



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 2022

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

* For identification only

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 2022, together with the comparative audited figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
REVENUE	5	10,533	68,340
Cost of sales		<u>(29,286)</u>	<u>(109,840)</u>
Gross loss		(18,753)	(41,500)
Other income and gains/(losses)	5	1,831	4,387
Selling and distribution expenses		(163)	(1,363)
Administrative expenses		(53,528)	(55,688)
Other expenses		(21,613)	(39,692)
Finance costs		(74)	(105)
Share of losses of associates		<u>(10,391)</u>	<u>(6,169)</u>
LOSS BEFORE TAX	6	(102,691)	(140,130)
Income tax expense	7	<u>(2)</u>	<u>(3)</u>
LOSS FOR THE YEAR		<u>(102,693)</u>	<u>(140,133)</u>
Attributable to:			
Owners of the parent		(94,607)	(131,259)
Non-controlling interest		<u>(8,086)</u>	<u>(8,874)</u>
		<u>(102,693)</u>	<u>(140,133)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	<u>HK\$2.25 Cents</u>	<u>HK\$3.12 Cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
LOSS FOR THE YEAR	(102,693)	(140,133)
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	<u>(15,225)</u>	<u>10,838</u>
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 (“FVOCI”):		
Changes in fair value, net of tax	<u>(2,702)</u>	<u>(1,148)</u>
Share of other comprehensive income/(loss) of an associate	<u>–</u>	<u>371</u>
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	<u>(2,702)</u>	<u>(777)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(17,927)	10,061
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(120,620)	(130,072)
Attributable to:		
Owners to the parent	<u>(113,441)</u>	<u>(121,351)</u>
Non-controlling interests	<u>(7,179)</u>	<u>(8,721)</u>
	(120,620)	(130,072)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		85,421	101,263
Right-of-use assets		–	990
Investments in associates		9,342	23,647
Equity investments designated at FVOCI		993	3,912
Intangible assets		14,636	15,916
		<hr/>	<hr/>
Total non-current assets		110,392	145,728
		<hr/>	<hr/>
CURRENT ASSETS			
Trade receivables	<i>9</i>	4,351	16,556
Prepayments, other receivables and other assets		50,858	74,137
Film rights and films and TV programmes under production	<i>10</i>	26,103	56,503
Inventories		864	1,259
Investments in films		–	15
Cash and cash equivalents		31,938	50,666
		<hr/>	<hr/>
Total current assets		114,114	199,136
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	<i>11</i>	80	84
Other payables and accruals		70,349	69,262
Lease liabilities		–	821
		<hr/>	<hr/>
Total current liabilities		70,429	70,167
		<hr/>	<hr/>
NET CURRENT ASSETS		43,685	128,969
		<hr/>	<hr/>
NET ASSETS		154,077	274,697
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		42,090	42,090
Reserves		119,765	243,858
		<hr/>	<hr/>
		161,855	285,948
		<hr/>	<hr/>
Non-controlling interests		(7,778)	(11,251)
		<hr/>	<hr/>
Total equity		154,077	274,697
		<hr/> <hr/>	<hr/> <hr/>

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 business; and
- Movies, TV programmes and internet contents services.

Particulars of the Company’s principal subsidiaries are set out in note 34 to the consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 16	<i>Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Amendments to HKFRS 3	<i>Reference to Conceptual Framework</i>
Annual Improvements to HKFRSs 2018–2020	<i>Amendments to HKFRS 1 First-time Adoption of International Financial Reporting Standards, HKFRS 9 Financial Instruments, HKFRS 16 Leases, and HKAS 41 Agriculture</i>

