2016
ANNUAL REPORT

阿里巴巴影业集团™
Alibaba Pictures

Alibaba Pictures Group Limited
阿里巴巴影業集團有限公司

Stock Code:1060

This Annual Report is printed on environmentally friendly paper

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yu Yongfu *(Chairman & Chief Executive Officer)*
Mr. Zhang Qiang *(Co-President)*
Ms. Zhang Wei *(Co-President)*
Mr. Fan Luyuan

Non-Executive Directors

Mr. Li Lian Jie
Mr. Shao Xiaofeng

Independent Non-Executive Directors

Ms. Song Lixin
Mr. Tong Xiaomeng
Mr. Johnny Chen

EXECUTIVE COMMITTEE

Mr. Yu Yongfu *(Chairman)*
Mr. Zhang Qiang
Ms. Zhang Wei
Mr. Fan Luyuan

REMUNERATION COMMITTEE

Mr. Tong Xiaomeng *(Chairman)*
Mr. Yu Yongfu
Ms. Song Lixin

AUDIT COMMITTEE

Mr. Johnny Chen *(Chairman)*
Ms. Song Lixin
Mr. Tong Xiaomeng

NOMINATION COMMITTEE

Mr. Yu Yongfu *(Chairman)*
Mr. Tong Xiaomeng
Mr. Johnny Chen

COMPANY SECRETARY

Mr. Ng Lok Ming, William

AUDITOR

PricewaterhouseCoopers

WEBSITE

www.irasia.com/listco/hk/alibabapictures

PRINCIPAL BANKERS

China CITIC Bank International Limited
China Merchants Bank Co., Ltd.
Bank of Communications Co., Ltd.
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Level 22, Hopewell Centre
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SINGAPORE SHARE TRANSFER AGENT

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Singapore 048623

STOCK CODE

Stock Code on The Stock Exchange of Hong Kong Limited: 1060
Stock Code on the Singapore Exchange Securities Trading Limited: S91

CHAIRMAN'S STATEMENT

Dear Shareholders,

Having joined the Board of Directors of Alibaba Pictures Group Limited (the "Company" or "Alibaba Pictures", together with its subsidiaries, the "Group" or "we" or "us" or "our") in November 2016, I was appointed as CEO in December. Given the continuous investment in its platform infrastructure and business foundation over the last several years, the Group is about to enter into a phase of development characterized by robust business expansion. I feel greatly confident and excited about the prospects of the Group.

The continual rise of the middle class in China poses significant implications on the current and future consumption structure. It is expected that a larger portion of the population's rising disposable income is likely to be spent on products and services for entertainment purposes. According to data from the State Administration of Press, Publication, Radio, Film and Television in China ("SARFT") and National Association of Theatre Owners in the U.S., the number of cinema admissions in China have surpassed that of North America for the first time in 2016. Given the rising consumer demand, the domestic media and entertainment industry is expected to continue its growth.

As a macro trend, management is aware that the film industry, both in terms of content and marketing channels to the users, is experiencing a transformation from digitalization to networked, and further to intelligence stage. Particularly, in China, such transformation is progressing rigorously.

In view of the rapid evolution of industry structure and consumer behavior, the Group will continue to formulate its business layout and upgrade its services around the entertainment ecosystem in the long run. Relying on data and technological strength, and tapping opportunities that arise from movement of the film industry towards digitalization, networked and intelligence, the Group intends to build a new infrastructure for the film industry.

From the user end (C end), the Group is committed to becoming a new infrastructure for distributing movie contents to users. Currently, the Group has established a solid business foundation in terms of film promotion, distribution and ticketing through its online ticketing platform, Tao Piao Piao, with such platform gradually upgrading from a ticketing platform to a social platform revolving around movie contents, the Group is providing various studios with more content marketing tools with direct access to users. Such ongoing business upgrade has effectively increased Tao Piao Piao's market share, and currently, Tao Piao Piao has become a leading online ticketing platform that has access to more than 6,000 cinemas in China.

From the studios and cinemas end (B end), the Group will, through its digitalized, networked, and intelligent product innovation and systematic solutions, facilitate cinemas and studios to enhance their production, operation, promotion efficiency, such that, the Group's products and services could become industry-wide infrastructure, and thus be able to serve a wider range of customer groups. We will continue to enrich the overall attractiveness of Tao Piao Piao for the users, as well as deepen the partnership between Yueke and cinemas through its value-added services. Together with the enhancement of on-the-ground promotion and distribution capabilities, the Group will accomplish the offline-to-online transition. In the future, the Group will increase user loyalty and usage duration on its platform by bringing together more content and social features to its products, and continue to grow its App (Tao Piao Piao), while strengthening its traffic linkage with Alibaba Group through multiple entry points, with the aim to create a "marketing service platform" that feeds movie content directly to users.

CHAIRMAN'S STATEMENT

After years of extraordinary growth in domestic box office, China's film industry has gradually matured. According to statistics published by SARFT, total revenue generated from box offices in China reached RMB45.7 billion in 2016, recording a growth of 4% year-on-year, compared to a growth of 48.7% in the previous year. Going forward, it is expected that China's box office will gradually return to a cycle of normalized growth. In terms of content distribution, online video streaming sites exhibited strong growths, as was evident from the increase in viewing hits and the number of paid memberships. Therefore, in addition to its continuous investment in blockbuster film projects such as *Once Upon a Time* (三生三世十里桃花) and *Gujian Qitan 2* (古劍奇譚2), the Group will also allocate sufficient resources to the creation and production of drama series, aimed to be released through online video streaming sites or TV stations.

During the year, the Group's former Entertainment e-commerce business (including Yulebao business and copyright licensing business) had been upgraded into the Group's Integrated Development Department. In addition to improving the existing financing function for entertainment projects, the Group will establish a comprehensive copyright operation team. Focused on the comprehensive development of copyright values, the Group will seek to integrate copyrights owned by Alibaba Group's media and entertainment segment, and provide a comprehensive series of copyright-related professional services ranging from financing, business placement, promotion and distribution to the development of related merchandise, offering an innovative service model for integrated copyright development.

During 2016, in addition to strengthening the Group's operating assets, the Group continued to utilize its financial resources to grow its business profile through investments and acquisitions. Domestically, the Group invested in Dadi Cinema Group and further invested in BONA Film Group. Internationally, the Group invested in Amblin Partners (led by Steven Spielberg), with whom it will work together to co-produce and invest in film projects that aim to provide quality movie contents to the global and Chinese audiences. Based on the online promotion and distribution platform developed by the Group, the Group will continue to make bolt-on investments in quality businesses that could create value for the entire entertainment ecosystem.

The Group has been collaborating with Hollywood's first tier studios since 2015. Access to international projects and global leading talents will serve to strengthen the Group's overall production and distribution capabilities. As innovative ideas often derive from exposure to different cultures and perspectives, we will continue to work with our global partners in bringing more original and exciting contents to our users.

As the Group further develops its businesses, adopting a data driven approach is critical in business decision-making. In the digital age, data not only brings insights into business enhancement and improves business decisions, it also contributes to the artistic creation of entertainment contents. It is through big data that we will be able to generate entertainment contents that suit the general audiences' preferences, and deliver the appropriate contents to each consumer according to their individual tastes. In light of the benefits already received, we will continue to improve and enhance our capability to utilize data.

At the same time that I serve as the CEO and chairman of the Board of Alibaba Pictures, I also head several businesses under the media and entertainment segment of Alibaba Group, including, among others, UCWeb, Youku Tudou, Alibaba Literature, Alibaba Gaming. These businesses have a natural synergy with the Group. We will focus on connecting and integrating these business units, thoroughly uncovering and enhancing their commercial values, and strive to align their developmental goals and plans. We are also committed to achieving strategic resource identification and sharing at a higher level, which is critical in maximizing the commercial interests of the Group.

Among these different business units, Alibaba Pictures will become a production center and a platform for the promotion and distribution of entertainment contents. Currently, Alibaba Pictures not only serves consumers (C end) but also studios and cinemas (B end). I expect that the Group's commercial reach will soon extend to online video streaming sites and other businesses whose products or services can be promoted using entertainment contents. Future opportunities for the Group's businesses are unlimited.

On behalf of the Board, I would like to thank our staff for their hard work and commitment over the past year. My sincere gratitude also goes to our customers, business partners and shareholders.

Our journey is only beginning.

Yu Yongfu
Chairman

Hong Kong, March 30, 2017

BUSINESS REVIEW

Major indicators of the financial results for the years ended December 31, 2016 and 2015 are summarised in the table below:

	Year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Continuing operations		
Revenue	**904,582**	263,717
Gross profit/(loss)	**186,052**	(25,064)
(Loss)/profit for the year from continuing operations	**(976,144)**	472,703
Discontinued operations		
Loss for the year from discontinued operations	**–**	(6,689)
(Loss)/profit for the year	**(976,144)**	466,014
(Loss)/profit attributable to owners of the Company	**(958,576)**	466,040

	Segment revenue		Segment results	
	Year ended December 31,		Year ended December 31,	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Continuing operations				
Internet-based promotion and distribution	**682,607**	136,250	**(607,448)**	21,887
Content production	**211,834**	124,220	**(243,486)**	(99,143)
Integrated development	**6,010**	2,807	**(14,955)**	1,685
Other operations	**4,131**	440	**4,131**	221
Total	**904,582**	263,717	**(861,758)**	(75,350)

OVERVIEW

In 2016, the movie industry in China continued to witness healthy development, while the box office growth slowed down. According to SARFT, the box office across the country amounted to RMB45.7 billion in 2016, representing a growth of 4% year-on-year. According to data from SARFT and National Association of Theatre Owners in the U.S., the number of cinema admissions in China have surpassed that of North America for the first time in 2016. In this fast growing industry, the Group continued to invest capital and resources into its entertainment ecosystem which centered on the Internet, further enhancing its business capacity. In 2016, the Group obtained significant results in integrating operating assets including Yueke and Tao Piao Piao, and achieved a robust revenue growth of 243% year-on-year to RMB904.6 million.

Over the past years, online movie ticketing in China has been growing rapidly. By the Group's estimate, nearly 80% of all movie tickets sold in China are being purchased through online movie ticketing platforms. Not only have online movie ticketing platforms changed the consumer-end spending pattern, they have also become important partners of studios and cinemas gradually. According to the Ent Group, more than 450 new films were released in Mainland China in 2016. In addition to providing convenience in ticket purchase, online movie ticketing platforms have become an important channel for the release of film information. The number of cinemas has been growing continuously over the past years. According to SARFT, as of the end of 2016, there were more than 7,800 cinemas across the country, representing an increase of 23% year-on-year.

In 2016, the Group recorded a net loss of RMB976.1 million, compared with a profit of RMB466.0 million in the previous year. The net loss in 2016 was primarily attributable to the marketing expenses incurred by Tao Piao Piao, mainly consisting of ticket subsidies to movie-goers. Utilizing this marketing strategy, Tao Piao Piao has successfully built a user base, with its market share rising continuously. As of December 31, 2016, Tao Piao Piao, the Group's online movie ticketing platform, had accessed more than 6,000 cinemas. The O2O movie ticketing model has moved gradually into a mature stage. In the meantime, Tao Piao Piao had expanded its revenue base gradually in the second half of 2016. The Group will adjust and optimize the business model of Tao Piao Piao flexibly in response to market conditions in a timely manner.

In the fourth quarter of 2016, the Group made certain adjustments to the governance functions and the management. Mr. Yu Yongfu was appointed as chairman of the Board and CEO. Mr. Yu has extensive experience in investment, business venture and business management. He is currently developing the overall operating strategy for the Group, and reviewing and adjusting each business segment. The business segments following the adjustments include: (i) internet-based promotion and distribution, (ii) content production, and (iii) integrated development.

The Group will firmly maintain its focus on the cultural and entertainment industry. In addition to enhancing the core competence of individual business lines, the Group will experiment the integration of resources with Alibaba Group's Cultural and Entertainment unit, and actively develop innovative business models.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

INTERNET-BASED PROMOTION AND DISTRIBUTION

During the year, the Group continuously invested substantial resources and efforts in integrating the online movie ticketing platform Tao Piao Piao with the Group's existing resources, with a view to improving its overall business profile. Combining both online and offline promotional and distribution capabilities, Tao Piao Piao has strengthened its core competitive strength and differentiated itself from some of its competitors in terms of its products and operations. In 2016, Tao Piao Piao participated in the promotion and distribution of a number of films including Skiptrace (絕地逃亡), The BFG (圓夢巨人) and Cock and Bull (追凶者也), thereby obtaining invaluable experience and becoming an important partner of studios in promotion and distribution. In May 2016, Tao Piao Piao completed Series A financing of RMB1.7 billion. The proceeds were used to support the implementation of Tao Piao Piao's operating plan. Benefiting from its effective market strategy, Tao Piao Piao's market share has been rising significantly since 2016. Beginning from the second half of 2016, Tao Piao Piao has further expanded its revenue base, making significant contribution to the Group's revenue growth.

Along with the rising trend of overall box office and online movie ticketing, Yueke showed steady performance in 2016, making significant contribution to the Group's revenue and profit.

In terms of financial results, the Group's internet-based promotion and distribution business line generated RMB682.6 million of revenue in 2016, a significant increase from RMB136.3 million for 2015. However, as a result of the marketing expenses incurred by Tao Piao Piao, the segment loss for the year amounted to RMB607.4 million compared with a segment profit of RMB21.9 million for 2015.

In order to further enhance the promotion and distribution chain in the industry, the Group invested in small cinema operators and promotion and distribution companies of certain strength in 2016. These strategic assets helped the Group gain an insight into the business characteristics and demand of the participants in the industry chain quickly, enabling the Group to develop more services and products with added value for studios and cinemas through its powerful Internet-based promotion and distribution system.

CONTENT PRODUCTION

In 2016, the Group made steady progress on each project of content production. Of the films produced by the Group, Soul Mate (七月與安生) and Ferry Man (擺渡人) received 12 and 7 nominations respectively at the 36th Hong Kong Film Awards. Two actresses of Soul Mate were both awarded the Best Actress at Golden Horse Awards in 2016. Alibaba Pictures will continue to develop and produce quality contents. The filming for Once Upon a Time (三生三世十里桃花), a film adaptation of the acclaimed Chinese fantasy romance novel of the same name, has been completed and its visual effect is currently being developed. This film is scheduled to debut during the summer of 2017. Also, Ao Jiao Yu Pian Jian (傲嬌與偏見), a romance comedy developed and produced by the Group, is scheduled to be released in April 2017. Other major projects in early stage development include Gujian Qitan 2 (古劍奇譚2), the theme of which was derived from a widely popular game of the same name. Gujian Qitan 2 will be developed into a film and TV drama series, both of which will feature industry leading visual effects.

The content production segment now consists of both domestic and international content production. Following the release of Mission: Impossible – Rogue Nation in 2015, two films produced by the Group in collaboration with Paramount Pictures, namely Teenage Mutant Ninja Turtles: Out of the Shadows and Star Trek Beyond, were released in 2016. In 2016, the content production segment recorded revenue of RMB211.8 million, higher than the revenue of RMB124.2 million in the previous year. However, as the box office of some projects fell below expectation, the content production segment recorded a loss of RMB243.5 million, compared with a loss of RMB99.1 million for the previous year. In 2016, the Group invested in Amblin Partners, the film studio of Steven Spielberg, a well-known director in Hollywood, thereby further enhancing its ability to source and participate in international projects.

As it is known, content production often involves significant upfront capital and time investment. In 2016, the Group was still in an expansion cycle in terms of content production. In respect of the strategy for the content production business in the future, the Group will also place emphasis on the development and transformation of drama series in addition to films. Given the changes in the habits of movie-goers and the rapid growth of online viewing, video websites will become an important channel for the distribution of contents. Accordingly, internet dramas will become one of the areas that the Group will focus on.

INTEGRATED DEVELOPMENT BUSINESS

The Group's former Yulebao business (including Yulebao business and copyright licensing business) had been upgraded into the Group's Integrated Development Department during the year. Yulebao business maintains the financial feature of B end (studios) and the entertaining feature for C end (users). The Group aims to provide more financial services for B end while continuously improving user experience and increasing the value of entertainment for C end. Given the large number of participants in the financing portal of C end, the business will also cater for studios' need for promotion and distribution in the future. After a full year of experiment last year, the team of the copyright licensing business has enhanced its efficiency and launched successful projects of derivative merchandise and goods, such as Star Trek. In addition to the licensing business, the team will try to develop new copyright-related services. The new business model will try to connect with the e-commerce platform of Alibaba, integrate the user traffic of the platform with the resources of merchants, and develop better differentiated value-added services. The Integrated Development Department will focus on copyrights, and encompassing each business value chain, provide a series of professional services ranging from financing, business placement, copyright promotion and distribution to the development of related merchandise, offering a brand new service model for integrated copyright development.

As the integrated development business was at an early stage of development, this segment recorded revenue of RMB6.01 million and a loss of RMB14.96 million in 2016, compared with revenue of RMB2.81 million and segment profit of RMB1.69 million in 2015.

PROSPECTS

Management is aware that the film industry, both in terms of content and marketing channels to the users, is experiencing a transformation from digitalization to networked, and further to intelligence stage. Particularly, in China, such transformation is progressing rigorously.

In view of the rapid evolution of industry structure and consumer behavior, the Group will continue to formulate its business layout and upgrade its services around the entertainment ecosystem in the long run. Relying on data and technological strength, and tapping opportunities that arise from movement of the film industry towards digitalization, networked and intelligence, the Group intends to build a new infrastructure for the entertainment industry.

For C end (users), the Group will, leveraging the resources in Alibaba Group's ecosystem and the resources in its media and entertainment segment, create a distribution platform for film media driven by content, with an aim to provide a broader range of entertainment and consumption information to the users, Tao Piao Piao is expected to transform from a "ticketing platform" to a "social platform revolving around movie content", and in doing so provides the industry with a content promotion and distribution tool.

For B end (studios and cinemas), the Group will upgrade and innovate its existing products and services to be more digitalized, net-based, and intelligence-based. The provision of cloud supported system and solutions will enhance the operational efficiency of cinemas, such that, the Group's products and services could become the industrial infrastructure, and thus be able to serve a wider range of customer groups.

In addition, utilizing its internet resources and capabilities, the Group will continue to explore innovative promotion and distribution channels and methods to gradually build a digital and intelligent promotion and distribution model, for the purpose of enhancing promotion and distribution efficiency, which will create greater value for the studios.

In terms of content, through the accumulation of experiences and cultivation of know-hows, the Group will discover and address the critical issues in the content ecosystem, thus enabling it to accelerate its development on steady footing. Through accelerating cross-development among movie and drama, variety show, literature, and gaming, and expediting the implementation of systematic and sustainable content production, the Group will help enhance the efficiency of the industry and enable the exploration of new commercial model, and continue the upgrade of its new infrastructure.

FINANCIAL REVIEW

Revenue and Profit

During the reporting period, the Group recorded revenue of RMB904.6 million, representing an increase of 243% year on year. Gross profit during the reporting period was RMB186.1 million, compared with a gross loss of RMB25.1 million for the previous year. The increase in revenue was mainly attributable to the contribution from Tao Piao Piao, Yueke and content production.

Net loss attributable to the owners of the Company amounted to RMB958.6 million, compared with a net profit of RMB466.0 million in 2015. The net loss in 2016 was mainly due to an increase in the marketing expenses and administrative expenses of Tao Piao Piao. As Alibaba Pictures completed the acquisition of Tao Piao Piao on December 31, 2015, its statement of profit or loss for 2015 was not consolidated into the Group's financial statements.

For the year ended December 31, 2016, loss per share (basic and diluted) for the Group amounted to RMB3.80 cents, compared with earnings per share of RMB1.99 cents for the previous year.

Selling, Marketing and Administrative Expenses

Selling and marketing expenses for 2016 were RMB1.08 billion, compared with approximately RMB111.9 million in 2015. The increase in selling and marketing expenses was primarily attributable to the marketing expenses incurred by Tao Piao Piao in its efforts to attract movie-goers to use Tao Piao Piao's online ticketing platform. Administrative expenses increased from RMB277.6 million to RMB719.8 million year on year mainly due to increased employee benefit expenses related to higher headcounts across multiple functions as a result of the acquisitions of Tao Piao Piao and Yulebao.

Finance Income

For the year 2016, the Group recorded finance income of RMB545.9 million and net finance income of RMB533.9 million. The Group's cash reserves are held in multiple currencies. Both interest income and foreign exchange gains contributed to finance income.

Material Investments

The Group continued to utilize the proceeds from its equity placement in June 2015 to invest in various businesses in its industry. In 2016, approximately RMB3.25 billion were used for such investments which included a subscription of convertible bonds issued by Dadi Cinema Group with an aggregate principal amount of RMB1.0 billion, further investments into BONA Film Group, investments in Hehe Film and Amblin Partners, as well as investment for the establishment of an investment fund for investing in companies along the value chain of the movie and TV entertainment industry. The investment in Dadi Cinema Group was accounted for as financial assets at fair value through profit or loss and the other investments were accounted for as investments accounted for using the equity method.

Financial Resources and Liquidity

As at December 31, 2016, the Group had cash and cash equivalents of approximately RMB6.2 billion in multiple currencies. The Group had available-for-sale financial assets of approximately RMB2.0 billion. The available-for-sale financial assets mainly represent investments in wealth management products issued by listed banks in the PRC with expected return range from 2.46% to 4.44% per annum and redeemable within one year. The Group recognized an investment income of approximately RMB43.4 million from its available-for-sale financial assets in 2016. The investments in wealth management products under available-for-sale financial assets were made in line with the Group's treasury and investment policies, after taking into account, among others, the level of risk, return on investment, liquidity and the term to maturity. The Group's significant cash reserves give it the financial means to undertake a variety of business initiatives and projects in the near future, including potential acquisitions of strategic assets to complement the Group's existing businesses. As at December 31, 2016, the Group had no long-term debt obligations. Short-term borrowings were denominated in Renminbi and amounted to RMB1.98 billion, which are secured by restricted cash of approximately RMB2.0 billion and repayable in advance at the discretion of the Group, and bear interest at 0.3% per annum. The Group is in a net cash position and its gearing ratio (net borrowings deducting cash and bank balances over total equity) was nil (December 31, 2015: nil).

Foreign Exchange Risks

The Company holds its cash reserves in RMB, USD and HKD. Although the majority of production costs and administrative expenses are denominated in RMB, many investment opportunities and collaborations with studios outside Mainland China require foreign currencies. The Group continues to monitor capital needs closely and manage foreign currency exposure accordingly. The Group has not used any currency hedging instruments.

Charge on Assets

As at December 31, 2016, the Group did not have any charge on assets (December 31, 2015: nil).

Contingent Liabilities

As at December 31, 2016, the Group did not have any material contingent liabilities (December 31, 2015: nil).

Employees and Remuneration Policies

As at December 31, 2016, the Group, including its subsidiaries but excluding its associates, had 863 (December 31, 2015: 521) employees. Taken into account the share-based compensation (including, in particular, share-based payment under the share option scheme of the Company adopted in June 2012), the total employee benefit expenses of the Group were RMB540.9 million in 2016, compared to RMB241.8 million in 2015. The remuneration policies of the Group are based on prevailing market levels and performance of the respective group companies and individual employees. These policies are reviewed on a regular basis.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. YU Yongfu, aged 40 and appointed to the Board on August 27, 2016, is an executive director, the chairman of the Board, chief executive officer, chairman of each of the executive committee and the nomination committee, and a member of the remuneration committee of the Company. He is also a director of certain subsidiaries of the Company. Mr. Yu is a member of Alibaba Partnership since December 2015, and has served as chairman and CEO of Alibaba Digital Media & Entertainment Group since October 31, 2016 and president of Autonavi of Alibaba Group since March 2015. Prior to his current positions, Mr. Yu served as committee leader, with overall leadership and management responsibility for the digital media and entertainment matrix of Alibaba Group from June 2016, president of UCWeb after he joined Alibaba Group in June 2014 and was later named president of Alibaba Mobile Internet Division in May 2015. From May 2015 to June 2016, he was also president of Alimama. From 2006 to June 2014, he was chairman and chief executive officer of UCWeb before it became a wholly-owned subsidiary of Alibaba Group. Prior to that, he was a vice president and associate with Legend Capital from 2001 to 2006. From June 23, 2014 to March 7, 2017, Mr. Yu served as an independent director and a member of the audit committee of Xunlei Limited, a NASDAQ-listed company. He received a bachelor's degree in business administration from Nankai University.

Mr. ZHANG Qiang, aged 53 and appointed to the Board on August 5, 2014, is an executive director and the co-president of the Company and a member of the executive committee of the Company. He is also a director of certain subsidiaries of the Company. He has more than 27 years of experience in the media industry. Mr. Zhang has been the vice president of China Film Co., Ltd. since November 2011. From June 2006 to November 2011, he was the Deputy General Editor of Beijing Television and the chairman of Beijing Forbidden City Film Co., Ltd. From November 2003 to June 2006, he was the General Manager of Beijing Forbidden City Film Co., Ltd. From April 2000 to November 2003, he was the General Manager of Beijing Forbidden City Xindu TV Media Co., Ltd. Mr. Zhang is the chief line producer of a number of award-winning Chinese movies including American Dreams in China 《中國合夥人》 and So Young《致我們終將逝去的青春》. Mr. Zhang holds a bachelor's degree in Chinese Literature from Peking University and a master's degree in film aesthetics from Beijing Film Academy.

Ms. ZHANG Wei, aged 46 and appointed to the Board on January 1, 2016, is an executive director and the co-president and a member of the executive committee of the Company. She served as a senior vice president of Alibaba Group, where she leads the Alibaba Group Investment team. Prior to joining Alibaba Group in July 2008, Ms. Zhang served as the chief operating officer of STAR (China) Ltd., where she was in charge of STAR Group Ltd.'s operation in the People's Republic of China. Previously, Ms. Zhang served as a managing director of CNBC China and prior to that, she worked as a consultant at Bain & Company and also served as a finance specialist of General Electric Company and GE Capital. Ms. Zhang holds a MBA degree from Harvard Business School and a bachelor's degree in international organizational management from Seton Hill College, Pennsylvania.

Mr. FAN Luyuan, aged 44 and appointed to the Board on January 1, 2016, is an executive director and a member of the executive committee of the Company. Mr. Fan is the president of Wealth Management Business Unit at Ant Financial Services Group. Mr. Fan joined Alipay in 2007, and since then had served as senior director of Development Department, assistant president, vice president and senior vice president. In 2010, he and his team pioneered the first ever Quick Payment, which largely improved the success rate of online transactions as well as user experience. In 2013, Mr. Fan created Yu'e Bao with his team, which is now one of the world's sizeable internet financial products with over 200 million users, and encourages inclusive financial system for individual consumers. He holds an executive master's degree in business administration from Cheung Kong Graduate School of Business.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Directors

Mr. LI Lian Jie, aged 54 and appointed to the Board on June 24, 2014, is non-executive director of the Company. Mr. Li served as independent non-executive director of the Company for the period from June 24, 2014 to December 21, 2014 and was re-designated as a non-executive director of the Company since December 22, 2014. He is a world-renowned martial artist, movie star and social entrepreneur. Mr. Li was a five-time consecutive All-Around National Martial Arts Champion of China from 1975 to 1979. He has more than 30 years of experience in the film industry and has starred in countless classic Chinese martial arts movies and international hits, including Shaolin Temple, Once Upon a Time in China, Fist of Legend, Hero, Fearless, Lethal Weapon 4, Romeo Must Die, The Mummy 3 and Expendables. In 2007, Mr. Li founded One Foundation, which advocates broad-based participation in philanthropy and volunteerism and established China's first philanthropy research institute in partnership with Beijing Normal University in 2010 to cultivate the next generation of social sector leaders in China through degree granting programmes and corporate training programmes.

Mr. SHAO Xiaofeng, aged 51 and appointed to the Board on June 24, 2014, is non-executive director of the Company. Mr. Shao served as the chairman and executive director, chairman of each of the executive committee and the nomination committee, and a member of the remuneration committee of the Company from June 27, 2014 to November 21, 2016. He joined Alibaba Group in March 2005 and was a vice president of Taobao from January 2007 to January 2008, responsible for Taobao's strategic development planning, overall marketing and business modeling. He served as Alipay's executive president and then president from January 2008 to March 2010. From August 2010 to June 2011, he was a general manager of Alibaba.com's China Business Unit. Mr. Shao was the chief risk officer from June 2012 to May 2015, responsible for the Group's risk management strategies and planning and the implementation of the risk management system. He has been the chief secretary of the Group since March 2010, responsible for the coordination and development of the strategic cooperation among the subsidiaries. Mr. Shao has extensive experience in network security, e-commerce, online transactions and payments. He holds an executive master's degree in business administration from China Europe International Business School.

Independent Non-Executive Directors

Ms. SONG Lixin, aged 49 and appointed to the Board on December 22, 2014, is an independent non-executive director and a member of each of the audit committee and the remuneration committee of the Company. She is the president of Talents Magazine and served as its editor-in-chief since 1997. Ms. Song has more than 20 years of experience in the cultural and business sector. Despite facing fierce competition in the print media industry, Ms. Song has built Talents Magazine into a well-known brand in China. Talents Magazine focuses on business leaders and major companies. With its unique reporting perspective, Talents Magazine has become a leading magazine in advanced management ideas. Talents Magazine is also recognized as one of the most influential business magazines in the finance and economics fields. Ms. Song also founded the China Annual Management Summit in 2001 which has continued to run for a consecutive 16 years to date. Ms. Song holds a bachelor's degree in law from Renmin University and received an MBA degree from Tsinghua University.

Independent Non-Executive Directors *(Continued)*

Mr. TONG Xiaomeng, aged 43 and appointed to the Board on June 27, 2014, is an independent non-executive director, chairman of the remuneration committee and a member of each of the audit committee and nomination committee of the Company. He is a co-founder and managing partner at Boyu Capital. Prior to founding Boyu Capital, Mr. Tong was a managing director at General Atlantic and Providence Equity Partners, where he headed both firms' Greater China practice and served as a director at a number of publicly-listed and privately-held companies. Mr. Tong graduated from Harvard University where he was a member of Phi Beta Kappa.

Mr. Johnny CHEN, aged 57 and appointed to the Board on January 29, 2016, is an independent non-executive director, chairman of the audit committee and a member of nomination committee of the Company. Mr. Chen is currently Senior Advisor of LionRock Capital Limited and an Adjunct Associate Professor of Department of Finance and Department of Management, Hong Kong University of Science and Technology. Mr. Chen joined the management of Zurich Insurance Group ("Zurich") in 2005. He worked in Zurich from March 2005 to February 2015 in multiple senior managerial roles in Asia-Pacific region. His last position in Zurich was the chairman of China. Prior to joining Zurich, Mr. Chen was an executive member of the Greater-China Management Board and the Operating Committee of PricewaterhouseCoopers ("PwC"), as well as a managing partner of PwC's Beijing office. Mr. Chen holds a Master of Science Degree in Accounting from the University of Rhode Island and a Bachelor Degree of Accounting from the Johnson & Wales University. He is a U.S. certified public accountant.

Senior Management

Ms. XU Xiaojun, aged 44, is the chief finance officer of the Company and also a director of certain subsidiaries of the Company. She joined the Company on June 12, 2014. Before joining the Company, Ms. Xu served as an audit partner at KPMG in Beijing. In her 17 years with KPMG, Ms. Xu was the audit partner for initial public offering and audits for serveral Chinese companies listed overseas and provided auditing and advisory services to several major multinational companies. Ms. Xu holds a Bachelor Degree of Economics from the Central University of Finance and Economics. She is a member of the Chinese Institute of Certified Public Accountants.

Company Secretary

Mr. NG Lok Ming, William, aged 44, is the company secretary of the Company. Mr. Ng is also the legal director – company secretarial and compliance of Alibaba Group Holding Limited. He has more than 9 years of experience working in senior legal positions and as Company Secretary of companies listed in Hong Kong. Mr. Ng graduated from the University of Hong Kong with a LL.B. and a P.C.LL. in 1995 and 1996, respectively. He later obtained a LL.M. in Comparative and PRC law from the City University of Hong Kong in 2002. Mr. Ng was admitted as a solicitor of the High Court of Hong Kong in 2001. He is also a member of the Law Society of Hong Kong.

