



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

2014 年報

ANNUAL REPORT

Stock Code:1060

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Shao Xiaofeng (*Chairman*)
Mr. Liu Chunling
Mr. Zhang Qiang (*Chief Executive Officer*)

Non-Executive Director

Mr. Li Lian Jie

Independent Non-Executive Directors

Ms. Song Lixin
Mr. Tong Xiaomeng
Ms. Zhang Yu

EXECUTIVE COMMITTEE

Mr. Shao Xiaofeng (*Chairman*)
Mr. Liu Chunling
Mr. Zhang Qiang

REMUNERATION COMMITTEE

Mr. Tong Xiaomeng (*Chairman*)
Mr. Shao Xiaofeng
Ms. Song Lixin

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. Shao Xiaofeng (*Chairman*)
Mr. Tong Xiaomeng
Ms. Zhang Yu

COMPANY SECRETARY

Ms. Wong Lai Kin, Elsa

SOLICITOR

Freshfields Bruckhaus Deringer

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

REGISTERED OFFICE

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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The Belvedere Building, 69 Pitts Bay Road
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

SINGAPORE SHARE TRANSFER AGENT

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place, #32-01 Singapore Land Tower
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,

The year 2014 was filled with changes, challenges and opportunities for Alibaba Pictures Group Limited (the "Company", together with its subsidiaries, the "Group").

On June 24, 2014, Alibaba Group Holding Limited ("AGHL", together with its subsidiaries, "Alibaba Group"), the world's leading online and mobile commerce company, became the Company's controlling shareholder through its subsidiary Ali CV Investment Holding Limited ("Ali CV"), bringing on board (the "Board") directors with expertise in film, television entertainment and risk management to the Group.

In August 2014, the Company was officially renamed Alibaba Pictures Group Limited. After Alibaba Group became a shareholder, the Group's financial position and capital strength further improved. The in-depth integration between the internet and the traditional film and television industry has offered the Group numerous business development opportunities, enabling the Group to tap into its strengths in media resources and channels, and grow existing businesses and seize potential investment opportunities. The new management's professional experience in the film and television entertainment industry brought fresh insights to the Group.

Henceforth, the Group's industry categorization is no longer limited to film and television content production, but an integration of content industry driven by the internet.

The start of the new management's term heralded a new phase of development for the Group. The Group systematically reviewed past business strategies, processes and structures, financial information and other aspects. Further, the Group focused on strengthening internal control and review procedures, upholding high standards of corporate governance and transparency, in order to live up to its commitment to corporate governance and investor protection, and adopt financial and business operation principles that are in line with other subsidiaries and entities within Alibaba Group.

Despite the changes and challenges during the period, the Group was able to review and understand the development trend in the business-related fields under the guidance of the new management, in particular the latest trends in digital entertainment development. The Group refined its strategy taking into account the advances in China's cultural industry and the Group's existing resources and strategic advantages. In future, the Group will focus resources on developing the sales and distribution of film and TV copyrights, areas where it has a strategic business advantage. The Group will also cooperate extensively with various broadcasting platforms, to explore the model of e-commerce drama series integrating e-commerce resources and content development, production and broadcasting.

China's film and television industries have recorded strong growth in recent years. China has evolved into the world's second-largest film market and the third-largest film producing country. "The Notice of Economic Policies Supporting the Development of Film Industry" jointly issued by seven ministries, including the Ministry of Finance, Ministry of Land and Resources and the People's Bank of China in June 2014, has brought another round of growth momentum to the Chinese film industry development, by supporting the film industry's development in eight aspects ranging from financial subsidies, tax incentives, financial support to land policies. As for television drama series, the market size and development potential should not be underestimated with the sizeable audience groups in China. In January 2015, the State Administration of Press, Publication, Radio, Film and Television introduced the "One drama series, two satellite TV channels"

CHAIRMAN'S STATEMENT

policy stipulating that no more than two satellite TV channels can air the same drama series during evening primetime, and no more than two episodes of the same drama series during primetime. This is expected to raise purchasing costs of drama series for television channels, leading to more rigorous assessment of drama series' quality in the selection process. The new policy will favor corporations such as the Group, which has abundant production resources and brand advantages.

In addition to the continuous growth of the film and television drama series market, and the policies supporting its growth, the Group also observed revolutionary changes in industry sectors such as creativity, production and distribution, driven by rapid developments in terms of the internet and big data. The ecology of the China film and television entertainment industry is undergoing profound structural changes.

Given the far-reaching implications of the digital entertainment trend on the film and television industry and the cultural industry, the Group is trying to embed online elements and e-commerce in its film and television business development. This is to help foster in-depth cooperation across industries and between the e-commerce business and the cultural industry, giving a new experience to Chinese audiences and changing them from consumers of content to content producing users.