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 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 trade and other receivables and prepayments, impairment loss on investments in associates, recovery of amount due on 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		Elimination		Consolidated	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue <i>(note 5)</i>										
Revenue to external customers	362	1,480	4,874	31,637	5,297	35,223	-	-	10,533	68,340
Inter-segment revenue	90	-	-	-	1,191	-	(1,281)	-	-	-
	<u>452</u>	<u>1,480</u>	<u>4,874</u>	<u>31,637</u>	<u>6,488</u>	<u>35,223</u>	<u>(1,281)</u>	<u>-</u>	<u>10,533</u>	<u>68,340</u>
Segment results	<u>(1,711)</u>	<u>(3,011)</u>	<u>(31,741)</u>	<u>(98,523)</u>	<u>(45,992)</u>	<u>(25,951)</u>	<u>-</u>	<u>-</u>	<u>(79,444)</u>	<u>(127,485)</u>
Reconciliation										
Unallocated other income									464	4,965
Corporate and other unallocated expenses									(6,266)	(8,721)
Impairment loss recognised in respect of trade and other receivables, net									(6,414)	(6,196)
Impairment loss investments in associates									(2,851)	-
Recovery of amount due on an impaired financial assets at FVTPL									2,211	3,476
Share of losses of associates									(10,391)	(6,169)
Loss before tax									<u>(102,691)</u>	<u>(140,130)</u>

(b) Other segment information

	Artiste management		Movies, TV programmes and internet contents		New media e-commerce		Unallocated		Consolidated	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	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	10	9	1	–	9,663	9,735	–	–	9,674	9,744
Impairment loss recognised in respect of films and TV programmes under production	–	–	12,348	33,496	–	–	–	–	12,348	33,496
Impairment loss recognised in respect of trade and other receivables, net	–	–	–	–	–	–	6,414	6,196	6,414	6,196
Investments in associates	–	–	3,841	5,401	–	–	5,501	18,246	9,342	23,647
Capital expenditure*	–	9	–	5	1,152	3,626	–	–	1,152	3,640

* Capital expenditure consists of additions to property, plant and equipment 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*	
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China	10,533	67,617	105,558	136,415
Hong Kong	–	723	–	–
Korea	–	–	3,841	5,401
	<u>10,533</u>	<u>68,340</u>	<u>109,399</u>	<u>141,816</u>

* 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 2022 and 2021 which individually amounted to over 10% of the total revenue of the Group is as follows:

		2022	2021
	Reporting segment	HK\$'000	HK\$'000
Customer A	New media	3,682	– ¹
Customer B	Movies, TV programmes and internet contents	1,685	– ¹
Customer C	Movies, TV programmes and internet contents	1,146	6,352
Customer D	New media	– ¹	10,276
Customer E	Movies, TV programmes and internet contents	– ¹	9,491

Note:

¹ The corresponding revenue did not contribute over 10% of the total external sales of the Group.

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

An analysis of revenue is as follows:

	2022	2021
	HK\$'000	HK\$'000
Revenue from contracts with customers	10,533	68,340

Revenue from contracts with customers

(a) Disaggregated revenue information

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Types of goods or services		
TV and internet programmes	3,592	–
Film distribution	262	26,905
License income	–	366
Artiste management	362	1,480
Distribution agency service	1,020	4,366
New media business	5,297	35,223
	<u>10,533</u>	<u>68,340</u>
Geographical markets		
Mainland China	10,533	67,617
Hong Kong	–	723
	<u>10,533</u>	<u>68,340</u>
Timing of revenue recognition		
Transferred at a point in time	10,171	66,860
Transferred over time	362	1,480
	<u>10,533</u>	<u>68,340</u>

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Artiste management	–	3
New media business	516	20
	<u>516</u>	<u>23</u>

(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 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:

	2022	2021
	HK\$'000	HK\$'000
Amounts expected to be recognised as revenue:		
Within one year	623	1,045