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended December 31, 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2016 are set out in the consolidated statement of profit or loss on page 95.

The Directors do not recommend the payment of a dividend for the year ended December 31, 2016 (2015: nil).

SHARE CAPITAL OF THE COMPANY

Details of shares capital of the Company are set out in note 22 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2016, the Company's distributable reserves calculated in accordance with the provisions of the Bermuda Companies Act amounted to approximately RMB774 million (December 31, 2015: RMB451 million).

BUSINESS REVIEW

The business review of the Group as at December 31, 2016 is set out under the section headed "Management Discussion and Analysis" of this report on pages 6 to 12.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks and uncertainties the Group faces are set out under the sections headed "Corporate Governance Report – Accountability and Audit – Risk Management and Internal Control – Disclosure of Material Risks" of this report on pages 65 to 68 and "Directors' Report – Contractual Arrangements – Risks associated with Structured Contracts and the actions taken to mitigate the risks" of this report on pages 42 to 43.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 192.

DIRECTORS

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

Executive Directors

Mr. Yu Yongfu *(Chairman & Chief Executive Officer) (Appointed as non-executive director on August 27, 2016 and re-designated to executive director on November 21, 2016)*
Mr. Liu Chunning *(Removed on January 1, 2016)*
Mr. Zhang Qiang *(Co-President)*
Mr. Deng Kangming *(Appointed on January 1, 2016 and resigned on December 23, 2016)*
Ms. Zhang Wei *(Co-President) (Appointed on January 1, 2016)*
Mr. Fan Luyuan *(Appointed on January 1, 2016)*

Non-Executive Directors

Mr. Li Lian Jie
Mr. Shao Xiaofeng *(Re-designated from executive director to non-executive director on November 21, 2016)*

Independent Non-Executive Directors

Ms. Song Lixin
Mr. Tong Xiaomeng
Mr. Johnny Chen *(Appointed on January 29, 2016)*

In accordance with bye-law 87(2) of the Bye-laws, Ms. Zhang Wei, Mr. Li Lian Jie and Mr. Shao Xiaofeng shall retire from office by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

In accordance with bye-law 86(2) of the Bye-laws, Mr. Yu Yongfu shall hold office only until the forthcoming AGM and, being eligible, offer himself for re-election.

The Directors' biographical details are set out on pages 13 to 15.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at December 31, 2016, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in the shares and underlying shares of the Company

Name of Director	Long/Short Position	Nature of Interest	Number of Ordinary Shares held	Derivatives		Aggregate Interests	Percentage of Aggregate Interests to Total Issued Share Capital of the Company *(Note 1)*
				Share Options	Other		
Zhang Qiang	Long position	Beneficial Owner	–	210,119,800 *(Note 2)*	–	210,119,800	0.83%
Zhang Wei	Long position	Beneficial Owner	–	10,000,000 *(Note 3)*	–	10,000,000	0.04%

Notes:

1. Based on a total of 25,234,561,410 ordinary shares of the Company in issue as at December 31, 2016.

2. These share options were granted to Mr. Zhang Qiang on January 28, 2015 but not exercised as at December 31, 2016.

3. These share options were granted to Ms. Zhang Wei on April 13, 2016 but not exercised as at December 31, 2016.

Save as disclosed above, as at December 31, 2016, none of the Directors, chief executive of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE INCENTIVE SCHEMES

2012 Share Option Scheme

The shareholders of the Company approved the adoption of the share option schemes on May 23, 2002 (the "2002 Share Option Scheme") and June 11, 2012 (the "2012 Share Option Scheme") respectively. The 2002 Share Option Scheme expired on May 22, 2012 and no further share options of the Company (the "Share Options") shall be granted under the 2002 Share Option Scheme. All outstanding Share Options granted under the 2002 Share Option Scheme were lapsed during the year ended December 31, 2015.

The following is a summary of the principal terms of the rules of the 2012 Share Option Scheme:

Purpose

The purpose of the 2012 Share Option Scheme is to enable the Company to grant Share Options to selected Participants (as defined in the paragraph headed "Participants" below) as incentive and/or rewards for their contribution and support to the Group and any entity in which the Group holds any equity interest ("Invested Entity") and/or to recruit and retain high-calibre employees of the Company, any subsidiary of the Company or any Invested Entity ("Employee(s)") and attract human resources that are valuable to the Group and any Invested Entity. The basis of eligibility of any of the Participants to the grant of Share Options shall be determined by the Board from time to time on the basis of the Board's opinion as to his/her contribution or potential contribution to the development and growth of the Group.

Participants

The participants of the 2012 Share Option Scheme ("Participants") refers to any person belonging to any of the following classes of participants:

(i) any Employee;

(ii) any executive or non-executive director (including independent non-executive directors) of the Company, any subsidiary of the Company or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any person or entity that provides research, development or other technical support to the Group or any Invested Entity;

(v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vi) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and

(vii) any joint venture partner or counter-party to business operation or business arrangements of the Group,

who the Board considers, in its sole discretion, have contributed or will contribute to the Company, and for the purposes of the 2012 Share Option Scheme, the Share Options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of Participants.

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Duration and Administration

The 2012 Share Option Scheme shall be valid and effective for the period ("Scheme Period") commencing on the date on which the 2012 Share Option Scheme becomes unconditional (being June 11, 2012, the "Option Scheme Adoption Date") and expiring on the earlier of:

– the 10th anniversary of the Option Scheme Adoption Date; and

– the date on which the 2012 Share Option Scheme is terminated pursuant to the rules of the 2012 Share Option Scheme.

After the Scheme Period, no further Share Options will be granted or accepted but the provisions of the 2012 Share Option Scheme shall remain in full force and effect in all other respects.

The 2012 Share Option Scheme shall be subject to the administration of the Board (including the independent non-executive Directors) whose decision as to all matters relating to the 2012 Share Option Scheme or its interpretations or effect (save as otherwise provided therein) shall be final and binding on all parties.

Grant of Options

On and subject to the terms of the 2012 Share Option Scheme, the Board shall be entitled at any time and from time to time during the Scheme Period to offer to grant to any Participant as the Board may in its absolute discretion select, and subject to such conditions (which shall not be inconsistent with the terms of the 2012 Share Option Scheme) as the Board may think fit, an option (the "Share Option") to subscribe for such number of Shares (as may be permitted under the terms of the 2012 Share Option Scheme) as the Board may determine at the Exercise Price (as defined in the paragraph headed "Exercise Price" below).

An offer of the grant of a Share Option shall be made to a Participant by letter in such form as the Board may from time to time determine requiring such Participant to whom any offer of the grant of an Option is made (the "Offeree") to undertake to hold the Share Option on the terms on which it is to be granted and to be bound by the provisions of the 2012 Share Option Scheme. Such offer shall be personal to the Offeree and shall not be transferable and shall remain open for acceptance by the Offeree for a period ("Acceptance Period") of 21 days from the date of grant provided that no such offer shall be open for acceptance after the expiry of the Scheme Period.

A Share Option shall be deemed to have been accepted when the duplicate of the letter offering the Share Option and containing acceptance of such offer is duly signed and dated by the Offeree together with a remittance in favour of the Company of HK$1 by way of consideration for the grant thereof is received by the Company within the Acceptance Period. Such remittance shall in no circumstances be refundable.

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Grant of Options *(Continued)*

The grant of Share Options to a connected person or its associates shall be approved by all independent non-executive Directors (excluding any independent non-executive Director who is a grantee (namely, any Participant who accepts the offer of the grant of any Share Option or a person entitled to any such Share Option in accordance with the terms of the 2012 Share Option Scheme in consequence of the death of the original grantee) of the Share Options in question).

Where the grant of Share Options to a connected person who is also a substantial shareholder (as defined in the Listing Rules) of the Company or an independent non-executive Director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of the Share Options granted and to be granted (including all the exercised, cancelled and outstanding Share Options) to such connected person in any 12-month period immediately preceding and including the date of grant, and would entitle such connected person to receive more than 0.1% (or such other percentage as may from time to time specified by the Stock Exchange) of the shares of the Company in issue for the time being and the aggregate value (based on the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange at the date of grant) of which is in excess of HK$5,000,000 (or such other amount as may from time to time specified by the Stock Exchange), such grant of Share Options must be approved by the shareholders of the Company in general meeting.

Exercise Price

The Exercise Price shall be a price notified by the Board to the Offeree (subject to any adjustments) and shall be at least the highest of:

(a) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant which must be a business day;

(b) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and

(c) the nominal value of a share of the Company.

Without prejudice to the generality of the foregoing, the Board may grant Share Options in respect of which the Exercise Price is fixed at different prices for different periods during a period of 10 years commencing on the date of grant and expiring on the last day of the said 10-year period (the "Option Period") provided that the Exercise Price for each of the different periods shall not be less than the Exercise Price determined in the manner set out in the paragraph above.

Exercise of Share Option

A Share Option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in, over or to any Share Option in favour of any third party. The Company may, after having reasonably satisfied itself that the grantee shall have committed a breach of this paragraph, revoke any Share Option granted to such grantee (to the extent that it has become exercisable and not already exercised by notice). Such revocation shall be final and binding on such grantee.

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Exercise of Share Option *(Continued)*

Subject to other provisions in the 2012 Share Option Scheme and any restrictions which may be imposed by the Board or applicable under the Listing Rules and notwithstanding the terms of grant thereof, the Share Option, to the extent it has not expired, may be exercised by the grantee at any time during the Option Period provided that at the time of exercise of the Share Option, the grantee (as an Employee) shall have already been and remains as an Employee for a period of twelve (12) months or more.

There is no general requirement that a Share Option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of an offer of the grant of a Share Option.

Maximum Limit

The maximum number of the shares of the Company which may be issued upon exercise of all outstanding Share Options granted and yet to be exercised under the 2012 Share Option Scheme and any other schemes shall not exceed 30% of the shares of the Company in issue from time to time. No Share Option may be granted under the 2012 Share Option Scheme and any other schemes if this will result in the maximum number of the shares of the Company referred to in this paragraph being exceeded.

Share options lapsed or cancelled in accordance with the terms of the 2012 Share Option Scheme or any other schemes shall not be counted for the purposes of calculating the said 30% limit.

Subject to any other relevant provisions in the 2012 Share Option Scheme, the total number of shares of the Company available for issue upon exercise of all Share Options which have been or may be granted under the 2012 Share Option Scheme and any other schemes must not, in aggregate, exceed 774,274,256 shares, representing 10% of the shares of the Company in issue as at the Option Scheme Adoption Date (the "Scheme Mandate Limit") unless an approval by the shareholders of the Company at general meeting has been obtained to refresh the Scheme Mandate Limit. The Company may seek separate approval of the shareholders of the Company in general meeting to grant Share Options beyond the Scheme Mandate Limit, provided that the Share Options in excess of the Scheme Mandate Limit are granted only to Participants specifically identified by the Company before such approval is sought.

Individual Limit

The total number of Shares issued and to be issued upon exercise of the Share Options granted and to be granted to each grantee (including both exercised and outstanding Share Options) in any 12-month period up to the date of grant to each grantee must not exceed 1% of the aggregate number of shares of the Company for the time being in issue. Where any further grant of Share Options to a grantee would result in the Shares issued and to be issued upon exercise of all Share Options granted and to be granted to such grantee (including exercised, cancelled and outstanding Share Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the aggregate number of Shares for the time being in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such grantee and his associates abstaining from voting.

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

***Maximum Limit** (Continued)*

As at December 31, 2016, a total of 725,265,800 Share Options have been granted and remained outstanding under the 2012 Share Option Scheme, representing approximately 2.87% of the shares of the Company in issue as at the date of this report. No participant was granted with Share Options in excess of the individual limit as set out in the 2012 Share Option Scheme. As at the date of this report, the remaining life of the 2012 Share Award Scheme is approximately 5 years. Further details of the 2012 Share Option Scheme are set out in note 23 to the consolidated financial statements.

Movements of the Share Options granted by the Company pursuant to the 2012 Share Option Scheme during the year ended December 31, 2016 were as follows:

				Number of Share Options					
Category	Date of grant	Exercise price per share HK$	Closing price of shares immediately before the dates on which the Share Options were granted	Outstanding as at January 1, 2016	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at December 31, 2016	Vesting period *(Notes)*
Director									
Zhang Qiang	28/01/2015	1.670	1.650	210,119,800	–	–	–	210,119,800	1(i)
Deng Kangming	28/04/2015	4.004	3.950	30,000,000	–	–	–	30,000,000	1(ii)
(Resigned on	16/12/2015	1.900	1.800	7,500,000	–	–	–	7,500,000	1(ii)
December 23, 2016)	13/04/2016	1.880	1.890	–	12,000,000	–	–	12,000,000	1(iii)
Zhang Wei	13/04/2016	1.880	1.890	–	10,000,000	–	–	10,000,000	1(iii)
Employee	28/01/2015	1.670	1.650	73,700,000	–	–	(13,800,000)	59,900,000	1(ii)
	15/04/2015	4.090	3.720	23,400,000	–	–	(4,200,000)	19,200,000	1(ii)
	02/07/2015	3.156	3.010	15,600,000	–	–	(2,400,000)	13,200,000	1(ii)
	24/09/2015	1.860	1.800	17,400,000	–	–	(1,200,000)	16,200,000	1(ii)
	05/11/2015	2.170	2.110	17,800,000	–	–	(10,000,000)	7,800,000	1(ii)
	06/11/2015	2.130	2.170	10,000,000	–	–	(10,000,000)	–	1(ii)
	16/12/2015	1.900	1.800	10,278,000	–	–	(1,362,000)	8,916,000	1(ii)
	25/01/2016	1.660	1.630	–	17,600,000	–	(12,200,000)	5,400,000	1(ii)
	13/04/2016	1.880	1.890	–	75,310,000	–	(6,910,000)	68,400,000	1(iii)
	15/04/2016	1.842	1.860	–	14,400,000	–	(2,400,000)	12,000,000	1(ii)
	03/06/2016	1.860	1.860	–	10,200,000	–	(1,200,000)	9,000,000	1(ii)
	03/06/2016	1.860	1.860	–	116,780,000	–	(6,020,000)	110,760,000	1(iii)
	05/12/2016	1.494	1.470	–	87,800,000	–	(2,400,000)	85,400,000	1(ii)
	05/12/2016	1.494	1.470	–	39,470,000	–	–	39,470,000	1(iii)
Total:				415,797,800	383,560,000	–	(74,092,000)	725,265,800	

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Notes:

1. The Share Options granted under the 2012 Share Option Scheme are subject to a vesting schedule and can be exercised in the following manner:

   (i) Category A

Vesting Date	Percentage that can be exercised
First vesting date (being first anniversary of employment commencement date)	Up to 20% of the Share Options granted
First anniversary of first vesting date	Up to 40% of the Share Options granted
Second anniversary of first vesting date	Up to 60% of the Share Options granted
Third anniversary of first vesting date	Up to 80% of the Share Options granted
Fourth anniversary of first vesting date	Up to all of the Share Options granted

   The vesting period of the Share Options commences on the date of the relevant grantee's commencement of employment and the first vesting date falls on the first anniversary of the date of commencement of employment.

   (ii) Category B

Vesting Date	Percentage that can be exercised
First vesting date (being second anniversary of employment commencement date)	Up to 50% of the Share Options granted
First anniversary of first vesting date	Up to 75% of the Share Options granted
Second anniversary of first vesting date	Up to all of the Share Options granted

   The vesting period of the Share Options commences on the date of the relevant grantee's commencement of employment and the first vesting date falls on the second anniversary of the date of commencement of employment.

   (iii) Category C

Vesting Date	Percentage that can be exercised
First vesting date (being first anniversary of promotion effective date or performance incentive effective date)	Up to 25% of the Share Options granted
First anniversary of first vesting date	Up to 50% of the Share Options granted
Second anniversary of first vesting date	Up to 75% of the Share Options granted
Third anniversary of first vesting date	Up to all of the Share Options granted

   The vesting period of the Share Options commences on promotion effective date or performance incentive effective date and the first vesting date falls on the first anniversary of the date of commencement of the vesting period.

2. The period within which the Share Options must be exercised shall not be more than 10 years from the date of grant.

3. During the year, no share options were exercised or cancelled under the 2012 Share Option Scheme.

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme

The Board approved the adoption of the share award scheme of the Company ("Share Award Scheme") on December 30, 2016 ("Adoption Date"). Summary of principal terms of the Share Award Scheme are set forth below:

Purposes and Objectives

To recognize the contributions by certain persons, including employees of the Group and/or any company in which a group company may have a direct or indirect investment in 20% or more of its voting powers and any company which is a controlling shareholder of the Company including subsidiaries of such controlling shareholder (together, the "Associated Entity") and to provide incentives thereto to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group.

Administration

The Share Award Scheme shall be subject to the administration of the Board and the trustee in accordance with the rules of the Share Award Scheme ("Scheme Rules") and the trust deed dated December 30, 2016 entered into between the Company and the trustee ("Trust Deed").

Duration

Subject to any early termination determined by the Board, the Share Award Scheme shall be valid and effective for a term commencing on the Adoption Date and ending on the first to happen of the following, namely:

(a) the 15th anniversary date of the Adoption Date;

(b) the date when an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company; or

(c) the date as may be informed by the Company that the Share Award Scheme shall be terminated (the"Trust Period").

As at December 31, 2016, the remaining life of the Share Award Scheme is approximately 15 years.

Maximum Limit

The Board shall not make any further award which will result in the aggregate number of shares of the Company ("Shares") awarded by the Board or held by the trustee under the Share Award Scheme to be in excess of 2% of the issued share capital of the Company from time to time. The maximum number of Shares (including both vested and non-vested Shares) which may be awarded to any employee selected by the Board ("Selected Employee") under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme *(Continued)*

Restrictions

No award shall be made by the Board and no instructions to acquire Shares shall be given to the trustee under the Share Award Scheme where dealings in the Shares are prohibited under any code or requirement of the Listing Rules and all applicable laws from time to time.

Operation

Pursuant to the Scheme Rules, the Board may from time to time cause to be paid certain amount to the trust constituted by the Trust Deed (the "Trust") by way of settlement or otherwise contributed by the Company, any subsidiary of the Company or Associated Entity as directed by the Board which shall constitute part of the trust fund, for the purchase or subscription (as the case may be) of the Shares.

In the event that the Shares as awarded by the Board to a Selected Employee ("Awarded Shares") are to be allotted and issued as new Shares under the general mandate or a specific mandate granted or to be granted by the shareholders of the Company from time to time for the purpose of the Trust, the Board shall cause an amount not less than the nominal value of such new Shares to be allotted and issued be transferred from the Company's resources as soon as practicable but in any event not later than five business days prior to the allotment and issuance of such Shares as subscription monies for the new Shares and cause to issue and allot such new Shares to the trustee, which shall be held upon trust for the relevant Selected Employee in accordance with the Scheme Rules and the Trust Deed. Where any grant of Awarded Shares is proposed to be made to a connected person of the Company involving new Shares, the Company will comply with applicable provisions of the Listing Rules as and when appropriate.

The Board may also from time to time instruct the trustee in writing to purchase Shares on the Stock Exchange, in which case, the Board shall specify the maximum amount of funds to be used and the range of prices at which such Shares are to be purchased. The trustee shall apply such amount of residual cash in the trust fund towards the purchase of such maximum board lot of Shares at the prevailing market price according to the Board's instructions. Once purchased, the Shares are to be held by the trustee for the benefit of employees (whether full time or part time), consultant, executive or officer, director (including any executive, non-executive and independent non-executive director) of a Group company or any Associated Entity ("Employee") under the Trust.

Vesting and Lapse

The Board is entitled to impose any conditions (including a period of continued service within the Group after any award of the Awarded Shares) as it deems appropriate in its absolute discretion with respect to the vesting of the Awarded Shares on the Selected Employee. Subject to the terms and conditions of the Share Award Scheme and the fulfillment of all vesting conditions to the vesting of the Awarded Shares on a Selected Employee as specified in the Share Award Scheme and the letter of award, the trustee shall transfer the Awarded Shares to such Selected Employee on the date ("Vesting Date") on which his/her entitlement to the Awarded Shares is vested in such Selected Employee in accordance with the Scheme Rules.

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme *(Continued)*

Vesting and Lapse *(Continued)*

Award shall, to the extent not yet vested, automatically lapse forthwith when a Selected Employee is found to be any excluded employee (namely, any employee who is resident in a place where the award of the Awarded Shares and/or the vesting and transfer of the Awarded Shares pursuant to the terms of the Share Award Scheme is not permitted under the laws or regulations of such place, or where in the view of the Board or the trustee (as the case may be), in compliance with applicable laws or regulations in such place, makes it necessary or expedient to exclude such employee) or is deemed to cease to be an Employee prior to or on the Vesting Date.

In the event a Selected Employee (i) has suffered disability as a result of or in connection with performance of his duty during the course of employment with a Group company or Associated Entity at any time prior to the Vesting Date and is unable to perform his duties; or (ii) has died during his employment with a Group company or Associated Entity; or (iii) has retired by agreement with a member of the Group or Associated Entity or resigned at any time prior to or on the Vesting Date, all the relevant Awarded Shares shall, to the extent not yet vested, automatically lapse on the last day of employment unless the Board determines otherwise.

In the event of the death of a Selected Employee, the trustee shall hold the vested Awarded Shares upon trust and to transfer the same to the legal personal representatives of the Selected Employee.

In the event a Selected Employee ceases to be an employee of the Group company or an Associated Entity for cause or commits any serious misconduct, the award, whether vested or unvested, shall automatically be cancelled as of the date of the termination for cause or the commission of the serious misconduct.

If there occurs an event of change in control (as specified in The Codes on Takeovers and Mergers and Share Buy-backs) of the Company, whether by way of offer, merger, scheme of arrangement, compromise or arrangement pursuant to the Bermuda Companies Act or otherwise, and such change in control event becomes or is declared unconditional prior to the Vesting Date, the Board shall determine at its sole discretion whether such Awarded Shares shall vest in the Selected Employee and the time at which such Awarded Shares shall vest.

Voting Rights

The trustee shall not exercise the voting rights in respect of any Shares held by it under the Trust (including but not limited to the Awarded Shares, any bonus Shares and scrip Shares derived therefrom).

The Board is of the view that not exercising the voting rights by the trustee might help avoid potential misperception of the Company's influence over the trustee's decision in casting the votes in respect of the Shares held under the Trust at general meetings of the Company.

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme *(Continued)*

Termination

The Share Award Scheme shall terminate on the earlier of the expiry of the Trust Period or such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of the Selected Employees.

Upon termination, no further awards shall be granted but in all other respects, the Scheme Rules shall remain in full force and effect in respect of awards which have been granted during the term of the Share Award Scheme and which remain unvested or which have vested but not yet been transferred to a Selected Employee immediately prior to the termination of the Share Award Scheme; all Shares (except for any Awarded Shares subject to vesting on the Selected Employees) remaining in the trust fund shall be sold by the trustee within 28 business days (on which the trading of the Shares has not been suspended) (or such longer period as the trustee and the Board may otherwise determine) and all the net proceeds of sale and such other funds and properties remaining in the trust fund managed by the trustee (after making appropriate deductions in respect of all disposal costs, liabilities and expenses) shall be remitted to the Company forthwith.

During the year ended December 31, 2016, no award has been granted or agreed to be granted under the Share Award Scheme, nor has any award been exercised, cancelled or lapsed.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Options" above, at no time during the year was the Company, any of its holding companies, its subsidiaries or its fellow subsidiaries, a party to any arrangements to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" below and the related party transactions as disclosed in note 33 to the consolidated financial statements, no contracts of significance to which the Company, any of its holding companies, its subsidiaries or its fellow subsidiaries was a party and in which a Director and/or any of its connected entity had a material interest, whether directly or indirectly, and no transaction, arrangement or contract of significance between the Company, any of its holding companies, its subsidiaries and the Company's controlling shareholder or any of its subsidiaries, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

No Directors being proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

For details of relationship with the employees, please refer to the paragraph headed "Employees and Remuneration Policies" in the "Management Discussion and Analysis" section as set out on page 12 of this report.

For details of relationship with customers and suppliers, please refer to the paragraph headed "Major Customers and Suppliers" in this section.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against the Directors and officers.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended December 31, 2016 and up to the date of this report, to the best knowledge of the Directors, the Group complied with applicable laws, rules and regulations in all material aspects.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to promoting environmentally friendly business practices and raising awareness on the conservation of natural resources. Utilizing Alibaba Group's powerful intranet systems, our staff can accomplish some of their administrative work electronically which reduces the use of office supplies. We also encourage prudent electricity consumption. Our staff are advised to turn off any lights in unoccupied areas. The Group believes that taking active measures in minimizing wasteful material and energy consumption in the course of conducting our business would not only bring economic benefits but also assist in the preservation of the natural environment.

An Environmental, Social and Governance Report has been incorporated in this report on pages 72 to 84.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2016, the percentage of the Group's revenue attributable to the Group's five largest customers combined was less than 30%; the percentage of the Group's purchases attributable to the Group's five largest suppliers combined was less than 30%.

INCREASE IN REGISTERED CAPITAL OF A SUBSIDIARY

Hangzhou Aurora Multi-Media Technology Co., Ltd. (杭州晨熹多媒體科技有限公司) ("Hangzhou Aurora"), a subsidiary of the Company, has raised RMB1.7 billion series A financing from a group of investors ("Series A Investors") led by CDH Investments, Ant Financial Services Group and Sina.com in 2016. Upon the completion of the series A financing, Hangzhou Aurora's registered capital has increased to US$193,191,909 in November 2016 and the Series A Investors collectively holds approximately 12.4% of the total equity interest in Hangzhou Aurora. The proceeds from this transaction would be used to sustain its operations and further strengthen Hangzhou Aurora's market position in a competitive and fast developing business segment.

CONNECTED TRANSACTIONS

The Company has entered into a number of transactions with entities which are connected persons (as defined in Chapter 14A of the Listing Rules) of the Company, and such transactions constitute connected transactions and continuing connected transactions of the Company under Chapter 14A of the Listing Rules. These relevant entities include:

(1) Alibaba Group Holding Limited ("AGH"), which indirectly wholly owns Ali CV Investment Holding Limited, the controlling shareholder of the Company holding approximately 49.49% of the equity interest in the Company, and thus a connected person of the Company; and

(2) 合一信息技術（北京）有限公司(Heyi Information Technology (Beijing) Co., Ltd.) ("Heyi Beijing"), a variable interest entity of AGH upon its acquisition of Youku Todou Inc. in April 2016, which is therefore a connected person of the Company.

Connected Transaction

On November 4, 2015, the Company and AGH entered into the framework agreement (the "Framework Agreement"), pursuant to which the Company shall acquire from AGH the online movie ticketing business and Yulebao (the "Target Business") (the "Proposed Acquisition") by (a) acquiring the entire issued share capital of Aurora Media (BVI) Limited pursuant to the share purchase agreement (the "Share Purchase Agreement") entered into between the Company and AGH at the completion of the Proposed Acquisition (the "Completion", which took place on December 31, 2015); (b) accepting the assignment of the certain intellectual property rights by AGH pursuant to the assignment (the "Assignment") entered into between the Company (as assignee) and AGH (as assignor) at Completion; (c) making arrangements with AGH in relation to the transfer of certain employees (the "Transferred Employees") of AGH or its affiliates to support the Target Business pursuant to the reimbursement agreement (the "Reimbursement Agreement") entered into between the Company and AGH at Completion; and (d) accepting the contracts of AGH or its affiliates relating to the Target Business entered into prior to, and which remain in force at, Completion. The total consideration for the Proposed Acquisition under the Framework Agreement was approximately US$519,858,562. The Framework Agreement and the ancillary agreements and assignments relating thereto (including, without limitation, the Share Purchase Agreement, the Assignment and the Reimbursement Agreement) and the transactions contemplated thereunder have been confirmed, approved and ratified by the independent shareholders of the Company at the special general meeting held on December 29, 2015 (the "SGM").

CONNECTED TRANSACTIONS *(Continued)*

Continuing Connected Transactions

(1) Shared Services Agreement

On November 4, 2015, the Company and AGH entered into an agreement (the "Shared Services Agreement") in relation to office space and support services, customer service support, business intelligence services, maintenance service for the Yulebao database, office system and support services, procurement function support services and SMS platform services to be provided by AGH and its affiliates or otherwise designated by AGH to the Company to support the Target Business for an initial term of three years commencing from the date of Completion, unless otherwise terminated in accordance with the terms thereunder.

The annual cap in respect of the service fees payable by the Group (inclusive of any applicable tax) for the first, second and third 12-month periods during the initial term of three years under the Shared Services Agreement is RMB32 million, RMB37 million and RMB46 million, respectively. The Shared Services Agreement and the transactions contemplated thereunder have been confirmed, approved and ratified by the independent shareholders of the Company at the SGM. The actual fees payable by the Group under the Shared Services Agreement for the first 12-month period ended December 30, 2016 amounted to approximately RMB16,856,000.

(2) Pursuant to the Framework Agreement, the Company and AGH also entered into certain other continuing connected transactions on December 31, 2015 (being the date of Completion) comprising:

(i) the Cooperation Agreement;

(ii) the Data Platform Participation Agreement;

(iii) the IP Licence Agreement;

(iv) the Technology Services Agreement; and

(v) the Transitional Arrangement Agreement.

Each of the Cooperation Agreement and the Data Platform Participation Agreement constitutes a de minimis continuing connected transaction under Chapter 14A of the Listing Rules and therefore is fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

The IP Licence Agreement constitutes a de minimis continuing connected transaction under Chapter 14A of the Listing Rules. Under the IP License Agreement, (a) the Company grants AGH a royalty-free, non-exclusive and perpetual license to use certain trademarks and patents comprised in the Target Business as at Completion for any purpose in connection with AGH's business and (b) AGH grants the Company a royalty-free, non-exclusive and perpetual license to continue to use certain trademarks and patents currently used in the Target Business. The IP Licence Agreement is for a perpetual term commencing from the date of Completion, and the independent financial adviser has advised that it is reasonable for the IP Licence Agreement to have a term longer than three years and that it is normal business practice for agreements in the type of the IP License Agreement to be of such duration.

CONNECTED TRANSACTIONS *(Continued)*

Continuing Connected Transactions *(Continued)*

(2) (Continued)

Each of the Technology Services Agreement and the Transitional Arrangement Agreement are subject to the announcement, annual reporting and annual review requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the Technology Services Agreement, AGH agreed to procure the service providers (being AGH and affiliates set out under the Technology Services Agreement or otherwise designated by AGH) to provide technology services to support the Target Business (including the provision of servers, co-location and bandwidth and with respect to the online movie ticketing business, access to certain systems) for a term of two years commencing from the date of Completion.

The annual cap in respect of the fees payable by the Group (inclusive of any applicable tax) for each 12-month period during the two-year term under the Technology Services Agreement is RMB6 million. The actual fees payable by the Group under the Technology Services Agreement for the first 12-month period ended December 30, 2016 amounted to approximately RMB1,458,000.

Pursuant to the Transitional Arrangement Agreement, AGH agreed to transfer certain Transferred Employees to the Company, and the Company agreed to reimburse AGH for salaries and benefits paid by AGH (or its affiliates) to such Transferred Employees, within a maximum term of three years commencing from the date of Completion, unless otherwise terminated in accordance with the terms thereunder.

The annual cap in respect of the fees payable by the Group (inclusive of any applicable tax) for the first, second and third 12-month periods during the maximum term of three years under the Transitional Arrangement Agreement is RMB5 million, RMB2.5 million and RMB1.5 million, respectively. The actual fees payable by the Group under the Transitional Arrangement Agreement for the first 12-month period ended December 30, 2016 amounted to approximately RMB4,894,000.

(3) IT Cooperation Agreement

On December 31, 2015, Hangzhou Aurora Multimedia Technology Limited* (杭州晨熹多媒體科技有限公司) ("Hangzhou Aurora", as the licensee), an indirect wholly-owned subsidiary of the Company, entered into an information technology cooperation agreement ("IT Cooperation Agreement") with Heyi Beijing (as the licensor) for an initial term of one year commencing from December 31, 2015 and ending on December 31, 2016 (both days inclusive). Pursuant to the IT Cooperation Agreement, Heyi Beijing agreed to provide, and Hangzhou Aurora agreed to purchase, the Youku membership to view the audio and video content on the Youku website. The total fees payable by Hangzhou Aurora under the IT Cooperation Agreement amounted to approximately RMB5,842,000.

