 31 December 2020 and 1 January 2021	20,168	123,604	143,772
Additions	**11,997**	**23**	**12,020**
Transfer to film and TV programme rights	**59,700**	**(59,700)**	**—**
Charged to cost of sales	**(64,958)**	**(1,372)**	**(66,330)**
Disposal	**—**	**(1,782)**	**(1,782)**
Impairment	**(2,350)**	**(31,146)**	**(33,496)**
Exchange realignment	**1,089**	**1,230**	**2,319**
At 31 December 2021	**25,646**	**30,857**	**56,503**

In light of the specific circumstances of the film and TV industry, the Group regularly reviewed its film rights and films and TV programmes under production to assess the marketability/future economic benefits of film rights and films and TV programmes under production and the corresponding recoverable amounts.

At 31 December 2021 and 2020, the directors of the Company believe that any reasonably possible change in the key assumptions on which the recoverable amounts are based would not cause the carrying amounts of the film and TV programme rights exceed the recoverable amounts.

During the year ended 31 December 2021, as impairment indicators arose from certain film rights and films and TV programmes under production, an impairment loss of approximately HK$33,496,000 (2020: HK$53,340,000) was recognised in respect of film rights and films and TV programmes under production, which belong to Movies, TV programmes and internet contents segment. The impairment was made based on management's estimation of their recoverable amounts against their carrying amounts. The estimated recoverable amount as at 31 December 2021 was determined based on the present value of expected future revenues and related cash flows arising from the distribution of the film rights and films and TV programmes under production.

11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2021	2020
	HK$'000	*HK$'000*
Within 1 year	**84**	3,159

The trade payables are non-interested bearing.

12. DIVIDEND

No dividend was paid or proposed during 2021, nor has any dividend been proposed since the end of the reporting period (2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Movies, TV Programmes and Internet Contents

As of 31 December 2021, the management reviewed the position of various projects. Management has taken into account of all available internal and external market information to consider whether there is any indicator of impairment and assess the recoverable amount of each project on a case-by-case basis. Due to the changes in overall market factors and coupled with the impact of the pandemic, many small to medium sized companies in the industry faced a very challenging business environment and suffered financial difficulties. As a result, management made impairment on some projects which were considered to be highly uncertain for further development and unpredictable on cost recovery for different reasons.

Each project has a unique background and specific circumstances leading to impairment at the reporting date. Among the impaired projects, there are few projects kicked off in early years but suffered from setbacks in last year for different reasons. One of which is a copyright of a famous sci-fi IP purchased in 2016. The copyright was licensed for ten years to adapt ten sci-fi novels written by a renowned Japanese author into live-action movies. Although the IP is a classic and the decision of licensing the copyright was believed to be beneficial to the Group at that time, the management also took a cautious approach in developing this project in early years due to the scale and funds occupied involved. Several quality sci-fi movies were launched since then and have raised the bar of audience expectation. Considering the copyright will remain only half of its licensing period before expiry, the management made serious efforts in developing this project last year that can match up with contemporary standard and managed to partner with a Japanese production team for joint development. However, despite the prospective director expressed his interest in the project, he has raised serious concerns over the censorship requirements in China due to the political implication in the story background of the novels. This concern has been confirmed by the comments and rejected to approve the project（立項）by the relevant authority（市委宣傳部電影處）. Considering the difficulty in further development (especially the large scale and budget involved) and the possibility of expiry of the copyright if there is a lack of significant progress in the project, the management considered it prudent and reasonable to fully impair the investment costs of this project.

Another two projects initiated in 2016 also belong to this category which one project was designed to produce as a TV drama and another was a theatrical movie. Both projects have incurred miscellaneous costs on script-writing, engaging directors and early-development expenses for luring investors and raising capital for the projects. However, management found it difficult to attract new investments and further develop the projects after the screenplays were completed. Efforts such as finding investors or cooperating with streaming platforms were made in recent years but there has been lack of significant progress. Worse still, market trend and tastes of audience have changed significantly compared with these projects were initiated five years ago. As a result, the management considered the potentials of these two projects not promising and made full impairment on the investment costs of the above category of projects. The aforementioned early-year projects accounted for 56.7% of the total impairment loss recognised in respect of film rights and films and TV programmes under production.

Apart from the early-year projects, the management has identified several investments in recent years which were considered to be doubtful in having their costs fully recovered. One of which involved an internet movie invested in 2020 but the investors found the movie far below expectation after reviewing the first cut. Based on the average box office of the seven movies of the main casts in the past three years, the management estimated the recoverable amount of the movie and believed it reasonable to provide an impairment on the difference with cost accordingly. In the meantime, the management assessed some projects which are yet to be released after production or even in the early stage of development and found that some counterparties seem to be having financial problems due to the impact of the pandemic and recession in the industry in recent years. Although management has been cautious in investing new projects and made best effort to negotiate an clause of choosing fixed return to minimize the market risk, credit risk cannot be entirely eliminated, especially one counterparty is found to be involving in several litigations from public sources. After careful assessment, the management considered that the full recovery of the related investments at risk even the fixed-return clause has been exercised, thus making impairments of the relevant projects. This category accounted for the remaining 28.9% of the total impairment loss recognised in respect of film rights and films and TV programmes under production.

