



拉近網娛集團有限公司

LAJIN ENTERTAINMENT NETWORK GROUP LIMITED



2022

ANNUAL REPORT 年報

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This report, 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 report 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 report misleading.

CONTENTS

	Page
Corporate Information	2
Management Discussion and Analysis	3
Profiles of Directors and Management	15
Corporate Governance Report	18
Report of the Directors	28
Independent Auditor's Report	34
Consolidated Statement of Profit or Loss	39
Consolidated Statement of Comprehensive Income	40
Consolidated Statement of Financial Position	41
Consolidated Statement of Changes in Equity	42
Consolidated Statement of Cash Flows	43
Notes to the Consolidated Financial Statements	45
Summary of Financial Information	111

CORPORATE INFORMATION



EXECUTIVE DIRECTORS

Mr. Colin Xu
Mr. Leung Wai Shun Wilson

NON-EXECUTIVE DIRECTORS

Mr. Zou Xiao Chun
Mr. Zhou Ya Fei
Mr. Li Xue Song

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wai Hung
Mr. Lam Cheung Shing, Richard
Mr. Wang Ju

COMPANY SECRETARY

Mr. Leung Wai Shun Wilson

AUDITOR

BDO Limited
Certified Public Accountants

REMUNERATION COMMITTEE

Mr. Lam Cheung Shing, Richard (*Committee Chairman*)
Mr. Zou Xiao Chun
Mr. Ng Wai Hung

NOMINATION COMMITTEE

Mr. Ng Wai Hung (*Committee Chairman*)
Mr. Lam Cheung Shing, Richard
Mr. Zhou Ya Fei

AUDIT COMMITTEE

Mr. Lam Cheung Shing, Richard (*Committee Chairman*)
Mr. Zhou Ya Fei
Mr. Ng Wai Hung

PRINCIPAL BANKER

China Everbright Bank
Hang Seng Bank Limited

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F. Far East Finance Centre
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Hong Kong

REGISTERED OFFICE

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GEM STOCK CODE

8172



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.

MANAGEMENT DISCUSSION AND ANALYSIS



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.



MANAGEMENT DISCUSSION AND ANALYSIS



“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.

MANAGEMENT DISCUSSION AND ANALYSIS



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.



MANAGEMENT DISCUSSION AND ANALYSIS

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 licensing, 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.

MANAGEMENT DISCUSSION AND ANALYSIS



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).



MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS



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.



MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS



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;



MANAGEMENT DISCUSSION AND ANALYSIS

- 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS



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 this 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.



PROFILES OF DIRECTORS AND MANAGEMENT



EXECUTIVE DIRECTORS

Mr. Colin Xu

Mr. Colin Xu, aged 33, obtained his bachelor degree of Visual Art from Simon Fraser University in Canada in 2012. Prior joining to the Group, Mr. Xu invested in some private business and gained three years of experiences in food and beverage industry after he founded a food and beverage business in 2013. Mr. Xu joined Beijing Lajin Film Co., Ltd.* (北京拉近影業有限公司), a wholly-owned subsidiary of the Group, as a vice president in 2016 and is responsible for business development and customer relationship maintenance. Mr. Xu is also subsequently responsible for exploring business opportunities and identifying potential partners for the Group's new media business.

Mr. Leung Wai Shun Wilson

Mr. Leung Wai Shun Wilson, aged 49, has over 25 years of experience in the field of auditing, accounting and finance. Mr. Leung held various senior positions in different organisations, including in an international accounting firm and listed companies in Hong Kong. During the period from March 2012 to October 2014, Mr. Leung was appointed as a director of Yueshou Environmental Holdings Limited (currently known as China Gem Holdings Limited) (stock code: 1191). During the period from October 2015 to November 2016, Mr. Leung served as the company secretary of another listed company in Hong Kong. Mr. Leung was the chief financial officer of Zhong Ao Home Group Limited (stock code: 1538) during the period from November 2016 to October 2017 prior to joining the Company. Mr. Leung is also the company secretary and authorised representative of the Company. Mr. Leung is a fellow member of the Hong Kong Institute of Certified Public Accountants.

NON-EXECUTIVE DIRECTORS

Mr. Zou Xiao Chun

Mr. Zou Xiao Chun, aged 53, graduated from the Department of Law of Nanchang University (南昌大學法律專業專科) in June 1990 and was granted the Chinese Lawyers Qualification Certificate (中國律師資格證書) in July 1991. Mr. Zou was also granted the Chinese Tax Advisers Qualification Certificate (中國稅務師資格證書) in September 1995 and the Pass Certificate for the National Notary Public Qualification Examination (國家公證員資格考試合格證書) in December 1995. Furthermore, Mr. Zou was qualified as an industrial economist (工業經濟師) in October 1996. Mr. Zou has been a practising lawyer for 30 years and has practiced in legal areas relating to capital markets in the PRC for 20 years. Mr. Zou is currently a member of the remuneration committee of the Company. In June 2006, Mr. Zou founded Beijing John & Law Firm (北京市中逸律師事務所) and he still serves as a founding partner of this firm. Between December 2008 and March 2011, Mr. Zou was a director and vice chairman of Beijing Centergate Technologies (Holding) Co., Limited (北京中關村科技發展(控股)股份有限公司) (a company listed on the Shenzhen Stock Exchange) and since May 2012, has been re-appointed as a director of such company. Since 2011, Mr. Zou has been appointed as a member of the Executive Committee of GOME Holding Group Company Limited (國美控股集團有限公司), a company owned or controlled by Mr. Wong Kwong Yu. Between June 2011 and June 2014, Mr. Zou was a director and managing Director of Sanlian Commercial Co., Limited (三聯商社股份有限公司) (a company listed on the Shanghai Stock Exchange). Since December 2010, Mr. Zou has been an executive director of GOME Retail Holdings Limited (together with its subsidiaries, the "GOME Group"), a company listed on the main board of the Stock Exchange and controlled by Mr. Wong Kwong Yu. From December 2010 to December 2013, Mr. Zou also served as the Vice President and then the Senior Vice President of the GOME Group. From December 2013 to December 2019, Mr. Zou became the director and chairman of YouWan Technology (Beijing) Co., Limited (優萬科技(北京)股份有限公司) (a company listed on National Equities Exchange and Quotations). Mr. Zou was appointed as the managing Director of Beijing YiPing Capital Management Co., Limited and Jian Dao Zhong Chuang Investment Co., Limited in August 2014. Since December 2018, Mr. Zou has been appointed as the Independent Non Executive Director of Beijing Worldia Diamond Tools Co., Ltd (沃爾德金剛石工具股份有限公司) (a company listed on the STAR Market of the Shanghai Stock Exchange). From March 2015, Mr. Zou has been appointed as the non-executive director of the Company.

PROFILES OF DIRECTORS AND MANAGEMENT



Mr. Zhou Ya Fei

Mr. Zhou Ya Fei, aged 54, graduated from the Beijing Institute of Technology with a master's degree. Prior to joining the Group, he was the Chief Financial Officer of GOME Appliance Co., Ltd. from 2000 to 2004, and subsequently remained his position as the Chief Financial Officer for GOME Retail Holdings Limited (Stock Code: 493) from 2004 to 2008 after the asset injection, and has been the executive vice president of GOME Holding Group Company Limited (incorporated in Beijing) since 2009. Mr. Zhou has over 30 years of experience in PRC accounting, finance and tax consulting. He is a registered accountant (non-practising) and a registered tax agent (non-practising) in the PRC. Mr. Zhou has been appointed as an Executive Director of GOME Finance Technology Co., Ltd (Stock Code: 628) since March 2021. Currently, Mr. Zhou serves as member of both audit committee and nomination committee of the Company.

Mr. Li Xue Song

Mr. Li Xue Song, aged 54, is currently an assistant to the general manager of CITIC TMT Network Co. Ltd (中信數字媒體網絡有限公司) (the parent company is CITIC Group Corporation (中國中信集團有限公司) ("CITIC Group") — the holding company of the substantial shareholder of the Company), a director and general manager of CITIC Digital Technology Co., Ltd. (中信數字技術有限責任公司), a director and deputy general manager of China Broadcasting Chongqing Network Co., Ltd. (中國廣電重慶網絡股份有限公司). Since joining CITIC Group in 2001 and up to now, Mr. Li has held senior management positions in many other subsidiaries of CITIC Group and has extensive experience in broadcasting and communication businesses.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wai Hung

Mr. Ng Wai Hung, aged 59, is a practising solicitor and a partner in Lu, Lai & Li, Hong Kong. Mr. Ng has been admitted as a Hong Kong solicitor since 1992. Currently, Mr. Ng serves as the chairman of the nomination committee, and member of both audit committee and remuneration committee of the Company. Mr. Ng has been an independent non-executive director of Xinyi Electric Storage Holdings Limited since July 2016, 1957 & Co. (Hospitality) Limited since November 2017 and Winshine Science Co., Ltd. since May 2019, all being companies listed on the Stock Exchange. Mr. Ng has been a non-executive director of Coolpad Group Limited (a main board listed Company in HK) since January 2018.

Mr. Lam Cheung Shing, Richard

Mr. Lam Cheung Shing, Richard, aged 64, is the deputy chairman, executive director and chief executive officer of EverChina Int'l Holdings Company Limited (stock code: 202), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Currently, Mr. Lam serves as the chairman of both audit committee and remuneration committee, and as a member of the nomination committee of the Company. Mr. Lam is a fellow member of Hong Kong Institute of Certified Public Accountants and obtained the Master's Degree in Business Administration in the Chinese University of Hong Kong in 2006. He spent over ten years in PricewaterhouseCoopers, an international accounting firm and was promoted to the position of senior audit manager, and is equipped with extensive experience in accountancy, taxation and corporate finance. Mr. Lam has also been appointed as an independent non-executive director of China Water Industry Group Limited (stock code: 1129) since August 2019 and Legend Strategy International Holdings Group Company Limited (stock code: 1355) since December 2022, whose shares are listed on the Main Board of the Stock Exchange. Besides, Mr. Lam was appointed as a director in various companies whose shares are listed on the Main Board of the Stock Exchange during the period from December 2001 to December 2014, namely Eagle Legend Asia Limited (now known as Kaisa Capital Investment Holdings Limited) (stock code: 936), Kai Yuan Holdings Limited (stock code: 1215) and Softpower International Limited (now known as China Pipe Group Limited) (stock code: 380).

PROFILES OF DIRECTORS AND MANAGEMENT

Mr. Wang Ju

Mr. Wang Ju, aged 69, graduated from the Beijing Broadcasting Institute 北京廣播學院 (currently known as the Communication University of China (中國傳媒大學)) with a vocal major in the School of Art. Mr. Wang is the former Permanent Vice Chairman and Chief Secretary of the China Audio-Video and Digital Publishing Association (中國音像與數字出版協會). Prior to that, he was a music host of China National Radio 中央電台 (CNR), the chief editor of China Record Corporation (CRC) (中唱), an associate chairperson of the judging panel of the China Gold Record Award (中國金唱片獎) and a member of the judging panel of PRC Outstanding Publication Award (中華優秀出版物評獎), and more actively support the CMIC Music Awards (CMA) (唱工委音樂獎) in recent years which has great influence in the industry, and also acted as an expert in the judging panel of various national foundation programmes and various award programmes. He was also employed as a member of the National Technical Committee on Press and Publication Information of Standardization Administration of China (全國新聞出版標準化技術委員) under the Committee Panel of the Standardization Administration of the PRC (國家標準化管理委員會) and involved in the revision of the Copyright Law of the People's Republic of China (中華人民共和國著作權法) and other copyright laws at the invitation of the National Copyright Administration of the PRC (國家版權局). He is also an expert of the authority in the PRC approving the imported audio and video products from 2010 onwards.