CONNECTED TRANSACTIONS *(Continued)*

Continuing Connected Transactions *(Continued)*

(3) (Continued)

The independent non-executive directors of the Company have reviewed the all of the above non-exempt continuing connected transactions, including the Shared Services Agreement, the Technology Services Agreement, Transitional Arrangement Agreement and the IT Cooperation Agreement, and confirmed that the transactions have been entered into:

- in the ordinary and usual course of the Group's business;
- on normal commercial terms or better; and
- according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PricewaterhouseCoopers, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the non-exempt continuing connected transactions in accordance with the Rule 14A.56 of the Listing Rules.

CONTRACTUAL ARRANGEMENTS

Overview

Applicable PRC laws and regulations currently in force restrict foreign investment in businesses involving movie production and distribution, and cinema operation. According to the Catalogue for Guidance of Foreign Investment (外商投資產業指導目錄), foreign investors are prohibited from holding equity interest in any companies that produce and distribute radio and television programs, as well as movies in the PRC. In addition, foreign investors are generally restricted from owning more than 49% of equity interest in any companies that is engaged in cinema operation, except for in certain cities and certain service providers that satisfy the definition of "service providers" as specified by the Arrangements for Establishing Closer Economic and Trade Relation between Mainland China and Hong Kong as well as the Arrangements for Establishing Closer Economic and Trade Relations between Mainland China and Macau. 中聯盛世文化(北京)有限公司("Zhonglian Shengshi") and 杭州晨熹多媒體科技有限公司("Hangzhou Aurora") (together, the "Subsidiaries"), subsidiaries of the Company and foreign owned enterprises, are therefore not able to obtain licenses to engage in the businesses as mentioned above.

CONTRACTUAL ARRANGEMENTS *(Continued)*

Overview *(Continued)*

As a result, the Group currently conducts its domestic entertainment content production, distribution, cinema operation and investment businesses through (i) 中聯京華文化傳播(北京)有限公司("Zhonglian Jinghua"), (ii) 北京阿里淘影視文化有限公司("Beijing Ali Tao") and (iii) 上海淘票票影視文化有限公司("Shanghai Tao Piao Piao"), (together, the "OPCOs") by themselves or through their subsidiaries. Shanghai Tao Piao Piao was established after June 30, 2016 and had no substantial business activities until the date of this report. The Group, through the Subsidiaries, has entered into three sets of contractual arrangements (the "Structured Contracts") with each of the OPCOs, the major terms of which are substantially the same. The Structured Contracts, through which the Company obtains control over and derives economic benefits from the OPCOs, have been narrowly tailored to achieve the Group's business objectives in domestic content production, distribution, cinema operation and investment while minimizing the potential conflict with relevant PRC laws and regulations.

By virtue of the Structured Contracts, the financial position and results of operations of Zhonglian Jinghua, Beijing Ali Tao and Shanghai Tao Piao Piao were consolidated into our financial position and results of operations as they are regarded as indirect subsidiaries of the Group under HKFRS 10 during the reporting period. As the OPCOs and their subsidiaries hold some key requisite PRC permits, licenses and approvals including the Permit to Produce and Distribute Radio or Television Programs (廣播電視節目製作經營許可證), Permit to Produce Movies (攝製電影許可證), Permit to Distribute Movies (電影發行經營許可證) and the Permit to Operate the Projection of Movies (電影放映經營許可證), as well as some of our intellectual property rights, the OPCOs and their subsidiaries are significant to our Group. For the year ended December 31, 2016, the OPCOs and their subsidiaries contributed approximately 35.8% of the Group's total revenue. Please refer to "Revenue and assets involved in Structured Contracts" below for more details.

During the year ended December 31, 2016 , there was no material change in the Structured Contracts and/or the circumstances under which they were adopted, and none of the Structured Contracts has been unwound as the regulatory restrictions that led to their adoptions were not removed. In the view of the Company's PRC legal advisers, the arrangement of the Structured Contracts does not violate applicable PRC laws and regulations. The Company is also advised that there are uncertainties regarding the interpretation and application of the currently applicable PRC laws, rules, and regulations.

CONTRACTUAL ARRANGEMENTS *(Continued)*

Particulars of the OPCOs and their Registered Owners

As at the date of this report, particulars of the OPCOs and their respective registered owners are as follows:

Name of OPCO	Registered Owners	Registered Capital	Principal Activities
Zhonglian Jinghua	50% by Zhang Yong (張勇) 50% by Jiang Fang (蔣芳)	RMB10 million	Investment holding
Beijing Ali Tao	50% by Zhang Yong (張勇) 50% by Jiang Fang (蔣芳)	RMB99 million	Investment holding
Shanghai Tao Piao Piao	50% by Zheng Jun Fang (鄭俊芳) 50% by Ni Xing Jun (倪行軍)	RMB10 million	Film investment; ticketing agency; technological consultation, technology transfer and technological services in the professional field of network technology; e-commerce

The following table sets forth the subsidiaries of Zhonglian Jinghua as at the date of this report:

Name of Subsidiary	Holding Company	Ownership	Principal Activities
Zhonglian Huameng (Shanghai) Cultural Media Co., Ltd. (中聯華盟(上海)文化傳媒有限公司)	Zhonglian Jinghua	100%	Production of broadcasting & television programs; distribution; exchanging and planning of screen-based, cultural & art events; film investment
Beijing Asian Union Culture Media Investment Co., Ltd. (北京中聯華盟文化傳媒投資有限公司)	Zhonglian Jinghua	100%	Film distribution, film production; performance brokerage; production of broadcasting & television programs
Beijing Ren He Ren Culture Co., Ltd. (北京人和人文化有限公司)	Zhonglian Jinghua	100%	Organizing cultural and art exchange events (excluding performances); design, production, agency sale and release of advertisements
Tianjin Tangtu Technology Co., Ltd. (天津唐圖科技有限公司)	Zhonglian Jinghua	51%	Development, consultation, services and transfer of electronic information technologies; software production
Beijing Silu Yunpai Technology Co., Ltd. (北京思盧雲拍科技有限公司)	Zhonglian Jinghua	60%	Technical-promotion services; computer system services; software design; design, production, agency sale and release of advertisements

CONTRACTUAL ARRANGEMENTS *(Continued)*

Particulars of the OPCOs and their Registered Owners *(Continued)*

Name of Subsidiary	Holding Company	Ownership	Principal Activities
Huameng (Tianjin) Culture Investment Co., Ltd. (華盟(天津)文化投資有限公司)	Beijing Asian Union Culture Media Investment Co., Ltd.	100%	Production of broadcasting & television programs
Asian Union (Tianjin) Advertising Co., Ltd. (中聯華盟(天津)廣告有限公司)	Beijing Asian Union Culture Media Investment Co., Ltd.	100%	Advertising and sale of entertainment related merchandise and derivatives
Beijing Pengan Shengshi Advertising Co., Ltd. (北京鵬安盛世廣告有限公司)	Beijing Asian Union Culture Media Investment Co., Ltd.	99%	Design, production, agency sale and release of advertisements; convention and exhibition services; corporate planning; economic and trade consultation
Beijing Niguang Shunying Film Culture Communication Co., Ltd. (北京逆光順影影視文化傳播有限公司)	Beijing Asian Union Culture Media Investment Co., Ltd.	51%	Organizing cultural and art exchange events (excluding performances); design, production, agency sale and release of advertisements; film & television production planning
Ren He Ren (Tianjin) Advertising Co., Ltd. (人和人(天津)廣告有限公司)	Beijing Ren He Ren Culture Co., Ltd.	100%	Engaging in advertisement business; organizing cultural and art exchange events (excluding performances)

CONTRACTUAL ARRANGEMENTS *(Continued)*

Particulars of the OPCOs and their Registered Owners *(Continued)*

The following table sets forth the subsidiaries of Beijing Ali Tao as at the date of this report:

Name of Subsidiary	Holding Company	Ownership	Principal Activities
Zhejiang Dongyang Xiaoyuzhou Movie & Media Co., Ltd. (浙江東陽小宇宙影視傳媒有限公司)	Beijing Ali Tao	100%	Investment in and production and distribution of film and TV copyrights
Shanghai Alibaba Pictures Co., Ltd.(上海阿里巴巴影業有限公司)	Beijing Ali Tao	100%	Film investment, film production
Beijing Jumihudong Movie & Media Co., Ltd. (北京聚迷互動影視傳媒有限公司)	Beijing Ali Tao	100%	Investment in and production and distribution of film and TV copyrights
Zhejiang Dongyang Alibaba Pictures Co., Ltd. (浙江東陽阿里巴巴影業有限公司)	Beijing Ali Tao	100%	Investment in and production and distribution of film and TV copyrights
Tianjin Alibaba Pictures Development Co., Ltd. (天津阿里巴巴影業發展有限公司)	Beijing Ali Tao	100%	Construction of cinemas; management and leasing of commercial facilities; engaging in advertisement business; ticketing agency; selling and leasing of audio and visual, cultural and entertainment facilities
Tianjin Junsheng Pictures Management Co., Ltd. (天津駿聲影業管理有限公司)	Tianjin Alibaba Pictures Development Co., Ltd.	100%	Construction of cinemas; management and leasing of commercial facilities; engaging in advertisement business; ticketing agency; selling and leasing of audio and visual, cultural and entertainment facilities
Hangzhou Xingji Media Culture Co., Ltd. (杭州星際影視文化有限公司)	Tianjin Junsheng Pictures Management Co., Ltd.	80%	Releasing films; design, production, agency sale and release of domestic advertisements

CONTRACTUAL ARRANGEMENTS *(Continued)*

Particulars of the OPCOs and their Registered Owners *(Continued)*

Name of Subsidiary	Holding Company	Ownership	Principal Activities
Horgos Xiaoyuzhou Media Culture Co., Ltd (霍爾果斯小宇宙影視文化有限公司)	Zhejiang Dongyang Xiaoyuzhou Movie & Media Co., Ltd	100%	Investment in and production and distribution of film & TV copyrights
Hangzhou Kangmai Investment Management Co., Ltd. (杭州康邁投資管理有限公司)	Zhejiang Dongyang Alibaba Pictures Co., Ltd.	100%	Investment management, industrial investment, investment consultation
Hangzhou Alibaba Movie & Media Investment & Management Co., Ltd. (杭州阿里巴巴影視投資管理有限公司)	Zhejiang Dongyang Alibaba Pictures Co., Ltd.	100%	Investment management, industrial investment and investment consultation

As at the date of this report, Shanghai Tao Piao Piao does not have any subsidiaries.

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place

As at the date of this report, there were three sets of ongoing Structured Contracts in place entered into between:

(a) Zhonglian Shengshi (as the Company's Subsidiary), Zhonglian Jinghua (as the OPCO), Mr. Zhang Yong and Ms. Jiang Fang (as the registered owners);

(b) Zhonglian Shengshi (as the Company's Subsidiary), Beijing Ali Tao (as the OPCO), Mr. Zhang Yong and Ms. Jiang Fang (as the registered owners); and

(c) Hangzhou Aurora (as the Company's Subsidiary), Shanghai Tao Piao Piao (as the OPCO), Ms. Zheng Jun Fang and Mr. Nin Xing Jun (as the registered owners).

These Structured Contracts enable the Group to:

- exercise effective financial and operational control over each of the OPCOs;
- exercise equity holders' voting rights of each of the OPCOs; and
- receive substantially all of the economic interest returns generated by each of the OPCOs.

Major terms of the above Structured Contracts are substantially the same. A brief summary of the major terms is set out below.

(1) Exclusive Consultation and Service Agreements (獨家諮詢與服務協議)

Pursuant to the Exclusive Consultation and Service Agreements, the relevant OPCO agreed to engage the relevant Subsidiary as its exclusive provider of technical support and consultancy services requested by the relevant OPCO from time to time to the extent permitted under the applicable PRC laws in exchange for service fees. The service fees are fixed with reference to the net profit of the relevant OPCO. In respect of certain specific technical services requested by the relevant OPCO, the relevant OPCO shall pay the relevant Subsidiary a service fee as quoted by the relevant Subsidiary taking into account the nature and workload of such services. The relevant Subsidiary may adjust the amount of service fees with reference the actual services provided and the actual business operations of the relevant OPCO. The relevant OPCO shall not oppose to such adjustment unless with reasonable grounds.

Unless otherwise prescribed under the PRC laws and regulations, the relevant Subsidiary shall have exclusive proprietary rights to any intellectual property (including but not limited to copyright, patent, technical secret and trade secret) in the work product developed by the relevant Subsidiary or the relevant OPCO in the course of the provision of services under the relevant Exclusive Consultation and Service Agreement.

Each of the Exclusive Consultation and Service Agreement has a term of 20 years and will be automatically renewed for consecutive terms of one year upon expiry unless otherwise notified by the relevant Subsidiary. The relevant Exclusive Consultation and Service Agreement shall be terminated prior to expiration in the event that the business period of either the relevant Subsidiary or the relevant OPCO expires.

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place *(Continued)*

(2) Loan Agreements (借款協議)

Pursuant to the Loan Agreements, the relevant Subsidiary agreed to provide interest-free loans to the relevant registered owners as capital contribution to the relevant OPCO or for other purposes as agreed by the relevant Subsidiary. The relevant registered owners, in return for the provision of loans, agreed to enter into an Equity Interest Pledge Agreement with the relevant Subsidiary to pledge all of his or her equity interest in the relevant OPCO as security.

Term of each loan under the relevant Loan Agreement is 20 years from the effective date, or for a period until expiration of the business period of the relevant Subsidiary or the relevant OPCO, whichever is earlier. The relevant registered owners shall repay the loan upon expiration of the term. In that circumstance, unless otherwise prohibited by the applicable laws and regulations, the relevant Subsidiary or its designee is entitled to acquire all equity interest held by the relevant registered owners in the relevant OPCO for a consideration equal to the loan amount. The relevant registered owners shall waive any pre-emptive rights upon transfer of equity interest in the relevant OPCO to the relevant Subsidiary. Any tax arising from the loan shall be borne by the relevant Subsidiary.

(3) Equity Interest Pledge Agreements (股權質押協議)

Pursuant to the Equity Interest Pledge Agreements, the relevant registered owners agreed to pledge all their respective equity interests in the relevant OPCO to the relevant Subsidiary, as a security interest to guarantee the performance of contractual obligations and the payment of outstanding loans of the relevant registered owner. Unless due to the intentional misconduct or gross negligence of the relevant Subsidiary, the relevant Subsidiary shall not be liable for any decrease in value of the pledged interests, and the relevant registered owners shall not have any right to claim against the relevant Subsidiary as a result of such decrease in value. However, in the event that the decrease in value of the pledged interest may jeopardize rights of the relevant Subsidiary, or upon occurrence of default, the relevant Subsidiary may auction or sell the pledged interest for and on behalf of the relevant registered owners and allocate the money received for loan prepayment or deposit such money to the relevant Subsidiary's local Notary Office.

The pledge in respect of a OPCO takes effect upon the completion of registration with the competent authority and shall remain valid until all the contractual obligations of the relevant registered owners and the relevant OPCO under the relevant Structured Contracts have been fully performed and that all outstanding loans have been fully repaid. During the period of the pledge, absent prior written consent of the relevant Subsidiary, the relevant registered owners shall not create or agree to create any new pledge or other security on the equity interests of the relevant OPCO, nor assign or transfer any of the equity interests in the relevant OPCO.

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place *(Continued)*

(4) Powers of Attorney (授權委託書)

Pursuant to the Powers of Attorney, each of the relevant registered owners irrevocably appointed designee(s) of the Subsidiary or our Company, including any directors of the Subsidiary or our Company who are PRC nationals and who are not related to the shareholders of the relevant OPCO or his/her successor, to act as his/her attorney on his/her behalf to exercise all rights in connection with matters concerning his/her right as shareholder of the relevant OPCO, including but not limited to:

(a) attending the shareholders' meeting of the relevant OPCO as representative of the relevant registered owners;

(b) exercising shareholders' voting right on issues in respect of appointment of directors and senior management, disposal of assets and liquidation etc;

(c) signing meeting minutes and resolutions;

(d) signing relevant documents when the relevant registered owners sell or transfer all or part of his/her equity interest pursuant to the Exclusive Option Agreements;

(e) signing all necessary documents when the relevant Subsidiary exercises its rights under the relevant Equity Interest Pledge Agreement;

(f) approving filing documents with the relevant competent authorities; and

(g) other matters decided or executed by the shareholders pursuant to the relevant constitutional documents.

The Powers of Attorney shall remain effective for 20 years and will be automatically renewed for consecutive terms of one year upon expiry unless otherwise notified by the relevant Subsidiary. The Powers of Attorney shall be terminated prior to expiration in the event that the business period of either the relevant Subsidiary or the relevant OPCO expires.

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place *(Continued)*

(5) Exclusive Option Agreements (獨家購買權協議)

Pursuant to the Exclusive Option Agreements, the relevant registered owners agreed to irrevocably, unconditionally and exclusively grant an exclusive option to the relevant Subsidiary so that the relevant Subsidiary may elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests in the relevant OPCO from the relevant registered owners and/or all or any of the assets by themselves or through their designee(s). In the event that any of the options is exercised by the relevant Subsidiary, the transfer price of the relevant equity interests and assets shall correspond to the registered capital amount and the net asset value respectively, or the legal minimum price under the then applicable PRC laws (as the case may be). Subject to the applicable PRC laws, each of the registered owners shall transfer all the consideration he/she receives in relation to such transfer of equity interests and assets in the relevant OPCO to the relevant Subsidiary after receiving such consideration, after deduction of applicable taxes and government fees and repayment of any outstanding debt pursuant to the Loan Agreements.

Pursuant to the Exclusive Option Agreements, without the prior written consent of the relevant Subsidiary, the relevant registered owners shall not sell, transfer, mortgage or dispose of in any manner any assets of the relevant OPCO (except in the ordinary course of business), or legal or beneficial interest in the business or revenues of the relevant OPCO, or allow the creation of any security interest thereon.

The Exclusive Option Agreements shall remain effective from the execution date and terminate when the equity interests in and assets of the relevant OPCO have been legally transferred to the relevant Subsidiary or its designee in accordance with the terms of the relevant Exclusive Option Agreement.

Risks associated with Structured Contracts and the actions taken to mitigate the risks

The Group believes the following risks are associated with the Structured Contracts.

- If the PRC government finds that the Structured Contracts that establish the structure for operating our entertainment content production, distribution, cinema operation and investment businesses in the PRC do not comply with applicable PRC laws and regulations, we could be subject to penalties and our business may be materially and adversely affected.

- Certain terms of our Structured Contracts may not be enforceable under PRC laws.

- Our Structured Contracts may not be as effective in providing control over our OPCOs as equity ownership.

CONTRACTUAL ARRANGEMENTS *(Continued)*

Risks associated with Structured Contracts and the actions taken to mitigate the risks *(Continued)*

- Any failure by the OPCOs or their respective ultimate shareholders to perform their obligations under our Structured Contracts would potentially lead to our having to incur additional costs and expend material resources to enforce such arrangements, temporary or permanent loss of control over our domestic content production, distribution, cinema operation and investment businesses or loss of access to the revenue from these businesses.

- The ultimate owners of the OPCOs may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

- If any of the Subsidiaries or OPCOs becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy certain important assets, which could materially and adversely affect our business.

- Our exercise of the option to acquire the equity interests of the OPCOs may be subject to certain limitations and the ownership transfer may incur substantial costs.

In view of the regulatory risks associated with the Structured Contracts, the Group follows closely on the latest developments with regards to the relevant PRC laws, rules and regulations. The Group will seek professional legal advice when there are any changes or updates in this regard and to deal with specific issues arising from the Structured Contracts. The Group periodically reviews the Structured Contracts and assesses the financial situation of the OPCOs on a regular basis.

In terms of the Group's overall business profile, a material expansion has been achieved over the past year. With the addition of Yueke Software Systems, online movie ticketing and international operations, the Group has diversified its business segments beyond domestic content production, distribution and investment. Revenues generated from non-OPCOs are forming a material portion of the Group's total revenue.

Revenue and assets involved in Structured Contracts

The following table sets forth (i) revenue and (ii) assets involved in the OPCOs which are consolidated into the Group's financial statements pursuant to the Structured Contracts:

	Revenue (RMB'000) (proportionate % to the Group) For the year ended December 31, 2016	Assets (RMB'000) (proportionate % to the Group) As at Decemeber 31, 2016
Zhonglian Jinghua (Consolidated)	314,064 (34.7%)	1,475,004 (7.5%)
Beijing Ali Tao (Consolidated)	9,942 (1.1%)	380,378 (1.9%)
Shanghai Tao Piao Piao	0% (0%)	130 (0%)

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2016, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Ordinary shares of HK$0.25 each in the capital of the Company ("Shares")

Name of Shareholder	Capacity in which interests are held	Number of Shares/underlying Shares held	Long position/ Short position	Approximate percentage of issued share capital[2]
Ali CV Investment Holding Limited ("Ali CV")	Beneficial owner[1]	12,488,058,846	Long position	49.49%
Alibaba Investment Limited ("AIL")	Held by controlled corporation[1]	12,488,058,846	Long position	49.49%
Alibaba Group Holding Limited ("AGHL")	Held by controlled corporation[1]	12,488,058,846	Long position	49.49%

Notes:

1. This represents the interest in 12,488,058,846 shares of the Company held by Ali CV as beneficial owner. As of December 31, 2016, Ali CV was wholly owned by AGHL, through its controlled corporation, AIL. Accordingly, AGHL and AIL were deemed to have the same interest held by Ali CV.

2. As of December 31, 2016, the Company had a total of 25,234,561,410 shares in issue.

Save as disclosed above, as at December 31, 2016, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' INTEREST IN COMPETING BUSINESSES

None of the Directors or their respective associates is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

EQUITY-LINKED AGREEMENTS

Save for the 2012 Share Option Scheme and the Share Award Scheme as disclosed in the section headed "Share Incentive Schemes" of this report on pages 19 to 28, the Company has not entered into any equity-linked agreement for the year ended December 31, 2016.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended December 31, 2016.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance code. Information on the corporate governance code adopted by the Company is set out in the Corporate Governance Report on pages 46 to 71.

DONATIONS

Donations made by the Group during the year ended December 31, 2016 amounted to RMB498,000 (2015: Nil).

PUBLIC FLOAT

As at the date of this report, the Company has maintained a sufficient public float as required under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of its Directors.

AUDITORS

On January 21, 2015, Deloitte Touche Tohmatsu resigned as auditor of the Company and PwC was appointed by the Company's shareholders to fill the casual vacancy so arising. There have been no other changes of the Company's auditors in the past three years. The consolidated financial statements for the year ended December 31, 2016 were audited by PwC. A resolution to re-appoint PwC as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
Yu Yongfu
Chairman

Hong Kong, March 30, 2017

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The board (the "Board") of directors of the Company (the "Directors") believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

Throughout the year ended December 31, 2016, the Company has applied and complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), except for certain deviations with considered reasons as explained below.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yu Yongfu, appointed as the chairman of the Board on November 21, 2016, also acts as the chief executive officer of the Company with effect from December 5, 2016. The Board considers that vesting the roles of both chairman and chief executive officer in the same person will facilitate the development and execution of the Group's business strategies, and enhance its internet and e-commerce capabilities, which will help the Company overcome market challenges and create more value for the shareholders of the Company. The Board believes that the balance of power and authority under the present arrangement will not be impaired and adequately ensured by the current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive directors.

Code provision A.5.1 stipulates that the Company should establish a nomination committee which is chaired by the Chairman of the Board or an independent non-executive director ("INED") and comprises a majority of INEDs. Following the resignation of Ms. Zhang Yu as a member with effect from November 3, 2015, the composition of the nomination committee of the Company did not meet the requirement that it shall comprise a majority of INEDs. The Company appointed Mr. Johnny Chen as a member of the nomination committee of the Company with effect from January 29, 2016. Following the appointment of Mr. Johnny Chen, the Company has been fully in compliance with the code provision A.5.1 with effect from January 29, 2016.

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Tong Xiaomeng and Ms. Song Lixin, INEDs of the Company, were not able to attend the annual general meeting of the Company held on June 24, 2016 ("2016 AGM") due to their personal engagements during the meeting time.

Code provision C.1.2 stipulates that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. The Company from time to time, based on business needs and conditions, provides to the Board up-to-date business information and convenes ad hoc meetings for considering material business or management issues, so as to enable the directors and the Board as a whole to discharge their duties.

Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. Mr. Shao Xiaofeng, the then chairman of the Board, was not able to attend the 2016 AGM due to his personal engagement during the meeting time.

THE BOARD

The Board currently comprises nine Directors in total, with four executive Directors ("ED(s)"), two non-executive Directors ("NED(s)") and three INEDs. The composition of the Board during the year and up to the date of this report is set out as follows:

Executive Directors
Mr. Yu Yongfu *(Appointed as NED on August 27, 2016 and re-designated as ED on November 21, 2016)*
Mr. Liu Chunning *(Removed on January 1, 2016)*
Mr. Zhang Qiang
Mr. Deng Kangming *(Appointed on January 1, 2016 and resigned on December 23, 2016)*
Ms. Zhang Wei *(Appointed on January 1, 2016)*
Mr. Fan Luyuan *(Appointed on January 1, 2016)*

Non-Executive Directors
Mr. Li Lian Jie
Mr. Shao Xiaofeng *(Re-designated as NED on November 21, 2016)*

Independent Non-Executive Directors
Ms. Song Lixin
Mr. Tong Xiaomeng
Mr. Johnny Chen *(Appointed on January 29, 2016)*

The Board has adopted a policy setting out the approach to achieve diversity on the Board (the "Board Diversity Policy") with the aims of enhancing the Board's effectiveness and strengthening the corporate governance for contributing to the long term growth and sustainability of the Company. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to, gender, age, cultural and educational background, professional experience, knowledge and length of service. The current Board consists of the Board members with the appropriate balance and level of knowledge, skill, experience and perspectives required to support the implementation of business strategies. The Company also takes into consideration factors based on its business needs and availability of the suitable qualified individuals in determining the optimum composition of the Board.

An updated list of Board members identifying their roles and functions is maintained on the websites of the Company and the Stock Exchange. The brief biographical details of the Directors are set out in the "Biographical Information of Directors and Senior Management" section on pages 13 to 15. There is no family or other material relationships among members of the Board.

During the year, the NEDs (a majority of whom are independent) provided the Group with a wide range of qualification, expertise and experience through regular attendance and active participation. Their positive contribution brings independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders of the Company (the "Shareholders").

THE BOARD *(Continued)*

Following the resignation of Ms. Zhang Yu as INED on November 3, 2015, the number of INEDs fell below the minimum number of INEDs as required under Rules 3.10(1) and 3.10A of the Listing Rules, and none of the INEDs has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. Following the appointment of Mr. Johnny Chen as INED on January 29, 2016, the Company has complied with the requirements under Rules 3.10, 3.10A and 3.10(2) of the Listing Rules. The Company confirms that each INED, including Mr. Johnny Chen who was appointed on January 29, 2016, has given an annual confirmation of his/her independence to the Company, and the Company considers each of them is independent under the guidelines set out in Rule 3.13 of the Listing Rules. The Board believes that there is sufficient independent element in the Board to safeguard the interest of Shareholders.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group and to review and approve the Group's annual and interim results. Directors may participate either in person or through electronic means of communications. During the year ended December 31, 2016, six Board meetings and one general meeting of the Company were held. The attendance of each Director at Board meetings and general meeting of the Company are set out as follows:

	Number of meetings attended/eligible to attend	
Directors	**Board Meetings**	**General Meeting**
Executive Directors		
Mr. Yu Yongfu *(Chairman & Chief Executive Officer)*[1]	2/2	–
Mr. Liu Chunning[2]	–	–
Mr. Zhang Qiang *(Co-President)*	6/6	1/1
Mr. Deng Kangming[3]	4/6	0/1
Ms. Zhang Wei *(Co-President)*	6/6	0/1
Mr. Fan Luyuan	6/6	0/1
Non-Executive Directors		
Mr. Li Lian Jie	6/6	1/1
Mr. Shao Xiaofeng	6/6	0/1
Independent Non-Executive Directors		
Ms. Song Lixin	6/6	0/1
Mr. Tong Xiaomeng	5/6	0/1
Mr. Johnny Chen[4]	5/5	1/1

Notes:

1. Mr. Yu Yongfu was appointed as NED on August 27, 2016 and re-designated as ED on November 21, 2016. During the year ended December 31, 2016, there were only two meetings of the Board held after Mr. Yu's appointment as NED.

2. Mr. Liu Chunning was removed as ED on January 1, 2016.

3. Mr. Deng Kangming resigned as ED on December 23, 2016.

4. Mr. Johnny Chen was appointed as INED on January 29, 2016. During the year ended December 31, 2016, there were five meetings of the Board held after Mr. Chen's appointment as INED.

THE BOARD *(Continued)*

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the day-to-day responsibility to the executive management under the instruction/supervision of the Executive Committee which has its specific written terms of reference. The Board will review the respective functions of the Board and management of the Company from time to time to ensure that they are consistent with the existing rules and regulations.

All Directors are required to disclose to the Company their offices held in the public companies or organizations and other significant commitments in order to ensure that their sufficient time and attention can be given to the Company's affairs.

The Board should meet regularly at least four times a year at approximately quarterly intervals. In 2016, the Board held four regular Board meetings and two ad hoc meetings. The Company's daily business operations are under the management of its executive Directors. In addition to regular meetings, the Board will hold ad hoc meetings from time to time as necessitated by business needs in order to consider and resolve all material business or management issues of the Company. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before the same will be tabled at the following Board meeting for approval. All minutes are kept in the Company Secretarial Department of the Company and are open for inspection at any reasonable time on reasonable notice by any Director.

According to current Board practice, any transaction which involves a conflict of interests for a substantial shareholder or a Director and which is considered by the Board to be material will be dealt with by the Board at a duly convened Board meeting. The Bye-laws of the Company (the "Bye-laws") also stipulate that a Director should abstain from voting and not be counted in the quorum at meetings or approving transactions in which such Director or any of his associates has a materially interest therein.

Each Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's management. In addition, a written procedure was established in June 2005 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

The Company has arranged the liability insurance for Directors and officers with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

THE BOARD *(Continued)*

Training and Support for Directors

Directors must keep abreast of their collective responsibilities. Each newly appointed Director would receive an induction package covering the Company's businesses and the statutory and regulatory obligations of a director of a listed company. The Company also provides briefings and other training to develop and refresh the Directors' knowledge and skills. The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are issued to Directors and senior management where appropriate, to ensure awareness of best corporate governance practices.

During the year under review and up to the date of this annual report, the Directors participated in the following trainings:

	Attending seminars and/or conferences and/or forums relating to directors' duties or other relevant topics	Reading newspaper, journals and updates relating to the economy, general business or directors' duties etc
Executive Directors		
Mr. Yu Yongfu *(Appointed as NED on August 27, 2016 and re-designated as ED on November 21, 2016)*	✔	✔
Mr. Zhang Qiang	✔	✔
Mr. Deng Kangming *(Appointed on January 1, 2016 and resigned on December 23, 2016)*	✔	✔
Ms. Zhang Wei *(Appointed on January 1, 2016)*	✔	✔
Mr. Fan Luyuan *(Appointed on January 1, 2016)*	✔	✔
Non-Executive Directors		
Mr. Li Lian Jie	✔	✔
Mr. Shao Xiaofeng	✔	✔
Independent Non-Executive Directors		
Ms. Song Lixin	✔	✔
Mr. Tong Xiaomeng	✔	✔
Mr. Johnny Chen *(Appointed on January 29, 2016)*	✔	✔

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties including:

(i) to develop and review the Company's policies and practices on corporate governance;

(ii) to review and monitor the training and continuous professional development of Directors and senior management of the Company;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company; and

(v) to review the Company's compliance with the CG Code and its disclosure requirements in the Corporate Governance Report.