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other income		
Income on film investments	–	297
Bank interest income	341	939
Others	73	4,026
	<u>414</u>	<u>5,262</u>
Gains/(losses)		
Recovery of amount due on an impaired financial assets at FVTPL	2,211	3,476
Loss on disposal of property, plant and equipment	(120)	–
Loss on film investments	(12)	(4,271)
Loss on disposal of subsidiaries	(894)	–
Exchange differences, net	232	(80)
	<u>1,417</u>	<u>(875)</u>
	<u>1,831</u>	<u>4,387</u>

6. LOSS BEFORE TAX

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Costs of film and TV programme rights	20,835	65,694
Cost of new media business****	8,079	43,529
Cost of artiste management services	372	617
	<u>29,286</u>	<u>109,840</u>
Total cost of sales		
Auditor's remuneration*	1,675	1,580
Depreciation of property, plant and equipment*	8,731	9,744
Depreciation of right-of-use assets*	943	1,461
Lease payments not included in the measurement of lease liabilities*	1,293	1,289
Amortisation of intangible assets*	60	31
Impairment loss recognised in respect of film rights and films and TV programmes under production*	12,348	33,496
Impairment loss on trade receivables*	3,322	–
Impairment loss on other receivables, net*	3,092	6,196
Impairment loss on investments in associates	2,851	–
Legal and professional fees*	5,286	5,991
Office operating expenses*/***	4,015	5,395
Management and service expenses*/***	663	1,224
Others*/***	1,085	442
Staff costs (including directors' remuneration):*/**		
– Salaries, allowances and other benefits	27,586	25,978
– Pension scheme contributions**	2,191	2,553
	<u>29,777</u>	<u>28,531</u>
Total Staff costs		

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

** As at 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2021: Nil).

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

**** Cost of new media business included depreciation of property, plant and equipment of HK\$217,000 and HK\$ Nil, respectively, for the year ended 31 December 2022 and 2021.

7. INCOME TAX

	2022 HK\$'000	2021 <i>HK\$'000</i>
Current	2	3
Deferred	—	—
	<hr/>	<hr/>
Total tax expense for the year	2	3
	<hr/> <hr/>	<hr/> <hr/>

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:

	2022 HK\$'000	2021 <i>HK\$'000</i>
Loss before tax	(102,691)	(140,133)
Tax credit at the statutory tax rates	(25,085)	(35,033)
Profits and losses attributable to tax on associates	2,509	(1,542)
Tax effect of expenses not deductible for tax	3,130	11,748
Tax effect of income not subject to tax	(48)	(1,104)
Tax losses not recognised	19,631	25,934
Tax effect of utilisation of tax losses previously not recognised	(134)	—
Others	(1)	—
	<hr/>	<hr/>
Total tax expense for the year	2	3
	<hr/> <hr/>	<hr/> <hr/>

There was no share of tax attributable to associates (2021: Nil) included in “Share of profits and losses of associates” in the consolidated statement of profit or loss.

For the year ended 31 December 2022, there was no movement in deferred tax liabilities and assets. And during the year ended 31 December 2021, there was no movement in deferred tax assets.

As at 31 December 2022, The Group has tax losses arising in Hong Kong of approximately HK\$5,187,000 (2021: approximately HK\$5,187,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of approximately HK\$284,608,000 (2021: HK\$381,663,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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\$94,607,000 (2021: HK\$131,259,000), and the weighted average number of ordinary shares of 4,209,130,000 (2021: 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 2022 and 2021.

9. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	7,571	16,556
Impairment	<u>(3,220)</u>	<u>—</u>
	<u>4,351</u>	<u>16,556</u>

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 – 365 days	2,601	16,556
Over 365 days	<u>4,970</u>	<u>—</u>
	<u>7,571</u>	<u>16,556</u>

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.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2022

	Expected credit loss rate %	Gross carrying amount <i>HK\$'000</i>	Expected credit losses <i>HK\$'000</i>	Net carrying amount <i>HK\$'000</i>
Current (not past due)	–	2,601	–	2,601
1 – 365 days past due	100%	3,220	(3,220)	–
		<hr/>	<hr/>	<hr/>
Individual assessment	–	5,821	(3,220)	2,601
	–	1,750	–	1,750
		<hr/>	<hr/>	<hr/>
	–	7,571	(3,220)	4,351
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2021