Lastly, the management has further written down the residual value on projects which were already partially impaired in prior years due to lack of further progress. This category accounted for the remaining 14.4% of the total impairment loss recognised in respect of film rights and films and TV programmes under production.

All counterparties of the abovementioned projects are independent third parties of the Group. Although the Group has made impairment provision for high-risk film and television projects in recent years as a matter of prudence, the Group will make continuous efforts to realize these projects. Due to the dynamic nature of the entertainment business, the relevant adverse factors may just be temporary or of slight effect. If appropriate business opportunities arise, the management may revive suspended projects or realize them by transferring out, and the impaired film and television project may even perform well at the box office or realize profits after release.

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

In 2021, a total of seven internet movies were launched: five of them were independently released by Lajin Pictures, and four of them have been profitable. In order to reduce loss, projects whose revenue did not meet expectations are seeking for overseas distribution and television stations distribution simultaneously to strive for more revenue.

In terms of investment and production, according to the overall market environment and the situation of shared box office this year, the Group has reduced the volume and scale of investment and invested with prudence. A total of two internet movies were invested throughout this year. One of them was the monster thriller "Detrimental" (《見怪》), which was created by the Hong Kong Film Awards team. The other was "Huangmiao Village —Taoist Priest Qianhe" (《黃廟村之千鶴道長》), Part II of the series of Tencent's popular IP "Huangmiao Village" (《黃廟村》), which was produced by the same team.

In terms of internet movie reserves: there are currently five projects in post-production and to be released, namely, "Tibet Adventurer" (《藏地奇兵》), "Detrimental" (《見怪》), "The Legend of Zu 3" (《蜀山降魔傳3》), "Di Renjie — Dragon Hidden in the Maze" (《狄仁傑之龍隱迷窟》), "Dragon Sparrow Guards: Myrlochar" (《龍雀衛•噬魂蛛》); and "Huangmiao Village —Taoist Priest Qianhe" (《黃廟村之千鶴道長》) is pending for shooting. The above six projects are all coordinated, promoted and distributed by the Group, and all of them are expected to be launched and distributed in 2022. Certain projects are expected to be the breakout projects and make considerable profit contribution to the Group.

"Investment + distribution" became the main business model for internet movies. The involvement in the distribution business will, on the one hand, increase revenue and help recoup the investments timely; on the other hand, allow the Group to deepen project participation, not only strengthening its relationship with the platform, but also broadening the perspective of its investments in project production. As a result, the Group will have the priority in choosing high-quality projects, gradually build up a "C-end" (consumer) mindset, and accumulate resources and experience in marketing and other ends of the industry chain.

In addition to internet contents, the Group's upcoming key projects include but not limit to:

"Faithful Dog Hachiko" (《忠犬八公》)

The Group produced and co-presented the Chinese version film "Faithful Dog Hachiko" (《忠犬八公》) (the original version: "Hachi: A Dog's Tale" (《忠犬八公的故事》) with Kaneto Shindo as the scriptwriter), which is the authorized work of the Group). iQIYI Pictures is now the investor and presenter of the project, which has been produced and co-presented by the Group. It has been selected as one of the key projects of the "Films Presented by iQIYI " program, and has started filming on 18 March 2021. It was successfully completed as scheduled on May 20, and its post-production is about to be completed. The film has submitted for review and it was set for nationwide release in the first half of 2022. The project was directed by Mr. Xu Ang and Ms. Ye Rufen acted as the executive producer. The leading actor and actress are Feng Xiaogang (his representative work includes "Mr. Six" (《老炮兒》), etc.) and Chen Chong (her representative work includes "The Last Emperor" (《末代皇帝》) and "Sheep Without a Shepherd" (《誤殺》), etc.) respectively. With the excellent creators and leading actors, this film has become a work with high audience expectations in 2022. After the release of the film, the Group, as the presenter and producer, not only gained more mature experience in film production, but also deepened the closed-loop effect of film research and development, production, distribution and marketing.

"The Tibet Code"(《藏地密碼》)

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

Artiste Management

Although the COVID-19 pandemic in 2021 is still in a severe situation and the industry continues to be cautious in developing new film and television projects, the Group has cooperated with outstanding talent management teams in the industry during the year under review, and recruited numerous artists with potentials who have emerged in different projects, which has injected new impetus into the business of artiste management segment.

Leveraging its own resources and combining its various business segments, the Group will develop income sources for artists, increase exposure opportunities so as to bring returns and make contributions to the Group through various channels, such as providing customized performance opportunities, conducting online marketing and making use of e-commerce.