SENIOR MANAGEMENT

Mr. Xu Zhongmin – Chief Strategist

Mr. Xu Zhongmin has extensive business connections and network in the entertainment industry in the PRC. He was the founder of Jingwen. Jingwen was a music producer and was one of the largest music album distributors in the PRC which has discovered and fostered a number of famous artistes including Han Hong (韓紅), Cui Jian (崔健), Wang Feng (汪峰), Guo Feng (郭峰) etc. It published and distributed albums of Mao Yamin (毛阿敏), Li Yundi (李雲迪), Lang Lang (郎朗) and other famous artistes in the PRC. While Jingwen was developing the local original music, it introduced music albums and video contents from international producers and distributors including Warner Bros. Records, EMI, Universal Music, Universal Picture, Discovery Channel and National Geographic Channel. It extended its business to publication of books and investment in multi-media educational materials. Mr. Xu was also actively involved in the investment in TV programmes and artiste management business and has been involved in producing concerts in the PRC and performance show PANDA! in Las Vegas, the United States of America. Mr. Xu is currently the chairman of Beijing Centergate Technologies (Holding) Co., Ltd. (stock code : 000931.SZ)

Mr. Hu Qinggang – Vice President of Lajin Group, CEO of Lajin Picture

Mr. Hu Qinggang ("Mr. Hu") has extensive experience in the finance field and had worked in the Finance Department of CITIC Group Corporation, a substantial shareholder of the Company, as the deputy director of the Finance and Planning Division. For the period from October 2006 to March 2020, Mr. Hu held the office of Executive Director, CFO, acting CEO of Frontier Services Group Limited (formerly known as DVN Holdings Limited) (stock code: 500). Mr. Hu holds a bachelor's degree in Economics from the Beijing University of Technology and a master's degree in Economics from the University of International Business and Economics in the PRC. Mr. Hu is currently the chairman of a subsidiary of the Group, Lajin Woxing Films (Tianjin) Co., Ltd. (拉近沃星影業(天津)有限公司).

CORPORATE GOVERNANCE REPORT



INTRODUCTION

The board of Directors (the “Board”) and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group’s goals. The Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to the enhancement of shareholders’ value.

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 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.

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group’s business, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibility for decision making in all major matters of the Company including: the approval and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transaction, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support of them to discharge its responsibilities. The statement of the auditor of the Company in relation to their reporting responsibilities for the consolidated financial statements is set out in the Independent Auditor’s Report on pages 36 to 39 of this annual report.

Composition

As at 31 December 2022, the Board comprises eight Directors: including two executive Directors, Mr. Colin Xu and Mr. Leung Wai Shun Wilson, three non-executive Directors, namely, Mr. Zhou Ya Fei, Mr. Zou Xiao Chun and Mr. Li Xue Song, and three independent non-executive directors, namely Mr. Ng Wai Hung, Mr. Lam Cheung Shing Richard and Mr. Wang Ju.

At least one of the independent non-executive Directors have appropriate professional qualifications, or accounting or related financial management expertise. The number of independent non-executive Directors is more than one-third of the Board.

Biographical details of the Directors are set out in the section of Profiles of Directors and Management on pages 15 to 17.



CORPORATE GOVERNANCE REPORT

The presence of six non-executive Directors (including 3 independent non-executive Directors) is considered by the Board to be a reasonable balance between executive and non-executive Directors. All of the non-executive directors are appointed for a renewable term of 3-years. The Board is of the opinion that the ratio of executive to non-executive Directors is reasonable and such balance can provide adequate checks and balances for safeguarding the interests of shareholders and of the Group. The non-executive Directors provide to the Group with a wide range of expertise and experience so that independent judgement can effectively be exercised as well as ensuring that the interests of all shareholders are taken into account. They are also responsible for participating in Board meetings, dealing with potential conflicts of interest, serving on audit committee, remuneration committee and nomination committee, scrutinising the Group's performance and reporting. Through their active participation, they provide their valuable skills, expertise and experience to the Board and the committees on which they serve so that the management process can be critically reviewed and controlled. The Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. All the directors give sufficient time and attention to the Company's affairs.

The Board as a whole is responsible for the appointment of new director and nomination for re-election by shareholders at the annual general meeting of the Company. Under the Company's bye-laws, the Board may from time to time appoint a director either to fill a vacancy or as an addition to the Board. Any new director appointed to fill a casual vacancy shall hold office until the first general meeting after his appointment and shall then be eligible for re-election at the next following annual general meeting. Any new director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Pursuant to Article 86(2) and 87(1) of the Bye-laws, Mr. Colin Xu, Mr. Ng Wai Hung and Mr. Wang Ju will retire at the annual general meeting and, being eligible, will offer themselves for re-election.

Pursuant to Rule 17.104 of the GEM Listing Rules, the Stock Exchange will not consider diversity to be achieved for a single gender board. Following the resignation of Ms. Zhai Shan Shan, the Company did not have a director of a different gender, and hence the Company failed to meet the requirement set out in Rule 17.104 of the GEM Listing Rules. The Board will make its best endeavors to identify suitable candidate(s) for appointment(s) as director(s) of the Company so that the necessary appointment(s) will be accomplished on or before 31 December 2024 in order to ensure the Company is in compliance with the requirement under Rule 17.104 of the GEM Listing Rules.

INDEPENDENCE

The Company has three independent non-executive Directors, at least one of whom has appropriate financial management expertise, in compliance with the GEM Listing Rules. The Group has received from each independent non-executive Directors an annual confirmation of his independence. The Company considers these Directors to be independent under the guidelines set out in Rule 5.09 of the GEM Listing Rules.

All independent non-executive Directors are identified as such in all corporate communications containing the names of the directors. In addition, there is no material relationship among members of the Board.

CORPORATE GOVERNANCE REPORT



DEVIATION FROM THE CG CODE

Throughout the year ended 31 December 2022, 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.

BOARD MEETINGS AND SHAREHOLDERS' MEETINGS

The Board regularly meets in person or through other means of communication at least four times every year to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. At least 14 days' notice of regular Board meeting are given to all Directors, who are all given an opportunity to attend and include matters in the agenda for discussion. Apart from regular meetings, senior management from time to time provides directors information on activities and development of the businesses of the Group. The company secretary assists in preparing the agenda for the meeting and ensures that all applicable rules and regulations in connection with the meetings are observed and complied with. The company secretary also takes detailed minutes of the meetings and keeps records of matters discussed and decision resolved at the meetings.

CORPORATE GOVERNANCE REPORT

During the year under review, seven board meetings were held. Details of the attendance of the Directors at the meetings of the Board and its respective committees are as follows:

Name of Director	Board Meetings Attended/ Eligible to attend	Audit Committee Meeting Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	Nomination Committee Meetings Attended/ Eligible to attend	General Meetings Attended/ Eligible to attend
Mr. Leung Wai Shun Wilson (appointed on 19 April 2022)	7/7	N/A	N/A	N/A	1/1
Mr. Colin Xu (appointed on 1 November 2022)	1/1	N/A	N/A	N/A	N/A
Ms. Zhai Shan Shan (resigned on 1 November 2022)	2/6	N/A	N/A	N/A	0/1
Mr. Zhou Ya Fei	9/9	4/4	N/A	1/1	0/1
Mr. Zou Xiao Chun	9/9	N/A	1/1	N/A	0/1
Mr. Li Xue Song	6/9	N/A	N/A	N/A	N/A
Mr. Ng Wai Hung	9/9	4/4	1/1	1/1	1/1
Mr. Lam Cheung Shing, Richard	9/9	4/4	1/1	1/1	1/1
Mr. Wang Ju	9/9	N/A	N/A	N/A	0/1

During regular meetings of the Board, the Directors discuss and formulate the overall strategies of the Group, monitor financial performances and discuss the annual, interim and quarterly results, set annual budgets, as well as discuss and decide on other significant matters. The execution of daily operational matters is delegated to management of the Group. Monthly updates on the Companies' performances is prepared by management to the Board so as to enable directors to discharge their duties.

The company secretary records the proceedings of each board meeting in detail by keeping minutes, including the record of all decisions by the board together with concerns raised and dissenting views expressed (if any). Drafts of board minutes are circulated to all directors for comment and approval as soon as practicable after the meeting. All minutes are open for inspection at any reasonable time on request by any director.

All Directors have access to relevant and timely information at all times as the management will supply the Board and its committees with all relevant information in a timely manner. They may make further enquiries if in their opinion it is necessary or appropriate to request for further information.

They also have unrestricted access to the advice and services of the company secretary, who is held responsible for providing Directors with board papers and related materials and ensuring that all proper Board procedures are followed and that all applicable laws and regulations are complied with. If considered necessary and appropriate by the Directors, they may retain the service of independent professional advisers at the Group's expense.

In case where a conflict of interest may arise involving a substantial shareholder or a Director, such matter will be discussed in a physical meeting and will not be dealt with by way of written resolutions. Independent non-executive directors with no conflict of interest will be present at meetings dealing with such conflict issues.

Independent non-executive directors and other non-executive directors will make positive contribution to the strategy and policies of the Company through independent, constructive and informed comments.

CORPORATE GOVERNANCE REPORT



The board committees, including the audit committee, the remuneration committee and the nomination committee, have all adopted the applicable practices and procedures used in board meetings for all committee meetings.

The annual general meeting and other general meetings of the Company are the primary forum for communication by the Company with the shareholders and for shareholders' participation. All shareholders are encouraged to attend the general meetings or to appoint proxies to attend and vote at meetings on their behalf if they are unable to attend the meetings.

During the year ended 31 December 2022, apart from the annual general meeting held on 30 June 2022, the Company did not hold any other general meetings.

TRAINING AND SUPPORT FOR DIRECTORS

The Group provides a comprehensive and formal induction to each newly appointed director upon his/her appointment. Briefings and orientations are provided and organised to ensure that the new directors are familiar with the role of the Board, their legal and other duties as a director as well as the business and governance practices of the Group. Such programmes are tailored to each individual Director taking into account their background and expertise. The company secretary and compliance officer will continuously update all Directors on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance of the same by all Directors.

Pursuant to Code provision A.6.5, all Directors should participate in continuous professional development, including reading of relevant materials or attending relevant seminars to develop and refresh their knowledge and skills in relation to their contribution to the Board. All the Directors also understand the importance of continuous professional development and are committed to participate any suitable training or read relevant materials in order to develop and refresh their knowledge and skills. The Company has received from each Director a confirmation of their participation in continuous professional development.