	Expected credit loss rate %	Gross carrying amount <i>HK\$'000</i>	Expected credit losses <i>HK\$'000</i>	Net carrying amount <i>HK\$'000</i>
Current (not past due)	–	16,556	–	16,556
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10. FILMS AND TV PROGRAMMES UNDER PRODUCTION

	Films and TV programme rights <i>HK\$'000</i>	Films and TV Programme Under production <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 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 and 1 January 2022	25,646	30,857	56,503
Additions	594	4,454	5,048
Transfer to film and TV programme rights	16,592	(16,592)	–
Charged to cost of sales	(20,391)	–	(20,391)
Impairment	(10,483)	(1,865)	(12,348)
Exchange realignment	(1,606)	(1,103)	(2,709)
At 31 December 2022	10,352	15,751	26,103

In light of the specific circumstances of the film and TV industry, the Group regularly reviews 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 2022 and 2021, 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 to exceed the recoverable amounts.

During the year ended 31 December 2022, as impairment indicators arose from certain film rights and films and TV programmes under production, an impairment loss of approximately HK\$12,348,000 (2021: HK\$33,496,000) 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 2022 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 year	80	84

The trade payables are non-interest bearing.

12. DIVIDEND

No dividend was paid or proposed during 2022, nor has any dividend been proposed since the end of the reporting period (2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Movies, TV Programmes and Internet Contents

Before the exit from the dynamic zero-COVID policy in mainland China, Chinese economy has suffered and economic data hit record lows. Worse still, strict pandemic control measures and lockdown of big cities affected the daily living of large population. Upstream, midstream and downstream in the entertainment industry were all inevitably affected. Thousands of companies encountered financial difficulties or even gone out of business. Among them are counterparties of our projects. Some of our projects invested took longer production cycle and ran over budget. As a result, quality of production and estimated box office of these projects were lower than expected due to lack of funding in post-production and change in tastes of audience compared with these projects were initiated.

As of 31 December 2022, the management reviewed the position of various projects and 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. As a result, the management estimated the box office of certain projects in doubt and considered impairment on the unrecoverable investment costs of these projects. The aforementioned impairment accounted for 84.9% of the total impairment loss recognised in respect of film rights and films and TV programmes under production.

In recent years, although management has been cautious in investing new projects and made best effort to negotiate a clause of choosing fixed return to minimize the market risk, credit risk cannot be entirely eliminated. Revenue and the corresponding trade receivable were recognized for an internet movie which was released in 2020 under a fixed-return clause. However, only partial payments were received from the trade debtor on-and-off and the remaining balance has been overdue for over one year. After careful assessment on the financial condition of the trade debtor, the management considered that full recovery of the outstanding trade receivable balance at risk and made an impairment of the outstanding balance. The impaired amount accounted for 85.7% of the total impairment loss recognised in respect of trade receivables.

All counterparties of the abovementioned projects are independent third parties of the Group. Although the Group has made impairment provision for high-risk debtors and film and television projects in recent years as a matter of prudence, the Group will make continuous efforts to collect debts and realize these projects. Due to the dynamic nature of the entertainment business, the relevant adverse factors may just be temporary or of slight effect. For instance, a project which has been fully impaired in prior years obtained the required permit eventually and has been released in theatres recently. 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.

Under the impact of the volatile COVID-19 pandemic in 2022 and the changes in the revenue-distribution rules of the video streaming platform, the Group continued to adhere to a prudent investment approach to effectively control and reduce investment risks. At the same time, the Group has fully upgraded the distribution business segment. In addition to the traditional first-round internet media distribution, the Group also carried out businesses such as TV platform distribution, rural cinema distribution, overseas distribution and second-round omni-channel distribution. At present, various types of distribution business are actively underway, and the value output of previous projects is also further explored. Relying on high-quality film and television IP and the peripheral contents of internet film and TV, the Group integrated digital rights technology to actively explore new business growth paths and further improve the Group's diversified, balanced and vertical internet film and TV ecological system.