Music

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

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

In mid 2020, Lajin Music initiated a "Searching for Chinese Root Music Program" as a major founder. The project is established based on the cultural foundation of the Chinese nation, blended with the most advanced production technology and media communication methods and the professionalism of the music industry, and plans to establish a copyright database of the most outstanding, best-selling, and symbolic root music signifying the Chinese cultural confidence. In addition, by adopting different media communication methods, the project will be promoted by integrating with music works, local culture, tourism resources and local products. Eventually, with the support of resources from various levels of government, the project will be established into a comprehensive, novel, and commercially closed-loop cultural project. However, due to the impact of the pandemic and the restrictions of pandemic prevention policies, people's mobility was restricted, which makes the development of the Chinese Root Music Program difficult. Nonetheless, the content of the project is in line with the national policy and market direction, and is of special significance. It is expected to be promoted throughout the country after the pandemic easing and the adjustment of pandemic prevention policies.

New media e-commerce business

As the impact of the pandemic has continued over the past year, the demand for online services has continued to grow. Live-streaming shopping and contact-free delivery have become the norm for online shopping under the pandemic. Merchants' demand for new marketing and professional operation services has skyrocketed and the platform's technology, service and marketing innovations in the service field have also been constantly emerging. Live-streaming shopping has become a new way of online shopping for all people. According to the "China Online Live-streaming Industry Development Research Report 2021" (《2021年度中國在線直播行業發展研究報告》), the number of online live-streaming users has reached 635 million in 2021, accounting for over 62.4% of the total Internet users, and it is expected to exceed 660 million in 2022. Among them, live e-commerce has become the live-streaming category with the largest number of users in internet live-streaming after rapid development in the past few years. Consumers have gradually deepened their awareness of the interactive, social and entertainment characteristics of live-streaming, and their acceptance of internet live-streaming and live e-commerce has been further improved. The average daily view duration of live-streaming continues to increase, and the proportion of live e-commerce users in the overall Internet users has increased significantly, and the consumption via live-streaming is recognized increasingly.

In the past year, Lajin officially entered into the live e-commerce industry, started to provide live-streaming services on the Jingdong (京東) platform for the first time, and cooperated with different celebrities and influencers. In addition, the Group has also tried to incubate its own hosts, in which funds, time and learning costs are invested, the team has also been stabilized and rich operational and practical experience has been accumulated as well. In the early stage of developing the new media e-commerce business, the Group cooperated with Jingdong platform and created a popular variety show, "Pretty Plus" (《玩美普拉斯》), to promote consumer products online. It has continued to be one of the top 20 annual key accounts officially approved by Jingdong platform in 2022, and also ranked in the top three in the chic category. The show will be live-streamed in Jingdong live-streaming platform in the form of a regular column, in which regular MC, online celebrity with a huge fan base and KOL in vertical field will be the show guests. The variety show entertainment content will be integrated with good-stuff recommendation, knowledge sharing and interactive games. In addition to the Jingdong platform, the Group has also accumulated experience by cooperating with different leading hosts, celebrities and artists since the "March 8 Goddess Festival", and tried to incubate its own hosts and influencers, so as to build a continuously growing traffic matrix ecology.

In addition, the offline exhibition of the Broadcast Asia 2021 held in Singapore was affected due to the pandemic. The Group's Lajin base located in Yi Zhuang (亦莊) provided technical assistance and venue set-up support, and jointly held online exhibitions, cloud contract, live video and other activities with the host, which fully displayed the innovative products and technological achievements of Beijing radio and television and online audio-visual technology companies, and promoted Chinese brands to accelerate their internationalization. This event was also reported by CNN. The successful holding of this online exhibition has enhanced Lajin's recognition in the industry and consolidated Lajin's reputation in the industry.

Prospects and challenges

The ongoing and recurrent COVID-19 pandemic in 2021 has had a profound impact on the film industry. Due to the ongoing and recurrent pandemic in many parts of China, unfavorable factors such as temporary suspension of many TV/film related projects, sharp increase of filming costs, and the prolonged investment return cycle have made the operation of film companies across the country and the world into a difficult situation. According to the statistics from entgroup.cn (藝恩), the film market in 2021 has shown a trend of increasing dependence of films on holiday schedules, absence of blockbuster films in non-holiday schedules and sign of a sluggish market. The decrease in the number of highly-anticipated films has further concentrated the leading films in the film market. Except for three films which have achieved box office success of more than RMB4.5 billion, the box office of other films other than the top three for the year were all less than RMB1.5 billion, which indicated that the box office gap between films is obvious. The number of films released and per screen revenue has shrunk by more than 30% compared with pre-pandemic era. In conclusion, the changes in the external environment and industry trends have made the Group stop considering investment in theatrical films for the time being, and consider utilizing external funds to promote its own copyright projects at the same time.

Looking at the internet movie market in 2021, it is obvious that the "80/20 rule" of internet movies has been at work. However, the number of films released has declined overall, and there is a huge disparity in the shared box office. The films with a box office of over RMB10 million are mainly concentrated in folklore, tomb robbery, monsters and individual special categories. At the same time, with the increase of internet movie production volume and upgrade and investment costs, the overall form of sharing has not yet reached an ideal expectation. In 2022, the Group will maintain a more cautious attitude in investing in the field of internet movies, and mainly investing in some popular genre with controllable costs but high revenue expectations. In terms of team cooperation, the Group will select more quality teams with high potentials and cost-effectiveness, and strive to invest fewer but more precise projects with low costs and high expectations for sharing this year, and to create more high-yield and low-cost projects such as "Monty Python" (《變異巨蟒》).