During the year under review and up to the date of this report, the Board (i) reviewed the Company's policies on corporate governance and compliance with legal and regulatory requirements; (ii) reviewed and monitored the training and continuous professional development of Directors and the code of conduct of the Company; and (iii) reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

ROLES OF CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Following the resignation of Mr. Shao Xiaofeng as the chairman of the Board with effect from November 21, 2016 and Mr. Zhang Qiang as the chief executive officer of the Company with effect from December 5, 2016, Mr. Yu Yongfu was appointed as the chairman of the board and the chief executive officer of the Company on the aforesaid effective dates of the resignation. Since then, the roles of the chairman and the chief executive were performed by Mr. Yu Yongfu.

The Board considers that Mr. Yu Yongfu, acting as chairman of the Board and chief executive officer concurrently, will facilitate the development and execution of the Group's business strategies, and enhance its internet and e-commerce capabilities, which will help the Company overcome market challenges and create more value for the shareholders of the Company.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

In August 2013, the Board adopted the revised written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company which was reviewed by the Nomination Committee. The Nomination Committee shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment), identify and recommend the proposed candidate to the Board for approval of an appointment.

New Directors, on appointment, are given an induction package containing all key legal and Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a Director. The package includes the latest published financial reports of the Company and the documentation for the corporate governance code adopted by the Board. The new Directors are subsequently provided with briefings and/or trainings as necessary to ensure that they have more detailed information on the Group's businesses and activities.

Each of the EDs and NEDs (including INEDs) has entered into a letter of appointment with the Company for a specific term, subject to the relevant provisions of the Bye-laws or any other applicable laws whereby the Directors shall vacate or retire from their office but is eligible for re-election. The Bye-laws provide that any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting (the "AGM") and shall then be eligible for re-election.

The code provision A.4.2 of the CG Code requires all Directors, including all non-executive Directors, to be subject to retirement by rotation at least once every three years. The Company has fully complied with code provision A.4.2 of the CG Code.

The Shareholders may, at any general meeting convened and held in accordance with the Bye-laws, by ordinary resolution remove a Director at any time before the expiration of his period of office notwithstanding anything contrary in the Bye-laws or in any agreement between the Company and such Director and may by ordinary resolution elect another person in his stead.

BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee, an Audit Committee, a Nomination Committee and an Executive Committee, to perform their distinct roles in accordance with their respective terms of reference. Following the resignation of Ms. Zhang Yu as INED with effect from November 3, 2015, (i) the number of members of the Audit Committee fell below the minimum number required under Rule 3.21 of the Listing Rules and the Audit Committee's terms of reference; and (ii) the composition of the Nomination Committee did not meet the requirement that it shall comprise a majority of INEDs under code provision A.5.1 of the CG Code. Following the appointment of Mr. Johnny Chen as INED, the chairman of the Audit Committee and a member of the Nomination Committee with effect from January 29, 2016, the Audit Committee and the Nomination Committee were reconstituted. Hence, the relevant requirements under the Listing Rules were fulfilled since then.

The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in accordance with the Company's policy in appropriate circumstances. Copies of minutes of all meetings and resolutions of the committees, which are kept in the Company Secretarial Department of the Company, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations, where appropriate. The procedures and arrangements for a Board meeting, as mentioned in the section headed "The Board" of this report, have been adopted for the committee meetings so far as practicable.

Remuneration Committee

The Remuneration Committee has been established since June 2005 and currently consists of three members, including Mr. Tong Xiaomeng (Chairman), Mr. Yu Yongfu and Ms. Song Lixin. Among three members of the Remuneration Committee, two members are INEDs.

The major roles and functions of the Remuneration Committee are:

(i) to review and recommend to the Board the remuneration policy and packages of the Directors and, where appropriate, to consult the chairman and/or chief executive about the committee's proposals relating to the remuneration of other executive Directors;

(ii) to consider salaries or fees paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(iii) to review and recommend the compensation payable to executive Directors for any loss or termination of office or appointment;

(iv) to review and recommend compensation arrangements relating to dismissal or removal of Directors for misconduct; and

(v) to ensure that no Director is involved in deciding his own remuneration.

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company. The Remuneration Committee has adopted the model described in code provision B.1.2(c)(ii) of the CG Code in its terms of reference.

The Remuneration Committee shall meet at least once a year. Four Remuneration committee meetings were held in 2016 and the attendance of each member is set out as follows:

Committee members	Number of Committee meetings attended/eligible to attend
Mr. Tong Xiaomeng *(Chairman)*	4/4
Mr. Yu Yongfu[1]	0/0
Mr. Shao Xiaofeng[2]	4/4
Ms. Song Lixin	4/4

Note:

1. Mr. Yu Yongfu was appointed as member of the Remuneration Committee on November 21, 2016. During the year ended December 31, 2016, there was no meeting of the Remuneration Committee held after Mr. Yu's appointment.

2. Mr. Shao Xiaofeng ceased to be member of the Remuneration Committee on November 21, 2016.

In 2016, the Remuneration Committee reviewed and recommended for the Board's approval (i) the existing policy and structure for the remuneration of Directors; (ii) the remuneration packages (including share-based award) of the Directors (including those newly appointed during the year) and senior management; (iii) the grant of share options to two EDs; and (iv) the appointment of the trustee for administration of the Company's Share Award Scheme and the terms of the Trust Deed.

Except Mr. Yu Yongfu, Mr. Fan Luyuan and Mr. Shao Xiaofeng who will not receive remuneration from the Company, each Director will be entitled to remuneration which is to be proposed for the Shareholders' approval at the AGM each year. Remuneration payable to the individual Director will be determined with reference to his experience and the prevailing market rate of director's fees. Further remuneration payable to Directors including any other fees to the INEDs for their additional responsibilities and services will be approved by the Board on the recommendation of the Remuneration Committee.

Details of the Directors' remuneration are set out in note 36 to the consolidated financial statements. Details of the remuneration policy of the Group are also set out in the "Employees and Remuneration Policies" section in the Management Discussion and Analysis on page 12.

The Company's share option scheme (which was adopted by the Company pursuant to a resolution passed by the Shareholders on May 23, 2002) expired on May 22, 2012. At the AGM held on June 11, 2012, the Shareholders approved the adoption of a new share option scheme. Details of the share option scheme of the Company and the outstanding share options as at December 31, 2016 are set out in the Directors' Report on pages 19 to 24 and note 23 to the consolidated financial statements.

The Company's Share Award Scheme was adopted by the Board on December 30, 2016. Details of the Share Award Scheme of the Company are set out in the Directors' Report on pages 25 to 28.

BOARD COMMITTEES *(Continued)*

Audit Committee

The Audit Committee has been established since August 2001 with a set of revised written terms of reference adopted in August 28, 2015, which are in line with the CG Code. The Audit Committee currently consists of three INEDs. To retain independence and objectivity, the Audit Committee is chaired by an INED (with appropriate professional qualifications or accounting or related financial management expertise). The current members of the Audit Committee are Mr. Johnny Chen (Chairman), Ms. Song Lixin and Mr. Tong Xiaomeng.

The major roles and functions of the Audit Committee are:

(i) to consider and recommend to the Board on the appointment, re-appointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of those auditors;

(ii) to consider and discuss with the external auditor the nature and scope of each year's audit;

(iii) to review and monitor the external auditor's independence and objectivity;

(iv) to review the interim and annual consolidated financial statements before submission to the Board;

(v) to discuss any problems and reservation arising from the interim review and final audit, and any matters the external auditor may wish to discuss;

(vi) to review the external auditor's management letters and management's response;

(vii) to review the Group's financial controls, internal control and risk management systems;

(viii) to discuss the internal control system with the management; and

(ix) to consider major investigations findings on internal control matters as delegated by the Board and management's response.

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

The Audit Committee shall meet at least twice a year. Two Audit Committee meetings were held in 2016 and the attendance of each member is set out as follows:

Committee members	Number of Committee meetings attended/eligible to attend
Mr. Johnny Chen *(Chairman)*[1]	2/2
Ms. Song Lixin	2/2
Mr. Tong Xiaomeng	1/2

Note:

1. Mr. Johnny Chen was appointed as chairman of the Audit Committee on January 29, 2016.

In 2016, the Audit Committee had performed the work summarised as below:

(i) reviewed and recommended for the Board's approval the scope and fees proposed by the external auditors in respect of the final audit for the year ended December 31, 2015 (the "2015 Final Audit"), the interim results review for the six months ended June 30, 2016 (the "2016 Interim Review") and the final audit for the year ended December 31, 2016 of the Group;

(ii) reviewed the external auditor's report of findings, independent review report and audit completion report in relation to the 2015 Final Audit and the 2016 Interim Review;

(iii) reviewed and recommended for the Board's approval the Company's consolidated financial statements for the year ended December 31, 2015 and for the six months ended June 30, 2016 together with the relevant management representation letters;

(iv) reviewed the effectiveness of the internal control and risk management systems; and

(v) recommended to the Board, for the approval by the Company's shareholders, of the re-appointment of the auditor.

BOARD COMMITTEES *(Continued)*

Nomination Committee

The Nomination Committee has been established since March 2012 with a set of revised written terms of reference adopted in August 2013 which are in line with the CG Code. The Nomination Committee currently consists of three members, including Mr. Yu Yongfu (Chairman), Mr. Tong Xiaomeng and Mr. Johnny Chen. Among three members of the Nomination Committee, two members are INEDs.

The major roles and function of the Nomination Committee are:

(i) to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(ii) to make recommendations to the Board on the selection of individual(s) nominated for directorship(s);

(iii) to assess the independence of INEDs;

(iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and

(v) to review a policy concerning diversity of Board members and its implementation and make recommendations on any proposed changes to the Board.

The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

The Nomination Committee shall meet at least once a year. Four Nomination Committee meetings were held in 2016 and the attendance of each member is set out as follows:

Committee members	Number of Committee meetings attended/eligible to attend
Mr. Yu Yongfu[1] *(Chairman)*	0/0
Mr. Shao Xiaofeng[2] *(Ex-Chairman)*	4/4
Mr. Tong Xiaomeng	4/4
Mr. Johnny Chen[3]	3/3

Notes:

1. Mr. Yu Yongfu was appointed as Chairman of the Nomination Committee on November 21, 2016. During the year ended December 31, 2016, there was no meeting of the Nomination Committee held after Mr. Yu's appointment.

2. Mr. Shao Xiaofeng ceased to be Chairman of the Nomination Committee on November 21, 2016.

3. Mr. Johnny Chen was appointed as member of the Nomination Committee on January 29, 2016. During the year ended December 31, 2016, there were three meetings of the Nomination Committee held after Mr. Chen's appointment.

In 2016 and up to the date of this report, the Nomination Committee (i) reviewed the Board Diversity Policy and its implementation; (ii) reviewed the structure, size and composition of the Board; (iii) assessed the candidates on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities and put the nomination of such candidates to the Board for decision; (iv) assessed the independence of all the INEDs; and (v) reviewed and recommended for the Board's approval on the appointment and re-designation of Directors as well as re-election of the retiring Directors at the AGM.

Executive Committee

The Executive Committee has been established since December 2004 and currently consists of four executive Directors, namely Mr. Yu Yongfu (Chairman), Mr. Zhang Qiang, Ms. Zhang Wei and Mr. Fan Luyuan. The Executive Committee is vested with all the general powers of management and control of the activities of the Group as are vested in the Board, save for those matters which are reserved for the Board's decision and approval pursuant to the written terms of reference of the Executive Committee.

The Executive Committee will meet as and when necessary to discuss the operating affairs of the Group and also deals with matters by way of circulation. The Executive Committee is mainly responsible for undertaking and supervising the day-to-day management and is empowered:

(i) to formulate and implement policies for the business activities, internal control and administration of the Group; and

(ii) to plan and decide on strategies to be adopted for the business activities of the Group within the overall strategy of the Group as determined by the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code.

The Company has also adopted the Model Code to regulate dealings in the securities of the Company by certain officers and employees of the Company or its subsidiaries who are considered to be likely in possession of unpublished inside information in relation to the Company or its securities.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibilities for preparing, with the support from the finance department, the consolidated financial statements of the Group. The Directors also acknowledge their responsibilities to ensure that the financial statements of the Group are published in a timely manner. In preparing the consolidated financial statements for the year ended December 31, 2016, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance were complied with. Appropriate accounting policies have also been applied consistently.

The Audit Committee has recommended the Board to re-appoint PricewaterhouseCoopers ("PwC") as auditor of the Company. The reporting responsibilities of the Company's external auditor, PwC, are set out in the Independent Auditor's Report on pages 85 to 94.

The financial statements are prepared on a going concern basis. The Directors confirm that, to the best of their knowledge, they are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Audit Committee reviewed the adequacy of resources, qualifications and experiences of staff of Group's accounting and financial reporting function, and their training programs and budget.

Risk Management and Internal Control

The Company takes risk management and internal control as an integral part of its operating and management activities and business activities. The Company takes steady steps to build a comprehensive risk management system that is aligned with the strategy and business characteristics of the Group. The Company keeps optimizing its risk management framework and standardizing its risk management procedures, adopts both qualitative and quantitative risk management methodologies to identify, evaluate and address risks, so as to strike a balance between risk and return, and to facilitate sustainable and sound development of each business of the Company while keeping risks under control.

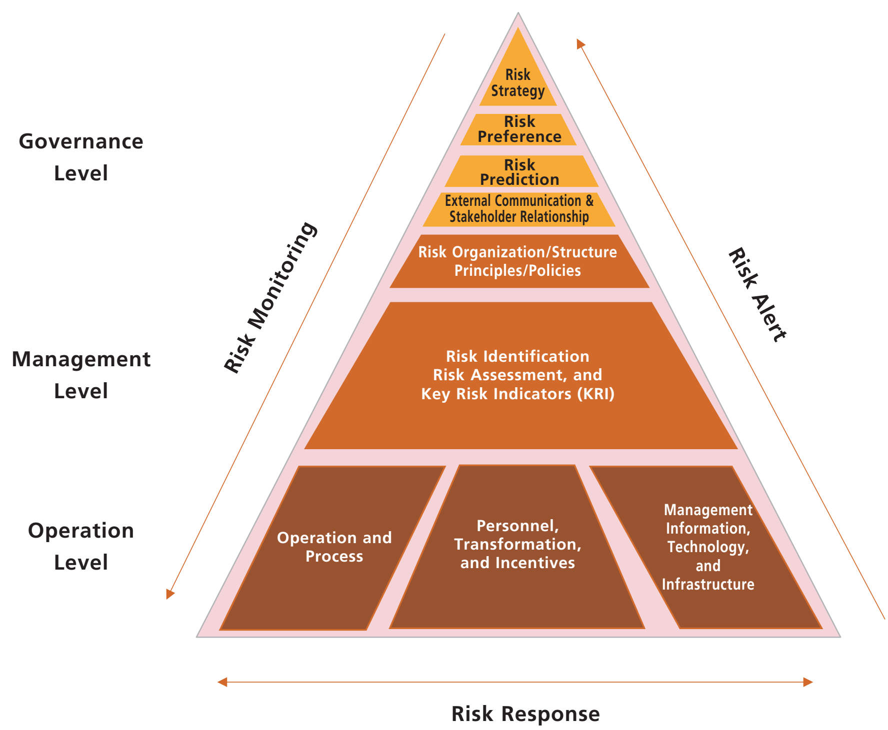
ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Objectives of Risk Management and Internal Control

The purposes of the risk management and internal control mechanisms are to evaluate and determine the nature and extent of the risks the Board is willing to take in achieving the Company's strategic objectives, and keep the Group on course towards achieving its performance and profitability goals and its overall mission. The immediate aim of internal control is to help provide a reasonable level of assurance that the Group will meet the agreed objectives and goals. It has a key role in achieving business objectives and controlling significant risks. The management provides the Board with confirmation as to the effectiveness of the risk management and internal control systems, while the Board is responsible for supervising the Company's risk management and internal control systems, and reviewing the effectiveness of its risk management and internal control systems, with an aim to safeguard the Shareholders' investment and the Company's assets at all times.

Given the rapid changes in the economic environment of the domestic and overseas film and television industry, the promulgation of regulatory laws and rules and the integration and innovation of the Group's businesses, the Company makes active efforts to adapt to the changes in the internal and external environment. Centered on its development strategy and upholding prudent risk preferences, the Company adheres to compliant operation and adopts rational risk management approaches. The Company has established robust and reliable risk management mechanisms and internal control systems at levels including governance, management and operation in a top-down manner, while promoting the awareness of risk management and internal control among all employees and integrating the risk management mechanisms into its daily operation effectively. Step by step, the Company has established a dynamic and ongoing risk monitoring, warning and response mechanism, thereby striking a balance between risk control and business development.



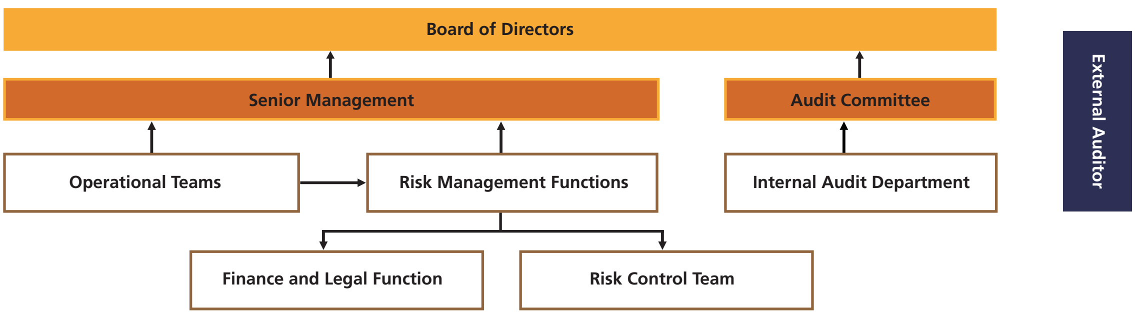
ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Risk Preference System

The Group's risk preferences set the keynote for its risk management. The Company follows a prudent principle in the determination of its risk preferences. In view of the overall strategic deployment of the Group and the development need of each business line, the Company integrates its development strategy with risk preferences organically, thereby facilitating the sound operation and sustainable development of the Group as a whole and each business line.

Organizational Structure of Risk Management and Illustration



As the highest decision-making body for risk management of the Company, the Board is responsible for the effectiveness of the overall risk management efforts. The Board will take the responsibility to establish and maintain appropriate and effective risk management system, and will oversee the management in the design, implementation and monitoring of the risk management system and assess the effectiveness of the risk management system annually. An Audit Committee has been established under the Board to perform the duties of risk management and internal control on behalf of the Board to oversee the management in design, implementation and monitoring of the risk management and internal control systems. The Audit Committee reviews the Company's financial control, risk management and internal control systems on an ongoing basis, discuss the risk management and internal control systems with the management, monitor and review the efficacy of the Company's risk management and internal control systems, review annual audit plans and reports, and, out of its own initiative or upon the appointment by the Board, study important findings of investigations on risk management and internal control issues and the management's response to the findings.

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

The Internal Audit Department has been established in January 2015, and this function reported to Audit Committee directly. The Internal Audit Department of the Company is responsible for planning audit work which is presented to the Audit Committee for review, also conducting independent audit on risk-based approach to evaluate whether internal control system of the Company is sufficient and effective.

Operational Teams

Operational teams perform functions including daily operation and internal control. It is responsible for risk identification, risk alert and control self-assessment of all relevant departments, and reports risk events and risk data according to the requirements of the Company.

Risk Management Functions *(a virtual organization consisting of the Finance and Legal Function and the Risk Control Team)*

Under the leadership of the Board and the management, these functions perform overall management and coordination in relation to risks of the Company. They are responsible for making the overall risk management plan, collecting, identifying, assessing, addressing and supervising risk information in daily operation, and leading various types of risk management work in the respective areas of specialization.

Internal Audit Department

The Internal Audit Department is responsible for performing internal audit and independent risk oversight. The team plays an important role in the evaluation of the effectiveness of the Group's risk management and internal control systems, and it is responsible for reporting to the Audit Committee regularly. The Internal Audit Department submits regular audit plans and related audit reports on risk management and internal audit to the Audit Committee for review. The Audit Committee is responsible for auditing the annual audit plans and reviewing the reports on risk management and internal audit.

Going forward, the Company will make efforts to improve its risk management framework and ability, integrate risk management into the business operation more systematically, and put its risk evaluation mechanism into normal practice. Meanwhile, the Company will keep driving the information-based development of risk control, with a view to integrating management processes of risk evaluation, risk control and risk oversight into the systems by using information-based approaches.

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Main Work of Risk Management and Internal Audit in 2016

The Company highly values the development of risk management systems, and it has been exploring to identify and improve the Group's overall risk management mechanism through its operating and management practice. During the reporting period, the Company adopted both qualitative and quantitative risk management methodologies such as tools including risk event database, KRI, risk control matrix and risk heat map to identify, evaluate and address the risks which the Company faced during the course of fulfillment of its operating targets and constant enhancement of its management ability. These measures not only met external regulatory requirements and the expectations of stakeholders, but also better suited the characteristics of internal and external environment which the Company faced as it moved into a new stage of development. Thereby, the risk management mechanism was able to prevent and mitigate various risks effectively, control or reduce losses resulted from risks, enhance the resilience against risks, and capitalize on opportunities amid risk to ensure sustainable, steady and sound development of the Company.

In addition, the Company values the establishment and improvement of internal systems related to corporate governance. During the reporting period, the Internal Audit Department conducted risk-based internal audit and reviews on the important business segments of the Company and the execution at the company level, and worked with operating units to analyze and remediate deficiencies, with a view to improving the internal control mechanism.

Management will monitor previous internal control remediation plan and status on monthly basis, all internal control matters were discussed during monthly meeting, and corresponding remediation actions were designed and taken appropriately.

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Disclosure of Material Risks

During the year, the Company sorted, screened and prioritized the risks which its existing businesses and new businesses faced, and identified the following material risks:

Major Risks	Description of Risks	Risk Responses
Industry risks	Given the increasing competition in areas such as content production, promotion and distribution in China's film and television industry, investing in film projects involves many uncertainties, including projects selection, release dates, market receptions and rates of return, etc.	• The Company creates greater opportunities for top industry talents to work with its content unit by accelerating the development of a platform through the formation of an ecosystem that covers upstream and downstream activities in the industry value chain; • By diversifying risks through portfolio concepts, as well as reducing the percentage and absolute value of investment in individual projects, the Company controls its exposure to investment risks; • By optimizing relevant procedures and adopting a "greenlight committee" policy, the Company fully evaluates and makes investment decisions on potential projects in a scientific manner; • Through the full utilization of big data technologies, the Company reinforces its collection of basic data and estimates industry trends on the one hand, which serves to guide the direction of content production, the investment in relevant content products, as well as the strategic principle for its promotion and distribution activities; on the other hand, with its data products, it develops a comprehensive understanding about user needs, thereby accurately positioning its products to target intended users.

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Disclosure of Material Risks *(Continued)*

Major Risks	Description of Risks	Risk Responses
Regulatory risks	As there are strict regulations on the Internet, film and television industries, the established entry barriers and the content censorship system have, to a certain degree, restricted the development of the Group's operations. In case of violation of applicable regulatory requirements, we might be subject to various forms of penalties, including, among others, public censure, fine, rectification order with time limit, suspension of business activity or revocation of relevant license(s), which would have an adverse effect on the Group's reputation and operations.	• The Company stays up-to-date on applicable rules, regulations and regulatory requirements issued by the government and regulators via announcements and notices from the authorities, as well as news media and the Internet; the Company also aims to ensure timely access to their latest requirements by actively participating in exchange events organized by governing and regulatory bodies; • The Company establishes channels for information dissemination to provide business teams with timely access to the latest regulatory requirements; it also organizes regular internal seminars to study and implement applicable rules, regulations and regulatory requirements issued by the government and regulators, with a view to ensuring that relevant business teams understand these policies and regulations accurately; • By optimizing relevant business procedures and adding internal assessment by professional teams for regulatory matters involved, the Company ensures compliance with regulatory requirements in business matters.

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Disclosure of Material Risks *(Continued)*

Major Risks	Description of Risks	Risk Responses
Foreign Exchange risks	As the Group holds certain funds denominated in foreign currencies, as well as international entertainment projects and other equity investments offshore, fluctuation in currency exchange rates could result in exchange losses, affecting the Company's balance sheet and financial performance.	• The Company maintains effective communications with its key domestic and overseas banking partners, it stays up-to-date on foreign exchange policies and analyzes exchange rate fluctuations; • By regularly analyzing its exposure to exchange risks in relation to assets denominated in foreign currencies, the Company develops capital management objectives and measures; for projects involving material exchange risks, it fully assesses the level of risks and possible solutions before decision making; • The Company maintains a portfolio comprising internal funds denominated in multiple currencies to mitigate overall foreign exchange risks.

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Disclosure of Material Risks *(Continued)*

Major Risks	Description of Risks	Risk Responses
Talent management risks	As the Internet, film and television industries rely heavily on talents, the loss of key staff might disrupt the continuity in a certain business area and affect the operating efficiency of the Company.	• The Company keeps an open mind and flexible structure on talent recruitment; maintains good business contacts with recruitment media and headhunters to ensure its talent recruitment channels remain unobstructed; • The Company provides a comprehensive system that covers employee training, performance evaluation and promotion, it also offers long-term incentive plans to employees; • By accelerating platform development and reinforcing the education of its organizational culture and corporate values, the Company inspires to create a good working environment and atmosphere.

Statement of the Board regarding the Internal Control Responsibility

The objectives for the internal control of the Company are to ensure the operation in compliance with laws and regulations, the security of assets and the truthfulness and completeness of financial reports and relevant information, to enhance the efficiency and effectiveness of operation and to facilitate the implementation of development strategies. Internal control procedures have been designed for safeguarding assets against unauthorized use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance of applicable law, rules and regulations. A comprehensive internal control self-review has been conducted and reported to both Audit Committee and the Board during the year, and there were no significant deficiencies identified. The Board believes that, in the year ended December 31, 2016 (the current year), the existing internal control system of the Company is sufficient and effective, to assure the interests of the Company and its shareholders.

ACCOUNTABILITY AND AUDIT *(Continued)*

External Auditor's Remuneration

During the year, the remuneration paid/payable to the Company's external auditor, PwC, is set out as follows:

Services rendered for the Group	**Fee paid/payable**
Audit services (including annual audit and interim review)	RMB3,000,000
Non-audit services (including internal control and finance advisory)	RMB750,000
Total	RMB3,750,000

COMPANY SECRETARY

The Company has appointed Mr. Ng Lok Ming, William, as its company secretary. Mr. Ng is not an employee of the Company and Mr. Yu Yongfu, the chairman and chief executive officer of the Company, is the contact person at the Company whom Mr. Ng can contact. The company secretary reports to the chairman of the Company and is responsible for advising the Board on governance matters, new director's induction and professional development of Directors as well as ensuring good information flow between the Board members and the compliance of the policy and procedure of the Board.

During the year, Mr. Ng confirmed having received relevant professional trainings of not less than 15 hours to update their skills and knowledge.

SHAREHOLDERS' RIGHTS

Pursuant to the Bye-laws, shareholders holding in aggregate not less than 10% of the paid-up capital of the Company shall have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionists or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

SHAREHOLDERS' RIGHTS *(Continued)*

Any number of Shareholders representing not less than 5% of the total voting rights of the Company on the date of the requisition or not less than 100 Shareholders are entitled to put forward a proposal for consideration at a general meeting of the Company. The Company shall on the requisition of such number of Shareholders and at the expense of those requisitionists give to the Shareholders notice of any intended resolution and any statement with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. Shareholders should follow the requirements and procedures as set out in Section 79 of the Bermuda Companies Act for putting forward such proposal at a general meeting.

Pursuant to the Bye-Laws, if a shareholder, who is qualified to attend and vote at the general meeting, wish to propose a person other than a retiring Director for election as a Director at any general meeting, he/she should deposit a written notice of intention to propose such person for election as a Director together with a notice signed by the person of his/her willingness to be elected and lodge the same at the head office of the Company in Hong Kong no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Detailed procedures for Shareholders to propose for election as a Director are available on the Company's website.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board recognises the importance of effective communication with the Shareholders and investors. The Board has established a shareholders communication policy setting out strategies that the Company has in place to promote effective communication with its Shareholders with the aim of ensuring Shareholders are provided with information about the Company and enabling them to engage actively with the Company and to exercise their rights as Shareholders in an informed manner.

The Company communicates with the Shareholders and investors through various channels including publication of interim and annual reports, announcements, circulars and other corporate communications and publications available on the websites of the Stock Exchange and/or the Company.

The Company's general meetings are valuable forum for the Board to communicate directly with the Shareholders. The Company encourages the participation of the Shareholders through AGMs and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their rights to vote at meetings. The chairman of any independent board committee formed as necessary or pursuant to the Listing Rules (or if no such chairman is appointed, at least a member of the independent board committee) will also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to the independent Shareholders' approval. In 2016, the AGM ("2016 AGM") was held on June 24, 2016. At the 2016 AGM, the Chairman of the Audit Committee was present thereat and answered any questions raised by the Shareholders. A separate resolution is proposed by the Chairman of the Board on each substantial issue, including the election of individual Directors, to be considered at the general meetings.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS *(Continued)*

The notice to Shareholders is to be sent in case of AGM at least 20 clear business days before the meeting and to be sent at least 10 clear business days in case of all other general meetings. An explanation of the detailed procedures for conducting a poll is provided to the Shareholders at the commencement of the meeting. The Chairman answers any questions from Shareholders regarding voting by way of a poll. The poll results are published in accordance with the requirements of the Listing Rules.

Shareholders may at any time send their enquiries to the Board in writing through the Company Secretary to the Company's principal place of business in Hong Kong at 26/F Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. Shareholders may also make enquiries with the Board at the general meetings of the Company.

The Company adopted in August 2014 a new set of Bye-laws which is available on the websites of the Stock Exchange and the Company. During the year under review, there were no changes in the constitutional documents of the Company.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our Shareholders to promote and improve our transparency are also welcome.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Operating in compliance with laws and regulations, Alibaba Pictures is an internet-driven entertainment company with the mission of creating happiness and actualizing dreams. The Company's operations span the full entertainment value chain, including promotion and distribution, investment and financing, content production, cinema services, as well as integrated development. We make great efforts to attract outstanding talents and safeguard the legitimate interests of employees, while striking a balance between their work and life. While practicing green operation, the Group increases the efficiency of resources and energy use, and treats emissions properly. We take an active part in the cause of social welfare and provide more channels for the public to participate in charity activities, with an aim to build a better community.

1. Communication with Stakeholders

The Group highly values the concerns and interests of each stakeholder, keeps improving the participating mechanism for stakeholders, enhances the communication with and engagement of stakeholders, improves the transparency of its operations and seeks win-win development with stakeholders.

Stakeholder	Needs and expectations	Communication and response
Government	– compliance with laws and regulations – payment for taxes according to law – support for economic development	– conducting business in full compliance with relevant laws and regulations – payment for taxes according to law
Investors	– return on investment – growth of business and earnings – risk management – information disclosure	– regular disclosure of operational information – general meetings – investor summits – roadshows
Customers	– provision of quality products and services – meeting customers' diversified needs – creation of value for customers	– innovative products – assurance of product quality – protection of customer information – survey of customer satisfaction
Employees	– protection of employee interests – sound career development paths – protection of occupational health – work and life balance	– provision of good remuneration and welfare – improvement of career development paths – implementation of employee training

1. **Communication with Stakeholders** *(Continued)*

Stakeholder	Needs and expectations	Communication and response
Partners	– open, fair and equitable purchase – compliance with contracts	– performance of contracts according to law – open tendering – project cooperation
Environment	– energy saving and emission reduction – protection of ecology	– managing emissions – increasing the efficiency of the use of resources and energy – participating in environmental protection and charity
Community and the public	– engagement in community development – support for charity	– charity – volunteer services

2. Determination of Material Issues

Pursuant to the Environmental, Social and Governance ("ESG") Reporting Guide ("ESG Guide") of the Stock Exchange, the Board is responsible for evaluating and determining the Group's ESG-related risks and for ensuring that appropriate and effective ESG risk management and internal control systems are in place. Management has provided to the Board an effective reporting system and continued to improve the process for the determination of content for reporting with reference to the requirements of the ESG Guide of the Stock Exchange. The Group enhances the interaction with stakeholders by various means, identifies and determines material issues that concern stakeholders, and eventually determines the extent and scope of disclosure, so as to ensure disclosure of information related to operation and management in a more accurate and complete manner.