A summary of the training received by the Directors for the year under review is as follows:

Name of Directors	Type of Continuous Professional Development	
	E-learning or reading on corporate governance, regulatory updates development and other relevant topics	Attending relevant training sessions (including webinars)
Executive Directors		
Mr. Colin Xu	✓	✓
Mr. Leung Wai Shun Wilson	✓	✓
Non-executive Directors		
Mr. Zou Xiao Chun	✓	✓
Mr. Zhou Ya Fei	✓	✓
Mr. Li Xue Song	✓	✓
Independent non-executive Directors		
Mr. Ng Wai Hung	✓	✓
Mr. Lam Cheung Shing, Richard	✓	✓
Mr. Wang Ju	✓	✓

CORPORATE GOVERNANCE REPORT

Each Director will, upon his/her first appointment and thereafter on a yearly basis, disclose to the Group the number and nature of offices held by such director in public companies and organizations and other significant commitments.

REMUNERATION COMMITTEE

A remuneration committee was formed with specific written terms of reference. As at 31 December 2022, the remuneration committee consists of two independent non-executive Directors, namely, Mr. Lam Cheung Shing, Richard, Mr. Ng Wai Hung, and one non-executive Director, Mr. Zou Xiao Chun. Mr. Lam Cheung Shing, Richard is the chairman of the committee.

The remuneration committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of executive Directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure, provident fund and other compensation-related issues, and ensure that no director or any of his associates is involved in deciding his own remuneration and has access to professional advice if deemed necessary. The remuneration committee is also provided with other resources enabling it to discharge its duties.

The specific terms of reference of the remuneration committee are posted on the Company's website. The remuneration committee meets at least once a year.

During the year under review, the remuneration committee held two meetings to determine the remuneration package for the executive Directors, non-executive Directors and independent non-executive Directors, and approving the terms of executive Director's service contracts.

Remuneration (including share-based payment) of senior management other than directors for the full year of 2022:

Total Remuneration Bands	Number of Executives
HK\$1 to HK\$500,000	0
HK\$500,001 to HK\$1,000,000	3
HK\$1,000,001 to HK\$1,500,000	1

NOMINATION COMMITTEE

A nomination committee was formed with specific written terms of reference on 26 March 2012. As at 31 December 2022, the nomination committee consists of two independent non-executive Directors, namely, Mr. Ng Wai Hung, Mr. Lam Cheung Shing, Richard, and one non-executive Director, Mr. Zhou Ya Fei. Mr. Ng Wai Hung is the chairman of the nomination committee.

The duties of the nomination committee include reviewing the structure, size and composition of the Board at least annually, making recommendations on any proposed changes to the board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The nomination committee assesses and considers the relevant experiences, skills and qualification, and independence (applicable to independent directors) in its nomination procedure to select and recommend candidates for directorship.

The specific terms of reference of the nomination committee are posted on the Company's website. The nomination committee meets at least once a year.

During the year under review, the nomination committee held two meetings to review and recommend the appointment and re-appointment of directors.

The nomination committee is in the process of formulating its policy concerning diversity of Board members, subject to finalisation and board approval for adoption.

CORPORATE GOVERNANCE REPORT



AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. Rule 5.28 of the GEM Listing Rules requires that the audit committee must comprise a minimum of three members with a majority of independent non-executive Directors and at least one member must have appropriate professional qualifications or accounting or related financial management expertise. The main duties of the audit committee include the followings:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the compliance officer or external auditor before submission to the board.
- (b) To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

Other duties of the audit committee are set out in its specific terms of reference which are posted on the Company's website. The audit committee is provided with sufficient resources enabling it to discharge its duties.

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. Mr. Lam Cheung Shing, Richard is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountant. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company. During the year, the audit committee held four meetings to review the Group's annual report, interim report and quarterly reports.

The audit committee has also reviewed the financial reporting and compliance procedures, report on the company's internal control and risk management review and processes as well as the re-appointment of the external auditor. There is no material uncertainty relating to events and conditions that may cast significant doubt on the Company's ability to continue as a going concern. There is no disagreement between the Board and the audit committee regarding the selection, appointment, resignation or dismissal of external auditor.

The Company's annual report for the year ended 31 December 2022 has been reviewed by the audit committee. The accounts for the year were audited by BDO Limited whose term of office will expire upon the forthcoming annual general meeting. The Audit Committee has recommended to the Board that BDO Limited be nominated for appointment as the auditor of the Company at the forthcoming annual general meeting.

The company secretary keeps full minutes of all audit committee meetings. In line with practices consistent with Board meetings and other committee meetings, draft and final versions of audit committee meeting minutes are circulated to all members of the audit committee for comments, approval and record as soon as practicable after each meeting.

AUDITOR'S REMUNERATION

For the year ended 31 December 2022, the remuneration in respect of audit services provided by the auditor, BDO Limited, amounted to HK\$1,584,000 (2021: RMB1,300,000). For non-audit services, no fees were paid.



CORPORATE GOVERNANCE REPORT

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Group. The auditor is responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

CORPORATE GOVERNANCE FUNCTION

No corporate governance committee has been established and the Board will therefore be responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, review and monitor the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance to the Corporate Governance Code and disclosure in the Corporate Governance Report.

During the financial year ended 31 December 2022, the Board has reviewed the Company's policies and practices on corporate governance.

INTERNAL CONTROL AND RISK MANAGEMENT

In order to comply with applicable code provisions set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules, The Board acknowledges their overall responsibility for overseeing the Management in the design, implementation and monitoring of the risk management and internal control systems of the Group with a view to ascertaining the effectiveness of its operations. The Board has delegated such responsibility to the Management of the Group, under the supervision of the Board, the Management has established policies and procedures for daily operations and continuously improving such internal controls of the Group.

The Group established the risk management and internal control systems with aims to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements or losses caused by judgment in decision making process, human error, fraud or other irregularities. For risk management, the Management has established a risk management policy and risk reporting mechanism. The Board, the Audit Committee, and the Management have reviewed the Group's financial, operation, compliance and strategic aspects and identified certain risk areas.

CORPORATE GOVERNANCE REPORT



The Group has its internal protocol on handling and dissemination of inside information that set out the procedures in handling inside information in an accurate and secure manner and to avoid possible mishandling of inside information within the Group.

During the year, the Board has engaged an independent professional firm with an aim to set up and maintain an effective internal audit function to facilitate the Board in assessing its risk management and internal controls. The Group has established an internal audit charter, conducted an annual risk assessment and devised a continuous three-year audit plan under a risk-based approach. An annual internal control review was performed according to the audit plan with a view to assisting the Board and the Audit Committee to evaluate the effectiveness of the Group's risk management and internal control mechanism.

The Audit Committee and the Board have conducted an ongoing review and monitoring of the effectiveness of the risk management, reviewed and discussed the internal control review reports submitted by the independent professional firm. The Audit Committee and the Board considered that the systems of internal control and risk management were effectively and satisfactorily operated in general and would serve to protect the interest of the shareholders and safeguard the assets of the Group during the year ended 31 December 2022.

COMPANY SECRETARY

The company secretary is an employee of the Company and is appointed by the Board. The company secretary assists the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The company secretary is also responsible for advising the Board on governance matters. All Directors of the Company may call upon him for advice and assistance at any time in respect to their duties and the effective operation of the Board and board committee. Mr. Leung Wai Shun Wilson was appointed as the company secretary since 1 October 2018. The biographical details of Mr. Leung are set out in the section of Profiles of Directors and Management on page 15 of this report. Mr. Leung has undertaken not less than 15 hours of relevant professional training to update his skills and knowledge in 2022.

DELEGATION BY THE BOARD

The Board is responsible for decisions in relation to the overall strategic development of the Group's business. All directors have formal letters of appointment setting out key terms and conditions relative to their appointment. Due to the diversity and volume of the Group's business, responsibility in relation to the daily operations and execution of the strategic business plans are delegated to management of the Group.

All committees, namely the audit committee, the remuneration committee and the nomination committee, have specific terms of reference clearly defining the authorities and responsibilities of the respective committees. All committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions.

The Board review, on a yearly basis, all delegations by the Board to different committees to ensure that such delegations are appropriate and continue to be beneficial to the Company as a whole.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Insurance cover has been taken out for Directors' and Officers' Liability to provide adequate cover, as determined by the Board, in respect of the Board members and senior management members of the Company.

SHAREHOLDERS RELATIONS

The Company is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders. The commitment to fair disclosure and comprehensive and transparent reporting of the Company's activities can be reflected in many aspects.



CORPORATE GOVERNANCE REPORT

In endeavouring to maintain an on-going dialogue with shareholders, the annual general meeting provides a useful forum for shareholders to exchange views with the Board.

The proceedings of the annual general meeting are reviewed from time to time to ensure the Company conforms to the best practices regarding corporate governance. The annual general meeting circular, which is circulated to all shareholders at least 21 clear days or 20 clear business days (whichever is longer) prior to the holding of the annual general meeting, sets out the details in relation to each resolution proposed, voting procedures (including procedures for demanding and conducting a poll) and other relevant information and notice of at least 14 clear days or 10 clear business days (whichever is longer) shall be given to shareholders for all other general meetings. At the Company annual general meeting, all the resolutions were put to the vote by poll and the Company's Hong Kong Branch Share Registrar, was engaged as scrutineer to ensure the votes were properly counted. The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meeting are contained in the Company's Bye-laws.

The Company also communicates to its shareholders through its annual, interim and quarterly reports. The Directors, company secretary or other appropriate members of senior management also respond promptly to inquiries from shareholders and investors.

SHAREHOLDERS' RIGHTS

According to the Bye-Laws, any one or more shareholder holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meeting of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an special general meeting to be called by the Board for the transaction of any business specified in such requisition. The requisition must be lodged with the Company's principal place of business of Hong Kong.

As regards proposing a person for election as a director, please refer to the procedures as set out in the Bye-Laws on the GEM website and the Company's website at <http://www.irasia.com/listco/hk/lajin/index.htm>.

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at Unit 3903A, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

INVESTOR RELATIONS

The Company is committed to a policy of open and timely disclosure of corporate information to shareholders and investors. The Company updates shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports and notices, announcements and circulars. The Company's website (<http://www.irasia.com/listco/hk/lajin/index.htm>) provides a communication platform to the public and the shareholders.

To strengthen its relationship with investors, the Company meets with analysts and holds interviews with reporters and columnists of the press and other economic journals in suitable opportunities.

During the year ended 31 December 2022., there were no significant changes to the Company's constitutional documents.

CONCLUSION

The Company believes that good corporate governance is significant in maintaining investor confidence and attracting investment. The management will devote considerable effort to strengthen and improve the standards of the corporate governance of the Group.

REPORT OF THE DIRECTORS



The Directors present the report of the directors and the audited consolidated financial statements for the year ended 31 December 2022.

BUSINESS REVIEW

The business review of the Company is as set out in the section of “Management Discussion and Analysis” on page 3 to 8 of this annual report.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

An analysis of the Group’s revenue for the year by geographic segment is set out in note 4 to the consolidated financial statement.

RESULTS AND APPROPRIATIONS

The results of the Group for year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 39 to 40 of this annual report.

The Directors do not recommend the payment of any final dividend in respect of the year.

FINANCIAL SUMMARY

The summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 111 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company’s share capital during the year are set out in note 24 to the consolidated financial statements.

RESERVES

Details of the movement in the reserves of the Group and the Company during the year are set out on page 96 of this annual report and in note 26 to the consolidated financial statements respectively.

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.



REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there is no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2022 amounting to HK\$301,745,000 (2021: HK\$359,764,000).

PUBLIC FLOAT

At the date of this report, the Company has maintained the prescribed public float under the GEM Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Colin Xu (appointed on 1 November 2022)
Mr. Leung Wai Shun Wilson (appointed on 19 April 2022)
Ms. Zhai Shan Shan (resigned on 1 November 2022)

Non-Executive Directors

Mr. Zou Xiao Chun
Mr. Zhou Ya Fei
Mr. Li Xue Song

Independent Non-Executive Directors

Mr. Ng Wai Hung
Mr. Lam Cheung Shing, Richard
Mr. Wang Ju

Pursuant to Article 86(2) and 87(1) of the Bye-laws, Mr. Colin Xu, Mr. Ng Wai Hung and Mr. Wang Ju will retire at the annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS



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

None of the Directors and chief executives, nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2022.

SHARE OPTION SCHEME

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

As at 31 December 2022, there were no outstanding options.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes, at no time during the year ended 31 December 2022 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

DIRECTORS' INTEREST IN CONTRACTS

During the year, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws of the Company, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company against all losses and liabilities & etc which they may incur or sustain by reason about the execution of their duties, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the directors. The Company has also arranged appropriate directors' and liability insurance coverage for the directors and officers of the Group.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

At 31 December 2022, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

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

Name of substantial shareholder	Capacity	Notes	Interest in shares	Approximate percentage of the Company's issued share capital
Jiaxuan Group Company Limited ("Jiaxuan")	Beneficial owner	(i)	1,982,561,725	47.10%
Eagle King Investment Holding Limited	Interest of controlled corporation	(i)	1,982,561,725	47.10%
Mr. Wong Kwong Yu	Interest of controlled corporation	(i)	1,982,561,725	47.10%
Great Majestic Global Holdings Limited	Interest of controlled corporation	(i)	1,982,561,725	47.10%
Mr. Xu Zhong Min	Interest of controlled corporation	(i)	1,982,561,725	47.10%
CITIC Group Corporation	Interest of controlled corporation	(ii)	459,934,954	10.93%
CITIC Limited	Interest of controlled corporation	(ii)	459,934,954	10.93%
Famous Peak Investments Limited	Beneficial owner	(ii)	459,934,954	10.93%
First Charm Investments Limited	Beneficial owner	(iii)	311,545,414	7.40%
Mr. Ko Chun Shun Johnson	Interest of controlled corporation	(iii)	311,545,414	7.40%

REPORT OF THE DIRECTORS



Notes:

- (i) Jiaxuan is owned as to 55% by Eagle King Investment Holding Limited (“Eagle King”) and as to 45% by Great Majestic Global Holdings Limited (“Great Majestic”). Mr. Wong Kwong Yu owns 100% of Eagle King and Mr. Xu Zhong Min owns 100% of Great Majestic.
- (ii) Famous Peak Investments Limited is a wholly-owned subsidiary of CITIC Investment (HK) Limited, being one of the wholly-owned subsidiaries of CITIC Limited. CITIC Group Corporation is the holding company of the CITIC Limited.
- (iii) Mr. Ko Chun Shun, Johnson owns 100% of First Charm.

Save as disclosed above, at 31 December 2022, the Company has not been notified by any persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group’s major customers and suppliers are as follows:

Sales

– the largest customer	28.34%
– five largest customers combined	89.98%

Purchases

– the largest supplier	6.76%
– five largest suppliers combined	19.78%

At no time during the year did the Directors, an associate of a director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company’s issued share capital) had an interest in the major customers or suppliers noted above.

CONNECTED TRANSACTION

During the year ended 31 December 2022, there were no connected transactions or continuing connected transactions under the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders’ approval requirements thereunder.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors to be independent.



REPORT OF THE DIRECTORS

CHANGE IN AUDITORS IN THE PRECEDING 3 YEARS

BDO Limited was appointed as the external auditor of the Company with effect from 21 December 2021 to fill the casual vacancy following the resignation of Ernst & Young and was reappointed at the annual general meeting of the Company dated 30 June 2022.

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2022 were audited by BDO Limited (“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.

On behalf of the Board

Leung Wai Shun Wilson

Director

Hong Kong, 31 March 2023

INDEPENDENT AUDITOR'S REPORT



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To the shareholders of Lajin Entertainment Network Group Limited

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

OPINION

We have audited the consolidated financial statements of Lajin Entertainment Network Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 39 to 111, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of film rights and films and TV programmes under production</i>	
<p>As at 31 December 2022, the Group had film rights and films and TV programmes under production with a carrying amount of approximately HK\$26,103,000 stated at cost less accumulated amortisation and any impairment losses. At the end of each reporting period, both internal and external market information is considered to assess whether there is any indication that film rights and films and TV programmes under production are impaired. An impairment loss is recognised to reduce an asset to its estimated recoverable amount. Management's assessment process for the impairment of film rights and films and TV programmes under production is complex, highly judgemental and is based on assumptions, which are affected by the expected future film market and customers' demand.</p> <p>Relevant disclosures are included in notes 3 and 19 to the consolidated financial statements.</p>	<p>Our procedures performed in relation to the impairment assessment of film rights and TV programmes under production included the following:</p> <ul style="list-style-type: none"> – evaluating management's impairment assessment and the rationale for recording the specific impairment; – evaluating management's business plans with reference to the market situation; – inquiring management about the method used in the impairment assessment; – evaluating management's analysis of the series, main artistes or directors' recent works of the films/ programmes and the targeted markets of the films/ programmes, – assessing the methodologies and assumptions used by management in determining the recoverable amounts of film rights and films and TV programmes under production; and – assessing the adequacy of the Group's disclosure of the impairment of film rights and films and TV programmes under production in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)



KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of certain non-financial assets</i>	
<p>As at 31 December 2022, the Group had property, plant and equipment and intangible assets with a carrying amount of approximately HK\$85,421,000 and HK\$14,636,000 respectively stated at cost less accumulated depreciation, accumulated amortisation and any impairment losses.</p> <p>At the end of each reporting period, both internal and external market information is considered to assess whether there is any indication that assets are impaired.</p> <p>Management assessed whether there was any impairment of the carrying amounts of property, plant and equipment and intangible assets as at 31 December 2022 using value-in-use calculations for each smallest identifiable group of assets that generate independent cash flows (a cash-generating unit) ("CGU"). Preparing the value-in-use calculations requires management to exercise significant judgement, particularly in relation to revenue forecasts, operating margins and discount rates.</p> <p>We identified impairment of non-financial assets as a key audit matter because of the significant management judgement and estimation required in assessing potential impairment.</p> <p>Details of the key estimation uncertainties and the impairment assessment on property, plant and equipment and intangible assets are included in notes 3 and 16 to the consolidated financial statements respectively.</p>	<p>Our procedures performed in relation to the impairment assessment of certain non-financial assets included the following:</p> <ul style="list-style-type: none"> – assessing the capabilities, objectivity and competence of the independent valuers and the valuation report prepared by the independent valuers; – challenging the reasonableness of key assumptions and inputs based on our knowledge of the business and industry; – involving our internal valuation specialists to assist us in evaluating the methodology used in the preparation of the discounted cash flow forecast with reference to the requirements of the prevailing accounting standards and assessing whether the discount rates applied in the discounted cash flow forecast was within the range adopted by other companies in the same industry; and – assessing the adequacy of the Group's disclosure of the impairment of property, plant and equipment and intangible assets in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)



- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited

Certified Public Accountants

Amy Yau Shuk Yuen
Practising Certificate No. P06095
Hong Kong, 31 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
REVENUE	5	10,533	68,340
Cost of sales		(29,286)	(109,840)
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	6	(53,528)	(55,688)
Other expenses	6	(21,613)	(39,692)
Finance costs		(74)	(105)
Share of losses of associates	14	(10,391)	(6,169)
LOSS BEFORE TAX	6	(102,691)	(140,130)
Income tax expense	9	(2)	(3)
LOSS FOR THE YEAR		(102,693)	(140,133)
Attributable to:			
Owners of the parent		(94,607)	(131,259)
Non-controlling interest		(8,086)	(8,874)
		(102,693)	(140,133)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	11	HK\$2.25 Cents	HK\$3.12 Cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022



	Notes	2022 HK\$'000	2021 HK\$'000
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		(15,225)	10,838
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		(2,702)	(1,148)
Share of other comprehensive income/(loss) of an associate	14	-	371
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		(2,702)	(777)
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		(113,441)	(121,351)
Non-controlling interests		(7,179)	(8,721)
		(120,620)	(130,072)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	85,421	101,263
Right-of-use assets	13	–	990
Investments in associates	14	9,342	23,647
Equity investments designated at FVOCI	15	993	3,912
Intangible assets	16	14,636	15,916
Total non-current assets		110,392	145,728
CURRENT ASSETS			
Trade receivables	17	4,351	16,556
Prepayments, other receivables and other assets	18	50,858	74,137
Film rights and films and TV programmes under production	19	26,103	56,503
Inventories		864	1,259
Investments in films	20	–	15
Cash and cash equivalents	21	31,938	50,666
Total current assets		114,114	199,136
CURRENT LIABILITIES			
Trade payables	22	80	84
Other payables and accruals	23	70,349	69,262
Lease liabilities	13	–	821
Total current liabilities		70,429	70,167
NET CURRENT ASSETS		43,685	128,969
NET ASSETS		154,077	274,697
EQUITY			
Equity attributable to owners of the parent			
Share capital	24	42,090	42,090
Reserves	26	119,765	243,858
		161,855	285,948
Non-controlling interests		(7,778)	(11,251)
Total equity		154,077	274,697

Colin Xu
Director

Leung Wai Shun Wilson
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022



	Attributable to owners of the parent							Subtotal HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000 (note i)	Fair value reserve HK\$'000	Contributed surplus HK\$'000 (note ii)	Other reserve HK\$'000 (note iii)	Exchange reserve HK\$'000	Accumulated losses HK\$'000			
At 1 January 2021	42,090	1,138,909*	(18,858)*	28,294*	14,055*	(17,180)*	(780,011)*	407,299	(2,530)	404,769
Loss for the year	-	-	-	-	-	-	(131,259)	(131,259)	(8,874)	(140,133)
Other comprehensive loss for the year										
Changes in fair value of equity investments FVOCI, net of tax	-	-	(1,148)	-	-	-	-	(1,148)	-	(1,148)
Share of other comprehensive loss of an associate	14	-	-	-	371	-	-	371	-	371
Exchange differences arising from the translation of foreign operations	-	-	-	-	-	10,685	-	10,685	153	10,838
Total comprehensive loss for the year	-	-	(1,148)	-	371	10,685	(131,259)	(121,351)	(8,721)	(130,072)
At 31 December 2021 and 1 January 2022	42,090	1,138,909*	(20,006)*	28,294*	14,426*	(6,495)*	(911,270)*	285,948	(11,251)	274,697
Loss for the year	-	-	-	-	-	-	(94,607)	(94,607)	(8,086)	(102,693)
Other comprehensive loss for the year										
Changes in fair value of equity investments FVOCI, net of tax	-	-	(2,702)	-	-	-	-	(2,702)	-	(2,702)
Exchange differences arising from the translation of foreign operations	-	-	-	-	-	(16,132)	-	(16,132)	907	(15,225)
Total comprehensive loss for the year	-	-	(2,702)	-	-	(16,132)	(94,607)	(113,441)	(7,179)	(120,620)
Release of non-controlling interest upon acquisition of subsidiaries	-	-	-	-	-	332	(9,067)	(8,735)	8,735	-
Release of non-controlling interest upon disposal of subsidiaries	-	-	-	-	-	93	(2,010)	(1,917)	1,917	-
At 31 December 2022	42,090	1,138,909*	(22,708)*	28,294*	14,426	(22,202)	(1,016,954)*	161,855	(7,778)	154,077

* These reserve accounts comprise the consolidated other reserves of HK\$119,765,000 (2021: HK\$243,858,000) in the consolidated statement of financial position

Notes:

- (i) Under the Companies Act 1981 of Bermuda (as amended), the share premium of the Company can be used for paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.
- (ii) The contributed surplus of the Company represents the capital reduction and capital reorganisation of share capital and reserves of the Company during the year ended 31 December 2010. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if: (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.
- (iii) The other reserves mainly represent the proportion of share of reserves of the Group's joint venture and associates.