In terms of the e-commerce sector, Lajin has established a strategy for influencer incubation, brand store broadcasting and Sannong (“三農”) (namely, agriculture, rural areas and farmers) sector in the coming year, and will continue to deepen its investment in the live e-commerce industry. Lajin will be ready to respond to the rapid changes in the industry, and will sort out, adjust and plan the e-commerce business in a timely manner.

The live e-commerce industry has been evolving and developing since 2016, with the number of hosts increasing gradually and the competition becoming more intensive. At the same time, as the minds of live-streaming users become more mature, the demand for professional content increases. The host needs to demonstrate their professionalism in the product to increase consumer confidence and trigger conversions. The attribute positioning of the influencers in the field of live-streaming has also been refined gradually. The “Vertical Type of Influencers” has made the live-streaming category more dispersed, and the proportion of related product categories such as mothercare, pets, and health care has continued to increase. Therefore, there are fewer hosts who lack professionalism can bring sales merely through fame. Different positioning in the field of live-streaming: the demand for hosts in vertical, hierarchical, and functional types is also increasing day by day. The Group will continue to drive influencers incubation with high-quality content, cultivate fan loyalty, and increase traffic flow to realize the value. Lajin’s influencer incubation business will follow the development trend of the industry, build a host matrix from both breadth and depth, and construct the three-dimensional, vertical and professional host system.

Due to its professionalism, high traffic flow and high conversion rate, influencer live-streaming was first adopted by merchants as a live e-commerce format. According to data from iiMedia Research, the three major driving forces for Chinese online live-streaming users to participate in live-streaming shopping are: products that meet their own needs (63.2%), great discounts on products (61.7%) and hosts recommendation (56.9%)[@]. Although the personal charm of the host is still a key factor, the survey found that the attractiveness of the product itself is the primary condition for live-streaming users to place orders. Since 2019, more and more merchants have adopted the mode of enterprise self-broadcast live-streaming (store broadcast), and the proportion of store broadcast has increased year by year. The merchant helps consumers make purchasing decisions through instant interaction with consumers and provide targeted services, thereby attracting fixed consumers who are loyal to the brand. At the same time, regular store broadcasts are used to better control cost input and achieve more stable sales growth. The above survey found that 79.3% of users are more willing to buy products in the official live-streaming room of related brand. During the Double Eleven Event period last year, 78% of the sales share of the live-streaming platform was contributed by the self-broadcasting of the store own broadcast, whereas the number of live-streaming stores of the live-streaming platform increased by 91.5% year-on-year, which was higher than the 85.1%* year-on-year growth of live-streaming influencers. At present, store broadcast has become one of the main sales channels for many brands. In 2020, the sales volume of store broadcast accounted for 32.1% of the overall live e-commerce, and it is expected that the proportion will be close to 50.0%[#] in 2023. Based on past experience, the Group will strive to find suitable merchants in the coming year to provide them with account operation, live-streaming operation and other full-process e-commerce services.

Live-streaming is only a form of marketing, performed whether by an influencer or via a shop, whose core competitiveness is still centered on the products and supply chain itself, including the efficient matching and selection of the combination of hosts and products, cooperation resources and bargaining power. With the increasing number of shops that participate in the competition of live-streaming e-commerce, the problem of homogenization of goods within platform is becoming increasingly serious, and the Group hopes to strengthen its supply chain advantages, and integrate the resources of the whole channel of product design, production and sales in the long run, through cooperation with different shops or even through self-developed brands, so as to satisfy the demand for products and price in the context of high-frequency sales via live-streaming.

Since 2016, the live-streaming e-commerce industry has seen continuous evolution and changes in marketing methods and operation models of all stakeholders. While pursuing profit maximization, the industry players have begun to pay more attention to the social responsibility in recent years. During the Double Eleven Event period in 2021, all participants focused more on issues of high social value such as green and low-carbon, rural revitalization, and public welfare. Among them, the rural revitalization strategy is an important strategic deployment made on the 19th National Congress of the Communist Party of China, and is also an important part of both the 14th Five-Year Plan and the Long-Range Objectives Through the Year 2035. As the important force for rural revitalization, major e-commerce platforms have achieved good results in rural revitalization during the Double Event period. For example, Tmall's 160 rural revitalization-related e-commerce sales increased by 44.2% year-on-year, agricultural products sales realized an increase of 24.8% year-on-year; JD.com increased the production and sales of agricultural products in terms of output value, coverage of farmers, and increase of income, benefiting about 5 million farmers and achieving a 120% increase in per capita income*. In the coming year, follow the overall direction of China and the industry, the Group will also focus on developing the business in agriculture, rural areas and farmers, and fulfil social responsibilities in addition to commercial operations at the same time.