In terms of film distribution, the internet movie "Tibet Adventurer" (《藏地奇兵》) has been launched in the fourth quarter of 2022, and the copyright sales work of the movie on the TV platform is also progressing in an orderly manner. The production of three reserve projects, namely "Detrimental" (《見怪》), "Dragon Hidden in the Maze" (《龙隱迷窟》) and "Dragon Sparrow Guards: Myrlochar" (《龍雀衛·噬魂蛛》), has been completed and the marketing and distribution work has been started in advance, which are expected to be launched successively in 2023. In addition, the post-production of "Huangmiao Village –Taoist Priest Qianhe" (《黃廟村之千鶴道長》) is also progressing in an orderly manner, and the final stage of the film is about to be completed. The film is produced by the same team of the Tencent's popular IP "Huangmiao Village" (《黃廟村》). As the subject matter is a fantasy folk style which is popular among various platforms and the public at this stage, the film is expected to be the breakout project and is planned to be launched in the second quarter of 2023.

In addition, the Group also pays close attention to the revenue-distribution rules of the platform and changes in the market and timely adjusts the distribution strategy. At the same time, the Group continues to perfect the overall distribution structure, and in addition to the first round of new projects, the Group is also pushing forward the second and third round of overseas work of historical projects and other new media pre-sales work, so as to strive for more profit.

Besides, the distribution of rural cinemas in the PRC is also progressing steadily and orderly. The Group is in the process of purchasing or acting as an agent for films suitable for release in rural markets as planned. In the future, it will be expanded to more than 300 rural cinemas in 32 provinces, autonomous regions and municipalities across the country.

Moreover, the Group is also focusing on the copyright sales of domestic films to overseas markets, covering East Asia countries and regions, Southeast Asia, South Asia, Europe and South America. Currently, a number of overseas copyright transactions for our own copyright projects have been concluded, and it is planned to gradually expand to other external projects.

“Investment + promotion + distribution” remains the Group’s main business model for internet movies. The involvement in the promotion and distribution business will, on the one hand, increase revenue from marketing and distribution 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.

“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. The project is set for nationwide release in March 2023. The project was directed by Mr. Xu Ang and Ms. Ye Rufen, a famous executive producer from Taiwan, 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, the audience’s expectation of this film has not dropped. 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 positive closed-loop effect of film research and development, production, distribution and marketing.

“Theory of Ambitions” (《風再起時》)

The Group invested in and co-presented the project “Theory of Ambitions” (《風再起時》), which was produced by the gold production team in Hong Kong. The film is a crime drama directed by a famous director, Philip Yung Chi-Kwong (翁子光) (his representative work includes “Port of Call” (《踏血尋梅》)), and starring Aaron Kwok (郭富城), Tony Leung Chiu Wai (梁朝偉) and Du Juan (杜鵑), which was released nationwide in February 2023.

“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

The industry continues to be cautious in developing new film and television projects under the COVID-19 pandemic, the Group continues to cooperate with outstanding talent management teams in the industry, and recruit numerous artists with potentials who have emerged in different projects, which injects 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, 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. However, despite the efforts made in an attempt to realize the music copyrights on hand accumulated over the years, estimated recoverable amounts are less than the costs of these assets. As a result, the management made an impairment of the difference accordingly.