Process of selection of environmental, social and governance issues

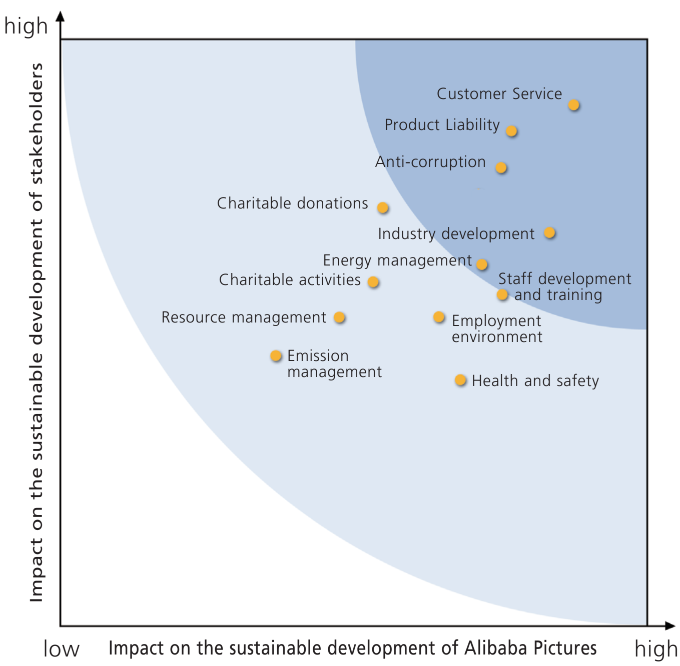
Source of issues

– suggestions made by management of the Company
– analysis and suggestions made by internal and external experts
– analysis of multimedia information
– study on standards conducted by peers in China and foreign countries
– ESG Guide of the Stock Exchange
– Guidance on Standards of Social Responsibility

Standards of selection

– contribution to sustainable development
– issues of concern to stakeholders generally
– emphasized by the Guidance on Standards of Social Responsibility and the ESG Guide of the Stock Exchange
– compliant with the Company's needs of strategic development

Results of determination of significance



3. Dedication to Creating Quality Products

As the flagship unit of Alibaba Group's entertainment business, the Group focuses on exploring full integration of the Internet with traditional film and drama series and innovative applications. The Group makes great efforts to develop promotion and distribution powered by the Internet, as well as content production business featuring top-grade films and television drama series. The Group also experiments an integrated platform for entertainment development and develops related merchandise, with a view to serving the audience to the fullest extent.

3.1 Production, promotion and distribution of quality film and drama series

Upholding the philosophy "story is the king", the Group utilizes Internet-based thinking and discerning market insight to develop and invest in film and television drama series that meet the standards and requirements of SARFT and other relevant regulatory bodies, cater for Chinese market in a timely fashion, lead industry trend and promote positive energy in the society. In 2016, the Group produced a total of 16 films and 4 television drama series.

- **Production of films and drama series**

  It includes evaluation of copyright, development of scripts, filing of projects for the record, preparation for production and post-production, all of which are centered on production. With precise investment, experienced production teams, A-listers, the Group invests in and produces top-grade films and drama series in China.

- **Promotion and distribution**

  The Group penetrates into the area of promotion and distribution of films and drama series. By combining online and offline resources, the Group adopts an innovative and integrated model to deliver information of films and drama series to the audience more precisely. The content production capitalizes on the online resources of Alibaba Group. Through importing, development and placement on online e-commerce platforms at the earlier stage, and broadcasting on online streaming platforms at the later stage, a new content development model consisting of three sides including studios, sellers and broadcasting terminals has been formed.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.2 Development of derivative merchandise

Given the rising popularity of derivative merchandise in recent years, the Group has set up presence in the market of derivative merchandise in the film and television industry by utilizing three major advantages of the e-commerce ecosystem of Alibaba Group, including seller resources, consumer resources and data support. It has successfully developed a number of popular IP contents, diversifying scenarios of the whole ecosystem for both online and offline spheres.

- **Strength 1: seller resources.** The Group helps studios find suitable service providers and distributors. Studios only need to control the production flows and ensure quality after licensing appropriate sellers, without the need to bother with sales or distribution.

- **Strength 2: consumer resources.** The online retail platform of Alibaba, which has monthly active users up to 410 million, owns the largest active consumer group in China. Every day, 100 million users who are willing to pay for quality contents and merchandise access the online retail platform, providing access to a large user base for the Group's development of the derivative merchandise market.

- **Strength 3: data support.** The Group has increased its efforts to leverage on the big data and capitalizes on the online resources in the Alibaba ecosystem, joining up the whole IP development industry chain and opening up a new channel for the sales of IP consumer goods.

The Group's Yulebao works with studios to launch film derivative merchandise. It uses the vast data of user consumption in the Alibaba ecosystem, modulizes the data and integrates elements of derivative merchandise during the planning and creation of film and television drama series, implementing development in a planned manner. On the one hand, this enables the Group to provide users (fans) with more services. On the other hand, it helps excellent films, especially domestic films, to diversify their revenue sources, making contribution to the film industry.

3.3 Protection of customer information security

As the platforms of Tao Piao Piao and Yulebao grow, the Group has accumulated a large amount of user data.The Group values the protection of customer (user) information and personal privacy, and has in place a complete set of mechanism and system for the management of information security in compliance with relevant laws and regulations. Each level of employees may access customer (user) information according to the authorities assigned for their positions. The Company's electronic systems have taken into account the security issue at the early stage of development, equipped with a strong firewall to prevent hacking and divulgence of information.

4. Rooted in the Film Industry and Creating Prosperity

Amid the ongoing industrialization of the film industry in China and the increased exchange and cooperation between China and other countries in the film industry during recent years, the conflict between the lag in the development of film talents and the rapid development of the industry has emerged gradually. Various types of talents are required for the increasingly developed industry chain, the creation, promotion and distribution of films and television drama series. It has always been a core strategy of the Group to develop young people and provide young talents in the film and television industry with appropriate room for development and growth.

4.1 Plan A: development of talents in the film industry

The Group has introduced "Plan A" to integrate industry resources and develop young talents, with an aim to build a new ecosystem of the film industry. The Group spots and supports young talents in the film industry worldwide through various initiatives including a top filmmaker training program, the "80's and 90's Comedy Workshop" and an all-format industry incubator.

Achievements made under Plan A:

- **Two young directors were admitted to Plan A of Alibaba Pictures.** In December 2015, young directors Cai Tuo and Bu Lianpeng became the first contracted trainees of the top filmmaker training program under Plan A, receiving guidance from directors including Anthony LaMolinara and Zhao Xiaoding

- **Plan A provides young directors with financing for script development.** In July 2016, FIRST Financing Forum announced the results of assessment. Old Bastard (老混蛋), a script created by director Zhou Ziyang, received US$10,000 of fund for script development

- **Commencement of shooting for At the Dock (《在碼頭》), a film under Plan A.** On August 3, 2016, it was announced that the shooting for At the Dock, a jointly produced film under Plan A, would commence on August 14 in Hubei. The film is produced by director Jia Zhangke and directed by writer and poet Han Dong

- **Plan A entered into cooperation with Jia Zhangke's "Wings Plan".** In August 2016, Plan A entered into cooperation with "Wings Plan", which was established by director Jia Zhangke. Both parties will cooperate further in seeking and supporting new directors

- **Commencement of shooting for Butter (《酥油》), a film under Plan A.** The shooting for Butter, a jointly produced film under Plan A, commenced in Tibetan Autonomous Prefecture of Garzê, Sichuan on September 8, 2016. Adapted from a bestseller of the same name, the film is directed by emerging young directress Guan Xi

In addition, the Group, in conjunction with Shanghai Theatre Academy and Fosun Group, announced the intent of cooperation in Shanghai in 2016. The partnership will use the Film School of Shanghai Theatre Academy as a model innovation platform, to integrate the existing faculty, educational resources and excellent students of Shanghai Theatre Academy, and recruit top teaching and management staff from around the globe. Through innovation based on the existing educational model, the initiative will develop quality talents in the film and television industry that are capable of meeting the needs arising from the globalization of the industry.

4.2 Sponsoring FIRST International Film Festival

Founded in 2006, FIRST International Film Festival is committed to spotting and promoting directors of maiden works. It watches, identifies and recommends young filmmakers devoted to artistic creation and their early-stage films on an ongoing basis.

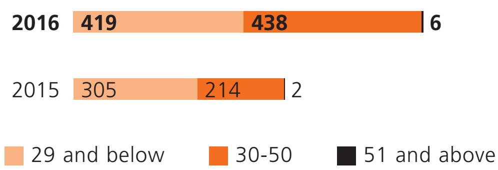
In 2016, the Group's Tao Piao Piao capitalized on its strong integrated marketing ability to conduct promotions for FIRST International Film Festival continuously, thereby providing fans with convenient experience in ticket purchase and facilitating the rise of emerging forces in the film industry in China. Tao Piao Piao promoted and introduced FIRST International Film Festival to the fullest extent in its content column "Discovery", for example, film tips "Xining in July, A Must-See Maiden Work" (《七月西寧，必看的處女作影片》) and pamphlet "Day 4: A Day for Documentaries" (《Day 4：屬紀錄片的一天》). The Group has introduced relevant contents of third-party self-media platforms such as Tao Tao's Film Picks (桃桃淘電影) and Duliyu Film (獨立魚電影), increasing the influence of the film festival through multiple channels.

5. Offering Benefits to Talents to Support Their Growth

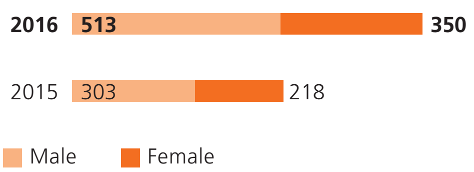
Taking employees as its core assets, the Group protects the interests of employees and develops professionals through a comprehensive training package. In addition to providing paths for personal promotion and development as well as incentives, the Group also respects the values and aspirations of its employees, thereby creating a harmonious and comfortable work environment.

Total number of employees

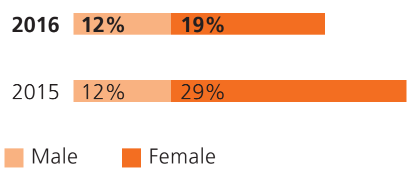
Number of employees by age group



Number of employees by gender



Employee turnover by gender



5.1 Safeguarding employee interests

The Group strictly complies with laws and regulations including the Labor Law and the Labor Contract Law, and enters into employment contracts with all employees, ensuring appropriate working hours, compensations and benefits under the law, with equal career opportunities for employment and promotion. The Group has in place a Policy on Holidays for Employees, providing employees with paid holidays. The Group prohibits the employment of child labor and forced labor, and ensures that all employees are entitled to fair job opportunities and open information.

The Group has established a mechanism for the communication among employees of different levels. For the management, the Group holds a managers' forum every year to present its strategic goals and core business strategies and highlight the culture and values of the Group. For other employees, the Group holds annual employees' meetings and conducts the survey "take the organization's temperature" every year, so as to promote and implement its business strategies, collect and process employees' proposals and give feedbacks in a timely manner.

5.2 Training and development

Capitalizing on its own quality resources, the Group has established a multi-dimensional training system, the purpose of which is to offer its employees comprehensive training, provide clear paths for personal promotion and incentives, and develop outstanding talents.

- **Enhancing vocational training**

  The Group provides employees with targeted training based on the types of their work. In relation to new employees, the Group provides orientation to introduce the Company's business and the skills required for its daily operations. In relation to existing employees, a series of programs including "Expert Sharing" (大咖分享) and "Mangqi Class" (芒奇學堂) are designed to improve their professional skills.

  In their daily operations, each department and business team would conduct internal knowledge sharing and training based on their own needs. Employees may also learn generic skills including Internet products, operational and marketing skills, as well as the history and culture of the Group, through an online learning platform.

Case: Alibaba Pictures' "Expert Sharing"

The Group has designed and implemented a number of programs under the "Expert Sharing" series. Well-known producers, screenwriters and distributors are invited to conduct case studies that combine theories and facts, sharing expertise and understanding obtained in practice. Well-known experts and scholars in the cultural circle are invited to help broaden the horizon of employees from a higher industry perspective and enhance the professionalism and creativity of employees. As of the end of 2016, the programs held included "Expert Sharing – Well-known Film Producers in the Industry" and "Expert Sharing – Well-known Internet Drama Producers/Screenwriters in the Industry".

Case: Alibaba Pictures' "Mangqi Class"

The Group holds "Mangqi Class", where internal experts of the Company introduce employees to knowledge of film and television production. Through teaching and learning activities, the program has enhanced the professional skills of employees. As of the end of 2016, courses completed included "Special Effects for Film and Television" and "Animated Films", which were well received by employees extensively.

Number of employee admissions to training

- **Promoting career development paths**

  In 2016, the Group established a complete set of systems for performance assessment and promotion. Targets are set for every employee, and feedbacks are provided by his/her supervisor regularly. In addition, for employees of outstanding performance, the Group provides them with the opportunity to be transferred to different functions, enabling them to approach new working modules and learn new knowledge and skills.

5.3 Caring for employees

The Group cares for the health and safety of employees, and provides employees with benefits, including physical examination and psychological counseling, free of charge. The contracts between the Group and film and television contractors require contractors to comply with relevant laws and regulations in relation to occupational safety, obtain medical insurance covering accidental injuries for the crew and cast members during the course of shooting, take responsibilities for all safety matters during the entire filmmaking process, implement a sound accountability system for safe production, have in place fire-fighting equipment and fire escapes, and enter into relevant fire security agreements with the shooting sites.

With a view to creating a comfortable and pleasant work environment for employees, the Group organizes various entertainment activities, including the annual "Alibaba Pictures' Day" held on May 20 and workshops organized to share and celebrate the achievements of the Company. In addition, the Group organizes birthday parties for employees and provides yoga courses to ease their work stress.

5.4 Anti-fraud

The Group is committed to eliminating all fraud and corrupt activities and is persistent on its principle of education, supervision, precaution and control. Internally, it implements standards of business conducts, strengthens the anti-corruption awareness of its staffs, establishes an anti-corruption structure and fully performs its supervising responsibilities. All corruption activities are taken seriously once found, with penalties ranging from warning, diminution of compensation, to termination of employment for the employee(s) concerned depending on the severity of relevant offences. Externally, the Group upholds its anti-fraud commitment in its commercial operations, maintains good discipline when working with business partners, and follows standardized commercial procedures, striving to eradicate all corrupt practices. In 2016, the Group has strictly complied with all relevant laws and regulations relating to bribery, extortion, fraud and money laundering.

6. Protecting the Environment and Cherishing Resources

As Alibaba Pictures is mainly focused on producing cultural products, its direct impact on the environment and natural resources is minor. The Group adopts environmental policies and systems with an aim to increase the environmental awareness of its employees, implement energy-saving and emission-reduction measures, and practice green office.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6.1 Use of resources

The Group takes various measures to save energy and reduce emission. For example, LED energy-saving lights are used for lighting in all offices. Lights are controlled separately by row and by zone. Water-saving toilets are installed in wash rooms. The Group advocates green operation, uses recycled paper and reuses equipment and facilities for shooting sites.

	2015	**2016**
Annual use of electricity (KWh)	154,600	**134,904**
Annual use of gas (liter)	13,000	**11,000**
Annual use of water (ton)	150	**108**

6.2 Emissions management

The Group has enhanced the emissions management and introduced paperless office to reduce the generation of wastes. The Group classifies wastes generated and delivers harmful wastes and general wastes separately to qualified waste management companies for proper treatment.

Hazardous wastes

All the hazardous wastes generated by the Group, mainly including disused ink cartridges, disused toner cartridges, disused computers and disused light tubes, are delivered to qualified third-parties for innocuous treatment.

	2015	**2016**
Disused ink cartridges	12	**8**
Disused toner cartridges	56	**48**
Disused computers	82	**12**
Disused light tubes	32	**60**

Harmless wastes

All the general wastes generated by the Group, mainly including paper for office use and domestic wastes, are treated by the property management companies of the office buildings where the Group is located in compliance with applicable regulations.

	2015	**2016**
Use of paper (ton)	2	**1**
Domestic wastes generated (ton)	3	**2**
Purchase of recycled paper (ton)	0.003	**0.005**

Management of shooting sites

Production teams cooperate with professional waste collectors. In respect of wastes such as used props, wastes that can be reused are recycled, and those that cannot are cleared by waste disposal organizations at the sites. Where shooting is to be carried out in a natural reserve, the Company will obtain approval from government departments before entering such area, and will restore the site after completion of shooting, so as to avoid jeopardizing ecology.

7. Participating in and Promoting Philanthropy

The Group adopts the philanthropic policy which focuses on upholding the philosophy of "Internet + philanthropy". While capitalizing on the advantages of the online platform of Alibaba Group, the Group innovates in the models of philanthropy, calls on employees to participate in philanthropy activities and provides more options and convenience for the public to participate in philanthropy activities.

- Total number of employees acting as volunteers: approximately 400
- Hours committed by employees in volunteer services: approximately 1,200

7.1 Calling on employees to participate in philanthropy activities

The Group actively calls on and encourages employees to participate in charitable activities, builds a platform for employees to participate in philanthropy activities and diversifies the forms of participation and incentive mechanisms, providing employees with a large platform to realize value.

Case: Discovering the flow of used clothes of the Company's employees: a happy new year for left-behind children of migrant workers & a warm winter for drifters

In December 2015, the Group worked with Wardrobe of Love, a charity organization, to set up a wardrobe at the office area in Beijing, for the purpose of scheduled recycling and sorting out clothes donated by employees. As of the end of 2016, an accumulative total of 5,316 pieces of clothing had been recycled. Wardrobe of Love was responsible for disinfecting and sorting out these used clothes and classifying them according to their conditions. Of these, clothes of good quality were put on charity sales, sold at low prices to migrant workers and low-income people. Useful coats and down coats were donated to remote and undeveloped areas. Dilapidated clothes were delivered to recycling factories for modification and reuse in environmental friendly ways.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

7.2 Promoting philanthropy led by celebrities

The Group actively utilizes celebrity resources and works with a number of celebrities to capitalize on their public influence to carry out charity fundraising projects.

Case: Yulebao and Chen Bo-Lin, "Charity of Love and Dreams – Let Love Go On" (愛心夢想公益　讓愛延續)

The Group's Yulebao worked with Invincible Plan Co., Ltd. (the studio of actor Chen Bo-Lin) to launch the charity fundraising project "Charity of Love and Dreams – Let Love Go On" on the platform of China Foundation for Poverty Alleviation. The mission of the project is to arouse the awareness of the public to help people in remote and undeveloped areas who are constrained by factors such as formidable natural conditions and remote geographic locations, especially, to improve the learning conditions of children in poverty-stricken areas. The Group spreads positive energy by professional means, in the hope that everyone has dreams, strives for progress and upholds faith even in face of challenges.

Case: Yulebao and Youku, "One-Minute Limit Challenge for Philanthropy" (極限益分鐘)

The Group's Yulebao joined hands with Youku to promote "One-Minute Limit Challenge for Philanthropy", a crowd funding charity project. By calling on all people to participate in the one-minute challenge, the initiative aims to draw the attention of different communities to the lives of migrant children in cities, calling for one additional minute of company for them. All proceeds from this charity initiative are transferred to a "Growth Plan of Limit Challenge for Charity". With a low threshold, the challenge is open to everyone. It is a new interaction model of fans economy where participants contribute to charity while supporting their idols.

羅兵咸永道

To the Shareholders of Alibaba Pictures Group Limited
(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Alibaba Pictures Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 95 to 191, which comprise:

- the consolidated balance sheet as at December 31, 2016;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, 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 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.

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BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- Fair value determination for financial asset classified as "fair value through profit or loss"
- Film and TV copyrights impairment assessment

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment	
Refer to Note 4 – Critical accounting estimates and judgments and Note 15 – Goodwill and intangible assets. We focused on this area due to the size of the goodwill balance (RMB3,532 million as at December 31, 2016), and because management's assessment of the recoverable amount of the Group's cash generating units ("CGUs") that include the respective goodwill, being the higher of fair value less cost of disposal ("FVLCD") and value in use ("VIU") of the CGUs, involved significant judgment on the use of estimates.	1. As to the goodwill in the CGUs for which the recoverable amounts were determined based on VIU, which is the present value of the future cash flows expected to be derived from these CGUs: • We tested the consistency and reasonableness of the data used and challenged management's key assumptions adopted in the future cash flow forecasts, mainly in relation to: – the budgeted sales and respective gross margin, by comparing them with actual historical financial data of these CGUs. For the budgeted sales, we also compared to future market growth rate as forecasted and sourced from external parties; – the long term revenue growth rates, by comparing them with the relevant economic and industry forecasts, including certain forecasts sourced from external parties; and – the discount rates, by comparing them with costs of capital of comparable companies. • We also evaluated management's sensitivity calculation over the recoverable amounts of these CGUs. Focusing on those few key assumptions to which the calculation was most sensitive, we calculated the degree to which each of these key assumptions would need to change before an impairment conclusion was triggered. We discussed the likelihood of such a movement with management and agreed with their conclusion that it was unlikely.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment *(Continued)*	
	2. As to the goodwill in the CGU for which the recoverable amount was determined based on FVLCD: • Assessed the reasonableness of management's use of the transaction price of the latest round of financing of the Company's subsidiary in this CGU (through issuing of new shares to investors in November 2016) as the basis to estimate the FVLCD of the CGU. • Checked the calculation of the FVLCD estimated based on the transaction price of the latest round of financing and compared it to the carrying amount of the CGU. We found the key assumptions adopted in management's estimates of the recoverable amounts to be supported by the evidence we obtained.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value determination for financial asset classified as "fair value through profit or loss"	
Refer to Note 4 to the consolidated financial statements – Critical accounting estimates and judgments and Note 16 – Financial assets at fair value through profit or loss. As at December 31, 2016, the Group had investment in convertible bonds (issued by a private entity) amounted to RMB1,025 million and such investment was designated as fair value through profit or loss financial asset and was stated at fair value. The fair value determination of such convertible bonds required management to make a number of judgments, including the appropriateness of valuation methodology used and adoption of various unobservable input data. Given the significance of the related balance, there is a risk that any small changes in key assumptions could have a significant impact on its fair value and therefore the reported results. As such, this matter is considered an area of focus in this year's audit.	The Company has engaged an independent valuer to determine the fair value of the convertible bonds. Our procedures on the valuation of the convertible bonds included: • Evaluated the competence, capabilities and objectivity of the independent valuer. • Worked with our in-house valuation specialist to assess the appropriateness of the valuation method adopted by the independent valuer; • Tested the consistency and reasonableness of the data used and challenged management's key assumptions adopted in the valuation model, mainly in relation to: – the volatility rate, by comparing it with the standard deviation of historical stock return of comparable companies of the issuer; – the bond discount rate, by comparing it with the cost of debt of comparable bonds; and – the future cash flows of the issuer, by comparing them with actual historical financial data of the issuer. For the budgeted sales, we also compared to future market growth rate as forecasted and sourced from external parties. Based on the above, we found the assumptions adopted by management in the fair value assessment to be supported by the evidence we obtained.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Film and TV copyrights impairment assessment	
Refer to Note 4 to the consolidated financial statements – Critical accounting estimates and judgments and Note 17 – Film and TV copyrights. As at December 31, 2016, the net book value of the Group's film and TV copyrights amounted to RMB809 million, including film and TV copyrights under production of RMB679 million, and those for which production has been completed amounted to RMB130 million. An impairment loss of RMB28 million in respect of the film and TV copyrights was recognized during the year ended December 31, 2016. Management exercised significant judgment in assessing the impairment of these film and TV copyrights. In making such assessment, management considered all factors that may affect the future production plans and prior experiences, and exercised judgment in developing its expectation for the future cash flows from these film and TV copyrights. The impairment assessment was an area of focus for us given the inherent uncertainties of the future production plans, marketability of the films and TV dramas, and the significant amount of the related balances.	1. Regarding management's estimated future net cash inflows for recoverability assessment of the film and TV copyrights for which production has been completed, we performed the following procedures, based on the risk profile and significance of the individual balances: • Checked the existence of the distribution licenses for screening of the films and broadcasting of the TV dramas through public and official website of the State Administration of Press, Publication, Radio, Film and Television. • Discussed with management to understand the basis of the estimated cash flow projections. • Evaluated the reasonableness of the estimated revenue, distribution costs and other cost information prepared by the Group's management by: – for copyrights of overseas films, corroborating such information to that provided by independent film producers; – comparing the budgeted distribution and other costs to historical cost incurred in comparable films; – examining the signed sales contracts of TV dramas; and – comparing the estimated box office of films or sales information of TV dramas with historical data of similar type of films or TV dramas produced by the Group. We found the assumptions adopted, data used and judgment applied by management were supported by the evidence we obtained.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Film and TV copyrights impairment assessment ***(Continued)***	2. Regarding management's recoverability assessment of the film and TV copyrights for which production has yet to complete, we performed the following procedures, based on the risk profile and significance of the individual balances: • Examined the purchase contracts and related production contracts to check the validity of the purchased copyrights, and discussed with the management to understand their future production plans, which is the basis of future cash flow projections. • Performed specific inquiries with management about the major crew members and their background, experience and profile, and performed relevant search through external sources on media coverage on the related popularity of the original creators of the copyrights and the contents and topics of the in production film/TV dramas to corroborate with management's production plans. • Evaluated the future cash flow projections about the reasonableness of key estimates on future revenue, distribution costs and other cost information by comparing to historical data of comparable films/TV dramas. We found the assumptions adopted and judgment applied by management were supported by the evidence we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible 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. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda 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 judgment 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.

- 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- 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 those charged with governance 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 those charged with governance 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, related safeguards.

From the matters communicated with those charged with governance, 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.

The engagement partner on the audit resulting in this independent auditor's report is Brian Ming Yan Choi.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 30, 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	For the year ended December 31, **2016** **RMB'000**	2015 RMB'000
Continuing operations			
Revenue	5	**904,582**	263,717
Cost of sales and services	8	**(718,530)**	(288,781)
Gross profit/(loss)		**186,052**	(25,064)
Selling and marketing expenses	8	**(1,079,562)**	(111,947)
Administrative expenses	8	**(719,758)**	(277,580)
Other income	6	**63,414**	21,666
Other gains/(losses), net	7	**45,911**	(2,270)
Operating loss		**(1,503,943)**	(395,195)
Finance income	10	**545,921**	894,144
Finance expenses	10	**(11,975)**	(11,305)
Finance income, net		**533,946**	882,839
Share of profit/(loss) of investments accounted for using the equity method	13	**12,502**	(862)
(Loss)/profit before income tax		**(957,495)**	486,782
Income tax expense	11	**(18,649)**	(14,079)
(Loss)/profit for the year from continuing operations		**(976,144)**	472,703
Discontinued operations			
Loss for the year from discontinued operations		**–**	(6,689)
(Loss)/profit for the year		**(976,144)**	466,014
(Loss)/profit attributable to:			
Owners of the Company		**(958,576)**	466,040
Non-controlling interests		**(17,568)**	(26)
(Loss)/profit attributable to owners of the Company arises from:			
Continuing operations		**(958,576)**	472,729
Discontinued operations		**–**	(6,689)
(Loss)/earnings per share from continuing and discontinued operations attributable to owners of the Company for the year ***(expressed in RMB cents per share)***	12		
Basic (loss)/earnings per share			
From continuing operations		**(3.80)**	2.02
From discontinued operations		**–**	(0.03)
From (loss)/profit for the year		**(3.80)**	1.99
Diluted (loss)/earnings per share			
From continuing operations		**(3.80)**	2.02
From discontinued operations		**–**	(0.03)
From (loss)/profit for the year		**(3.80)**	1.99

The notes on pages 102 to 191 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2016

	For the year ended December 31, 2016 RMB'000	2015 RMB'000
(Loss)/profit for the year	**(976,144)**	466,014
Other comprehensive (loss)/income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(3,402)**	14,437
Fair value gains on available-for-sale financial assets, net of tax	**301**	9,605
Other comprehensive (loss)/income for the year, net of tax	**(3,101)**	24,042
Total comprehensive (loss)/income for the year	**(979,245)**	490,056
Attributable to:		
– Owners of the Company	**(962,036)**	490,082
– Non-controlling interests	**(17,209)**	(26)
Total comprehensive (loss)/income for the year	**(979,245)**	490,056
Total comprehensive (loss)/income attributable to owners of the Company arises from:		
Continuing operations	**(962,036)**	496,771
Discontinued operations	**–**	(6,689)
	(962,036)	490,082

The notes on pages 102 to 191 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2016

	Note	As at December 31, 2016 RMB'000	2015 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	14	**99,265**	57,136
Goodwill	15	**3,532,107**	3,490,574
Intangible assets	15	**176,901**	191,331
Investments accounted for using the equity method	13	**2,280,839**	19,081
Financial assets at fair value through profit or loss	16	**1,025,170**	–
Deferred income tax assets	27	**1,012**	18,310
Trade and other receivables, and prepayments	20	**93,391**	122,928
		7,208,685	3,899,360
Current assets			
Inventories		**890**	306
Film and TV copyrights	17	**809,004**	383,761
Trade and other receivables, and prepayments	20	**1,322,353**	789,113
Available-for-sale financial assets	19	**1,974,107**	1,102,006
Cash and cash equivalents	21	**6,220,966**	3,677,988
Bank deposits with the maturity over three months	21	**–**	7,089,781
Restricted cash	21	**2,027,057**	2,021,328
		12,354,377	15,064,283
Assets held-for-sale		**–**	12,218
		12,354,377	15,076,501
Total assets		**19,563,062**	18,975,861

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 2016

	Note	As at December 31, 2016 RMB'000	2015 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	22	**5,081,884**	5,081,884
Reserves		**11,836,139**	11,113,927
		16,918,023	16,195,811
Non-controlling interests		**213,909**	(2,231)
Total equity		**17,131,932**	16,193,580
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	27	**42,922**	48,965
		42,922	48,965
Current liabilities			
Trade and other payables, and accrued charges	25	**405,542**	670,666
Borrowings	26	**1,980,000**	1,980,000
Derivative financial liability		**–**	33,000
Current income tax liabilities		**2,666**	49,650
		2,388,208	2,733,316
Total liabilities		**2,431,130**	2,782,281
Total equity and liabilities		**19,563,062**	18,975,861

The notes on pages 102 to 191 are an integral part of these consolidated financial statements.

The financial statements on pages 95 to 191 were approved by the Board of Directors on March 30, 2017 and were signed on its behalf.

