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

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

(Stock Code: 8172)

**REVISION OF ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
MERCHANDISE SALES FRAMEWORK AGREEMENT AND
CONTENT PRODUCTION FRAMEWORK AGREEMENT; AND
CESSATION OF CONTINUING CONNECTED TRANSACTION
IN RELATION TO
MERCHANDISE PURCHASE FRAMEWORK AGREEMENT**

REVISION OF THE PROPOSED SALES ANNUAL CAPS

Due to recent market developments, the Company has revised the Proposed Sales Annual Caps. As the highest applicable percentage ratio calculated based on the revised Proposed Sales Annual Caps exceeds 5% but is less than 25% and the revised Proposed Sales Annual Caps are less than HK\$10 million, the Sales Transaction falls within the de minimis threshold under Rule 20.74(2) of the GEM Listing Rules and is subject to the reporting, announcement and annual review requirements but is exempt from the circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

REVISION OF THE PROPOSED CONTENT PRODUCTION ANNUAL CAPS

Due to recent market developments, the Company has revised the Proposed Content Production Annual Caps. As the highest applicable percentage ratio calculated based on the revised Proposed Content Production Annual Caps is less than 5% and the revised Proposed Content Production Annual Caps are less than HK\$3 million, the Content Production Transaction falls within the de minimis threshold under Rule 20.74(1) of the GEM Listing Rules and is fully exempt from the reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

CESSATION OF CONTINUING CONNECTED TRANSACTION IN RELATION TO MERCHANDISE PURCHASE FRAMEWORK AGREEMENT

On 5 March 2022, the Group acquired 39% equity interest in Lajin Xingtu from The Space VIP (Beijing) and 10% equity interest in Lajin Xingtu from an independent third party. Upon completion of the Acquisition, Lajin Xingtu became a wholly owned subsidiary of the Company and The Space VIP (Beijing) ceased to have any equity interest in Lajin Xingtu.

As a result of the completion of the Acquisition on 5 March 2022, The Space VIP (Beijing) is no longer a connected person of the Company. As such, the Purchase Transaction no longer constitutes a continuing connected transaction of the Company and is exempt from the reporting, announcement, circular, Independent Shareholders' approval and annual review requirements under Chapter 20 of the GEM Listing Rules.

GENERAL

As the Transactions are exempt from the circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules, no circular will be despatched to the Shareholders and the Company will not hold any SGM in respect of the Agreements and the Transactions.

Reference is made to (i) the announcement of Lajin Entertainment Network Group Limited (the "**Company**") dated 10 March 2021 relating to continuing connected transactions in relation to (1) Merchandise Sales Framework Agreement; (2) Content Production Framework Agreement; and (3) Merchandise Purchase Framework Agreement (the "**Transaction Announcement**"); and (ii) the announcements of the Company dated 31 March 2021, 26 April 2021, 17 May 2021, 8 June 2021, 30 June 2021, 31 August 2021, 29 October 2021 and 31 December 2021 in relation to the delay in despatch of the Circular (the "**Delay Announcements**"). Unless otherwise stated, capitalised terms used in this announcement shall have the same meaning as those defined in the Transaction Announcement and the Delay Announcements.

REVISION OF THE PROPOSED SALES ANNUAL CAPS

Revised Proposed Sales Annual Caps

Due to recent market developments, the Company has revised the Proposed Sales Annual Caps as follows:

	For the year ended/ending 31 December		
	2021	2022	2023
	(RMB'000)	(RMB'000)	(RMB'000)
Revised Proposed Sales Annual Cap	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>

The above revised Proposed Sales Annual Caps are determined with reference to (i) recent market developments; (ii) the total transaction amount under the Merchandise Sales Framework Agreement for the 12 months ended 31 December 2021, which was approximately RMB2,300,000; (iii) the expected demand from the GOME Retail Group, taking into account the growth of business of the GOME Retail Group; and (iv) the estimated market retail prices and quantity of merchandises to be supplied by the Group.

Further details on pricing basis

The prices of the merchandises to be supplied by the Group to the GOME Retail Group under the Sales Transaction shall be subject to further written confirmation(s) between the Group and the GOME Retail Group on normal commercial terms from time to time, with reference to actual purchase costs and the prevailing market retail prices and terms of comparable merchandises sold through both online and offline channels. These terms shall be made on a fair and reasonable basis and in accordance with normal commercial terms, which are comparable to those of GOME Retail Group's transactions with other independent third parties.

As a starting point of negotiation, the Group will adopt the cost-plus model for the Sales Transaction with an expected gross margin, and the final gross margin used in pricing will be adjusted after taking into consideration of different factors such as (i) market supply at the relevant time; (ii) freight and insurance costs in case shipment is made from the Group's own warehouse; and (iii) seasonal factors of the industry and any promotional activities which will significantly boost the sales volume and may justify a lower margin.

GEM Listing Rules implications

As the highest applicable percentage ratio calculated based on the revised Proposed Sales Annual Caps exceeds 5% but is less than 25% and the revised Proposed Sales Annual Caps are less than HK\$10 million, the Sales Transaction falls within the de minimis threshold under Rule 20.74(2) of the GEM Listing Rules and is subject to the reporting, announcement and annual review requirements but is exempt from the circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

REVISION OF THE PROPOSED CONTENT PRODUCTION ANNUAL CAPS

Revised Proposed Content Production Annual Caps

Due to recent market developments, the Company has revised the Proposed Content Production Annual Caps as follows:

	For the year ended/ending 31 December		
	2021	2022	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revised Proposed Content Production Annual Cap	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>

The above revised Proposed Content Production Annual Caps are determined with reference to (i) recent market developments; (ii) the total transaction amount under the Content Production Framework Agreement for the 12 months ended 31 December 2021, which was approximately RMB224,000; (iii) the expected demand from the GOME Retail Group; (iv) the fair market rates for provision of similar services; and (v) the expected growth of content production services driven by the competition of the entire market.