Steady progress in film and television businesses

During the reporting period, the Group continued to focus on its core business of film and television drama series production, distribution and copyright business. Additionally, it launched a number of outstanding pieces, such as "Bayonet Hero" (刺刀英雄), which were broadcasted on numerous mainland satellite television channels. Productions such as "Dearest" (親愛的), directed by Mr. Peter Chan with Ms. Vicky Zhao as the lead, and "Breakup Buddies" (心花路放), starring renowned mainland stars such as Mr. Huang Bo and Mr. Xu Zheng, garnered impressive box office records and gained a strong reputation. On the other hand, the movie "Wolf Totem" (狼圖騰), which was adapted from the mainland best-selling book and directed by French renowned director Mr. Jean-Jacques Annaud, marked its official global release in February 2015 and has become a recent highlight in the film market.

As for investments, the Group focused on both industry development and its business strategy, further stepping up business development and seizing more investment opportunities in quality film and television products during the year. It purchased the film and television copyrights of many well-known cultural pieces, including the film adaptation right for "My Fair Princess" (還珠格格), television drama series adaptation right for the popular mainland hypertext fiction "Ghost Blows out the Light" (鬼吹燈), and invested in the production of a 42-episode TV drama series entitled "Billion Dollar Inheritors" (繼承人) directed by Ms. Li Shao Hong. Further, the Group has started working with its industry peers to jointly develop intellectual property projects.

CHAIRMAN'S STATEMENT

Building strategic partnerships with industry elites

The Group also actively started strategic partnerships with industry elites, including the signing of motion pictures development cooperation agreements with renowned directors and producers such as Mr. Wong Kar Wai and Mr. Peter Chan. The Group established partnerships with famous directors Mr. Yin Li and Mr. Ding Sheng, screenwriters Giddens Ko and Hai Yan, movie stars Mr. Chen Baoguo and Mr. Huang Bo. To upgrade its production capability, the Group fully tapped its resources and talent from mainland China, Hong Kong and Taiwan.

In October 2014, the Group signed a letter of intent with China's first national film and television industrial park, Hengdian Chinese Film Industrial Park, to establish a film and television company there. As a platform that integrates e-commerce, film and television with mutual benefits, the new company will invest, develop, produce and distribute film and television projects. The new company will also be the training ground for film and television professionals. It will help promote film industry innovation, actively explore extensive cooperation at all levels in different aspects of the film and television industry and drive the future development of China's film and television industry.

Expanding business with support of big data and internet

Looking into the future, the Group will strive to become the flagship unit of Alibaba Group's entertainment business. The Group will further grow its media business by leveraging Alibaba Group's internet expertise and resources in creation, investment, production and C2B (consumers to businesses) content product distribution.

The Group will adopt the C2B model, which focuses more on creating film and television drama series that meet audience needs. Leveraging Alibaba Group's expertise and experience in big data, cloud computing, data analysis and e-commerce platform, the Group will strengthen its analysis of audience trends in film and television drama series in order to customize compelling content for individual audience groups and for different regions.

Through Alibaba Group's online platform and its large online user base, the Group will also strengthen the marketing and distribution of media content products. The Group will commit to building an e-commerce platform which focuses on promoting and distributing various cultural and entertainment products, meeting the needs of fans of the Group's films, television drama series and other cultural products.

Separately, the Group will integrate and coordinate Alibaba Group's existing resources, and systematically export its capabilities in adopting internet technology to business partners such as cinemas and broadcasting platforms, in order to drive the growth of China's film and television industries.

Our Board believes that with the support of the new management and their professional experience in film and television drama series production and distribution over the years, the Group will be able to continue growing its competitive strengths in film and television content creation, investment, production and distribution. The Group will enter a new phase of development, which will steadily improve its performance.

CHAIRMAN'S STATEMENT

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to all shareholders, investors, and business partners for their support and trust. I would also like to thank all staff for their hard work and contributions to the Group in the past year.

Shao Xiaofeng

Chairman

Hong Kong, March 31, 2015

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year ended December 31, 2014, the Group recorded revenue of RMB126,631,000 (2013: RMB349,378,000) and net loss attributable to the owners of the Company of RMB417,276,000 (2013: net profit of RMB179,671,000).

The loss incurred during the year was mainly attributable to: (i) a significant drop in revenue for the year; (ii) asset impairment provisions and fair value changes in warrants in the first half year of 2014; (iii) a decrease in gains from the disposal of a subsidiary in 2014 as compared with 2013; and (iv) a decrease in gains from sales of art works in 2014 as compared with 2013.

For the year ended December 31, 2014, loss per share (basic and diluted) for the Group amounted to 2.78 RMB cents (2013: earnings of 2.25 RMB cents). Net asset value attributable to the owners of the Company per share amounted to RMB0.29 (2013: RMB 0.17).