Yu Yongfu
Executive Director & Chairman

Zhang Qiang
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2016

	Attributable to owners of the Company										
	Issued share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Shareholder's contribution reserve RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Share option reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2015	4,253,771	3,334,827	(1,345,955)	48,527	314	–	566	(224,394)	6,067,656	(588)	6,067,068
Profit/(loss) for the year	–	–	–	–	–	–	–	466,040	466,040	(26)	466,014
Other comprehensive income for the year:											
Change in fair value of available-for-sale financial assets, net of tax	–	–	–	–	–	9,605	–	–	9,605	–	9,605
Currency translation differences	–	–	–	–	14,437	–	–	–	14,437	–	14,437
Total comprehensive income for the year	–	–	–	–	14,437	9,605	–	466,040	490,082	(26)	490,056
Issue of placing shares	828,113	8,778,000	–	–	–	–	–	–	9,606,113	–	9,606,113
Transaction costs attributable to issue of placing shares	–	(49,694)	–	–	–	–	–	–	(49,694)	–	(49,694)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(1,617)	(1,617)
Lapse of share options	–	–	(330)	–	–	–	(566)	896	–	–	–
Value of services provided under share option scheme	–	–	–	–	–	–	122,832	–	122,832	–	122,832
Share-based payment transactions with ultimate parent	–	–	–	–	–	–	(41,178)	–	(41,178)	–	(41,178)
At December 31, 2015	5,081,884	12,063,133	(1,346,285)	48,527	14,751	9,605	81,654	242,542	16,195,811	(2,231)	16,193,580

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	Attributable to owners of the Company										
		Issued share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Shareholder's contribution reserve RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Share option reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2016		5,081,884	12,063,133	(1,346,285)	48,527	14,751	9,605	81,654	242,542	16,195,811	(2,231)	16,193,580
Loss for the year		–	–	–	–	–	–	–	(958,576)	(958,576)	(17,568)	(976,144)
Other comprehensive income for the year: change in fair value of available-for-sale financial assets, net of tax		–	–	–	–	–	(58)	–	–	(58)	359	301
Currency translation differences		–	–	–	–	(3,402)	–	–	–	(3,402)	–	(3,402)
Total comprehensive loss for the year		–	–	–	–	(3,402)	(58)	–	(958,576)	(962,036)	(17,209)	(979,245)
Value of services provided under share option scheme	23	–	–	–	–	–	–	143,476	–	143,476	–	143,476
Value of services provided in relation to share-based payment transactions with ultimate parent	9(b),23	–	–	–	–	–	–	26,304	–	26,304	–	26,304
Value of equity-settled share awards granted to employees of a subsidiary	23,30(b)	–	–	31,700	–	–	–	–	–	31,700	–	31,700
Dilution gain on capital injection into a subsidiary	30(a)	–	–	1,490,113	–	–	–	–	–	1,490,113	209,887	1,700,000
Disposal of certain equity interest in a subsidiary without loss of control	30(b)	–	–	(7,345)	–	–	–	–	–	(7,345)	8,845	1,500
Non-controlling interests arising on business combination	31	–	–	–	–	–	–	–	–	–	14,617	14,617
At December 31, 2016		5,081,884	12,063,133	168,183	48,527	11,349	9,547	251,434	(716,034)	16,918,023	213,909	17,131,932

The notes on pages 102 to 191 are an integral part of these consolidation financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	For the year ended December 31, 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash used in operations activities	29	**(1,956,021)**	(427,868)
Income tax paid		**(54,478)**	(60,329)
Net cash used in operating activities		**(2,010,499)**	(488,197)
Cash flows from investing activities			
Change in bank deposits with the maturity over three months, net		**7,379,636**	(1,997,373)
Interest received		**134,455**	155,512
Investment income received		**50,214**	5,063
Loan repayment received from/(loan granted to) a third party		**15,000**	(15,000)
Proceeds from disposal of art works		**8,000**	152,683
Investment in associates	13	**(2,248,893)**	–
Investment in convertible bonds	16	**(1,000,000)**	–
Change in available-for-sale financial assets, net		**(871,700)**	(817,900)
Amount paid in relation to the restructuring of an associate	13(b)	**(506,179)**	–
Acquisition of subsidiaries, net of cash acquired		**(116,771)**	(3,515,562)
Purchases of property, plant and equipment ("PPE")		**(56,590)**	(18,192)
Prepayment of investment		**(45,000)**	–
Purchase of intangible assets		**(492)**	(824)
Disposal of subsidiaries, net of cash disposed		**–**	19,171
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	3,536
Proceeds from disposal of PPE		**–**	377
Net cash generated from investing activities		**2,741,680**	(6,028,509)
Cash flows from financing activities			
Proceeds from capital inject of a subsidiary	30(a)	**1,700,000**	–
Proceeds from disposal of interest in a subsidiary	30(b)	**1,500**	–
Interest paid		**(9,500)**	(9,193)
Change in restricted cash in relation to financing activities		**(5,509)**	(2,001,938)
Proceeds from issue of shares		**–**	9,606,113
Proceeds from borrowings		**–**	2,880,000
Repayment of borrowings		**–**	(900,000)
Transaction costs attributable to issue of shares		**–**	(49,426)
Net cash generated from financing activities		**1,686,491**	9,525,556
Net increase in cash and cash equivalents		**2,417,672**	.3,008,850
Cash and cash equivalents at beginning of year		**3,677,988**	30,158
Exchange gains on cash and cash equivalents		**125,306**	638,980
Cash and cash equivalents at end of year		**6,220,966**	3,677,988

The notes on pages 102 to 191 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Alibaba Pictures Group Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the operation of an internet-powered integrated platform which spans entertainment content promotion and distribution, serving consumers, studios, and cinema operators. It also invests in content production and develops innovative solutions for commercializing entertainment content.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange") and secondary listing on the Singapore Exchange Securities Trading Limited. As at December 31, 2016, the Company is 49.49% owned by Ali CV Investment Holding Limited ("Ali CV"). Ali CV is a wholly-owned subsidiary of Alibaba Investment Limited ("AIL") which is in turn wholly-owned by Alibaba Group Holding Limited ("AGHL").

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, available-for-sale financial assets and derivative financial liability, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) New amendments to standards adopted by the Group

The Group has adopted the following amendments to standards which are mandatory for the financial year beginning on January 1, 2016:

Amendments to standards		**Effective for accounting periods beginning on or after**
Annual Improvements Projects	Annual Improvements 2012–2014 cycle	January 1, 2016
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation	January 1, 2016
Amendment to HKAS 27	Equity method in separate financial statements	January 1, 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception	January 1, 2016
Amendments to HKAS 1	Disclosure initiative	January 1, 2016

The adoption of above amendments does not have any significant financial effect on these consolidated financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2016 are not material to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New standards and amendments not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

(i) HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new standards for hedge accounting and a new impairment model for financial assets.

The Group has yet to undertake a detailed assessment of the classification and measurement of financial assets. Currently, the financial assets held by the Group include:

- instruments classified as available-for-sale for which a fair value through other comprehensive income ("FVOCI") election is available under HKFRS 9; and
- instruments measured at fair value through profit or loss which would likely continue to be measured on the same basis under HKFRS 9.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group did not have any such liabilities as at December 31, 2016. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules have no impact on the Group as the Group does not have any hedging relationships.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) ***New standards and amendments not yet adopted*** *(Continued)*

(i) ***HKFRS 9, 'Financial instruments'*** *(Continued)*

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after January 1, 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before February 1, 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

(ii) ***HKFRS 15, 'Revenue from contracts with customers'***

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and the following areas, if applicable, may be affected:

- revenue from service – the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) ***New standards and amendments not yet adopted*** *(Continued)*

(ii) ***HKFRS 15, 'Revenue from contracts with customers'*** *(Continued)*

- accounting for certain costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognized as an asset under HKFRS 15, and

- rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new standards on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after January 1, 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

(iii) ***HKFRS 16, 'Leases'***

HKFRS 16 will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB221,380,000, see Note 32. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) ***New standards and amendments not yet adopted*** *(Continued)*

(iii) ***HKFRS 16, 'Leases'*** *(Continued)*

The new standard is mandatory for financial years commencing on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Subsidiaries arising from contractual arrangements

The Group's wholly-owned subsidiaries have entered into certain contractual arrangements (the "Contractual Arrangements") with 中聯京華文化傳播(北京)有限公司 ("Zhonglian Jinghua"), 北京阿里淘影視文化有限公司 ("Ali Tao") and 上海淘票票影視文化有限公司 ("Shanghai TaoPiaoPiao"), (together Zhonglian Jinghua, Ali Tao and Shanghai Tao Piao Piao are referred to as the "OPCOs") respectively, and their equity holders, which enable the Group to:

– exercise effective financial and operational control over the OPCOs;

– exercise equity holders' voting rights of the OPCOs;

– receive substantially all of the economic interest returns generated by the OPCOs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) Subsidiaries arising from contractual arrangements (Continued)

The Group does not have any equity interest in the OPCOs. However, as a result of the Contractual Arrangements, the Group has rights to receive variable returns from its involvement with the OPCOs and has the ability to affect those returns through its power over the OPCOs and is considered to control the OPCOs. Consequently, the Company regards the OPCOs as indirect subsidiaries under HKFRS 10. The Group has consolidated the financial position and results of the OPCOs in the consolidated financial statements of the Group during the year ended December 31, 2016.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the OPCOs and uncertainties presented by the People's Republic of China (the "PRC") legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the OPCOs. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

(b) Business combinations

The Group applies the acquisition method to account for business combinations, including business combination involving entities under common control and other business combination. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in all business combinations are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(b) Business combinations (Continued)

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of profit or loss.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates *(Continued)*

The Group's share of post-acquisition profit or loss is recognized in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit/(loss) of investments accounted for using the equity method' in the consolidated statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognized in the consolidated statement of profit or loss.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in statement of profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the statement of profit or loss within 'finance income' or 'finance expenses'.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each financial statements presented are translated at the closing rate at the date of that financial statements;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Leasehold improvements	Shorter of remaining lease term or useful life
– Motor vehicles	4 years
– Furniture, fittings and equipment	3–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other gains/(losses) net' in the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use ("VIU") and the fair value less costs of disposal ("FVLCD"). Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Licences

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognized at fair value at the acquisition date.

Licences for production and distribution of television drama series, television programmes and films in the PRC have indefinite useful lives. The renewal of these licences are subject to the approval of the respective bureau. In the opinion of the directors of the Company, the renewal of these licences will continuously be approved with minimal costs and accordingly, they are deemed to have indefinite lives. These intangible assets will not be amortized until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that it may be impaired (Note 2.8).

Licences with a finite useful life are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives of 15 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets *(Continued)*

(c) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of 12 years.

(d) Other intangible assets

Separately acquired other intangible assets are shown at historical cost. Other intangible assets acquired in a business combination are recognized at fair value at the acquisition date.

Intangible assets have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of intangible assets over their estimated useful lives of 3–11 years.

2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life, including goodwill and licences for production and distribution of television drama series, television programmes and films, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's FVLCD and VIU. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Non-current assets (or disposal groups) held-for-sale and discontinued operations

Non-current assets (or disposal groups) are classified as held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below) (or disposal groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held-for-sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Non-current assets (or disposal groups) held-for-sale and discontinued operations *(Continued)*

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. When an operation is classified as discontinued, a single amount is presented in the consolidated statement of profit or loss, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group has financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Financial assets are designated as at fair value through profit or loss upon initial recognition when:

– the financial assets are managed, evaluated and reported internally on a fair value basis; and

– the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.1 Classification *(Continued)*

(a) Financial assets at fair value through profit or loss (Continued)

If the financial assets contain one or more embedded derivatives, they are designated as at fair value through profit or loss unless:

– the embedded derivatives does not significantly modify the cash flows that would otherwise be required under the contract; or

– it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivatives is prohibited.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents', 'bank deposits with the maturity over three months' and 'restricted cash' in the consolidated financial statements.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of profit or loss within 'other gain/(losses), net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated statement of profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for-sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated statement of profit or loss within 'other gains/(losses), net'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated statement of profit or loss as part of other income. Dividends on available for sale equity instruments are recognized in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

At December 31, 2016, the Group's available-for-sale financial assets include interests in an unlisted company which do not have quoted market prices in an active market and for which the range of other methods of reasonably estimating fair value is significant and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, the investment is carried at cost less accumulated impairment losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 Impairment of financial assets

(a) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets *(Continued)*

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from equity and recognized in profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

2.13 Inventories

Inventories, representing merchandize goods, are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods comprises costs of merchandise and other direct costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Film and TV copyrights

(a) Film and TV copyrights

Film and TV copyrights represent proportional distribution rights and legal copyrights of films, television programmes and television drama series acquired by the Group. Film and TV copyrights are stated at cost less accumulated amortization and identified impairment loss. Costs of film and TV copyrights comprise fees paid and payable under agreements, direct costs/expenses incurred during the production of films and TVs, fees for the reproduction and/or distribution of films and TVs. Amortization is calculated using the straight-line method to allocate the cost of film and TV copyrights over their estimated useful lives which are determined based on individual title basis and ranged from within one year to three years after the showing of the respective film, or the delivery of master tapes of the respective TVs.

(b) Impairment

Impairment assessment of the film and TV copyrights is assessed on an annual basis or whenever events or changes in circumstances indicate that the carrying amount is below the recoverable amount, where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment loss is recognized in the consolidated statement of profit or loss. The recoverable amounts of the film and TV copyrights are determined and reviewed on a title-by-title basis and are based on their fair value that include unobservable inputs and assumptions derived from the Group.

2.15 Film deposits

Film deposits comprise deposits paid for the acquisition of film and TV copyrights and deposits paid to production houses and/or directors prior to the production of films which are included in 'trade and other receivables, and prepayments' in the consolidated balance sheet. Impairment loss for film deposits is made to the extent that the deposits are not expected to generate any future economic benefits to the Group.

Prepaid film deposits under film cooperation agreements are transferred to film and TV copyrights upon commencement of production of the related films or TVs.

2.16 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

2.18 Share capital

Share capital is classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.20 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.22 Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(b) ***Deferred income tax*** *(Continued)*

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) ***Offsetting***

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Employee benefits

(a) ***Pension obligations***

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Employee benefits *(Continued)*

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Bonus plans

The Group recognizes a liability and an expense for bonuses, where contractually obliged or where there is a past practice that has created a constructive obligation.

2.24 Share-based payments

Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee/consultancy services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Share-based payments *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees/consultancy may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.25 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided and goods supplied, stated net of discounts returns and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Revenue from the licensing and sub-licensing of film and TV copyrights is recognized upon the delivery of the master tapes to the customers, in accordance with the terms of the underlying contracts.

(b) Revenue from investment and production of film is recognized when the film is shown and the right to receive payment is established.

(c) Revenue from film distribution is recognized when films are exhibited in movie theaters.

(d) Commission income is recognized at the time when the underlying transaction is completed.

(e) Revenue from sales of goods (including merchandise, software and hardware) and provision of service is recognized when goods and services are received by customers.

(f) Revenue from sales of digital vouchers for movie tickets to customers is recognized based on the proportion of vouchers redeemed by customers during the validity period of the respective vouchers. Revenue from unredeemed vouchers is recognized when the validity period of these vouchers expire as the Group has no obligation to provide cash refund to its customers.

(g) Revenue from admission tickets sold is recognised when tickets are accepted and surrendered by the customer. Revenue from tickets sold for use at a future date is deferred until the tickets are surrendered or have expired.

2.27 Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

2.28 Dividend income

Dividend income is recognized when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

2.30 Government grants

Grants from the government are recognized at their fair value when received and the Group has complied with all attached conditions.

Government grants relating to costs are deferred and recognized in the statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of profit or loss on a straight line basis over the expected lives of the related assets.

2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's finance department under policies approved by the Board of Directors of the Company. The Company's finance department identifies, evaluates financial risks in close co-operation with the Group's operating units. The Board of Directors of the Company provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB and US dollar, which is exposed to foreign currency risk with respect to transactions denominated in currencies other than RMB or US dollar. Foreign exchange risk arises from recognized assets and liabilities and net investments in foreign operations. The Group did not enter into any forward contract to hedge its exposure to foreign currency risk for the years ended December 31, 2016 and 2015.

As at December 31, 2016, the carrying amounts of the Group's monetary assets and liabilities that are denominated in currency other than functional currencies of the respective group entities are as follows:

	December 31, 2016		December 31, 2015	
	HK dollar	**US dollar**	HK dollar	US dollar
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and bank balances	**1,067,836**	**4,176,078**	5,208,068	3,462,514
Trade and other receivables	**6,243**	**611**	12,318	11,460
Trade and other payables	**33**	**12**	2,840	2,189

As at December 31, 2016, if RMB had weakened/strengthened by 5% (2015: 5%) with all other variables held constant, pre-tax loss for the year would have been RMB 262,536,000 lower/higher (2015: pre-tax profit for the year would have been RMB434,467,000 higher/lower), mainly as a result of foreign exchange gains/losses on translation of HK dollar and US dollar-denominated cash and bank balances and trade and other receivables.

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

As at December 31, 2016, if interest rates on borrowings had been 100 basis point higher/lower with all other variables held constant, pre-tax loss for the year would have been RMB19,800,000 (2015: pre-tax profit for the year would have been RMB7,040,000 lower/higher) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

Credit risk is managed on group basis. Credit risk arises from deposits with banks and financial institutions, available-for-sale financial assets, financial assets at fair value through profit or loss, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only parties with good credit rating are accepted. For receivables due from customers, the Group assesses the credit quality of the customers, taking into account of their financial positions, past experience and other factors.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group in the event of the counterparties' failure to perform their obligations as at December 31, 2016 is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet.

For the year ended December 31, 2016, the Group has concentration of credit risk as 31% and 58% of the total trade receivables were due from the Group's largest debtor and the five largest debtors, respectively. These debtors include two PRC film distributors, two PRC TV stations and one electronic business platform providing on-line movie ticketing services in the PRC. The Group's concentration of credit risk by geographical location is in the PRC, which accounts for 85% of the total trade receivables as at December 31, 2016.

The Group's bank balances are deposited in banks and financial institutions with good reputation in the PRC, Macau, Hong Kong and the United States of America (the "USA"). Accordingly, the credit risk on these bank balances is limited.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by the finance department. The Group's finance department monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2016				
Trade and other payables	**255,951**	**–**	**–**	**255,951**
Borrowings	**1,991,880**	**–**	**–**	**1,991,880**
	2,247,831	**–**	**–**	**2,247,831**
As at December 31, 2015				
Trade and other payables	560,296	–	–	560,296
Borrowings	1,987,854	–	–	1,987,854
	2,548,150	–	–	2,548,150

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt over equity plus net debt in which net debt represents total borrowings less cash and cash equivalents.

As at December 31, 2016 and 2015, the Group's gearing ratio is nil as its cash and cash equivalents exceeded its total borrowings.

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at December 31, 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

See Note 19 for disclosures of available-for-sale financial assets and Note 16 for disclosures of financial assets at fair value through profit or loss that are measured at fair value.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's assets that are measured at fair value at December 31, 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
Investments in wealth management products	**–**	**–**	**1,954,107**	**1,954,107**
Financial assets at fair value through profit or loss				
Convertible bonds	**–**	**–**	**1,025,170**	**1,025,170**
Total assets	**–**	**–**	**2,979,277**	**2,979,277**

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
Investments in wealth management products	–	–	1,102,006	1,102,006
Total assets	–	–	1,102,006	1,102,006
Liabilities				
Financial liabilities at fair value through profit or loss				
Repurchase option	–	–	33,000	33,000
Total liabilities	–	–	33,000	33,000

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended December 31, 2016 and 2015.

	Available-for-sale financial assets	
	2016	2015
	RMB'000	RMB'000
Opening balance	**1,102,006**	240,000
Addition, net	**851,700**	849,200
Change in fair value	**401**	12,806
Closing balance	**1,954,107**	1,102,006

	Financial assets at fair value through profit or loss	
	2016	2015
	RMB'000	RMB'000
Opening balance	**–**	–
Addition	**1,000,000**	–
Change in fair value	**25,170**	–
Closing balance	**1,025,170**	–

	Financial liabilities at fair value through profit or loss	
	2016	2015
	RMB'000	RMB'000
Opening balance	**33,000**	–
Addition	**–**	35,749
Change in fair value	**–**	(2,749)
Derecognition upon expiry	**(33,000)**	–
Closing balance	**–**	33,000

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in (Note 2.8). The recoverable amounts of CGUs have been determined based on the higher of FVLCD and VIU which require the use of estimates and valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

According to the management's assessment (Note 15), there is no impairment in goodwill as at December 31, 2016 (2015: Nil).

(b) Estimated impairment of film and TV copyrights

At the end of the reporting period, the management of the Group assesses the impairment on film and TV copyrights with reference to its recoverable amount. The assessment was made on a film-by-film basis. The recoverable amount of the film and TV copyrights was determined based on the higher of FVLCD and VIU.

If the recoverable amount is lower than the carrying amount, the carrying amount of the film and TV copyrights will be written down to its recoverable amount. The Group's estimation of impairment provision of film rights reflects the management's best estimate of future cash flows expected to be generated from film and TV copyrights.

Based on the management assessment's on the recoverability of film and TV copyrights, the directors of the Company determined that an impairment provision of RMB28,269,000 (2015: RMB70,538,000) was charged to cost of sales and services during the year ended December 31, 2016.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(Continued)*

(c) Allowances for bad and doubtful debts

The policy of allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor. Based on the assessment on the collectability and aging analysis of accounts, the directors of the Company determined an impairment provision for trade and other receivables, and prepayments of RMB43,693,000 (2015: a reversal of impairment provision of RMB6,916,000) for the year ended December 31, 2016. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(d) Fair value of financial assets at fair value through profit or loss

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques. The inputs to the valuation models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

5 REVENUES AND SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board of Directors. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

The Board of Directors considers the business from perspective of types of goods or services delivered or provided. During the year ended December 31, 2016, the Group has redefined its operating and reportable segments and the comparative figures for the year ended December 31, 2015 have been restated to conform to the current year presentation. During the year ended December 31, 2016, the Group's operating and reportable segments for continuing operations are as follows:

- Internet-based promotion and distribution: the operation of an integrated O2O platform for the promotion and distribution of entertainment content, and the provision of online movie ticketing service to consumers and ticket issuance system to cinemas.

- Content production: the investment and production of entertainment content such as film and drama series both domestically and internationally.

- Integrated development: centered around copyrights, the development of professional services ranging from financing, business placement, promotion and distribution to merchandising.

- Other operations.

5 REVENUES AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results

	For the year ended December 31, 2016 RMB'000	2015 RMB'000
Internet-based promotion and distribution	**682,607**	136,250
Content production	**211,834**	124,220
Integrated development	**6,010**	2,807
Other operations	**4,131**	440
Total revenues from continuing operations	**904,582**	263,717

	Internet-based promotion and distribution RMB'000	Content production RMB'000	Integrated development RMB'000	Other operations RMB'000	Total RMB'000
	For the year ended December 31, 2016				
Segment revenue	**682,607**	**211,834**	**6,010**	**4,131**	**904,582**
Segment results	**(607,448)**	**(243,486)**	**(14,955)**	**4,131**	**(861,758)**
Unallocated selling and marketing expenses					**(31,752)**
Administrative expenses					**(719,758)**
Other income					**63,414**
Other gains, net					**45,911**
Finance income					**545,921**
Finance expenses					**(11,975)**
Share of profit of investments accounted for using the equity method					**12,502**
Loss before income tax					**(957,495)**

5 REVENUES AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

	For the year ended December 31, 2015				
	Internet-based promotion and distribution RMB'000	Content production RMB'000	Integrated development RMB'000	Other operations RMB'000	Total RMB'000
Segment revenue	136,250	124,220	2,807	440	263,717
Segment results	21,887	(99,143)	1,685	221	(75,350)
Unallocated selling and marketing expenses					(61,661)
Administrative expenses					(277,580)
Other income					21,666
Other losses, net					(2,270)
Finance income					894,144
Finance expenses					(11,305)
Share of loss of investments accounted for using the equity method					(862)
Profit before income tax					486,782

During the years ended December 31, 2016 and 2015, all of the segment revenue reported above is from external customers and there were no inter-segment sales.

Segment results represent the gross loss incurred or gross profit generated by each segment after allocation of certain selling and marketing expenses. This is the measure reported to the Board of Directors of the Company for the purpose of resource allocation and performance assessments.

Segment assets and liabilities are not regularly reported to the Board of Directros of the Company and therefore information of separate segment assets and liabilities is not presented.

Most of the Group's segment revenues are derived from the PRC except certain revenue from the content production segment.

5 REVENUES AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

As at December 31, 2016, the Group's non-current assets, other than financial instruments and deferred income tax assets, are located in the Mainland of the PRC, the USA, Hong Kong, Taiwan and Ireland amounting to RMB5,631,050,000, RMB433,978,000, RMB90,256,000, RMB17,683,000 and RMB9,536,000 (2015: RMB3,740,618,000, RMB1,025,000, RMB120,326,000 and RMB19,081,000 and nil) respectively.

During the year ended December 31, 2016, none of the Group's customer accounted for 10% or more of the Group's total revenue (2015:19% of the Group's total revenue was derived from the top customer of the Group).

6 OTHER INCOME

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Investment income on available-for-sale financial assets	**43,434**	5,063
Local government subsidies	**5,665**	13,551
Investment income on loan receivable	**4,579**	2,201
Sundry income	**9,736**	851
	63,414	21,666

7 OTHER GAINS/(LOSSES), NET

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Gain on derecognition of repurchase option upon expiry (Note a)	**33,000**	–
Change in fair value of financial assets at fair value through profit or loss	**25,170**	–
Change in fair value of assets held-for-sale (Note b)	**(12,218)**	(5,152)
Change in fair value of repurchase option	**–**	2,749
Others	**(41)**	133
	45,911	(2,270)

7 OTHER GAINS/(LOSSES), NET *(Continued)*

Notes:

(a) Amount represented the gain on derecogntion of the repurchase option in relation to the acquisition of Guangdong Yueke Software Engineering Company Limited ("Yueke") which was expired on March 10, 2016.

(b) Amount represented additional write down of the carrying value of the investment in Beijing Beida Culture Development Co., Limited in 2016.

8 EXPENSES BY NATURE

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Film and TV copyrights recognized as cost of sales and services (Note)	**622,038**	244,028
Cost of inventories and digital vouchers recognized as cost of sales and services	**32,198**	4,290
Marketing and promotion expenses	**1,076,624**	64,835
Employee benefit expense	**540,900**	241,788
Depreciation and amortization	**44,330**	31,554
Impairment provision/(reversal of impairment provision) for trade and other receivables, and prepayments	**43,693**	(6,916)
Operating lease payments	**36,119**	29,525
Travel and entertainment fees	**29,940**	6,106
Payment processing fees	**22,863**	–
SMS platform service and customer services support fees	**11,348**	–
Technology service fees	**7,707**	–
Auditor's remunerations		
– Audit services	**3,000**	3,000
– Non-Audit services	**750**	2,491
Other expenses	**46,340**	57,607
Total cost of sales and services, selling and marketing expenses and administrative expenses	**2,517,850**	678,308

Note:

Amount included an impairment loss on film and TV copyrights of RMB 28,269,000 in 2016 (2015: RMB70,538,000).

9 EMPLOYEE BENEFIT EXPENSE

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Wages and salaries	**227,747**	97,918
Social security costs and housing fund (Note a)	**50,260**	20,416
Share-based payment under share option scheme (Note 23)	**143,476**	122,832
Share-based payment to certain employees of a subsidiary (Note 30(b))	**31,700**	–
Share-based payment transactions with ultimate parent (Note b)	**26,304**	–
Termination benefits	**1,470**	622
Reimbursement on share-based compensation (Note c)	**59,943**	–
Total employee benefit expense	**540,900**	241,788

Notes:

(a) All of the Group's full-time employees in the PRC participate in a state-sponsored defined contribution pension plan. The Group is required to make monthly defined contributions to this plan at a rate of 20% (2015: 20%) of the employees' basic salaries subject to a cap determined by the state on an annual basis.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

During the year, the Group made total contributions to the retirement benefits schemes of RMB19,529,000 (2015: RMB9,259,000).

(b) On December 31, 2015, the Group completed the acquisition of the online movie ticketing business (the "Online Movie Ticketing Business" or "TaoPiaoPiao") (Note 15(b)(ii)) and Yulebao (Note 15(c)) from AGHL. Pursuant to the agreement entered into by the Company and AGHL, the Company agreed to pay RMB41,178,000 as the reimbursement of the share-based compensation provided by AGHL to the employees of Tao Piao Piao and Yulebao which were outstanding as at December 31, 2015 and would remain effective subsequent to the acquisition. The reimbursement was treated as share-based payment transactions with AGHL and the related share-based payment expenses were to be recognized in profit or loss over the remaining vesting periods of the share-based compensation in accordance with 'HKFRS 2 – Share-based payment'.

During the year ended December 31, 2016, share-based payment expenses recognized in relation to above reimbursement amounted to RMB26,304,000.

(c) In addition to above reimbursement arrangement with AGHL, the Group also entered into agreements with Hangzhou Junhan Equity Investment Partnership ("Junhan", a PRC limited partnership in which a key management personnel of AGHL is the general partner) in 2016, pursuant to which the Company agreed to reimburse the share-based compensation provided by Junhan to the employees of TaoPiaoPiao and Yulebao. The reimbursement was treated as employee benefits and the related expenses were to be recognized in profit or loss, on a straight-line basis, over the remaining vesting periods of the share-based compensation.

9 EMPLOYEE BENEFIT EXPENSE *(Continued)*

Notes: *(Continued)*

During the year ended December 31, 2016, the Group had paid RMB166,922,000 in relation to the above reimbursement. An expense of RMB59,943,000 (after netting off the related value-added tax and surtaxes) was recognized in profit or loss and the remaining amount of RMB97,531,000 was recorded as 'prepayment' in the consolidated balance sheet as at December 31, 2016.

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2015: one) directors whose emoluments are reflected in Note 36. The emoluments payable to the remaining two (2015: four) individuals during the year are as follows:

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Salaries, share options, other allowances and benefits in kind	**9,285**	21,774
Bonuses	**572**	1,919
Contributions to the retirement scheme	**70**	163
	9,927	23,856

The emoluments fell within the following bands:

	Number of individuals	
	2016	2015
Emolument bands (in HK dollar)		
HK$3,000,001 to HK$3,500,000	**–**	1
HK$3,500,001 to HK$4,000,000	**–**	1
HK$5,000,001 to HK$5,500,000	**1**	–
HK$6,000,001 to HK$6,500,000	**1**	1
HK$15,000,001 to HK$15,500,000	**–**	1
	2	4

10 FINANCE INCOME AND EXPENSES

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Finance income		
– Interest income on bank deposits	**118,386**	165,584
– Exchange gain, net	**427,535**	728,560
	545,921	894,144
Finance expenses		
– Interest expenses on bank borrowings	**(11,975)**	(4,204)
– Interest expenses on entrusted loan from a related party	**–**	(7,101)
	(11,975)	(11,305)
Finance income, net	**533,946**	882,839

11 INCOME TAX EXPENSE

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Current income tax	**7,494**	31,945
Deferred income tax (Note 27)	**11,155**	(17,866)
	18,649	14,079

11 INCOME TAX EXPENSE *(Continued)*

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the PRC statutory tax rate as follows:

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
(Loss)/profit before income tax	**(957,495)**	486,782
Tax calculated at a tax rate of 25% (2015: 25%)	**(239,374)**	121,696
Tax effects of:		
– Associates' results reported net of tax	**(3,125)**	216
– Effect of different tax rates of subsidiaries	**(16,991)**	–
– Income not subject to tax	**(111,452)**	(212,019)
– Additional deduction in relation to research and development costs	**(1,469)**	–
– Expenses not deductible for tax purposes	**4,361**	3,005
– Utilization of previously unrecognized tax losses	**(4,692)**	(25)
– Temporary differences and tax losses for which no deferred income tax asset was recognized	**387,873**	100,018
– Reversal of previously recognized deferred income tax assets	**3,518**	1,188
Tax charge	**18,649**	14,079

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Law of Bermuda and accordingly, is exempted from Bermuda income tax.

Some of the subsidiaries are incorporated in BVI as an exempted company with limited liability under the Companies Law of BVI and accordingly, is exempted from BVI income tax.

Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2015: 25%) on the assessable income of each of the group companies, except that one subsidiary of the Company are taxed at preferential tax rates of 15% (2015: 25%) under the relevant PRC tax rules and regulations.

No provision for Hong Kong and the USA profit tax has been made as the group companies operating in Hong Kong and the USA did not have any assessable profit for both years.

12 (LOSS)/EARNING PER SHARE

	For the year ended December 31, 2016 RMB cents	2015 RMB cents
Basic (loss)/earnings per share		
From continuing operations	**(3.80)**	2.02
From discontinued operations	**–**	(0.03)
From (loss)/profit for the year	**(3.80)**	1.99
Diluted (loss)/earnings per share		
From continuing operations	**(3.80)**	2.02
From discontinued operations	**–**	(0.03)
From (loss)/profit for the year	**(3.80)**	1.99

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	For the year ended December 31, 2016 RMB'000	2015 RMB'000
(Loss)/profit from continuing operations attributable to owners of the Company	**(958,576)**	472,729
Loss from discontinued operations attributable to owners of the Company	**–**	(6,689)
(Loss)/profit attributable to owners of the Company	**(958,576)**	466,040
Weighted average number of ordinary shares in issue (thousands)	**25,234,561**	23,382,148

12 (LOSS)/EARNING PER SHARE *(Continued)*

(b) Diluted

Diluted earnings or loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares during the year ended December 31, 2016, which is share option. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the closing market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings or loss per share.