@ Sample source: Strawberry Pie Data Survey and Computing System, sample size: 3650, survey time: January 2022

* Source: Ebang Think Tank, 2021 E-commerce Double Eleven Ecological Insight Report, November 2021

Source: IResearch, 2021 China's Livestreaming e-Commerce Industry Report, September 2021

In addition, after years of strategic planning, the Group has possessed the Permit to Produce and Distribute Radio and Television Programs (《廣播電視節目製作經營許可證》), Internet Culture Operation Licence (《網絡文化經營許可證》), Value-added Telecommunications Business Operation Licence (《增值電信業務經營許可證》) and the Licence for Spreading Audio-Visual Programs via Information Network (《信息網絡傳播視聽節目許可證》), which are required for the entertainment and culture business in the PRC. In recent years, while the traditional film and television industry was adversely affected by various unfavorable factors such as domestic laws and policies, social environment, etc., the number of short videos and their creators has increased rapidly. A large number of high-quality valuable digital assets were generated with the potential of realization due to the low cost of creation and entry barrier. Domestic laws and regulations are becoming more and more mature for intellectual property protection, and various innovative technologies such as blockchain technology are also becoming an important support for anti-counterfeiting and traceability. The Group expects that high-frequency trading of short-video digital assets will be the next trend. Technology empowers online content dissemination and copyright protection. The Group is actively researching a business model that can combine its own advantages and conform to the concept of market ecology and future development. 2022 will be a critical period for the Group to catch up and achieve "Corner Overtaking" by "innovation" and "management". It is expected that with the concerted efforts of the Group, it will achieve the best returns for shareholders.

CHANGE IN DIRECTOR

On 25 October 2021, Mr. Li Xue Song has been appointed as a non-executive director of the Company.

CHANGE IN AUDITORS

Following the resignation of Ernst & Young ("EY") as the auditor of the Company on 21 December 2021, BDO Limited ("BDO") was appointed as the auditor of the Company by the Board on the same day and to hold office until the conclusion of the next annual general meeting of the Company.

The consolidated financial statements of the Company for the year ended 31 December 2021 were audited by BDO whose terms of office will expire upon the forthcoming annual general meeting of the Company. A resolution for the re-appointment of BDO as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

The Board confirmed that there was no disagreement between EY and the Company. Save as disclosed above, there were no other changes in auditor of the Company during the past three years.

FINANCIAL REVIEW

The revenue of the Group was approximately HK$68,340,000 for the year ended 31 December 2021 (2020: HK$20,660,000). It was mainly generated from the provision of artiste management, new media e-commerce business and investment in movies, TV programmes and internet contents, representing an increase of 230.8% as compared to last year. The increase was mainly attributable to the increase in revenue from the Group's new media e-commerce business.

Cost of sales for the year ended 31 December 2021 increased to approximately HK$109,840,000 (2020: HK$25,370,000), was mainly due to the increase in cost of sales from the Group's new media e-commerce business.

During the year, loss for the year attributable to owners of the parent was approximately HK$131,259,000 (2020: loss of HK$130,339,000).

Movies, TV programmes and internet contents

During the year under review, the revenue contributed by such segment was approximately HK$31,637,000 (2020: HK$16,995,000), mainly representing license income and film distribution revenue.

Artiste Management

During the year under review, the revenue contributed by such segment was approximately HK$1,480,000 (2020: HK$41,000).

New Media E-commerce Business

During the year under review, the revenue contributed by such segment was approximately HK$35,223,000 (2020: HK$3,624,000).

Administrative expenses

Administrative expenses were mainly the staff costs, operating lease expenses, depreciation of fixed assets and amortization expenses and other general administrative expenses of the Group incurred during the year under review. Administrative expenses increased to approximately HK$55,688,000 from approximately HK$37,441,000 in the prior year primarily due to the increase of staff cost during the year.

Liquidity and Financial Resources

At 31 December 2021, the Group had total assets of approximately HK$344,864,000 (2020: HK$473,169,000), including cash and cash equivalents of approximately HK$50,666,000 (2020: HK$81,279,000). During the year under review, the Group financed its operation with the proceeds from fund raising activities of prior years.

CONTRACTUAL ARRANGEMENTS UNDER THE STRUCTURED CONTRACTS

The Group has been using the Structured Contracts arrangements to indirectly own and control companies engaged in production and distribution of media contents in the PRC.

PRC rules and regulations

On 25 December 2001, the State Council promulgated the Regulations on the Administration of Films (《電影管理條例》), which came into force on 1 February 2002. Pursuant to the Regulations on the Administration of Films, foreign organizations or individuals are prohibited to engage in the film production within the territory of the PRC without a PRC partner.

On 6 July 2005, the Ministry of Culture (withdrawn), the State Administration of Radio, Film and Television（國家廣播電影電視總局）(withdrawn), the General Administration of Press and Publication（新聞出版總署）(withdrawn), the National Development and Reform Commission (the "NDRC") and the Ministry of Commerce (the "MOFCOM") jointly promulgated the Several Opinions on Introduction of Foreign Investment into the Cultural Sector（《關於文化領域引進外資的若干意見》）, which came into force on 6 July 2005. Pursuant to such opinions, foreign investment is prohibited to establish and operate companies for production and broadcast of radio and television programme, film production, and film import and distribution.