CONSOLIDATED STATEMENT OF CASH FLOW

Year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(102,691)	(140,130)
Adjustments for:			
Bank interest income	5	(341)	(939)
Finance costs		74	105
Share of losses of associates	14	10,391	6,169
Depreciation of property, plant and equipment	6	8,948	9,744
Depreciation of right-of-use assets	6	943	1,461
Amortisation of intangible assets	6	60	31
Impairment loss recognised in respect of films and TV programmes under production	6	12,348	33,496
Impairment loss on investments in associates	6	2,851	–
Impairment loss on trade and other receivables, net	6	6,414	6,196
Income on film investments	5	–	(297)
Other gains and (losses)	5	(1,417)	795
		(62,420)	(83,369)
Decrease/(increase) in trade receivables		7,955	(7,100)
Decrease/(increase) in other receivables and other assets		15,271	(8,809)
Decrease in film rights and films and TV programmes under production		15,343	51,454
Decrease in contract assets		–	2,404
Decrease/(increase) in inventories		308	(823)
Decrease in trade payables		(3)	(3,122)
Increase in other payables and accruals		4,679	4,291
Cash used in operations		(18,867)	(45,074)
Bank interest received		341	939
Interest paid		(8)	(196)
Tax paid		(2)	–
Net cash flows used in operating activities		(18,536)	(44,331)

CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)

Year ended 31 December 2022



	Notes	2022 HK\$'000	2021 HK\$'000
CASH FLOWS FROM INVESTMENTS ACTIVITIES			
Purchases of items of property, plant and equipment		(1,152)	(3,424)
Proceed from disposal of property, plant and equipment		400	–
Purchase of intangible assets		–	(226)
Proceeds from investments in films		1	1,744
Proceeds from the recovery of amount due of an impaired financial assets at FVTPL		2,211	3,476
Net cash flows generated from investing activities		1,460	1,570
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liabilities	13(b)	(781)	(1,539)
Net cash flows used in financing activities		(781)	(1,539)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		48,266	78,912
Effect of foreign exchange rate changes, net		(893)	13,654
CASH AND CASH EQUIVALENTS AT END OF YEAR		29,516	48,266
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	29,516	48,266
Non-pledged time deposits with original maturity of over than three months when acquired	21	2,422	2,400
Cash and cash equivalents as stated in the statement of cash flows	21	31,938	50,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

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.

2.1 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The following new or amended HKFRSs, potentially relevant to the Group’s consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

HKFRS 17	<i>Insurance Contracts</i> ¹
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹
Amendments to HKFRS 16	<i>Lease liability in a Sale and Leaseback</i> ²
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ²
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2024.

³ The amendments shall be applied prospectively to the sale or combination of assets occurring in annual periods beginning on or after a date to be determined.

The directors of the Company do not anticipate that the applications of the amendments and revision in the future will have significant impacts on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and a joint venture

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and a joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- | | | |
|---------|---|---|
| Level 1 | – | based on quoted prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly |
| Level 3 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable |

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

- (b) the party is an entity where any of the following conditions applies: *(continued)*
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.4% to 10%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture and equipment	20%
Computer equipment	33 $\frac{1}{3}$ %
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Licence with indefinite useful life is stated at cost less any impairment. Other intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Film rights and films and TV programmes under production

Film rights

Film rights are stated at cost less accumulated amortisation and accumulated impairment losses (if any). The Group amortises costs of film rights based on the expected pattern of consumption of the expected future economic benefits. The Group begins to amortise the capitalised costs of film rights when a film is released and it begins to recognise revenue from that film.

At the end of each reporting period, both internal and external market information is considered when assessing whether there is any indication that film rights are impaired. If any such indication exists, the carrying amounts of such assets are assessed and where relevant, impairment losses are recognised to reduce the asset to its estimated recoverable amounts. Such impairment losses are recognised in profit or loss.

Films and TV programmes under production

Films and TV programmes under production represent films, televisions drama series and TV programmes under production and are stated at cost at the date incurred, less any identified impairment losses. Costs include all costs associated with the production of films and TV programmes. Films and TV programmes under production are transferred to film rights when the permit of public screening is received.

At the end of each reporting period, both internal and external market information is considered when assessing whether there is any indication that films and TV programmes under production are impaired. If any such indication exists, the carrying amounts of such assets are assessed and where relevant, impairment losses are recognised to reduce the assets to their recoverable amounts. Such impairment losses are recognised in profit or loss.

Investments in films

The Group has certain investments in film projects which entitle the Group to receive a fixed and/or variable income based on the Group's investment amount and expected rate of return as specified in respective film investment agreements. The investments are carried at cost less any identified impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	3 to 4 years
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If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Group as a lessee *(continued)*

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (“FVTOCI”), and fair value through profit or loss (“FVTPL”).

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for “Revenue recognition” below.

In order for a financial asset to be classified and measured at amortised cost or FVTOCI, it needs to give rise to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at FVTPL, irrespective of the business model.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at FVTOCI are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at FVTPL.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at FVTOCI (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at FVTOCI are not subject to impairment assessment.

Financial assets at FVTPL

Financial assets at fair value through the statement of profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at FVTOCI. Dividends on equity investments classified as financial assets at FVTPL are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVTPL. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVTPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach *(continued)*

The Group considers a financial asset in default when contractual payments are past due for a long period of time. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- | | | |
|---------|---|--|
| Level 1 | – | Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs |
| Level 2 | – | Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs |
| Level 3 | – | Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs |

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Artiste management service income is recognised over the scheduled period on a straight-line basis because the customers simultaneously receive and consume the services rendered by the artistes of the Group as the Group performs.

License income from film rights and films and TV programmes under production licensed for a fixed fee or non-refundable guarantee under a non-cancellable contract is recognised where an assignment is granted to the licensee which permits the licensee to exploit those rights freely, and where the Group has no remaining obligations to perform and when the materials have been delivered to licensee.

Distribution agency income is recognised at the point in time when the services are rendered.

Film production and distribution income is recognised based on the pre-determined share of the distributable box office receipts from the public screening of the related films set out in the respective film investment agreements when the film is released.

TV and internet programme revenue is recognised 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 and the right to receive payment is established, based on the pre-determined share of the sales proceeds from the licensing of the related TV and internet programme set out in the respective agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from contracts with customers *(continued)*

Revenue from new media business includes commission fees, admission fees and grants from live-streamed activities. The Group charges commission fees and admission fees to third-party merchants for participating in the third-party video platforms, where the Group generally is acting as an agent and its performance obligation is to arrange for the provision of the specified goods or services by those third-party merchants. Upon successful sales, the Group charges the third-party merchants a negotiated amount of commission fees and grants based on the sales amount and fixed admission fees. The commission fees are recognised at the point when sale transaction of goods is completed. The admission fees and grants are recognised at the point of completion of live-streamed activities.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Income from investments in film production is recognised when the Group's entitlement to such payments has been established which is subject to the terms of the relevant agreements.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e. transfers control of the related goods or services to the customer).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, binomial model and its variants for share options.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Contributions are made based on a percentage of the employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Group's certain overseas subsidiaries, joint venture and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arises throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Accounting for companies governed under contractual arrangements as subsidiaries

The Company and some of its subsidiaries do not hold any equity interests in certain of their subsidiaries. Nevertheless, under the contractual agreements entered into between the Group and the shareholders who are the registered owners of those subsidiaries, the directors of the Company determine that the Group has the power to govern the financial and operating policies of those subsidiaries so as to obtain benefits from their activities. As such, those subsidiaries are accounted for as subsidiaries of the Group for accounting purposes.

The Group's revenue generated from the entities which are controlled by the Group through the contractual agreements described above amounted to approximately HK\$6,159,000 (2021: HK\$35,684,000) for the year ended 31 December 2022. At 31 December 2022, total assets and total liabilities of these entities amounted to approximately HK\$100,667,000 (2021: HK\$170,535,000) and HK\$536,023,000 (2021: HK\$542,121,000), respectively.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of film rights and films and TV programmes under production

At the end of each reporting period, both internal and external market information are considered when assessing whether there is any indication that film rights and films and TV programmes under production are impaired. If any such indication exists, the carrying amounts of such assets are assessed and where relevant, impairment losses are recognised to reduce the assets to their estimated recoverable amounts. Such impairment losses are recognised in profit or loss.

Management bases its estimates of recoverable amount of each film and TV programme on the historical performance of similar films and TV programmes, incorporating factors such as the past box office record of the leading actors and actresses, the genre of the film, anticipated performance in the home entertainment, television and other ancillary markets, and agreements for future sales.

These estimated recoverable amount can change significantly due to a variety of factors. Such change in estimations may result in the write-down of the carrying values of the assets to their recoverable amounts. This could have an impact on the Group's results of operations. The carrying amounts of film rights and films and TV programmes under production are disclosed in note 19 to the financial statements.