Further details on pricing basis

The fees to be charged by the Group under the Content Production Transaction shall be subject to further written agreement(s) between the Group and the GOME Retail Group on normal commercial terms from time to time, with reference to various factors such as market prices and terms of comparable services, tender quotation submitted to third parties in similar services and market quotations of other service providers. These terms shall be made on a fair and reasonable basis and in accordance with normal commercial terms, which are comparable to those submitted to independent third parties by the Group, or those received by the GOME Retail Group from independent third parties.

As a starting point of negotiation, the Group will adopt different pricing terms for the Content Production Transaction depending on the type of content produced by the Group, as follows:

- (1) in the case of live streaming shows, the Group will normally price its service fee as a fraction of the gross merchandise value (GMV) of merchandises sold via the designated online platform(s) of the relevant customer during an agreed period of time, or adopt the cost-plus model with reference to costs of engaging internet celebrities or artistes and the production team for producing e-marketing content with an expected gross margin; and
- (2) in the case of e-marketing content other than live streaming shows, the Group will normally adopt the cost-plus model with reference to costs of the internet celebrities or artistes and the production team for producing e-marketing content with an expected gross margin.

GEM Listing Rules implications

As the highest applicable percentage ratio calculated based on the revised Proposed Content Production Annual Caps is less than 5% and the revised Proposed Content Production Annual Caps are less than HK\$3 million, the Content Production Transaction falls within the de minimis threshold under Rule 20.74(1) of the GEM Listing Rules and is fully exempt from the reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

CESSATION OF CONTINUING CONNECTED TRANSACTION IN RELATION TO MERCHANDISE PURCHASE FRAMEWORK AGREEMENT

Acquisition of 49% equity interest in Lajin Xingtu by the Group

On 5 March 2022, the Group acquired 39% equity interest in Lajin Xingtu from The Space VIP (Beijing) and 10% equity interest in Lajin Xingtu from an independent third party (the “**Acquisition**”). Upon completion of the Acquisition, Lajin Xingtu became a wholly owned subsidiary of the Company and The Space VIP (Beijing) ceased to have any equity interest in Lajin Xingtu.

GEM Listing Rules implications

As a result of the completion of the Acquisition on 5 March 2022, The Space VIP (Beijing) is no longer a connected person of the Company. As such, the Purchase Transaction no longer constitutes a continuing connected transaction of the Company and is exempt from the reporting, announcement, circular, Independent Shareholders' approval and annual review requirements under Chapter 20 of the GEM Listing Rules.

INTERNAL CONTROL MEASURES

The following key internal control measures have been adopted by the Company to closely monitor the operation of the Sales Transaction and the Content Production Transaction:

- (1) prior to entering into any subsidiary agreements, the personnel of the legal department and business department of the Company, together with the Company's chief financial officer and the executive Directors, will review and assess the specific terms and conditions of the transactions to ensure their consistency with the Merchandise Sales Framework Agreement and the Content Production Framework Agreement, as the case may be. During such internal review process, the relevant personnel will examine, among others, (a) information of the parties; (b) the terms of the relevant agreements; (c) the type and scope of services or products to be provided by the Group thereunder; and (d) whether the price is in line with the pricing policy, in order to ensure comments (if any) from various departments of the Group will be properly addressed;
- (2) at the beginning of each financial year, the Company will review and update its pricing policies for the Sales Transaction and the Content Production Transaction after considering the recent market conditions, and such pricing policies will be further reviewed and approved by the executive Directors;
- (3) the Company will designate certain financial managers/officers to be responsible for closely monitoring the operation of the Sales Transaction and the Content Production Transaction;
- (4) the financial managers/officers will continually monitor the progress of the Sales Transaction and the Content Production Transaction, and will produce monthly financial reports relating to the transactions for submission to the chief financial officer and the executive Directors of the Company for review;
- (5) if the chief financial officer of the Company or the executive Directors, upon reviewing the monthly reports submitted to them by the financial managers/officers, finds out that any of the terms and prices of the Sales Transaction or the Content Production Transaction shows any sign of becoming incomparable to those offered to independent third parties, they will immediately follow up with rectification measures, e.g. negotiating for a revision of the terms and prices with the relevant connected persons;
- (6) upon reviewing the monthly reports, if the chief financial officer or the executive Directors of the Company expects the transaction amounts of the Sales Transaction or the Content Production Transaction will likely exceed the relevant annual caps soon, they will bring the issue to the attention of the Board to decide on the next steps to ensure compliance with the GEM Listing Rules, e.g. to prevent any further transactions with the relevant connected person;

- (7) the independent non-executive Directors will conduct annual review and confirm whether the Transactions are conducted (i) in the ordinary and usual course of business of the Group, (ii) on normal commercial terms or better, and (iii) in accordance with the terms of the relevant agreements that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (8) the Company will engage its auditors to report on the connected transactions of the Company, and the auditors will confirm to the Board in writing annually as to whether anything has come to their attention that causes them to believe that the Sales Transaction or the Content Production Transaction: (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the terms of the agreements entered into in respect of the transactions; and (iii) the annual caps for the transactions have been exceeded.

GENERAL

As the Transactions are exempt from the circular and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules, no circular will be despatched to the Shareholders and the Company will not hold any SGM in respect of the Agreements and the Transactions.

By order of the Board
Lajin Entertainment Network Group Limited
Leung Wai Shun Wilson
Executive Director

Hong Kong, 27 April 2022

As at the date of this announcement, the executive Directors are Ms. Zhai Shan Shan and Mr. Leung Wai Shun Wilson; 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.

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

* *For identification only*