On 23 June 2020, the NDRC and the MOFCOM jointly promulgated the Special Management Measures for Foreign Investment Access (Negative List) (2020 version)（《外商投資準入特別管理措施（負面清單）（2020年版）》）, which came into force on 23 July 2020. Pursuant to the Catalogue, (i) the foreign investment is restricted to engage in the production of radio and television programmes and the film production by way of cooperation with domestic investors; (ii) the companies for production and operation of radio and television programmes are prohibited from foreign investment; (iii) the foreign investment is not allowed in film production, film distribution and film theatre.

To operate the Group's media contents business in the PRC, The Group has established controls over four entities by contractual arrangements under the structured contracts, which are:

1. Beijing Lajin Huyu Wenhua Chuanmei Company Limited（北京拉近互娛文化傳媒有限公司）("OPCO1");

2. Jiaxuan Huanqiu Yingye Company Limited（稼軒環球影業有限公司）("OPCO2");

3. Beijing Lajin Yingye Company Limited（北京拉近影業有限公司）("OPCO3"); and

4. Wenzhou City Zhongbo Technology Company Limited ("OPCO4")

"OPCOs" below shall mean any or all of the above entities.

The registered owners of the OPCO1-3 are Ms. Zhai Shan Shan and an employee of the Group, the registered owners of OPCO4 is Ms. Zhai Shan Shan and an independent party ("Registered Owners"). The OPCO1-3 and Registered Owners have respectively entered into the relevant structured contracts (the "Structured Contracts") with Beijing Lajin Hudong Chuanmei Keji Company Limited（北京拉近互動傳媒科技有限公司）(the "WOFE", an indirect wholly-owned subsidiary of the Company), and the OPCO4 and Registered Owners have respectively entered into the Structured Contracts with Beijing Lajin Power Technology Limited（北京拉近動力科技有限公司）(the "WOFE", an indirect wholly-owned subsidiary of the Company). The Structured Contracts are designed to provide the Company with an effective control over and the right to enjoy the economic benefits and risks in and/or assets of OPCOs. Through the Structured Contracts, the control and economic benefits and risks from the business of OPCOs will flow to WOFEs. For accounting purposes, OPCOs are regarded as indirect wholly owned subsidiaries of the Company.

Major terms of the Structured Contracts

Under the Structured Contracts, WOFEs have an irrecoverable and exclusive priority right to acquire directly and/or through one or more nominees, the equity interests held by the Registered Owners in OPCOs, as permitted by applicable PRC laws and regulations. Further, each agreement under the Structured Contracts includes a provision that each such agreement is binding on the legal assignees or heirs of the parties to each such agreement. In the event of death, bankruptcy or divorce of any of the Registered Owners, WOFEs may exercise its option to replace the relevant shareholders and the newly appointed nominee shareholders will still be subject to the Structured Contracts.

Ms. Zhai Shan Shan, an executive director of the Company, was responsible for overseeing the daily operation of the OPCOs. The Directors consider that the possibility of material potential conflicts of interest between the Company and the Registered Owners is remote. In case of any material potential conflicts of interest between the Company and the Registered Owners, the Board will ensure that any material potential conflict of interests will be reported to the independent non-executive Directors as soon as practicable when the Company becomes aware of such potential conflict. The Board will review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities and alert the Board, including the independent non-executive Directors, to take any precautionary actions where necessary.

The Contractual Arrangements comprised of (a) Exclusive Business Cooperation Agreements, (b) Exclusive Option Agreement, (c) Powers of Attorney of the registered owners, (d) Equity Pledge Agreements and (e) Spouse Undertaking. Key provisions of the Contractual Arrangements are as follows:

Exclusive Business Cooperation Agreements（獨家業務合作協定）

Given the aforementioned prohibition/restriction of foreign investments in the production and distribution of media contents in the PRC, the WOFEs entered into contractual arrangements with the OPCOs, pursuant to which WOFEs shall provide to OPCOs consultancy services, including but not limited to management consultation, technology support and marketing strategies.

At the discretion of WOFEs, WOFEs can assign the rights and novate the obligations under the services agreement to any company nominated by WOFE without the consent of OPCOs and the Registered Owners.

The initial term of the services agreement is a fixed term of 10 years from the date of the execution of the services agreement. Upon expiry of the services agreement, WOFEs have the sole discretion to renew the services agreement for further extensions of the terms once every 10 years. OPCOs are not allowed to refuse the renewal of the services agreement.

In consideration for the provision of the aforesaid consultancy services and subject to compliance with PRC laws and regulations, the OPCOs shall pay WOFEs a service fee every year equivalent to 100% of the pre-tax profit of the OPCOs during such period.

Exclusive Option Agreement (獨家購買權合同)

The respective Registered Owners of the OPCOs have granted to WOFE (or its designated nominee(s)), to the extent permitted under the laws of the PRC: (i) an irrevocable option to acquire all or part of their respective equity interests in the OPCOs; and (ii) an irrevocable option to acquire all or part of the assets of the OPCOs.