Provision for expected credit losses on other receivables

The loss allowances for other receivables are based on assumptions about risk of default and expected loss rates. The Group makes adjustment in making these assumptions and selecting the inputs to the expected credit loss calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. The information about the provision for expected credit losses on the Group's other receivables is disclosed in note 18 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Impairment of non-financial assets (other than goodwill and film rights and films and TV programmes under production)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Income taxes

The Group is subject to income taxes in various jurisdictions. Estimates are required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises tax liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



4. OPERATING SEGMENT INFORMATION (continued)

(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 (note 5)										
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)	-	-	-
	452	1,480	4,874	31,637	6,488	35,223	(1,281)	-	10,533	68,340
Segment results	(1,711)	(3,011)	(31,741)	(98,523)	(45,992)	(25,951)	-	-	(79,444)	(127,485)
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									(102,691)	(140,130)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

4. OPERATING SEGMENT INFORMATION (continued)

(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
	10,533	68,340	109,399	141,816

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



4. OPERATING SEGMENT INFORMATION (continued)

(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:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

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

Revenue from contracts with customers

(a) Disaggregated revenue information

	2022 HK\$'000	2021 HK\$'000
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
Total revenue from contracts with customers	10,533	68,340
Geographical markets		
Mainland China	10,533	67,617
Hong Kong	–	723
	10,533	68,340
Timing of revenue recognition		
Transferred at a point in time	10,171	66,860
Transferred over time	362	1,480
	10,533	68,340

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



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

Revenue from contracts with customers (continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

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

	2022 HK\$'000	2021 HK\$'000
Other income		
Income on film investments	–	297
Bank interest income	341	939
Others	73	4,026
	414	5,262
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)
	1,417	(875)
	1,831	4,387

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



6. LOSS BEFORE TAX

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

	Notes	2022 HK\$'000	2021 HK\$'000
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
Total cost of sales		29,286	109,840
Auditor's remuneration*		1,675	1,580
Depreciation of property, plant and equipment*	12	8,731	9,744
Depreciation of right-of-use assets*	13(a)	943	1,461
Lease payments not included in the measurement of lease liabilities*	13(c)	1,293	1,289
Amortisation of intangible assets*	16	60	31
Impairment loss recognised in respect of film rights and films and TV programmes under production*	19	12,348	33,496
Impairment loss on trade receivables*	17	3,322	–
Impairment loss on other receivables, net*	18	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
Total Staff costs		29,777	28,531

* 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the applicable GEM Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

For the year ended 31 December 2022:

	Fees HK'000	Salaries, and allowances HK'000	Pension scheme contributions HK'000	Total HK'000
Executive directors:				
Ms. Zhai Shan Shan ¹	–	661	97	758
Mr. Colin Xu ²	–	117	21	138
Mr. Leung Wai Shun Wilson ³	–	825	70	895
Non-executive directors:				
Mr. Zou Xiao Chun	–	–	–	–
Mr. Zhou Ya Fei	–	–	–	–
Mr. Li Xue Song	–	–	–	–
Independent non-executive directors:				
Mr. Lam Cheung Shing Richard	220	–	–	220
Mr. Ng Wai Hung	220	–	–	220
Mr. Wang Ju	220	–	–	220
	660	1,603	188	2,451

¹ Ms. Zhai Shan Shan resigned on 1 November 2022.

² Mr. Colin Xu appointed on 1 November 2022.

³ Mr. Leung Wai Shun Wilson appointed on 19 April 2022.

During the years ended 31 December 2022 and 2021, no share option expense was recognised by the Group (2021: Nil) and no amount is included in the above directors' remuneration disclosures (2021: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2022 and 2021.

During the years ended 31 December 2022 and 2021, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



7. DIRECTORS' REMUNERATION (continued)

For the year ended 31 December 2021:

	Fees HK\$'000	Salaries, and allowances HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
Executive directors:				
Ms. Zhai Shan Shan	–	901	157	1,058
Non-executive directors:				
Mr. Zou Xiao Chun	–	–	–	–
Mr. Zhou Ya Fei	–	–	–	–
Mr. Li Xue Song*	–	–	–	–
Independent non-executive directors:				
Mr. Lam Cheung Shing Richard	240	–	–	240
Mr. Ng Wai Hung	240	–	–	240
Mr. Wang Ju	240	–	–	240
	720	901	157	1,778

¹ Mr. Li Xue Song appointed on 25 October 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2021: one director), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining two (2021: four) highest paid employees who are not directors of the Company are as follows:

	2022 HK\$'000	2021 <i>HK\$'000</i>
Salaries and allowances	1,148	3,344
Pension scheme contributions	53	190
	1,201	3,534

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	2022 HK\$'000	2021 <i>HK\$'000</i>
Nil to HK\$1,000,000	2	3
HK\$1,000,001 to HK\$1,500,000	–	1
	2	4

During the years ended 31 December 2022 and 2021, no share option expense was recognised by the Group and included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

9. INCOME TAX

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

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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



9. INCOME TAX (continued)

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 HK\$'000
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)	-
Total tax expense for the year	2	3

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.

10. DIVIDEND

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

11. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost						
At 1 January 2021	116,372	1,626	16,050	7,373	1,461	142,882
Additions	1,020	1,261	485	658	–	3,424
Disposals	–	–	–	(1)	–	(1)
Exchange realignment	3,631	69	506	235	46	4,487
At 31 December 2021 and at 1 January 2022	121,023	2,956	17,041	8,265	1,507	150,792
Additions	–	588	37	527	–	1,152
Disposal	–	(377)	(133)	(101)	–	(611)
Exchange realignment	(10,021)	(321)	(1,381)	(753)	(116)	(12,592)
At 31 December 2022	111,002	2,846	15,564	7,938	1,391	138,741
Accumulated depreciation						
At 1 January 2021	18,506	692	10,745	7,051	1,461	38,455
Charged for the year	5,216	794	3,376	358	–	9,744
Disposals	–	–	–	(1)	–	(1)
Exchange realignment	641	13	409	222	46	1,331
At 31 December 2021 and at 1 January 2022	24,363	1,499	14,530	7,630	1,507	49,529
Charged for the year	6,294	897	1,394	363	–	8,948
Disposal	–	(63)	(3)	(25)	–	(91)
Exchange realignment	(2,796)	(779)	(651)	(724)	(116)	(5,066)
At 31 December 2022	27,861	1,554	15,270	7,244	1,391	53,320
Net carrying amount						
At 31 December 2022	83,141	1,292	294	694	–	85,421
At 31 December 2021	96,660	1,457	2,511	635	–	101,263

As at 31 December 2022, the certificate of ownership in respect of a building of the Group in Mainland China with a carrying amount of HK\$83,141,000 (2021: HK\$96,660,000) has not been issued by the relevant PRC authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



13. LEASES

The Group as a lessee

The Group has lease contracts for various items of office premises and other equipment used in its operations. Leases of office premises generally have lease terms between 3 and 4 years. Other equipment generally has lease terms of 12 months or less and is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Office premises <i>HK\$'000</i>
As at 1 January 2021	2,401
Depreciation charge	(1,461)
Exchange realignment	50
As at 31 December 2021 and at 1 January 2022	990
Depreciation charge	(943)
Exchange realignment	(47)
At 31 December 2022	-

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Carrying amount at 1 January	821	2,312
Accretion of interest recognised during the year	8	91
Payments	(789)	(1,630)
Exchange realignment	(40)	48
Carrying amount at 31 December	-	821
Analysed into:		
Current portion	-	821

The maturity analysis of lease liabilities is disclosed in note 33 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

13. LEASES (continued)

The Group as a lessee (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2022 HK\$'000	2021 HK\$'000
Interest on lease liabilities	8	91
Depreciation charge of right-of-use assets	943	1,461
Expense relating to short-term lease (included in administrative expenses)	1,019	995
Expense relating to leases of low-value assets (included in administrative expenses)	274	294
Total amount recognised in profit or loss	2,244	2,841

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 33, respectively, to the consolidated financial statements.

14. INVESTMENTS IN ASSOCIATES

	2022 HK\$'000	2021 HK\$'000
Share of net assets	16,333	27,858
Goodwill on acquisition	10,057	10,057
Provision for impairment	(17,048)	(14,268)
	9,342	23,647

The Group's associates are all held through wholly-owned subsidiaries of the Company.

As an associate with live-streaming as its major ordinary business has an unclear future profitability since the National Radio and Television Administration has set clear regulations for internet celebrities, the Group performed an impairment assessment during the year ended 31 December 2022. The recoverable amount of investment in associate has been determined based on a net asset value approach. As a result of this analysis, an impairment of HK\$2,351,000 (2021: HK\$Nil) was recognised in other expenses in the consolidated statement of profit or loss for the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



14. INVESTMENTS IN ASSOCIATES (continued)

As at 31 December 2022, the recoverable amount of another investment in associate has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a 5-year period. The pre-tax discount rate applied to cash flow projections is 17.13% (2021: 14.11%). The growth rate used to extrapolate the cash flows beyond the 5-year period is 3% (2021: 3.0%). As a result of this analysis, an impairment of HK\$500,000 (2021: HK\$Nil) was recognised in other expenses in the consolidated statement of profit or loss for the year ended 31 December 2022.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2022 HK\$'000	2021 HK\$'000
Share of the associates' loss for the year	(10,391)	(6,169)
Share of the associates' other comprehensive income/(loss)	–	371
Share of the associates' total comprehensive loss	(10,391)	(5,798)
Aggregate carrying amount of the Group's investments in the associates	9,342	23,647

15. EQUITY INVESTMENTS DESIGNATED AT FVOCI

	2022 HK\$'000	2021 HK\$'000
Equity securities designated at FVOCI		
Unlisted equity investments, at fair value	993	3,912

The above equity investments were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature. The movements in fair value measurements in Level 3 during the year are disclosed in notes 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

16. INTANGIBLE ASSETS

	License HK\$'000	Other intangible assets HK\$'000	Total HK\$'000
Cost			
At 1 January 2021	15,125	122	15,247
Additions	–	226	226
Impairment	–	–	–
Exchange realignment	473	8	481
At 31 December 2021 and at 1 January 2022	15,598	356	15,954
Exchange realignment	(1,197)	(28)	(1,225)
At 31 December 2022	14,401	328	14,729
Accumulated amortisation			
At 1 January 2021	–	6	6
Charged for the year	–	31	31
Exchange realignment	–	1	1
At 31 December 2021 and At 1 January 2022	–	38	38
Charged for the year	–	60	60
Exchange realignment	–	(5)	(5)
At 31 December 2022	–	93	93
Net carrying amount			
At 31 December 2022	14,401	235	14,636
At 31 December 2021	15,598	318	15,916

The licence was granted by the National Radio and Television Administration of the PRC to Wenzhou City Zhongbo Technology Limited (“Wenzhou Zhongbo”), which was acquired by the Group in 2020, for the permission to conduct certain audio-visual program services.

The license had been expired on 29 July 2022 and in the progress of renewal. In the opinion of the directors of the Company, with reference to the legal opinion received by the management, there should be no legal barrier for the Group to renew such license and that renewals can be obtained for indefinite times of period at minimal cost.

The licence has an indefinite useful life and subject to renewal by the authority. The licence is under the name of Wenzhou Zhongbo exclusively and it is not freely and legally transferable to another PRC company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



16. INTANGIBLE ASSETS (continued)

As at 31 December 2022 and 2021, the licence was stated at cost and no impairment was recognised. An intangible asset with indefinite useful life is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Subsequent to initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

As at 31 December 2022, the recoverable amount of license has been determined based on a value in use calculation using cash flow projections based on financial budgets covering 8-year period. The pre-tax discount rate applied to cash flow projections is 15% (2021: 21%). The growth rate used to extrapolate the cash flows beyond this period is 3% (2021: 3%).

17. TRADE RECEIVABLES

	2022 HK\$'000	2021 HK\$'000
Trade receivables	7,571	16,556
Impairment	(3,220)	–
	4,351	16,556

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 HK\$'000	2021 HK\$'000
0 – 365 days	2,601	16,556
Over 365 days	4,970	–
	7,571	16,556

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

17. TRADE RECEIVABLES (continued)

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

As at 31 December 2021

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 HK\$'000	2021 HK\$'000
Deposits	1,004	899
Prepayments	14,870	28,182
Other receivables	33,236	31,295
Other assets	4,769	14,067
	53,879	74,443
Impairment allowance	(3,021)	(306)
	50,858	74,137

The expected credit losses of financial assets in prepayments, other receivables and other assets are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2022, the impairment allowance of prepayments, other receivables and other assets recognised by the Group mainly included the expected credit losses in deposits and other receivables and the impairment of prepayments.