The computation of diluted loss per share for the year ended December 31, 2016 did not assume the issuance of any dilutive potential ordinary share since they are antidilutive, which would decrease the loss per share.

The computation of diluted earnings per share for the year ended December 31, 2015 is as follows:

	For the year ended December 31, 2015 RMB'000
Profit from continuing operations attributable to owners of the Company	472,729
Loss from discontinued operations attributable to owners of the Company	(6,689)
Profit attributable to owners of the Company	466,040
Weighted average number of ordinary shares in issue (thousands)	23,382,148
Adjustment for:	
– Share options (thousands)	35,314
Weighted average number of ordinary shares for diluted earnings per share (thousands)	23,417,462

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investment in associates

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
At January 1,	**19,081**	18,804
Additions	**2,248,893**	–
Share of profit/(loss) of investments	**12,502**	(862)
Currency translation differences	**363**	1,139
At December 31,	**2,280,839**	19,081

The Board of Directors of the Company are of the view that none of the Group's associates is individually material to the Group as at December 31, 2016.

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Nature of investment in associates as at December 31, 2016 and 2015:

Name of entity	Place of business/ region of incorporation	% of ownership interest 2016	% of ownership interest 2015	Measurement method
Mandarin Vision Inc. 華文創股份有限公司	Taiwan	**37.308%**	37.308%	Equity
Hainan Alibaba Pictures Investment Management Limited 海南阿里巴巴影業投資管理有限公司 ("Hainan General Partner") (Note a)	PRC	**40%**	–	Equity
ShenCheng Film Limited Company 申城影業有限公司	PRC	**20%**	–	Equity
Hainan Alibaba Pictures Entertainment Industry Investment Fund (LLP) 海南阿里巴巴影業文化產業基金合伙企業（有限合伙）("Hainan Investment Fund") (Note a)	PRC	**25.017%**	–	Equity
Shanghai Xiying Culture Communication Limited Company 上海希映文化傳播有限公司	PRC	**11.18%***	–	Equity
Bona Film Group Limited 博納影業集團有限公司 ("BONA Beijing") (Note b)	PRC	**8.24%***	–	Equity
Shanghai Zhuying Investment Management Consulting Limited Company 上海築影投資管理咨詢有限公司	PRC	**7.53%***	–	Equity
Beijing Yue Kai Film & Television Media Limited Company 北京悅凱影視傳媒有限公司	PRC	**14.82%***	–	Equity
Shanghai Mingjian Limited Company 上海鳴澗影業有限公司	PRC	**6.49%***	–	Equity
Showtime Analytics Limited	Ireland	**20%**	–	Equity
Storyteller Holding Co., LLC	USA	**5%***	–	Equity
HeHe (Shanghai) Film Limited Company 和和(上海)影業有限公司 ("Hehe Film") (Note c)	PRC	**30%**	–	Equity

* Although the Group holds less than 20% of the equity shares of these investees, the Group can exercise significant influence over the investees by virtue of its contractual right to appoint director to the board of directors of the investees and has the power to participate in the key financial and operating decisions of the investees. As such, the investment in these investees were accounted for using the equity method.

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Notes:

(a) Investment in Hainan General Partner and Hainan Investment Fund

Hainan General Partner was established on June 29, 2016 with a registered capital of RMB10,000,000, out of which the Group had subscribed and fully paid RMB4,000,000 (representing 40% equity interest in Hainan General Partner).

In July 2016, the Group, as a limited partner, entered into a limited partnership agreement in relation to the establishment of Hainan Investment Fund, which had a total capital commitment of no more than RMB2,000,000,000 together with other investors. The Group committed to invest no more than RMB500,000,000 into Hainan Investment Fund, which represented 25% of the total committed capital. As at December 31,2016, the Group's investment commitment relating to this transaction amounted to RMB366,000,000.

Based on management's assessment, the Group can exercise significant influence over Hainan General Partner and Hainan Investment Fund, as a result, the above investments are accounted for using the equity method.

(b) Investment in BONA Beijing

In December 2015, the Group entered into an investment agreement and agreed to purchase 8.29% (on a fully diluted basis) indirect equity interests in Bona Film Group Limited ("BONA Cayman", a company incorporated in the Cayman Islands whose shares were formerly listed on the NASDAQ), for a consideration of US$85,983,000 (equivalent to approximately RMB570,784,000).

In May 2016, the Group entered into a restructuring framework agreement (the "Restructuring Framework Agreement"), pursuant to which the Group injected capital of RMB563,188,000 into BONA Beijing (a wholly-owned subsidiary of BONA Cayman) and to obtain approximately 8.29% (on a fully diluted basis) equity interests in BONA Beijing. In addition, according to the Restructuring Framework Agreement, the investment previously paid by the Group in relation to the investment in BONA Cayman amounting to RMB506,179,000 will be refunded to the Group, which was recorded as 'other receivable' in the consolidated balance sheet as at December 31, 2016.

The Group has completed the above capital injection in BONA Beijing in September 2016.

In December 2016, the Group entered into a capital injection agreement in which the Group agreed to inject additional capital into BONA Beijing with the equity interest diluted to 8.24% (as other investors also increased their shareholdings in BONA Beijing at the same time), and such transaction was completed in December 2016.

(c) Investment in Hehe Film

In November 2016, the Group entered into an investment agreement and agreed to subscribe for 30% equity interests in Hehe Film (an unlisted company incorporated in the PRC and primarily engaged in content production and film distribution).

The above transaction was completed in December 2016. As at December 31, 2016, the Group's investment commitment relating to this transaction amounted to RMB150,000,000.

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2015					
Cost	25,787	8,414	3,512	–	37,713
Accumulated depreciation	(6,190)	(3,879)	(3,122)	–	(13,191)
Net book amount	19,597	4,535	390	–	24,522
Year ended December 31, 2015					
Opening net book amount	19,597	4,535	390	–	24,522
Additions	9,898	7,026	250	1,018	18,192
Acquisition of subsidiaries	–	38,368	428	–	38,796
Disposals	–	(1,382)	(52)	–	(1,434)
Depreciation charge	(19,949)	(2,666)	(325)	–	(22,940)
Closing net book amount	9,546	45,881	691	1,018	57,136
At December 31, 2015					
Cost	9,883	48,072	2,714	1,018	61,687
Accumulated depreciation	(337)	(2,191)	(2,023)	–	(4,551)
Net book amount	9,546	45,881	691	1,018	57,136
Year ended December 31, 2016					
Opening net book amount	**9,546**	**45,881**	**691**	**1,018**	**57,136**
Additions	**13,646**	**44,715**	**471**	**233**	**59,065**
Acquisition of a subsidiary (Note 31)	**1,483**	**11,242**	**–**	**–**	**12,725**
Disposals	**(77)**	**(176)**	**–**	**–**	**(253)**
Depreciation charge	**(2,303)**	**(27,036)**	**(69)**	**–**	**(29,408)**
Closing net book amount	**22,295**	**74,626**	**1,093**	**1,251**	**99,265**
At December 31, 2016					
Cost	**24,935**	**103,853**	**3,185**	**1,251**	**133,224**
Accumulated depreciation	**(2,640)**	**(29,227)**	**(2,092)**	**–**	**(33,959)**
Net book amount	**22,295**	**74,626**	**1,093**	**1,251**	**99,265**

In 2016, depreciation expense of RMB28,210,000 (2015: RMB22,940,000) has been charged to 'Administrative expenses', RMB721,000 (2015: nil) has been charged to 'selling and marketing expenses' and RMB477,000 (2015: nil) has been charged to 'cost of sales and services'.

15 GOODWILL AND INTANGIBLE ASSETS

	Goodwill RMB'000	Film and television programme production and distribution license RMB'000	Operating license of the ticketing system RMB'000	Customer relationship RMB'000	Others RMB'000	Total RMB'000
At January 1, 2015						
Cost	159,813	7,808	–	–	4,573	172,194
Accumulated amortization and impairment	–	–	–	–	(4,573)	(4,573)
Net book amount	159,813	7,808	–	–	–	167,621
Year ended December 31, 2015						
Opening net book amount	159,813	7,808	–	–	–	167,621
Additions	–	–	–	–	824	824
Acquisition of subsidiaries	3,330,761	–	163,000	21,300	7,013	3,522,074
Amortization charge	–	–	(6,339)	(1,035)	(1,240)	(8,614)
Closing net book amount	3,490,574	7,808	156,661	20,265	6,597	3,681,905
At December 31, 2015						
Cost	3,490,574	7,808	163,000	21,300	7,837	3,690,519
Accumulated amortization and impairment	–	–	(6,339)	(1,035)	(1,240)	(8,614)
Net book amount	3,490,574	7,808	156,661	20,265	6,597	3,681,905
Year ended December 31, 2016						
Opening net book amount	**3,490,574**	**7,808**	**156,661**	**20,265**	**6,597**	**3,681,905**
Additions	**–**	**–**	**–**	**–**	**492**	**492**
Acquisition of a subsidiary (Note 31)	**41,533**	**–**	**–**	**–**	**–**	**41,533**
Amortization charge	**–**	**–**	**(10,867)**	**(1,775)**	**(2,280)**	**(14,922)**
Closing net book amount	**3,532,107**	**7,808**	**145,794**	**18,490**	**4,809**	**3,709,008**
At December 31, 2016						
Cost	**3,532,107**	**7,808**	**163,000**	**21,300**	**8,329**	**3,732,544**
Accumulated amortization and impairment	**–**	**–**	**(17,206)**	**(2,810)**	**(3,520)**	**(23,536)**
Net book amount	**3,532,107**	**7,808**	**145,794**	**18,490**	**4,809**	**3,709,008**

In 2016, amortization expense of RMB14,331,000 (2015: RMB8,286,000) has been charged to 'Administrative expenses' and RMB591,000 (2015: RMB328,000) charged to 'Cost of sales and services'.

15 GOODWILL AND INTANGIBLE ASSETS *(Continued)*

For the purpose of impairment testing, goodwill and intangible assets with indefinite useful life have been allocated to three segments, including several subsidiaries in the content production segment, the internet-based promotion and distribution segment and the integrated development segment. The following is a summary of goodwill allocation for each operating and reportable segment:

2016	**Opening RMB'000**	**Addition RMB'000**	**Closing RMB'000**
Goodwill			
– Content production (Note a)	**159,813**	**–**	**159,813**
– Internet-based promotion and distribution (Note b)	**3,080,854**	**41,533**	**3,122,387**
– Integrated development (Note c)	**249,907**	**–**	**249,907**
Intangible assets with indefinite useful life			
– Content production (Note a)	**7,808**	**–**	**7,808**
	3,498,382	**41,533**	**3,539,915**

2015	Opening RMB'000	Addition RMB'000	Closing RMB'000
Goodwill			
– Content production	159,813	–	159,813
– Internet-based promotion and distribution	–	3,080,854	3,080,854
– Integrated development	–	249,907	249,907
Intangible assets with indefinite useful life			
– Content production	7,808	–	7,808
	167,621	3,330,761	3,498,382

The basis of the recoverable amounts of the above CGUs and its major underlying assumptions are summarised below:

(a) Content production

The recoverable amount of the goodwill in the content production CGU as at December 31, 2016 was determined on the basis of VIU calculations which was based on certain key assumptions. The VIU calculation uses cash flow projections based on financial forecast prepared by management covering a 3-year period and a post-tax discount rate of 18.5%. Other key assumptions for the VIU calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance of the content production segment and management's expectations for the market development.

15 GOODWILL AND INTANGIBLE ASSETS *(Continued)*

(b) Internet-based promotion and distribution

(i) Goodwill arising from the acquisition of Yueke

The goodwill arising from the acquisition of Yueke in June 2015 amounted to RMB649,346,000 as at December 31, 2016. Management considered that Yueke is a separate CGU within the 'internet-based promotion and distribution' segment.

The recoverable amount of this CGU was determined based on VIU. The VIU calculation is based on certain key assumptions, which uses cash flow projections based on financial forecast prepared by management covering a 5-year period and a post-tax discount rate of 19.0%. Cash flows beyond the 5-year period are extrapolated using a 3% growth rate. Other key assumptions for the VIU calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance of the CGU and management's expectations for the market development. If the post-tax discount rate had increased by 3% or the revenue had decreased by 4%, it would have decreased by 12% for the VIU of the CGU, which would approximate its carrying amount. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed its aggregate recoverable amount.

(ii) Goodwill arising from the acquisition of TaoPiaoPiao

The goodwill arising from the acquisition of TaoPiaoPiao in December 2015 amounted to RMB2,431,508,000 as at December 31, 2016. Management considered that TaoPiaoPiao is a separate CGU within the 'internet-based promotion and distribution' segment.

In May 2016, the Group entered into an investment agreement with certain investors in which these investors agreed to subscribe for 12.4% equity interests in the Group's subsidiary that operates TaoPiaoPiao for a cash consideration of RMB1,700,000,000, and such transaction was completed in November 2016 (the "Financing of TaoPiaoPiao"). Consequently, the Group's whole interests in TaoPiaoPiao was diluted to 87.6%.

The recoverable amount of this CGU was determined based on FVLCD, which was estimated by management with reference to the transaction price of the Financing of TaoPiaoPiao. Management considered the recoverable amount of this CGU was higher than its carrying amount as at December 31, 2016.

15 GOODWILL AND INTANGIBLE ASSETS *(Continued)*

(b) Internet-based promotion and distribution *(Continued)*

(iii) Goodwill arising from the acquisition of Hangzhou Xingji Media Culture Company Limited ("Hangzhou Xingji")

The goodwill arising from the acquisition of Hangzhou Xingji in October 2016 (Note 31) amounted to RMB41,533,000 as at December 31, 2016. Management considered that Hangzhou Xingji is a separate CGU within the 'internet-based promotion and distribution' segment.

The recoverable amount of this CGU was determined based on VIU. The VIU calculation is based on certain key assumptions, which uses cash flow projections based on financial forecast prepared by management covering a 5-year period and a post-tax discount rate of 19%. Cash flows beyond the 5-year period are extrapolated using a 3% growth rate. Other key assumptions for the VIU calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance of the CGU and management's expectations for the market development.

(c) Integrated development

The goodwill allocated to the 'integrated development' segment arising from the acquisition of Yulebao in December 2015, which amounted to RMB249,907,000 as at December 31, 2016. Management considered that Yulebao is a separate CGU within the 'integrated development' segment.

The recoverable amount of this CGU was determined based on VIU. The VIU calculation is based on certain key assumptions, which uses cash flow projections based on financial forecast prepared by management covering a 5-year period and a post-tax discount rate of 19%. Cash flows beyond the 5-year period are extrapolated using a 3% growth rate. Other key assumptions for the VIU calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on management's business plan and expectations for the market development.

Based on the above assessment, the directors of the Company are of the view that there was no impairment of the goodwill and intangible assets with indefinite useful life allocated to the above CGUs as at December 31, 2016.

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Convertible bonds	**1,025,170**	–

The balance represents the convertible bonds issued by Dadi Cinema (HK) Limited ("Dadi"), a subsidiary of Nan Hai Corporation Limited (whose shares are listed on the HK Stock Exchange), which are compound instruments and designated as financial assets at fair value through profit or loss.

The issuance of the convertible bonds was completed on June 15, 2016 (the "Issue Date") with principal amount of RMB1,000,000,000. The convertible bonds bear interest at 1.95% per annum and have a conversion period of three years (the "Conversion Period").

The Group can, at any time during the Conversion Period, convert all the convertible bonds into ordinary shares of Dadi at a conversion price determined in accordance with the terms of the subscription agreement of the convertible bonds.

In terms of redemption, the Group can, at any time after the second anniversary of the Issue Date, require Dadi to redeem all the convertible bonds outstanding at an amount which yields an internal rate of return of 5.50% per annum on the subscription amount paid by the Group (the "Redemption Price"). Upon maturity of the Conversion Period, Dadi will redeem all the convertible bonds outstanding (which have not been redeemed or converted) at the Redemption Price.

As at the Issue Date and December 31, 2016, the fair value of the convertible bonds was determined by an independent qualified valuer engaged by the Group.

For the debt component of the convertible bonds, the fair value was derived as the present value of contractual determined stream of future cash flows discounted at the discount rate of 12.3% (as at the Issue Date) and 12.3% (as at December 31, 2016), respectively.

For the conversion right of the convertible bonds, the fair value was determined using the binomial model, and the inputs adopted in the model as at the Issue Date and December 31, 2016 include risk free rate of 0.85% and 1.48%, remaining life of 3 years and 2.45 years, and volatility of 44.8% and 43.4% respectively. Risk free rate is based on the yield of Hong Kong government bond with a similar maturity of the convertible bonds, plus country risk differential and converted into continuously compounded. Volatility is calculated with reference to comparable companies' historical share price movement matching the period of the contractual life of the convertible bonds.

17 FILM AND TV COPYRIGHTS

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Film and TV copyrights		
– Under production/production yet to commence	**679,488**	247,730
– Completed production	**129,516**	136,031
	809,004	383,761

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Opening net book amount	**383,761**	164,520
Additions	**1,112,037**	466,652
Recognized as an expense included in cost of sales and services	**(593,769)**	(173,490)
Impairment loss recognized in the year (Note)	**(28,269)**	(70,538)
Refund of investment	**(72,000)**	(3,000)
Currency translation differences	**7,244**	(383)
Closing net book amount	**809,004**	383,761

Note:

In 2016, management of the Group considered the expected future income of certain film and TV copyrights could not recover the respective carrying amounts and an impairment charge of RMB28,269,000 (2015: RMB70,538,000) was recognized as cost of sales and services.

18 FINANCIAL INSTRUMENTS BY CATEGORY

As at December 31, 2016

	Loans and receivables RMB'000	Available-for-sale RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Assets as per consolidated balance sheet				
Trade and other receivables excluding prepayments and film deposits	1,127,231	–	–	1,127,231
Available-for-sale financial assets	–	1,974,107	–	1,974,107
Financial assets at fair value through profit or loss	–	–	1,025,170	1,025,170
Cash and cash equivalents	6,220,966	–	–	6,220,966
Restricted cash	2,027,057	–	–	2,027,057
Total	9,375,254	1,974,107	1,025,170	12,374,531

	Financial liabilities at amortized cost RMB'000
Liabilities as per consolidated balance sheet	
Borrowings	1,980,000
Trade and other payables excluding non-financial liabilities	255,951
Total	2,235,951

18 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

As at December 31, 2015

	Loans and receivables RMB'000	Available-for-sale RMB'000	Total RMB'000
Assets as per consolidated balance sheet			
Trade and other receivables excluding prepayments and film deposits	764,729	–	764,729
Available-for-sale financial assets	–	1,102,006	1,102,006
Cash and cash equivalents	3,677,988	–	3,677,988
Bank deposits with the maturity over three months	7,089,781	–	7,089,781
Restricted cash	2,021,328	–	2,021,328
Total	13,553,826	1,102,006	14,655,832

	Liabilities at fair value through profit or loss RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000
Liabilities as per consolidated balance sheet			
Borrowings	–	1,980,000	1,980,000
Repurchase option	33,000	–	33,000
Trade and other payables excluding non-financial liabilities	–	560,296	560,296
Total	33,000	2,540,296	2,573,296

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Investment in wealth management products (Note a)	**1,954,107**	1,102,006
Unlisted investments, at cost (Note b)	**20,000**	–
	1,974,107	1,102,006

Notes:

(a) Investment in wealth management products

Movements in investment in wealth management products were as follows:

	2016	2015
	RMB'000	RMB'000
At January 1,	**1,102,006**	240,000
Additions, net	**851,700**	849,200
Unrealized gains transfer to equity	**401**	12,806
At December 31,	**1,954,107**	1,102,006

Available-for-sale financial assets are all denominated in RMB.

The available-for-sale financial assets mainly represent investment in wealth management products issued by listed banks in the PRC with expected return range from 2.46% to 4.44%per annum and redeemable within one year.

As at December 31, 2016, the carrying amount approximates the fair value. The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

The maximum exposure to credit risk at the reporting date is the carrying value of these available-for-sale financial assets.

None of these available-for-sale financial assets is either past due or impaired.

(b) Unlisted investments, at cost

The Group's available-for-sale financial assets include investment in a private company. Movements of unlisted investments were as follows:

	2016	2015
	RMB'000	RMB'000
At January 1,	**–**	–
Additions	**20,000**	–
At December 31,	**20,000**	–

20 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Trade receivables (Note a)		
– Related parties (Note 33(b))	**100,801**	–
– Third parties	**211,368**	280,513
Less: allowance for impairment of trade receivables	**(31,028)**	(51,948)
Trade receivables – net	**281,141**	228,565
Prepaid film deposits	**90,000**	120,000
Prepayment for investment in film and TV copyrights	**32,421**	16,702
Prepayment for investment (Note b)	**45,000**	–
Prepayment to related parties (Note 33(b))	**97,952**	–
Other prepayments	**23,140**	10,795
Other receivables arising from:		
– Refund receivable in relation to the restructuring of BONA Beijing (Note 13(b))	**506,179**	–
– Receivables in respect of Yulebao's business	**201,813**	382,895
– Receivables from related parties (Note 33(b))	**63,043**	–
– Deductible VAT input	**34,031**	–
– Refundable investment cost (Note c)	**12,000**	2,090
– Interest income receivables	**8,063**	24,132
– Refundable deposit in relation to acquisition of an investee	**–**	24,000
– Loan receivable	**–**	15,000
– Investment income receivable	**–**	2,201
– Disposal of a subsidiary and a joint venture	**–**	538
– Other receivables and deposits	**55,052**	86,723
Less: allowance for impairment of prepayment and other receivables	**(34,091)**	(1,600)
Other receivables and prepayments – net	**1,134,603**	683,476
Total trade and other receivables, and prepayments	**1,415,744**	912,041
Less: non-current portion	**(93,391)**	(122,928)
Current portion	**1,322,353**	789,113

As at December 31, 2016, non-current balances mainly represent prepayments for film deposits. The prepaid film deposits represented the prepayments made by the Group to Mr. Chan Ho Sun, Ms. Chai Zhi Ping and Mr. Wong Kar Wai pursuant to the film cooperation agreements respectively. The fair values of the current portion of trade and other receivables, and prepayments approximate their carrying values.

20 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS *(Continued)*

Notes:

(a) Trade receivables

Trade receivables consist of receivables from debtors arising from content production, internet-based promotion and distribution, integrated development and other operations segments, are analyzed as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Content production	**218,859**	184,097
Internet-based promotion and distribution	**84,135**	89,860
Integrated development	**9**	259
Other operations	**9,166**	6,297
Total	**312,169**	280,513

The normal credit period granted to the debtors of the Group is generally ranging from 30 days to one year. Before accepting any new debtor, the Group assesses the potential debtor's credit quality and defines credit limits by debtor. Credit limits granted to debtors are reviewed regularly. The directors of the Company will assess whether allowance on these receivables is necessary on a regular basis after considering (i) the reputation and trading history of these debtors; (ii) industry practice in settlement; and (iii) subsequent settlement amounts.

The following is an aging analysis of trade receivables based on recognition date:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
0 – 90 days	**192,433**	99,276
91 – 180 days	**45,498**	99,699
181 – 365 days	**40,830**	16,773
Over 365 days	**33,408**	64,765
	312,169	280,513

20 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS *(Continued)*

Notes *(Continued)*:

(a) Trade receivables *(Continued)*

As of December 31, 2016, trade receivables of RMB8,745,000 (2015: RMB87,048,000) were past due but not impaired. These relate to a number of independent debtors for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The aging analysis of these trade receivables is as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
0 – 90 days	**–**	26,607
91 – 180 days	**391**	29,852
181 – 365 days	**453**	16,406
Over 365 days	**7,901**	14,183
	8,745	87,048

As at December 31, 2016, trade receivables of RMB31,028,000 (2015: RMB51,948,000) were impaired and fully provided. The individually impaired receivables mainly relate to some film and TV copyrights distributors, which are in unexpectedly difficult economic situations. It was assessed that none of the receivables is expected to be recovered.

The aging of these receivables based on recognition date is as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
0 – 90 days	**–**	507
91 – 180 days	**15**	462
181 – 365 days	**5,506**	396
Over 365 days	**25,507**	50,583
	31,028	51,948

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
RMB	**283,761**	206,212
US dollar	**3,001**	69,125
HK dollar	**25,407**	5,176
	312,169	280,513

20 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS *(Continued)*

Notes *(Continued)*:

(a) Trade receivables *(Continued)*

Movements on the Group's allowance for impairment of trade receivables are as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
At January 1,	**51,948**	53,702
Impairment provision/(reversal of impairment provision) for trade receivables	**11,202**	(3,529)
Attributable to acquisition of a subsidiary	**–**	1,792
Receivables written off during the year as uncollectible	**(32,122)**	(17)
At December 31,	**31,028**	51,948

(b) The balance represented the prepayments for investments in certain unlisted companies, which had been completed in January 2017.

(c) The balance as at December 31,2016 represented the refundable investment cost in relation to a film, which had been collected in January 2017.

21 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Cash at banks and on hand	**6,220,966**	3,677,988

As at December 31, 2016, the Group had placed deposits amounted to RMB218,699,000 (2015: RMB123,981,000) in accounts managed by Alipay.com Co.,Ltd. (a company controlled by a key management personnel of AGHL) in connection with the provision of online and mobile commerce and related services, which have been recorded as 'cash and cash equivalents' in the consolidated balance sheets.

The deposits at banks earn interests at floating rates based on prevailing market rates.

21 CASH AND BANK BALANCES *(Continued)*

(b) Bank deposits with the maturity over three months

	As at December 31, **2016** RMB'000	2015 RMB'000
Bank deposits with the maturity over three months	–	7,089,781

(c) Restricted cash

	As at December 31, **2016** RMB'000	2015 RMB'000
Restricted cash	**2,027,057**	2,021,328

As at 31 December 2016, restricted cash of RMB2,007,439,000 and RMB19,618,000 (2015: RMB2,001,938,000 and RMB19,390,000) are pledged as securities for bank borrowings and issuance of letter of credit, respectively.

22 SHARE CAPITAL

Ordinary shares of HK$0.25 each, issued and fully paid:

	Number of shares	Share capital HK$'000	Share capital RMB'000
At January 1, 2015	21,034,991,410	5,258,748	4,253,771
Issue arising from placing of shares	4,199,570,000	1,049,892	828,113
At December 31, 2015	25,234,561,410	6,308,640	5,081,884

	Number of shares	**Share capital HK$'000**	**Share capital RMB'000**
At January 1 and December 31, 2016	**25,234,561,410**	**6,308,640**	**5,081,884**

23 SHARE-BASED PAYMENT

During the years ended December 31, 2016 and 2015, share-based payment expenses recognized in the consolidated statement of profit or loss included:

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Share-based payment under the 2012 Share Option Scheme	**143,476**	122,832
Share-based payment to certain employees of a subsidiary (Note 30(b))	**31,700**	–
Share-based payment transactions with ultimate parent (Note 9(b))	**26,304**	–
	201,480	122,832

(a) The 2012 share option scheme

The 2012 share option scheme (the "2012 Share Option Scheme") was adopted by the Company pursuant to a resolution passed by the Company's shareholders on June 11, 2012 for the primary purpose of providing incentives or rewards to any director, employee and other eligible participants who may make contribution to the Group. The 2012 Share Option Scheme will be valid for 10 years from the date of its adoption. The 2012 Share Option Scheme will expire on June 12, 2022.

The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2012 Share Option Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time.

The fair values of the options granted pursuant to the 2012 Share Option Scheme in 2016 are as below:

Grant date	**Fair value**
	RMB'000
January 25, 2016	10,216
April 13, 2016	64,063
April 15, 2016	9,021
June 3, 2016	80,237
December 5, 2016	68,464
	232,001

23 SHARE-BASED PAYMENT *(Continued)*

(a) The 2012 share option scheme *(Continued)*

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognized in the consolidated statement of profit or loss, with a corresponding adjustment to the share option reserve.

Details of the movements of the share options granted by the Company pursuant to the 2012 Share Option Scheme are as below:

	2016		2015	
	Weighted average exercise price in HK$ per share option	**Number of share options**	Weighted average exercise price in HK$ per share option	Number of share options
At January 1,	**2.081**	**415,797,800**	–	–
Granted	**1.734**	**383,560,000**	2.094	420,597,800
Lapsed	**2.029**	**(74,092,000)**	(3.252)	(4,800,000)
At December 31,	**1.902**	**725,265,800**	2.081	415,797,800

Out of the 725,265,800 outstanding share options, 112,197,920 shares were exercisable as at December 31, 2016.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	**Exercise price in HK$ per share option**	**Number of share options 2016**	2015
January 27, 2025	1.670	**270,019,800**	283,819,800
April 14, 2025	4.090	**19,200,000**	23,400,000
April 27, 2025	4.004	**30,000,000**	30,000,000
July 1, 2025	3.156	**13,200,000**	15,600,000
September 23, 2025	1.860	**16,200,000**	17,400,000
November 4, 2025	2.170	**7,800,000**	17,800,000
November 5, 2025	2.130	**–**	10,000,000
December 15, 2025	1.900	**16,416,000**	17,778,000
January 24, 2026	1.660	**5,400,000**	–
April 12, 2026	1.880	**90,400,000**	–
April 14, 2026	1.842	**12,000,000**	–
June 2, 2026	1.860	**119,760,000**	–
December 4, 2026	1.494	**124,870,000**	–
		725,265,800	415,797,800

23 SHARE-BASED PAYMENT *(Continued)*

(a) The 2012 share option scheme *(Continued)*

The period within which the share options must be exercised shall not be more than 10 years from the date of grant. The options outstanding as at December 31, 2016 had a weighted average remaining contractual life of 9 years (2015: 9 years).

The weighted average fair value of options granted during the year determined using the Binomial Model was HK$1.734 per option. The significant inputs into the model were weighted average share price of HK$1.902 at the grant date, exercise price shown above, volatility of 40%, zero expected dividend yield, a contractual option life of ten years, and an annual risk-free interest rate of 1.21%~1.58%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 10 years. During the year, total expenses of RMB143,476,000 (2015: RMB122,832,000) were recognized in the consolidated statement of profit or loss for share options granted to directors and employees.

(b) Share Award Scheme

On December 30, 2016 ("Adoption Date"), the Company adopted the share award scheme ("Share Award Scheme") as approved by the Board of Directors. The purpose of the Share Award Scheme is to (a) recognize the contributions by certain persons, including employees of the Group, any company in which a group company may have direct or indirect investment in 20% or more of its voting powers and AGHL (including its subsidiaries) to provide incentives thereto to retain them for the continual operation and development of the Group and (b) attract suitable personnel for further development of the Group.

The Group has established a trust ("Share Award Trust") to hold and administer the Company's shares before they are vested and transferred to selected grantees. Upon granting of shares to selected grantees, the awarded shares are either subscribed by the allotment and issuance of new shares of the Company or purchased from the open market by the Share Award Trust (with funds provided by the Company by way of settlement or otherwise contributed by the Company).

Subject to any early termination determined by the Board of Directors, the Share Award Scheme shall be valid and effective for a term commencing on the Adoption Date and ending on the first to happen of the following, namely:

(a) the 15th anniversary date of the Adoption Date;

(b) the date when an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company; or

(c) the date as may be informed by the Company that the Share Award Scheme shall be terminated.

As at December 31, 2016, the remaining life of the Share Award Scheme is approximate 15 years.

The Board of Directors shall not make any further award which will result in the aggregate number of shares awarded by the Board of Directors or held by the Share Award Trust under the Share Award Scheme to be in excess of 2% of the issued share capital of the Company from time to time. The maximum number of shares (including both vested and non-vested shares) which may be awarded to a selected grantee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The Share Award Trust shall not exercise the voting rights in respect of any shares held by it under the Share Award Scheme. Dividends declared for any shares held by the Share Award Trust shall become part of the trust fund for future purchase of shares.