Lajin Music initiated a “Searching for Chinese Root Music Program” as a major founder previously. 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. However, due to the impact of the pandemic and the restrictions of pandemic prevention policies, people’s mobility was restricted and the development of the Chinese Root Music Program has come to a halt. The Group will reboot the program at an appropriate time after taking into consideration of all relevant factors. 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 business

Since the outbreak of the pandemic, Lajin has tried to leverage its own advantages and adapt to the evolution of the industry in an attempt to develop a sustainable new media e-commerce business. Unfortunately, during the year, there were incidents occurred adversely affected the industry such as tax penalties imposed on top internet celebrities. As the top internet celebrities grew together with consumers and were more likely to gain support and trust, the virtuous cycle allowed the top internet celebrities to have a high pricing power among suppliers, and the price advantages led the market to be monopolised by a few top internet celebrities. After the top internet celebrities withdrew from the market, more suppliers chose to sell goods through live streaming by themselves, and the supply in high-quality items was restricted. In addition, the National Radio and Television Administration has set clear regulations for internet celebrities, making it more difficult to incubate subsequent internet celebrities accounts. As a result, Lajin has always been unable to lay a solid foundation on this track due to high marketing costs, high appearance fees and commission sharing requested by well-known internet celebrities, cancellation of subsidies by the platforms and other factors. At this stage, it is only a good way to rethink and adjust its strategies, and invest more prudently in e-commerce business.

In addition to e-commerce, the management of the Group has also been paying attention to the next track in new media sector with great potential. Prior to the emergence of the term “Metaverse”, the Group has always hoped to draw closer (“lajin”) the distance between people through its commercial influence, which is also the mission and the origin of the name of Lajin. Inspired by the concept of “Metaverse”, the Group’s latest strategic goal is to build a platform to connect the virtual and reality, reflect the (digital) assets value of the virtual field into the real world and directly realise the value of content, so as to enhance the motivation of the authors and meet the appetite of the collectors/fans, thereby achieving a win-win situation.

In order to empower the new media business, the Group has invested resources to develop an application (APP) to build a platform. Relying on the blockchain technology and cooperating with other businesses, the Group has built a visual copyright operation and auction platform “AMBER” with strong IP digital assets creation ability and leading virtual vision technology.

AMBER APP provides comprehensive copyright protection for genuine short videos with self-developed digital watermarking encryption, video search technology and blockchain distributed storage technology. Through in-depth strategic cooperation with China Copyright Chain, a national-level blockchain under the Copyright Society of China headed by the National Copyright Administration, copyright of each short video will be officially registered to obtain a unique identification on the chain of “China Copyright Chain”, which cannot be tampered with. The National Copyright Administration will also issue the Copyright Certification to guarantee the property rights of the authors.

The copyright of short videos will be protected after the authors registered their rights through AMBER, and then can be auctioned and sold via internet. At the same time, the re-auction and circulation of the copyright of short videos traded in AMBER APP can enable the copyright value to be market-oriented with liquidity. Collectors/fans can support their favourite authors’ continuous creation and growth through collecting copyrights of short videos.

At present, AMBER APP has been launched on major app stores such as Baidu, Huawei, Apple and Android. Through auction of copyright assets, it can discover asset value and form a price consensus. In addition, the auction activity has social attributes and implements the mission of Lajin.

The first event that AMBER APP participated was the “2022 Art Graduate Growth Program” jointly launched by AMBER with Art Beijing, Central Academy of Fine Arts and Education Development Foundation of Central Academy of Fine Arts, which promoted and auctioned the graduation works of art graduates of Central Academy of Fine Arts, tested in APP with physical works, and achieved the effect of publicity and promotion at the same time. After the official launch of the AMBER APP in October 2022, the re-create competition of the film “Tibet Adventurer” (《藏地奇兵》) was jointly held by AMBER with Sichuan University of Media and Communications, which was well received by students with an overwhelming response. Subsequently, a copyright auction session for the short-form video copyright of re-creating series of the film “Tibet Adventurer” (《藏地奇兵》) was launched. Furthermore, an auction session for the short video copyright of virtual scenes series of “Martial Arts & Metaverse Concert in 2022” (《2022武俠·元宇宙音樂會》) was jointly launched by AMBER with Migu Video (咪咕視頻) and Tiny Tiger Interactive Technology (小虎互聯科技), with an auction turnover rate of 100%, which was well received by the market.