Included in other receivables, HK\$12,664,000 (2021: HK\$14,697,000) are due from the major shareholders of an associate, which are unsecured, non-interest bearing and repayable on demand.

Financial assets included in prepayments, other receivables and other assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages of measurement of ECLs.

As at 31 December 2022

	Gross carrying amount	Expected credit losses
Stage 1 Stage 1-12-month expected credit loss	19,153	–
Stage 2 Stage 2-Lifetime expected credit loss	15,087	3,021
Stage 3 Stage 3-Lifetime expected credit loss with credit impaired	–	–
	34,240	3,021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

As at 31 December 2021

		Gross carrying amount	Expected credit losses
Stage 1	Stage 1-12-month expected credit loss	31,888	–
Stage 2	Stage 2-Lifetime expected credit loss	–	–
Stage 3	Stage 3-Lifetime expected credit loss with credit impaired	306	306
		32,194	306

The movements in provision for impairment of other receivables are as follows:

	2022 HK\$'000	2021 HK\$'000
At 1 January	306	56,378
Impairment losses recognised	3,092	6,196
Amount written off as uncollectible	(265)	(63,210)
Exchange realignment	(112)	942
At 31 December	3,021	306

The movements in provision for impairment of prepayments are as follows:

	2022 HK\$'000	2021 HK\$'000
At 1 January	–	2,171
Amount written off as uncollectible	–	(2,308)
Exchange realignment	–	137
At 31 December	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



19. FILM RIGHTS AND 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

20. INVESTMENTS IN FILMS

	Investments in films HK\$'000
As at 1 January 2021	5,764
Derecognitions	(5,718)
Exchange realignment	(31)
As at 31 December 2021 and at 1 January 2022	15
Derecognitions	(13)
Exchange realignment	(2)
At 31 December 2022	-

During the year ended 31 December 2022, the Group did not have any new film investment agreements. (2021: one film investment agreement amounting to HK\$15,000) The investment is governed by the relevant agreements entered into between the Group and the production houses whereby the Group is entitled to a pre-agreed percentage of the net income agreed with the production house in 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



21. CASH AND CASH EQUIVALENTS

	2022 HK\$'000	2021 HK\$'000
Cash and bank balances	29,516	48,266
Non-pledged time deposits with original maturity of less than three months when acquired	-	-
	29,516	48,266
Non-pledged time deposits with original maturity of over three months when acquired	2,422	2,400
Cash and cash equivalents as stated in the statement of financial position	31,938	50,666

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in United States Dollars ("USD"), South Korea Won ("KRW") and Renminbi ("RMB") amounted to approximately HK\$3,962,000 (2021: HK\$3,077,000), HK\$383,000 (2021: HK\$450,000) and HK\$14,481,000 (2021: HK\$33,163,000), respectively.

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

22. 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 HK\$'000	2021 HK\$'000
Within 1 year	80	84

The trade payables are non-interested bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

23. OTHER PAYABLES AND ACCRUALS

	Notes	2022 HK\$'000	2021 HK\$'000
Contract liabilities	(a)	623	1,045
Salary payables		1,176	2,446
Other payables	(b)	66,379	63,271
Accruals		2,171	2,500
		70,349	69,262

Notes:

(a) Details of contract liabilities are as follows:

	2022 HK\$'000	2021 HK\$'000
<i>Short-term advances received from customers</i>		
New media business	623	1,045

Contract liabilities include short-term advances received to deliver film rights, artiste management, new media business and other services.

(b) Other payables mainly contain of building consideration payable of HK\$41,026,000 (2021: HK\$44,439,000) and amount due to non-controlling shareholder of HK\$470,000 (2021: HK\$482,000). It is non-interest-bearing and have no fixed terms of repayments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



24. SHARE CAPITAL

	2022 Number of shares '000	2022 Share capital HK\$'000	2021 Number of shares '000	2021 Share capital HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At 1 January and 31 December	8,000,000	80,000	8,000,000	80,000
Issued and fully paid:				
At 1 January and 31 December	4,209,130	42,090	4,209,130	42,090
Preferred shares of HK\$0.01 each				
Authorised:				
At 1 January and 31 December	2,000,000	20,000	2,000,000	20,000
Issued and fully paid:				
At 1 January and 31 December	-	-	-	-

25. SHARE-BASED PAYMENT TRANSACTION

Share option scheme

Pursuant to a resolution passed at the annual general meeting of the Company held on 10 June 2014, a share option scheme ("Option Scheme") was adopted by the Company.

The major terms of the Option Scheme are summarised as follows:

- (i) The purpose is to enable the Company to grant options to the participants in order to recognise and motivate the contributions of the participants of the Group.
- (ii) The eligible participants include full time or part time employees of the Group (including any directors, whether executive or non-executive and whether independent or not, of the Company or any subsidiary); any holder of any securities issued by the Group; and any business or joint venture partners, contractors, agents or representatives, consultants, advisers, suppliers, producers or licensors, customers, licensees (including any sub-licensee) or distributors, landlords or tenants (including any sub-tenants) of the Group or any Invested Entity or any person who, in the sole discretion of the board of directors, has contributed or may contribute to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

25. SHARE-BASED PAYMENT TRANSACTION *(continued)*

Share option scheme *(continued)*

- (iii) The total number of shares in respect of which share options may be granted under the Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Option Scheme and any other share option scheme must not exceed 30% of the shares in issue from time to time.
- (iv) The total number of shares issued and to be issued upon exercise of the share options granted to each participant or grantee (including exercised, cancelled and outstanding share options) in any 12-month period shall not exceed 1% of the shares in issue from time to time unless the same is approved by the shareholders.
- (v) The total number of shares issued and to be issued upon exercise of the share options granted to each substantial shareholder (as defined in the GEM Listing Rules) of the Company or any of its respective associates or an independent non-executive director or any of his associates (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such grant shall not: (a) represent in aggregate over 0.1% of the shares in issue; and (b) have an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5 million, unless the same is approved by the shareholders.
- (vi) The exercise period should be determined by the board of directors upon grant of the share options but in any event should not exceed 10 years from the date of offer for grant.
- (vii) Save as determined by the board of directors provided in the offer of the grant of the relevant share options, there is no general requirement that a share option must be held for any minimum period before it can be exercised.
- (viii) The acceptance of a share option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1 from the grantee to the Company.
- (ix) The subscription price of a share option must not be less than the highest of:
 - a. the closing price of a share of the Company on the Stock Exchange on the date of grant;
 - b. the average closing price of a share of the Company from the five business days immediately preceding the date of grant; and
 - c. the nominal value of a share of the Company on the date of grant.
- (x) The Option Scheme is effective for 10 years from the date of adoption.

All the outstanding share options are vested one year after the grant date.

During the year ended 31 December 2022 and 2021, no options were granted and no share-based compensation options were recognised. As at 31 December 2022 and 2021, there was no outstanding share option under the Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



26. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 42 of the financial statements.

In accordance with the regulations in the PRC and the respective articles of association, the PRC subsidiaries of the Group are required to make an appropriation of retained profits equal to at least 10% of their respective after tax profits, calculated in accordance with the PRC accounting standards and regulations. Such appropriations are classified in the consolidated statement of financial position as statutory reserves and start from the first period in which after-tax profits exceed all prior year accumulated losses. Appropriations to these reserves are not required after these reserves have reached 50% of the registered capital of the respective companies. In addition, the PRC subsidiaries may, subject to a shareholders' resolution, draw a discretionary reserve from their after-tax profits. The reserves shall be used to offset accumulated losses, or to increase registered capital of the companies. Where the statutory reserves are converted into capital, the remaining statutory reserve balance shall be no less than 25% of the registered capital prior to the conversion.

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	2022 Lease liabilities HK\$'000	2021 Lease liabilities HK\$'000
At 1 January	821	2,312
Changes from financing cash flows	(781)	(1,539)
Interest paid classified as operating cash flows	(8)	(91)
Interest expense	8	91
Exchange realignment	(40)	48
At 31 December	–	821

(b) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2022 HK\$'000	2021 HK\$'000
Within operating activities	1,293	1,289
Within financing activities	781	1,539
	2,074	2,828

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

28. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2022 HK\$'000	2021 HK\$'000
The non-controlling shareholder of a subsidiary			
Purchase of inventories	(i)	–	2,587
Companies with common controlling shareholder			
Provision of new media business services	(i)	–	2,875

Note:

- (i) The transactions were carried out in accordance with terms and conditions mutually agreed by the parties involved.

(b) Outstanding balances with related parties

- (i) The balances due to a non-controlling shareholder of a subsidiary of HK\$470,000 (2021: 482,000), included in the Group's other payables and accruals, are unsecured, interest-free and have no fixed terms of repayments.
- (ii) The balances due from companies with common controlling shareholder of HK\$9,000 (2021: HK\$28,000), included in the Group's trade receivables, are unsecured, interest-free and have no fixed terms of repayments.

(c) Compensation of key management personnel

	2022 HK\$'000	2021 HK\$'000
Salaries and allowances	3,953	3,344
Pension scheme contributions	252	190
	4,205	3,534

29. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2022 HK\$'000	2021 HK\$'000
Contracted, but not provided for:		
Property, plant and equipment	1,266	2,010
Film rights and films and TV programmes under production	23,493	38,549
	24,759	40,559

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



30. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of the reporting period (2021: Nil).

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2022

Financial assets

	Financial assets at amortised costs <i>HK\$'000</i>	Financial assets at fair value through other comprehensive income – Equity investments <i>HK\$'000</i>	Total <i>HK\$'000</i>
Equity investments designated at fair value through other comprehensive income	–	993	993
Trade receivables	4,351	–	4,351
Financial assets included in other receivables and other assets	31,219	–	31,219
Cash and cash equivalents	31,938	–	31,938
	67,508	993	68,501

Financial liabilities

	Financial liabilities at amortised cost <i>HK\$'000</i>
Trade payments	80
Financial liabilities included in other payables and accruals	69,726
	69,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

31. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2021

Financial assets

	Financial assets at amortised costs HK\$'000	Financial assets at fair value through other comprehensive income – Equity investments HK\$'000	Total HK\$'000
Equity investments designated at fair value through other comprehensive income	–	3,912	3,912
Trade receivables	16,556	–	16,556
Financial assets included in other receivables and other assets	31,888	–	31,888
Cash and cash equivalents	50,666	–	50,666
	99,110	3,912	103,022

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Trade payments	84
Financial liabilities included in other payables and accruals	68,217
Lease liabilities	821
	69,122

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2022 HK\$000	2021 HK\$'000	2022 HK\$000	2021 HK\$'000
Equity investments at FVOCI	993	3,912	993	3,912

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, amounts due from/to related parties and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumption were used to estimate the fair values:

The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique and income approach with the discounted cash flow method based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation “EV/ EBITDA”) multiple and price to earnings (“P/E”) multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The valuation also requires the directors to determine the amounts of premiums and discounts that market participants would take into account when pricing the investments. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

Assets measured at fair value:

As at 31 December 2022

	Fair value measurement using			Total HK\$'000
	Quoted prices In active markets (Level 1) HK\$'000	Significant observable Inputs (Level 2) HK\$'000	significant unobservable inputs (Level 3) HK\$'000	
Equity investments at FVOCI	–	–	993	993

As at 31 December 2021

	Fair value measurement using			Total HK\$'000
	Quoted prices In active markets (Level 1) HK\$'000	Significant observable Inputs (Level 2) HK\$'000	significant unobservable inputs (Level 3) HK\$'000	
Equity investments at FVOCI	–	–	3,912	3,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

The movements in fair value measurements in Level 3 during the year are as follows:

	2022 HK\$'000	2021 HK\$'000
Equity investments at FVOCI – unlisted:		
At 1 January	3,912	4,925
Fair value loss recognised in other comprehensive income	(2,702)	(1,148)
Exchange realignment	(217)	135
	993	3,912

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2022 and 2021:

	Valuation Technique	Significant unobservable input	Input	Sensitivity of fair value to the input
Equity investments designated at fair value through other comprehensive income	Valuation multiples	Average EV/EBITDA multiple of peers	13.8	10% (2021:10%) increase (decrease) in multiple would result in increase (decrease) in fair value by HK\$119,000 (HK\$120,000) (2021: HK\$380,000 (HK\$378,000))
	Income approach with the discounted cash flow method	Discounted for lack of marketability	15.8%	5% (2021:5%) increase (decrease) in discount would result in decrease (increase) in fair value by HK\$6,000 (HK\$5,000) (2021: HK\$29,000 (HK\$31,000))

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily from its bank balances with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

At the end of the reporting period, the Group had no significant exposures to interest rate risk. The exposures to the interest rate risk are monitored on an ongoing basis.