The exercise price in respect of each of the above options shall be the minimum price as required by PRC laws and regulations at the time of exercising such options. The respective registered shareholders of the OPCOs and/or the respective OPCOs shall convey any proceeds which they will receive upon the exercise of the aforesaid options in a gratuitous manner to the WOFEs or the person as designated by the WOFEs.

Powers of Attorney of the registered owners (授權委託書)

Each of the Registered Owners has executed a power of attorney in favour of WOFEs to irrevocably appoint WOFEs as his/her exclusive agent to exercise, inter alia, all his/her rights as shareholder of OPCOs and to execute any documents necessary for giving effect to the Structured Contracts.

Equity Pledge Agreements (股權質押協議)

The Registered Owner of the OPCOs have pledged all of their respective equity interests in the OPCOs to WOFEs, as security for the performance of their obligations and/or that of the OPCOs under the Exclusive Option Agreements, Exclusive Business Cooperation Agreements, the Shareholder's Entrustment Letters and such other agreements as concluded to supplement the abovementioned agreements.

Spouse Undertaking (配偶同意函)

A spouse undertaking signed by the spouse of each of the Registered Owners, in favor of WOFEs, acknowledging and consenting the signing of the Structured Contracts by registered owners.

There were no material changes to the Structured Contracts and/or the circumstances under which they were adopted, nor was there any unwinding of them or of a failure to do the same due to the restrictions that led to their adoption being removed.

OPCOs' Business activities

OPCOs are companies established in the PRC with limited liability which are principally engaged in the production and distribution of animation or television programmes (other than production of political news and other relevant radio and television programmes) and other related business. OPCOs also hold some key requisite PRC permits, licences and approvals for our business operations, including the Permit to Produce and Distribute Radio or Television Programs (廣播電視節目製作經營許可證), the Commercial Performance License (營業性演出許可證). Some of our intellectual property rights, including copyrights, trademarks, and domain names, are also held by the PRC contractual Entities. OPCOs are also used as the investment vehicle to invest in movies or other companies which give rise to business collaboration with the OPCOs.

Under the Permit to Produce and Distribute Radio or Television Programs (廣播電視節目製作經營許可證) renewed to OPCO1–4 dated 19 October 2021, 18 November 2021, 20 April 2021 and 13 April 2021 respectively by National Radio and Television Administration (國家廣播電視總局), OPCOs are allowed to engage in the provision and distribution of animation or Television Programmes (other than production of political news and relevant radio and television programmes) and other related business permitted under the relevant PRC rules for a period of two years. Under the Commercial Performance Licence (營業性演出許可證) dated 9 September 2021 renewed to OPCO1 by Beijing Municipal Bureau Of Culture (北京市文化局), OPCO1 is allowed to engage in business of performance brokerage and artiste management for a period from 11 June 2021 to 10 June 2022.

Under the Internet Culture Operation Licence (《網絡文化經營許可證》) dated 23 August 2021 renewed to OPCO4 by Zhejiang Provincial Department of Culture and Travel (浙江省文化和旅遊廳), OPCO4 is allowed to operate the business of animation and comic products and music products using information network during the period from 20 August 2021 to 19 August 2024; under the Licence for Spreading Audio-Visual Programs via Information Network (《信息網絡傳播視聽節目許可證》dated 29 July 2019 renewed to OPCO4 by the National Radio and Television Administration (國家廣播電視總局), OPCO4 is allowed to provide Internet audio-visual program services from 29 July 2019 to 29 July 2022; under the Value-added Telecommunications Business Operation Licence of the People's Republic of China (《增值電信業務經營許可證》dated 20 November 2019 renewed to OPCO4 by the Zhejiang Communications Administration (浙江省通信管理局), OPCO4 are allowed to engage in information service business from 20 November 2019 to 19 November 2024.

The Group has consolidated the financial results of OPCOs and its subsidiaries in its consolidated financial statements in accordance with HKFRSs. For the year ended 31 December 2020 and 2021, the financial results of OPCOs are as below:

	Revenue				Total Assets			
	2021		2020		**As at 31 Dec 2021**		As at 31 Dec 2020	
	HK$'000	***%***	*HK$'000*	%	***HK$'000***	***%***	*HK$'000*	%
OPCO1	**3,100**	**4.5%**	88	0.4%	**39,715**	**11.5%**	11,614	2.5%
OPCO2	**–**	**–**	—	—	**37,318**	**10.8%**	15,231	3.2%
OPCO3	**32,584**	**47.7%**	14,648	70.9%	**92,495**	**26.8%**	182,971	38.7%
OPCO4	**–**	**–**	—	—	**1,007**	**0.3%**	443	0.1%

Risk relating to the Structured Contracts

The following risks are associated with the Structured Contracts:

– the PRC Government may determine that the Structured Contracts do not comply with applicable PRC laws and regulations;

– the Structured Contracts may not provide control as effective as direct ownership;

– failure by the Registered Owners to perform their obligations under the Structured Contracts;

– the Company may lose the ability to use and enjoy assets held by OPCOs if those companies declares bankruptcy or becomes subject to a dissolution or liquidation proceeding;

– the shareholders of OPCOs may have potential conflicts of interest with the Company;

– the Company's ability to acquire the entire equity interests and/or assets of OPCOs through WOFE may be subject to various limitations; and

– the Structured Contracts may be challenged by the PRC tax authorities.