Prospects and challenges

In 2022, due to the impact of the COVID-19 pandemic on the theatrical film market, theaters were closed on-and-off and the willingness of audiences to watch movies was reduced, resulting in an unsatisfactory overall market situation. According to the public information released by the China Film Administration, in 2022, the total annual box office of China’s film market was RMB30.067 billion, representing a year-on-year decrease of 36.4%; the number of audiences decreased by 40% year-on-year; the number of films released decreased by 47% year-on-year, and all indicators were shrinking severely. The top three domestic films accounted for 30% of the annual box office and the disparity in box office was increasingly prominent. In view of the above, the Group still adopts a prudent approach to rationally evaluate the investment in theatrical films, and proactively promotes the development of its own copyright projects reserve with external funding after balancing the downside risks of the external environment and the industry itself. In 2023, when the market is ready for recovery, we will review and adjust our strategies in a timely manner.

Looking at the internet movie market in 2022, the censorship of the domestic internet movies was formally included in the management of administrative licencing matters, marking the entry of internet movie management from the era of filing and registration to the era of licencing, and the internet movie market will be further standardized, normalized and professionalization. In terms of movie genres, action movies continued to lead, and folklore, thriller and suspense genres became hot topics in 2022. However, there were several industry bottlenecks at the same time, such as a slowdown in the growth of the number of online video users, a decline in the number of films released and the number of views. According to the “2022 Annual Report of Internet Movie” published by Enlightent, the effective view counts of internet movies for the whole year decreased by 13% year-on-year, the industry concentration increased significantly, the number of movies with a shared box office of over RMB10 million

decreased, and the vacancy in the leading market increased. In 2023, against the backdrop of increasingly mature and fierce competition in the internet movie market, the Group will focus on quality instead of quantity of investment in this field by adhering to the general principles of cost reduction and efficiency enhancement, quality improvement and quantity reduction, and work hard on forward-looking genres, professional cooperation teams, and accuracy of production and promotion, so as to optimize the Group's position in the internet movie market.

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 authors 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.

With the increasing popularity of the global “digital technology & culture and art” market, the Group is also proactively exploring opportunities for mutual empowerment of resource advantages in its own film and television IP, derivative video and digital copyright and visual art copyright to create synergy effects among the Group's business segments and create new growth points. At present, there are cases in which the film and television peripheral, behind-the-scenes, and artist customization have been meticulously recreated, making it new content with admiring and collecting value. Encrypted the content through digital copyright and blockchain technology, the Company has built the AMBER APP to realize the transformation from video content to collection content. The Group believes that with the maturity of technology and the improvement of public awareness, its potential market will become broader and more active, and experience and market response will be increasingly enhanced.

With the development of business, AMBER APP will launch the Paid Subscription Service for High-Quality Content for authors, aiming to gather original high-quality short videos and authors around the world and reshape the production relationship/short video browsing ecosystem. Meanwhile, with Content Channel as the carrier, AMBER will innovate content sales methods to provide authors with the most direct means of monetizing content and other services and allow authors to directly connect with fans. With rich functional modules and strong social attributes of AMBER, authors can establish deep links with fans and obtain fans' support.

The new business model of “Content Payment & Copyright Auction” strongly empowers content monetization, copyright monetization and personal IP growth of the authors. Under the effect of a series of promotion activities, registered users gradually increase, the transaction volume will also increase, which will become the core driving force for Lajin's future business development.

In addition to platform operation, AMBER APP actively fulfills its social responsibilities. AMBER APP has officially established strategic cooperation relationship with China International Cultural Exchange Foundation, a 3A public fund under China International Cultural Exchange Centre. Part of the proceeds of AMBER will be donated to the Special Fund for Rural Revitalization to implement national policies, support rural revitalization and development, and help build a strong intellectual property country.