Foreign currency risk

The Group operates in Hong Kong, Korea and Mainland China and the majority of transactions are denominated in HK\$, USD, KRW and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the relevant entity.

At the end of each reporting period, the carrying amounts of the Group's monetary assets and liabilities, which are denominated in foreign currencies, are as follows:

	Assets		Liabilities	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
RMB	67,041	101,263	69,726	65,788
USD	3,962	3,077	–	–
KRW	383	450	–	–

The Group is mainly exposed to the foreign currency risk of RMB, USD and KRW against HK\$. Management will monitor foreign exchange exposure to mitigate the foreign currency risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Sensitivity analysis

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in HK\$ against RMB, USD and KRW, with all other variables held constant, of the Group's profit before tax (due to changes in the monetary assets and liabilities).

	Increase/ (decrease) in HK\$ rate	Increase/ (decrease) in Loss before tax HK\$'000
2022		
If RMB weakens against HK\$	5%	83
If RMB strengthens against HK\$	(5%)	(83)
2021		
If RMB weakens against HK\$	5%	1,773
If RMB strengthens against HK\$	(5%)	(1,773)

Management considered the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the exposure at the end of the reporting period did not reflect the exposure during the year.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2022

	12-month ECLS	Lifetime ECLs			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
Trade receivables*	–	–	–	4,351	4,351
Financial assets included in prepayments, other receivables and other assets					
– Normal**	19,153	–	–	–	19,153
– Doubtful**	–	15,087	–	–	15,087
Cash and cash equivalents					
– Not yet past due	31,938	–	–	–	31,938
	51,091	15,087	–	4,351	70,529

As at 31 December 2021

	12-month ECLS	Lifetime ECLs			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
Trade receivables*	–	–	–	16,556	16,556
Financial assets included in prepayments, other receivables and other assets					
– Normal**	31,888	–	–	–	31,888
– Doubtful**	–	–	306	–	306
Cash and cash equivalents					
– Not yet past due	50,666	–	–	–	50,666
	82,554	–	306	16,556	99,416

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the consolidated financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Further quantitative data in respect of the Group's exposure to credit risk arising from other receivables are disclosed in note 18 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial instruments and projected cash flows from operations.

The liquidity risk is under continuous monitoring by management. The management of the Company will raise bank borrowings whenever necessary.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Within 1 year or on demand HK\$'000	Over 1 year HK\$'000	Total HK\$'000
At 31 December 2022			
Trade payables	80	–	80
Other payables and accruals	69,726	–	69,726
	69,806	–	69,806
At 31 December 2021			
Trade payables	84	–	84
Other payables and accruals	68,217	–	68,217
Lease liabilities	821	–	821
	69,122	–	69,122

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the parent, comprising mainly share capital and reserve.

Management reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of management, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group is not subject to any externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The gearing ratio at the end of the reporting period was as follows:

	2022 HK\$'000	2021 HK\$'000
Trade payables	80	84
Other payables and accruals	70,349	69,262
Lease liabilities	–	821
Total debt (note i)	70,429	70,167
Equity attributable to owners of the parent	161,855	285,948
Total debt to equity ratio	43.51%	24.54%

Note:

- (i) Total debt comprises trade payables, other payables and accruals and lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

34. PARTICULARS OF INTERESTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of Incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Percentage of equity attributable to the Company		Principal activities
			2022	2021	Direct	Indirect	
			Direct	Indirect	Direct	Indirect	
Lajin Film Co., Limited	British Virgin Islands	US\$1	100	–	100	–	Investment holding
Lajin Sino-Korean Entertainment Holding Limited	British Virgin Islands	US\$1	100	–	100	–	Investment holding
Lajin Entertainment Network (HK) Limited	Hong Kong	US\$1	100	–	100	–	Investment holding
Lajin Global Pictures (HK) Limited	Hong Kong	US\$1	100	–	100	–	Investment holding
Hong Kong Xuanhe Management Limited	Hong Kong	HK\$29,000,000	–	100	–	100	Artists management and investment holding
Lajin IFilm Limited	Hong Kong	HK\$1,560,000	–	60	–	60	Cultural and entertainment media contents
Lajin Sino-Korean Entertainment Limited	Hong Kong	HK\$1	–	100	–	100	Investment holding
Lajin Sport Limited	Hong Kong	HK\$1	–	100	–	100	Investment holding
Lajin Picture Limited	Hong Kong	HK\$1	–	100	–	100	Investment holding
Lajin Power (HK) Limited	Hong Kong	HK\$2	–	100	–	100	Sourcing and production of media contents
北京拉近互動傳媒科技有限公司(i)	PRC/Mainland China	RMB250,000,000	–	100	–	100	Culture and entertainment Media contents
北京拉近互娛文化傳媒有限公司(ii)	PRC/Mainland China	RMB10,000,000	–	100	–	100	Culture and entertainment Media contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



34. PARTICULARS OF INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

Name	Place of Incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2022		Percentage of equity attributable to the Company 2021		Principal activities
			Direct	Indirect	Direct	Indirect	
稼軒環球影業有限公司(ii)	PRC/Mainland China	RMB50,000,000	-	100	-	100	Culture and entertainment Media contents
北京拉近影業有限公司(ii)	PRC/ Mainland China	RMB3,000,000	-	100	-	100	Culture and entertainment Media contents
柏視數碼(上海)有限公司(i)	PRC/ Mainland China	US\$10,000,000	-	100	-	100	Digital technology
北京新美星秀文化傳媒有限公司	PRC/ Mainland China	RMB625,000	-	80	-	80	Artists management
北京大早晚集影視傳媒有限公司	PRC/ Mainland China	RMB3,000,000	-	100	-	100	Culture and entertainment Media contents
溫州市眾博科技有限公司(ii)	PRC/ Mainland China	RMB12,000,000	-	100	-	100	Culture and entertainment Media contents
拉近沃星影業(天津)有限公司(ii)	PRC/ Mainland China	RMB5,000,000	-	50.1	-	50.1	Culture and entertainment Media contents
北京拉近星途科技傳媒有限公司	PRC/ Mainland China	RMB10,000,000	-	100	-	51	New media e-commerce business

(i) Companies are registered as wholly-foreign-owned enterprises under PRC law.

(ii) The Company does not have legal ownership in the equity of these subsidiaries. However, under certain contractual agreements (including power of attorney agreement, loan agreement, equity option agreement, equity interest pledge agreement and exclusive technical consulting and services agreement) entered into with the registered owners of these subsidiaries, the Company and its other legally-owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally-owned subsidiaries. As a result, these companies are treated as subsidiaries of the Company and their financial results have been consolidated by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

- (a) Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 HK\$'000	2021 HK\$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	140,532	140,532
Current assets		
Prepayments, other receivables and other assets	30,886	26,978
Due from subsidiaries	170,651	234,912
Cash and cash equivalents	3,948	1,512
Total current assets	205,485	263,402
LIABILITIES		
Current liabilities		
Other payables and accruals	2,182	2,080
Net current assets	203,303	261,322
Net assets	343,835	401,854
EQUITY		
Share capital	42,090	42,090
Reserves	301,745	359,764
Total equity	343,835	401,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 December 2022



35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

(b) A summary of the Company's reserves is as follows:

	Share premium <i>HK\$'000</i> <i>(note i)</i>	Contributed surplus <i>HK\$'000</i> <i>(note ii)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2021	1,138,909	28,294	(813,550)	353,653
Profit and total comprehensive income for the year	–	–	6,111	6,111
At 31 December 2021 and 1 January 2022	1,138,909	28,294	(807,439)	359,764
Profit and total comprehensive income for the year	–	–	(58,019)	(58,019)
At 31 December 2022	1,138,909	28,294	(865,458)	301,745

Notes:

- (i) Under the Companies Act 1981 of Bermuda (as amended), the share premium of the Company can be used for paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.
- (ii) The contributed surplus of the Company represents the capital reduction and capital reorganisation of share capital and reserves of the Company during the year ended 31 December 2010. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if: (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 31 March 2023.

SUMMARY OF FINANCIAL INFORMATION

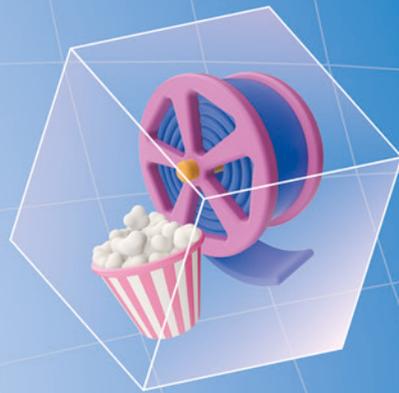
A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below. This summary does not form part of the audited financial statements.

RESULTS

	2022 HK\$'000	For the year ended 31 December			
		2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000
Revenue	10,533	68,340	20,660	31,868	43,133
Loss before tax	(102,691)	(140,130)	(131,221)	(89,918)	(237,010)
Income tax (expense)/credit	(2)	(3)	(5)	742	92
Loss for the year	(102,693)	(140,133)	(131,226)	(89,176)	(236,918)
Loss for the year attributable to:					
Owners of the parent	(94,607)	(131,259)	(130,339)	(87,588)	(236,071)
Non-controlling interests	(8,086)	(8,874)	(887)	(1,588)	(847)
	(102,693)	(140,133)	(131,226)	(89,176)	(236,918)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	2022 HK\$'000	At 31 December			
		2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000
Total assets	224,506	344,864	473,169	594,099	700,788
Total liabilities	(70,429)	(70,167)	(68,400)	(70,784)	(80,134)
Non-controlling interests	7,778	11,251	2,530	1,736	170
	161,855	285,948	407,299	525,051	620,824



Lajin 拉近

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