Despite the above, as advised by the PRC legal advisers to the Company, the Contractual Arrangements are in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under, the current PRC laws. The Company will monitor the relevant PRC laws and regulations relevant to the Contractual Arrangement and will take all necessary actions to protect the Company's interest in the Structured Entities.

CAPITAL STRUCTURE

As at 31 December 2021, the Company has in issue a total of 4,209,131,046 ordinary shares.

GEARING RATIO

The gearing ratio, expressed as percentage of total liabilities excluding deferred tax liabilities over total equity attributable to owners of the parent, was approximately 24.5% (2020: 16.8%). The change in gearing ratio was mainly derived from the decrease of total equities attributable to owners of the parent from HK$407,299,000 to HK$285,948,000.

CHARGES ON THE GROUP'S ASSETS

At 31 December 2021, the Group did not have any charge on its assets.

Foreign Exchange Risk

Most of the income and expense of the Group are determined in RMB. The Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management closely monitors the exposures and will consider hedging the exposures should the need arise.

Commitments

At 31 December 2021, the Group had capital commitments of approximately HK$40,559,000 (2020: HK$36,510,000).

Contingent Liabilities

At 31 December 2021, the Group had no contingent liabilities (2020: Nil).

Employees

At at 31 December 2021, the Group had 107 employees, including approximately 104 employees in PRC and 3 employees in Hong Kong. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performances, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme. Other benefits include share options granted or to be granted under the share option scheme.

CONNECTED TRANSACTION

Details of connected transaction can be referenced on page 32 to 34 of the annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, to the best knowledge of the management, the Group has complied with the relevant standards, laws and regulations that have a significant impact to our businesses. At the same time, the Group always maintains a safe working environment for staff in accordance with relevant safety policies.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group believes that human resources is the most important asset for the Group's sustainable development. We offer competitive remuneration packages and high quality working environment for our employees. It is our customs to respect each other and to ensure that fairness is applied to everyone. From time to time, we provide relevant on-the-job trainings to enhance employees' professional knowledge. The Group also organises different leisure events and frequent group discussions for the participation of employees to enhance the bonding of the employees and communications with management.

Due to the nature of our businesses, we do not rely on single suppliers or customers. Having said that, we are always trying to build up long term relationships with our existing and potential customers and suppliers and we are not aware of any unresolved disputes with any of the customers and suppliers during the year.

REMUNERATION POLICY

The Group's compensation strategy is to cultivate a pay-for-performance culture to reward employee performance that will maximize shareholder value in the long run. The Group from time to time reviews remuneration packages provided to its employees to ensure that the total compensation is internally equitable, externally competitive and supports the Group's business strategy.

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

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. By applying rigorous corporate governance practices, the Group believes that its accountability and transparency will be improved thereby instilling confidence to shareholders and the public.

Throughout the financial year ended 31 December 2021, the Group has complied with the code provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules save for certain deviations, details of which will be explained in the relevant paragraphs in this report. The Board has, since the amendments to the GEM Listing Rules regarding corporate governance practices were first proposed by the Stock Exchange, continued to monitor and review the Group's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to Directors and senior management of the Group to ensure awareness to issues regarding corporate governance practices.

Throughout the year ended 31 December 2021, the Company complied with the CG Code in Appendix 15 to the GEM Listing Rules, with the exception of CG Code Provisions A.2.1 (separation of roles of chairman and chief executives), A.4.1 (specific terms of non-executive Directors) and A.6.7 (Directors attending general meetings).

(a) Chairman and Chief Executive Officer

Under the CG Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As of the date of this report, both of the positions of Chairman and Chief Executive Officer at the Group level were still left vacant. However, the Company has appointed a number of Chief Executive Officers at subsidiary level for each business segments, who will be held responsible for the oversight of each business segments' operations. The Company will continue to look for the appropriate candidate to fill the vacancy as chairman and the chief executive officer where appropriate.

(b) Terms of non-executive Directors

Under the CG Code provision A.4.1, all non-executive Directors should be appointed for a specific term, subject to re-election. The term of office for non-executive Directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the Directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this Code provision.

(c) Non-executive Directors attending general meeting

Under the CG Code provision A.6.7, non-executive Directors should attend general meetings. During the year, due to directors' other commitments and travels, not all of the non-executive directors of the Company attended all general meetings.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, the Company's Directors confirmed they have complied with the required standards of dealings and the code of conduct regarding securities transactions by directors adopted by the Company.

AUDIT COMMITTEE

As at 31 December 2021, the audit committee has 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 reports and to provide advice and comment thereon to the Board. The audit committee is responsible for reviewing and supervising the financial reporting, internal control and risk management procedures of the Group.

The annual results for the year ended 31 December 2021 have been reviewed by the Audit Committee.

SCOPE OF WORK OF BDO LIMITED ON THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Company's auditor, BDO Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

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

Hong Kong, 31 March 2022

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