During the year ended December 31, 2016, no award has been granted or agreed to be granted under the Share Award Scheme, nor has any award been exercised, cancelled or lapsed.

24 OTHER RESERVES

As at December 31, 2016, the Group's retained earnings included PRC subsidiaries' statutory surplus reserve of RMB39,478,000 (2015: RMB39,478,000).

In accordance with the relevant laws and regulations of the PRC, certain Group's PRC subsidiaries shall set aside 10% of its profit after income tax (based on the PRC statutory financial statements and after offsetting accumulated losses from prior years) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the registered capital).

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments, appropriation from net profits (based on the PRC statutory financial statements after offsetting accumulated losses from prior years) should be made by the Group's wholly owned foreign subsidiaries in the PRC to their respective reserve funds. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not to be made.

The statutory surplus reserve and the reserve fund can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities and are not distributable as cash dividends.

25 TRADE AND OTHER PAYABLES, AND ACCRUED CHARGES

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Trade payables		
– Related parties (Note 33(c))	**5,964**	–
– Third parties	**31,172**	27,534
	37,136	27,534
Other payable and accrued charges		
Other tax payable	**59,264**	63,987
Payroll and welfare payable	**55,616**	45,316
Amounts due to related parties (Note 33(c))	**52,105**	466,147
Payable in respect of Yulebao's business	**41,187**	–
Advance from customers	**34,711**	9,555
Payable in relation to distribution of films	**29,489**	14,305
Accrued marketing expense	**29,312**	–
Professional fees payable	**9,288**	9,789
Payable for property, plant and equipment	**6,863**	–
Interest payable	**4,587**	2,112
Consideration payable for business combination	**3,900**	–
Other payables and accrued charges	**42,084**	31,921
	368,406	643,132
Total trade and other payables, and accrued charges	**405,542**	670,666

As at December 31, 2016, the aging analysis of the trade payables based on invoice date is as follows:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
0 – 90 days	**21,914**	15,146
91 – 180 days	**286**	–
181 – 365 days	**404**	58
Over 365 days	**14,532**	12,330
	37,136	27,534

26 BORROWINGS

	As at December 31, **2016** RMB'000	2015 RMB'000
Bank borrowings – current, secured and denominated in RMB	**1,980,000**	1,980,000

Bank borrowings are secured by restricted cash of RMB2,007,439,000 (2015: RMB2,001,938,000), repayable at the discretion of the Group and bear interest at 0.3% per annum.

The fair value of current borrowings approximate their carrying amount, as the impact of discounting is not significant.

27 DEFERRED INCOME TAX

The analysis of deferred income tax assets/(liabilities) is as follows:

	As at December 31, **2016** RMB'000	2015 RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**593**	593
– Deferred income tax assets to be recovered within 12 months	**419**	17,717
	1,012	18,310
Deferred income tax liabilities:		
– Deferred income tax liabilities to be recovered after more than 12 months	**(39,130)**	(45,422)
– Deferred income tax liabilities to be recovered within 12 months	**(3,792)**	(3,543)
	(42,922)	(48,965)

27 DEFERRED INCOME TAX *(Continued)*

The movement in deferred income tax assets during the year is as follows:

	Accrual RMB'000	Provision RMB'000	Total RMB'000
At January 1, 2015	1,188	–	1,188
Acquisition of a subsidiary	458	459	917
Credited to the consolidated statement of profit or losses	11,423	4,782	16,205
At December 31, 2015	13,069	5,241	18,310
At January 1, 2016	**13,069**	**5,241**	**18,310**
Charged to the consolidated statement of profit or losses	**(12,476)**	**(4,822)**	**(17,298)**
At December 31, 2016	**593**	**419**	**1,012**

The movement in deferred income tax liabilities during the year is as follows:

	Fair value gain RMB'000
At December 31, 2015 and January 1, 2016	**(48,965)**
Credited to the consolidated statement of profit or loss	**6,143**
Charged to other comprehensive income	**(100)**
At December 31, 2016	**(42,922)**

Starting from January 1, 2008, the tax law of the PRC requires payment of withholding tax upon the distribution of profits earned by the PRC subsidiaries to the foreign shareholders. Deferred income tax has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits generated by subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for tax losses carry forward to the extent that realization of the related tax benefit through the future taxable profits is probable. As at December 31, 2016, the Group had tax losses of RMB1,073,856,000 (2015: RMB550,589,000) to carry forward, which were not recognized as deferred tax assets as the directors of the Company considered that the utilization of these tax losses in the foreseeable future is not probable, of which an amount of RMB536,746,000 will expire through year 2017 to 2021 (2015: RMB284,016,000 will expire through year 2016 to 2020), the amount of RMB537,110,000 (2015: RMB266,573,000) with no expiry date.

28 DIVIDENDS

The Board has resolved not to recommend the payment of a dividend for the year ended December 31, 2016 (2015: Nil).

29 CASH USED IN OPERATIONS

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
(Loss)/profit before income tax including discontinued operations	**(957,495)**	480,093
Adjustments for:		
– Share-based payment expenses	**201,480**	122,832
– Depreciation and amortization	**44,330**	31,554
– Provision for impairment of film and TV copyrights	**28,269**	70,538
– Impairment provision/(reversal of impairment provision) of trade and other receivables	**43,693**	(2,341)
– Loss on disposal of property, plant and equipment	**253**	918
– Finance income, net	**(533,946)**	(884,951)
– Investment income on available-for-sale financial assets	**(43,434)**	(5,063)
– Investment income on loan receivable	**(4,579)**	(2,201)
– Share of (profit)/loss in investments accounted for using equity method	**(12,502)**	862
– Change in fair value of financial assets at fair value through profit or loss	**(25,170)**	–
– Change in fair value of assets held-for-sale	**12,218**	5,152
– Provision for club debenture	**–**	2,280
– Gain on disposal of subsidiaries	**–**	(200)
– Gain on derecognition of repurchase option	**(33,000)**	–
– Change in fair value of repurchase option	**–**	(2,749)
– Gain on disposal of financial assets at fair value through profit or loss	**–**	(851)
Changes in working capital:		
– Film and TV copyrights	**(446,268)**	(290,162)
– Trade and other receivables, and prepayments	**(34,180)**	67,003
– Restricted cash in relation to operating activities	**1,145**	(19,390)
– Trade and other payables, and accrued charges	**(196,835)**	(1,192)
Cash used in operations	**(1,956,021)**	(427,868)

30 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Dilution gain arising from capital injection into a subsidiary

In relation to the Financing of Tao Piao Piao (Note 15(b)(ii)), the Group recognised an increase in non-controlling interests of RMB209,887,000 and an increase in equity attributable to owners of the Company of RMB1,490,113,000. The effect of changes in the ownership interest of this subsidiary on the equity attributable to owners of the Company during the year is summarised as follows:

	For the year ended December 31 2016 RMB'000
Consideration received from non-controlling interests	**1,700,000**
Less: increase in carrying amount of non-controlling interests	**(209,887)**
Dilution gain on capital injection recorded in equity	**1,490,113**

(b) Disposal of certain equity interest in a subsidiary without loss of control

In October 2016, the Group disposed of 4% of equity interest in a subsidiary to certain employees of this subsidiary, at a consideration of RMB1,500,000. The Group recognized an increase in non-controlling interests of RMB8,845,000 and decrease in equity attributable to owners of the Company of RMB7,345,000. The effect of changes in the ownership interest of this subsidiary on the equity attributable to owners of the Company during the year is summarized as follows:

	For the year ended December 31, 2016 RMB'000
Consideration received from non-controlling interests	**1,500**
Less: Carrying amount of non-controlling interests disposed of	**(8,845)**
Loss on disposal recorded in equity	**(7,345)**

30 TRANSACTIONS WITH NON-CONTROLLING INTERESTS *(Continued)*

(b) Disposal of certain equity interest in a subsidiary without loss of control *(Continued)*

In addition to above loss on disposal recognized within equity, management considered the above transaction is an equity-settled share-based payment granted to the employees of this subsidiary, which vested immediately on the date of grant. As a result, share-based payment expenses of RMB31,700,000 (being the difference between the fair value of the 4% equity interest of this subsidiary and the consideration received) were charged to consolidated statement of profit or loss during the year ended December 31, 2016 (Note 9).

(c) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for the year ended December 31, 2016

	For the year ended December 31, 2016 RMB'000
Changes in equity attributable to owners of the Company arising from:	
– Capital injection into a subsidiary without loss of control (Note a above)	**1,490,113**
– Disposal of interest in a subsidiary without loss of control (Note b above)	**(7,345)**
Net effect for transactions with non-controlling interests on equity attributable to owners of the Company	**1,482,768**

There were no transactions with non-controlling interests in 2015.

31 BUSINESS COMBINATIONS

In October 2016, the Group acquired 80% equity interest of Hangzhou Xingji for a total consideration of RMB100,000,000, including (1) RMB39,000,000 to be transferred to former owner of Hangzhou Xingji; and (2) RMB61,000,000 to be injected into Hangzhou Xingji as a capital contribution. Hangzhou Xingji operates a cinema in Hangzhou, the PRC.

(a) Recognized amounts of identifiable assets acquired and liabilities assumed

The fair value of net assets of Hangzhou Xingji acquired as at the date of completion is as follows:

	Fair value RMB'000
Current assets	
Inventories	**90**
Trade and other receivables, and prepayments (Note i)	**59,801**
Cash and cash equivalents	**3,904**
Non-current assets	
Property, plant and equipment	**12,725**
Current liabilities	
Trade and other payables, and accrued charges	**(3,436)**
Total identifiable net assets	**73,084**

Note:

(i) Acquired trade and other receivables, and prepayments

The fair value of trade and other receivables, and prepayments was RMB59,801,000, including trade receivables with a fair value of RMB965,000. The gross contractual amount for trade receivables was RMB965,000, none of which was expected to be uncollectible.

31 BUSINESS COMBINATIONS *(Continued)*

(b) Goodwill arising from the acquisition of Hangzhou Xingji

The excess amount of the cash consideration over the fair value of the net identifiable assets of Hangzhou Xingji acquired by the Group is recognized as goodwill which amounted to RMB41,533,000, which is considered as the synergy with the Group and work force that did not meet the criteria for recognition as intangible assets. None of the goodwill recognized is expected to be deductible for income tax purposes.

	As at the date of acquisition RMB'000
Total cash consideration	**100,000**
Less: total fair value of net assets of Hangzhou Xingji	**(73,084)**
Add: Non-controlling interests in net assets of Hangzhou Xingji	**14,617**
Goodwill	**41,533**

(c) Cash outflow for the acquisition of Hangzhou Xingji

	For the year ended December 31, 2016 RMB'000
Outflow of cash for the acquisition of Hangzhou Xingji, net of cash acquired	
– Bank balances and cash acquired	**3,904**
– Cash consideration paid to former owner of Hangzhou Xingji	**(35,100)**
Cash outflow for the acquisition during the year	**(31,196)**

31 BUSINESS COMBINATIONS *(Continued)*

(d) Revenue and profit contribution impact

Hangzhou Xingji contributed revenue of RMB3,739,000 and net loss of RMB1,177,000 to the Group for the period from the date of acquisition to December 31, 2016. Had Hangzhou Xingji been consolidated from January 1, 2016, the consolidated statement of profit or loss would show pro-forma revenue of RMB924,182,000 and net loss of RMB977,157,000 respectively, which are calculated by aggregating the financial information of Hangzhou Xingji and the Group.

32 COMMITMENTS

Other than the investments commitments mentioned in Note 13, the Group has the following commitments:

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2016 **RMB'000**	2015 RMB'000
Property, plant and equipment	**–**	16,222

(b) Operating lease commitments – Group as lease

The Group leases office buildings under non-cancellable operating lease agreements. The lease terms are between 1 and 10 years, and the lease agreement is renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 **RMB'000**	2015 RMB'000
No later than 1 year	**40,396**	28,096
Later than 1 year and no later than 5 years	**132,376**	103,226
Later than 5 years	**48,608**	33,060
	221,380	164,382

33 RELATED PARTY TRANSACTIONS

As at December 31, 2016, the Company is 49.49% owned by Ali CV. The remaining 50.51% of the Company's shares are widely held. The ultimate parent of the Company is AGHL, a company whose shares are listed on New York Stock Exchange.

The following transactions were carried out with related parties:

(a) Transactions with related parties

Except as disclosed elsewhere in this consolidated financial statements, transactions with related parties in 2016 and 2015 were as follows:

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Sales of distribution rights to associates	**47,111**	–
Provision of services to associates	**10,048**	–
Purchase of services from companies controlled by a key management personnel of AGHL	**28,670**	–
Purchase of services from AGHL's subsidiaries and associate (Note)	**29,050**	–
Entrusted loan provided by AGHL's subsidiary (Note)	**–**	900,000
Settlement of the entrusted loan provided by AGHL's subsidiary (Note)	**–**	(900,000)
Interest expenses incurred relation to entrusted loan provided by AGHL's subsidiary (Note)	**–**	7,101

Note:

The above transactions constituted connected transactions under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

In the opinion of the Company's directors, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements.

33 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances due from related parties

As at December 31, 2016, balances due from related parties comprised:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Trade receivables		
Amounts due from associates	**95,905**	–
Amounts due from AGHL and its subsidiaries	**4,896**	–
Other receivables		
Amounts due from associates	**29,882**	–
Amounts due from AGHL and its subsidiaries	**33,161**	–
Prepayment		
Prepayment to AGHL and its subsidiaries	**86**	–
Prepayment to a company controlled by a key management personnel of AGHL	**97,866**	–

The balances due from related parties are unsecured, non-interest bearing and due in accordance with the terms of the underlying agreements.

(c) Balances due to related parties

As at December 31, 2016, balances due to related parties comprised:

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Trade payable		
Amounts due to AGHL and its subsidiaries	**1,363**	–
Amounts due to a company controlled by a key management personnel of AGHL	**4,601**	–
Other payable		
Amounts due to an associate	**22,460**	–
Amounts due to AGHL and its subsidiaries	**29,645**	466,147

The balances due to related parties are unsecured, non-interest bearing and due in accordance with the terms of the underlying agreement.

33 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management compensation

Key management includes directors (executive and non-executive), chief executive officer, chief operating officer, president and chief financial officer. The compensation paid or payable to key management for employee services is shown below:

	For the year ended December 31,	
	2016	2015
	RMB'000	RMB'000
Salaries, allowances and other benefits	**66,503**	99,176

For the year ended December 31, 2016, such compensation mainly represented the share-based compensation in relation to the share options granted to key management under the 2012 Share Option Scheme.

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balanced Sheet

	As at December 31,	
	2016	2015
	RMB'000	RMB'000
Assets		
Non-current assets		
Intangible assets	**200**	200
Investments in subsidiaries	**4,738,503**	4,738,503
Amounts due from subsidiaries	**6,795,162**	1,002,513
	11,533,865	5,741,216
Current assets		
Film and TV copyrights	**1,282**	314
Trade and other receivables, and prepayments	**9,190**	25,575
Cash and cash equivalents	**5,381,379**	3,255,358
Bank deposits with the maturity over three months	**–**	6,914,781
Restricted cash	**2,007,439**	2,001,938
	7,399,290	12,197,966
Total assets	**18,933,155**	17,939,182
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	**5,081,884**	5,081,884
Reserves	**13,089,825**	12,597,260
Total equity	**18,171,709**	17,679,144
Current liabilities		
Trade and other payables, and accrued charges	**3,959**	96,670
Amounts due to subsidiaries	**757,487**	163,368
	761,446	260,038
Total liabilities	**761,446**	260,038
Total equity and liabilities	**18,933,155**	17,939,182

The balance sheet of the Company was approved by the Board of Directors on March 30, 2017 and was signed on its behalf.

Yu Yongfu
Executive Director & Chairman

Zhang Qiang
Executive Director

34 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Reserve movement

	Note	Share premium RMB'000	Share redemption reserve RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
At January 1, 2015		3,334,827	863	61,486	896	(425,527)	2,972,545
Issue of placing shares		8,778,000	–	–	–	–	8,778,000
Transaction costs attributable to issue of placing shares		(49,694)	–	–	–	–	(49,694)
Lapse of share option		–	–	–	(896)	–	(896)
Value of services provided under share option scheme		–	–	–	122,832	–	122,832
Share-based payment transactions with ultimate parent		–	–	–	(41,178)	–	(41,178)
Profit for the year		–	–	–	–	815,651	815,651
At December 31, 2015		12,063,133	863	61,486	81,654	390,124	12,597,260
At January 1, 2016		**12,063,133**	**863**	**61,486**	**81,654**	**390,124**	**12,597,260**
Value of services provided under share option scheme		**–**	**–**	**–**	**143,477**	**–**	**143,477**
Share-based payment transactions with ultimate parent		**–**	**–**	**–**	**26,304**	**–**	**26,304**
Profit for the year		**–**	**–**	**–**	**–**	**322,784**	**322,784**
At December 31, 2016		**12,063,133**	**863**	**61,486**	**251,435**	**712,908**	**13,089,825**

35 SUBSIDIARIES

The following is a list of the principal subsidiaries at December 31, 2016:

Name	Place of Incorporation/ Registration and kind of legal entity	Place of operation	Particulars of issued share capital	Proportion of equity interests directly held by the Company (%)	Proportion of equity interests indirectly held by the Group (%)	Proportion of equity interests held by non-controlling interests (%)	Principal activities
Banford Limited	Hong Kong Limited liability company	Hong Kong	Ordinary HK$10,000	–	100	–	Investment holding
Best Venue Limited	British Virgin Islands ("BVI") Limited liability company	Hong Kong	Ordinary US$1	–	100	–	Investment holding
C8M Limited	Hong Kong Limited liability company	Hong Kong	Ordinary HK$10,000	–	100	–	Advertising services
Century First Limited	Hong Kong Limited liability company	Hong Kong	Ordinary HK$1	–	100	–	Investment holding
China Allied Culture Limited	Hong Kong Limited liability company	Hong Kong	Ordinary HK$1	–	100	–	Investment holding
China Allied Culture Media Group Limited	BVI Limited liability company	Hong Kong	Ordinary US$1	–	100	–	Investment holding
China Entertainment Media Group Limited	Cayman Islands Limited liability company	Hong Kong	Ordinary US$10,000 Preferred US$2,500	100	–	–	Investment holding
Gain Favour Limited	BVI Limited liability company	Hong Kong	Ordinary US$1	–	100	–	Production and distribution of film copyrights
Huge Grand Investments Limited	BVI Limited liability company	Hong Kong	Ordinary US$1	–	100	–	Production and distribution of film copyrights

35 SUBSIDIARIES *(Continued)*

Name	Place of Incorporation/ Registration and kind of legal entity	Place of operation	Particulars of issued share capital	Proportion of equity interests directly held by the Company (%)	Proportion of equity interests indirectly held by the Group (%)	Proportion of equity interests held by non-controlling interests (%)	Principal activities
Orient Ventures Limited	BVI Limited liability company	Hong Kong	Ordinary US$1	–	100	–	Investment holding
SAC Enterprises Limited	Hong Kong Limited liability company	Hong Kong	Ordinary HK$1,000	100	–	–	Provision of management services to group companies
SAC Nominees Limited	Hong Kong Limited liability company	Hong Kong	Ordinary HK$100	100	–	–	Provision of nominee services
SAC Secretarials Limited	Hong Kong Limited liability company	Hong Kong	Ordinary HK$100	100	–	–	Provision of secretarial services
Worthwide Limited	BVI Limited liability company	Hong Kong	Ordinary US$1	100	–	–	Investment holding
Year Wealth Limited	BVI Limited liability company	Hong Kong	Ordinary US$50,000	–	100	–	Investment holding
Alibaba Pictures Entertainment Media Limited	Hong Kong Limited liability company	Hong Kong	Ordinary HK$1	–	100	–	Investment in and production and distribution of film & TV copyrights
Zhonglian Jinghua (Note i)	PRC Limited liability company	PRC	Registered Capital RMB10,000,000	–	–	–	Investment holding
Zhonglian Huameng (Shanghai) Culture Media Co., Ltd. 中聯華盟（上海）文化傳媒有限公司 (Note ii)	PRC Limited liability company	PRC	Registered Capital RMB3,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights

35 SUBSIDIARIES *(Continued)*

Name	Place of Incorporation/ Registration and kind of legal entity	Place of operation	Particulars of issued share capital	Proportion of equity interests directly held by the Company (%)	Proportion of equity interests indirectly held by the Group (%)	Proportion of equity interests held by non-controlling interests (%)	Principal activities
Beijing Asian Union Culture Media Investment Co., Ltd. 北京中聯華盟文化傳媒投資有限公司 (Note ii)	PRC Limited liability company	PRC	Registered Capital RMB10,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights
Huameng (Tianjin) Culture Investment Co., Ltd. 華盟（天津）文化投資有限公司 (Note ii)	PRC Limited liability company	PRC	Registered Capital RMB15,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights
Yida Commercial Management Consulting (Shanghai) Co., Ltd. 沂大商業管理諮詢（上海）有限公司	PRC Wholly foreign owned enterprise	PRC	Registered Capital US$100,000	–	100	–	Investment holding
Zhonglian Shengshi Culture (Beijing) Co., Ltd. 中聯盛世文化（北京）有限公司	PRC Wholly foreign owned enterprise	PRC	Registered Capital RMB100,000,000	–	100	–	Investment holding
Aisan Union (Tianjin) Advertising Co., Ltd.中聯華盟（天津）廣告有限公司 (Note ii)	PRC Limited liability company	PRC	Registered Capital RMB7,500,000	–	–	–	Advertising and sale of entertainment related merchandise and derivatives
Yueke	PRC Limited liability company	PRC	Registered Capital RMB10,000,000	–	96	4	Supply of cinema ticketing and connecting software systems
Ali Tao (Note i)	PRC Limited liability company	PRC	Registered Capital RMB99,000,000	–	–	–	Investment holding
Zhejiang Dongyang Alibaba Pictures Co., Ltd. 浙江東陽阿里巴巴影業有限公司 (Note ii)	PRC Limited liability company	PRC	Registered Capital RMB50,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights

35 SUBSIDIARIES *(Continued)*

Name	Place of Incorporation/ Registration and kind of legal entity	Place of operation	Particulars of issued share capital	Proportion of equity interests directly held by the Company (%)	Proportion of equity interests indirectly held by the Group (%)	Proportion of equity interests held by non-controlling interests (%)	Principal activities
Zhejiang Dongyang Xiaoyuzhou Movie & Media Co., Ltd. 浙江東陽小宇宙影視傳媒有限公司 (Note ii)	PRC Limited liability company	PRC	Registered Capital RMB10,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights
Beijing Jumihudong Movie & Media Co., Ltd. 北京聚迷互動影視傳媒有限公司 (Note ii)	PRC Limited liability company	PRC	Registered Capital RMB30,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights
Shanghai Taopiaoer Information Technology Co., Ltd. 上海淘票兒信息科技有限公司	PRC Limited liability company	PRC	Registered Capital RMB64,800,000	–	100	–	Online movie ticketing agent & software development
Alibaba Pictures LLC	USA Limited liability company	USA	N/A	–	100	–	Investment holding
Alibaba Pictures International LLC	USA Limited liability company	USA	N/A	–	100	–	Provision of management services to group companies
Alibaba Pictures Media LLC	USA Limited liability company	USA	N/A	–	100	–	Investment in and production of film rights
Aurora Media (BVI) Limited	BVI Limited liability company	Hong Kong	Registered Capital US$99,900,000	–	100	–	Investment holding
Aurora Media (HK) Limited	Hong Kong Limited liability company	Hong Kong	Registered Capital US$99,900,000	–	100	–	Investment holding
Hangzhou Aurora Multi-Media Technology Co., Ltd. 杭州晨熹多媒體科技有限公司	PRC Sino foreign cooperative	PRC	Registered Capital RMB193,191,909	–	87.6	12.4	Online movie ticketing agent

35 SUBSIDIARIES *(Continued)*

Name	Place of Incorporation/ Registration and kind of legal entity	Place of operation	Particulars of issued share capital	Proportion of equity interests directly held by the Company (%)	Proportion of equity interests indirectly held by the Group (%)	Proportion of equity interests held by non-controlling interests (%)	Principal activities
Hangzhou Xingji (Note ii)	PRC Limited liability company	PRC	Registered Capital RMB25,390,686	–	–	–	Film screening
Shanghai Tao Piao Piao (Note i)	PRC Limited liability company	PRC	Registered Capital RMB10,000,000	–	–	–	Online movie ticketing agent
Shanghai Alibaba Pictures Co., Ltd. 上海阿里巴巴影業有限公司 (Note ii)	PRC Limited liability company	PRC	Registered Capital RMB30,000,000	–	–	–	Film investment, film production
Tianjin Junsheng Pirctures Managemnet Co., Ltd (formerly known as Tianjin Alibaba Pictures Management Co., Ltd.) 天津駿聲影業管理有限公司（前稱天津阿里巴巴影業管理有限公司）(Note ii)	PRC Limited liability company	PRC	Registered Capital RMB500,000,000	–	–	–	Construction of cinemas
Tianjin Alibaba Pictures Development Co., Ltd. 天津阿里巴巴影業發展有限公司 (Note ii)	PRC Limited liability company	PRC	Registered Capital RMB600,000,000	–	–	–	Construction of cinemas
Horgos Xiaoyuzhou Media Culture Co., Ltd 霍爾果斯小宇宙影視文化有限公司 (Note ii)	PRC Limited liability company	PRC	Registered Capital RMB10,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights

Notes:

(i) These are subsidiaries arising from the Contractual Arrangements (Note 2.2.1 (a)).

(ii) These are subsidiaries of the OPCOs. Pursuant to the respective Memorandum and Articles of Association of these subsidiaries, the OPCOs have power to control the operating and financial affairs of these subsidiaries. Accordingly, they are treated as the subsidiaries of the Company under HKFRS 10 and their results, assets and liabilities are consolidated with those of the Group.

The above list includes the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affect the results of the Group for the year or form a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

36 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives' emoluments

The remuneration of directors and the chief executives of the Company for the year ended December 31, 2016 is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:							
	Fees RMB'000	Salary (Note vii) RMB'000	Discretionary bonuses RMB'000	Share options (Note viii) RMB'000	Allowances and benefits in kind (Note x) RMB'000	Employer's contributions to the retirement benefit scheme (Note b) RMB'000	Social security costs excluding retirement cost RMB'000	Total RMB'000
Name								
Mr. Yu Yongfu (Note i)	-	-	-	-	-	-	-	-
Mr. Shao Xiaofeng (Note ii)	-	-	-	-	-	-	-	-
Mr. Zhang Qiang	-	1,325	-	29,032	29	47	65	30,498
Mr. Deng Kangming (Note iii)	-	1,805	1,019	21,112	29	47	136	24,148
Ms. Zhang Wei (Note iv)	-	2,368	1,500	3,863	148	39	136	8,054
Mr. Fan Luyuan (Note iv)	-	-	-	-	-	-	-	-
Mr. Li Lian Jie	171	-	-	-	-	-	-	171
Ms. Song Lixin	240	-	-	-	-	-	-	240
Mr. Tong Xiaomeng	291	-	-	-	-	-	-	291
Mr. Johnny Chen (Note v)	237	-	-	-	-	-	-	237
	939	5,498	2,519	54,007	206	133	337	63,639

Notes:

(i) Mr. Yu Yongfu was appointed as chairman of the Company on November 21, 2016 and CEO of the Company on December 5, 2016. The emoluments of Mr. Yu Yongfu which were not included in directors' emoluments, were paid by AGHL.

(ii) Mr. Shao Xiaofeng resigned as chairman of the Company on November 21, 2016. The emoluments of Mr. Shao Xiaofeng which were not included in directors' emoluments, were paid by AGHL.

(iii) Mr. Deng Kangming was appointed as director of the Company on January 1, 2016 and resigned as director of the Company on December 23, 2016.

(iv) Ms. Zhang Wei and Mr. Fan Luyuan were appointed as directors of the Company on January 1, 2016. The emoluments of Mr. Fan Luyuan which were not included in director's emoluments, were paid by a company controlled by a key management personnel of AGHL.

(v) Mr. Johnny Chen was appointed as director of the Company on January 29, 2016.

36 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executives' emoluments *(Continued)*

The remuneration of every director and the chief executives for the year ended December 31, 2015 is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:						
	Fees RMB'000	Salary (Note vii) RMB'000	Share options (Note viii) RMB'000	Allowances and benefits in kind RMB'000	Employer's contributions to the retirement benefit scheme (Note b) RMB'000	Social security costs excluding retirement cost RMB'000	Total RMB'000
Name							
Mr. Shao Xiaofeng	–	–	–	–	–	–	–
Mr. Zhang Qiang	–	1,324	74,825	41	44	27	76,261
Mr. Li Lian Jie	167	–	–	–	–	–	167
Ms. Song Lixin	233	–	–	–	–	–	233
Mr. Tong Xiaomeng	283	–	–	–	–	–	283
Ms. Zhang Yu (Note vi)	209	–	–	–	–	–	209
Mr. Liu Chunning (Note vi)	–	–	–	–	–	–	–
	892	1,324	74,825	41	44	27	77,153

Notes:

(vi) Ms. Zhang Yu resigned as director of the Company on November 3, 2015. Mr. Liu Chunning was removed as director of the Company on January 1, 2016.

(vii) Salary paid to a director is generally an emolument paid or receivable in respect of that person's other services in connection with the management of the affairs of the Company or its subsidiaries undertakings.

(viii) The values of share options are based on the share based compensation recognized for the years.

(ix) During the year, the total remuneration paid to each of Mr. Li Lian Jie, Ms. Song Lixin, Mr. Tong Xiaomeng and Mr. Johnny Chen comprised of director's fee and the fee for acting as chairman and/or member of the Company's board committees.

(x) Includes housing allowances and estimated money value of other non-cash benefits: car, insurance premium and club membership.

No directors of the Company waived any emoluments and no emoluments were paid by Group to any of the directors of the Company as an inducement to join or upon joining the Group or as a compensation for loss of office as director.

36 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertaking (2015: Nil).

(c) Directors' termination benefits

No payment was made to directors as compensation for early termination of the appointment during the year (2015: Nil).

(d) Consideration provided to third parties for making available directors' service

No payment was made to the former employer of directors or third parties for making available the services as a director of the Company (2015: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2015: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transaction, arrangements and contracts in relation to the Group's business to which the group companies were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time of the year (2015: Nil).

36 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(g) Directors' emoluments

The remuneration of directors is set out below:

For the year ended December 31, 2016:

Aggregate emoluments paid to or receivable by directors in respect of their services as directors RMB'000	Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company RMB'000	Total RMB'000
939	**62,700**	**63,639**

For the year ended December 31, 2015:

Aggregate emoluments paid to or receivable by directors in respect of their services as directors RMB'000	Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company RMB'000	Total RMB'000
892	76,261	77,153

FINANCIAL SUMMARY

FOR THE YEAR ENDED DECEMBER 31, 2016

RESULTS

	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Continuing operations					
Revenue	643,504	349,378	126,631	263,717	**904,582**
Profit/(loss) before income tax	148,558	199,033	(362,873)	486,782	**(957,495)**
Income tax expenses	(2,252)	(33,126)	(17,381)	(14,079)	**(18,649)**
Profit/(loss) for the year from continuing operations	146,306	165,907	(380,254)	472,703	**(976,144)**
Discontinued operations					
Profit/(loss) for the year from discontinued operations	–	20,172	(35,037)	(6,689)	**–**
Profit/(loss) attributable to:					
Owners of the Company	143,795	179,671	(417,276)	466,040	**(958,576)**
Non-controlling interests	2,511	6,408	1,985	(26)	**(17,568)**
	146,306	186,079	(415,291)	466,014	**(976,144)**

ASSETS AND LIABILITIES

	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Total assets	1,621,057	1,709,211	6,337,432	18,975,861	**19,563,062**
Total liabilities	(591,103)	(312,649)	(270,364)	(2,782,281)	**(2,431,130)**
Total equity	1,029,954	1,396,562	6,067,068	16,193,580	**17,131,932**
Non-controlling interest	(27,364)	(13,651)	588	2,231	**(213,909)**
Equity attributable to owners of the Company	1,002,590	1,382,911	6,067,656	16,195,811	**16,918,023**