CHANGE IN DIRECTORS

On 19 April 2022, Mr. Leung Wai Shun Wilson has been appointed as an executive director of the Company.

On 1 November 2022, Ms. Zhai Shan Shan has resigned as the executive director and authorized representative of the Company. On the same date, Mr. Colin Xu was appointed as the executive director and authorized representative following Ms. Zhai's resignation.

FINANCIAL REVIEW

The revenue of the Group was approximately HK\$10,533,000 for the year ended 31 December 2022 (2021: HK\$68,340,000). 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 decrease of 84.6% as compared to last year. The decrease was mainly attributable to the decrease in revenue from the Group's new media business and movies, TV programmes and internet content business.

Cost of sales for the year ended 31 December 2022 decreased to approximately HK\$29,286,000 (2021: HK\$109,840,000), was mainly due to the decrease in cost of sales from the Group's new media business and movies, TV programmes and internet content business.

During the year, loss for the year attributable to owners of the parent was approximately HK\$94,607,000 (2021: loss of HK\$131,259,000).

Movies, TV programmes and internet contents

During the year under review, the revenue contributed by such segment was approximately HK\$4,874,000 (2021: HK\$31,637,000), mainly representing license income and film distribution revenue.

Artiste Management

During the year under review, the revenue contributed by such segment was approximately HK\$362,000 (2021: HK\$1,480,000).

New Media Business

During the year under review, the revenue contributed by such segment was approximately HK\$5,297,000 (2021: HK\$35,223,000).

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 decreased to approximately HK\$53,528,000 from approximately HK\$55,688,000 in the prior year primarily due to the increase of staff cost during the year.

Liquidity and Financial Resources

At 31 December 2022, the Group had total assets of approximately HK\$224,506,000 (2021: HK\$344,864,000), including cash and cash equivalents of approximately HK\$31,938,000 (2021: HK\$50,666,000). 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 18 September 2021, the NDRC and the MOFCOM jointly promulgated the Special Management Measures for Foreign Investment Access (Negative List) (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》), which came into force on 1 January 2022. 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 two management personnel of the Group, the registered owners of OPCO4 is a management personnel 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.

Mr. Leung Wai Shun Wilson, 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 2024.

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 2021 and 2022, the financial results of OPCOs are as below:

	Revenue				Total Assets			
	2022		2021		As at 31 Dec 2022		As at 31 Dec 2021	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
OPCO1	823	7.8%	3,100	4.5%	16,155	7.2%	39,715	11.5%
OPCO2	–	–	–	–	25,070	11.2%	37,318	10.8%
OPCO3	5,242	49.8%	32,584	47.7%	41,259	18.4%	92,495	26.8%
OPCO4	94	–	–	–	15,565	6.9%	1,007	0.3%

* renewal is in progress due to delay because of the pandemic and is expected to complete in May 2023

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 2022, 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 43.5% (2021: 24.5%). The change in gearing ratio was mainly derived from the decrease of total equities attributable to owners of the parent from HK\$285,948,000 to HK\$161,855,000.

CHARGES ON THE GROUP’S ASSETS

At 31 December 2022, 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 2022, the Group had capital commitments of approximately HK\$24,759,000 (2021: HK\$40,559,000).

Contingent Liabilities

At 31 December 2022, the Group had no contingent liabilities (2021: Nil).

Employees

At at 31 December 2022, the Group had 69 employees, including approximately 66 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 of the annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, to the best knowledge of the management, except for the non-compliance with Rule 17.104 of the GEM Listing Rules as set out in the Corporate Governance Report on page 18 of the annual report, 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 2022, 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 2022, 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 announcement. 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.

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 2022, 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 2022 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 2022 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
Executive Director

Hong Kong, 31 March 2023

As at the date of this announcement, the executive directors are Mr. Colin Xu 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.