DIVIDEND

The Board has resolved not to declare a dividend for the year ended December 31, 2014 (2013: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2014, the Group was principally engaged in film and television entertainment and culture related businesses, including planning, production and publication of investment in and distribution of television drama series and films. The majority of these businesses were conducted in the People's Republic of China (the "PRC").

With a focus on the substantial opportunities brought by the continued high growth in China's film and television drama series market, the Group has been enhancing its film and television content production capabilities and reinforcing its core competitiveness through continuous integration and development with a precise understanding of market trends.

On June 24, 2014, AGHL, through its subsidiary Ali CV, became the controlling shareholder of the Company through new share subscription. Since then, Alibaba Group has commenced synergistic coordination with the Group's cultural, film and television entertainment-related resources and businesses, and has defined the Group as the flagship unit of Alibaba Group's entertainment business.

The Group and Alibaba Group have commenced resource integration, and have explored a user-demand-oriented e-commerce customization model through the internet and big data, in addition to developing a cross-industry in-depth cooperation model for e-commerce and cultural and creative industry by taking advantage of the deployment of O2O (online to offline) film related business in ways such as conducting promotion and marketing activities on Alibaba Group's e-commerce platforms.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has also started to establish extensive contacts with its industry peers to drive the integration of internet elements and film and television entertainment content production.

Film and TV Drama Series Production and Distribution Business

For the year ended December 31, 2014, the film and TV drama series production, distribution and copyrights business contributed revenue of RMB115,386,000 (2013: RMB326,638,000). Segment loss before tax amounted to RMB65,969,000 (2013: segment profit before tax of RMB151,333,000). The reduction in income was mainly attributable to the delay and suspension of a number of the Group's films and TV drama series still being at the production stage in 2014. These films and television drama series are scheduled for release in 2015. Segment loss before tax was also attributable to the one-off impairment of film and TV copyrights and film deposits, as well as the provision of bad and doubtful debts of trade receivables.

During the year, the Group released a number of films and drama series to the market one after another, and did so at an accelerated pace of business development in the third and fourth quarter. The films "Dearest" (親愛的) and "Breakup Buddies" (心花路放) were exhibited in September 2014, while the television drama series "Bayonet Hero" (刺刀英雄) was completed broadcasting on various satellite television channels.

During the year, the Group also paid close attention to industry trends and seized potential business opportunities by engaging in investment and collaboration projects in relation to a number of TV drama series and films. The Group has acquired the film adaptation right for "My Fair Princess" (還珠格格), the copyrights to produce a TV drama series based on the popular mainland hypertext novel "Ghost Blows out the Light" (鬼吹燈).

During the year, the Group took a step forward by signing a film cooperation agreement and supplementary agreement with Block 2 Films Limited ("Block 2 Films"), authorized by internationally renowned director Mr. Wong. Pursuant to the agreements, the Group has acquired the priority rights to negotiate and sign contracts with Block 2 Films to invest in up to five films directed, produced or written by Mr. Wong in the next five years.

The Group's is involved in a new film project, entitled "Bai Du Ren" (擺渡人), with Mr. Wong as the producer and the Group as the major investor. The author of the original novel, post-80s Chinese novelist Mr. Zhang Jiajia, will be the director and screenwriter of the film, which will feature superstar Tony Leung as the lead actor.

In addition, the Group has been taking initiatives to explore other types of business cooperation opportunities. In October 2014, the Group signed a letter of intent with Hengdian Chinese Film Industrial Park pursuant to which the Group will establish a film and television company at the Hengdian Film Industrial Park. The two parties will explore extensive cooperation at all levels in different aspects of the film and television industry, including research and production for film and television dramas, training, and the entertainment business. Such collaboration will also serve as a model at the Park, and is expected to drive the long-term development of China's film industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Businesses

For the year ended December 31, 2014, revenue from other segments (including the mobile value-added business, mobile games subscription, the provision of other agency services and TV programme package services in the PRC) amounted to RMB11,245,000 (2013: RMB22,740,000).

To streamline the Group's business operations and to focus its resources on core businesses which can bring stable returns, the Group entered into an agreement with an individual third party on June 2, 2014 to disposal of its 100% equity holding in 北京永聯信通科技有限責任公司, a wholly owned subsidiary which operated mobile value-added services, at a total consideration of RMB14,000,000. The transaction was completed on June 9, 2014 which resulted in a gain of RMB8,861,000 in 2014.

Discontinued Business – Magazine Advertising and Magazine Distribution Business

For the year ended December 31, 2014, the distribution and advertising business involving high-end women's magazine FIGARO generated revenue of RMB13,326,000 (2013: RMB26,590,000). Since the magazine industry is experiencing a downturn and with personnel changes at the business during the year, the business was adversely affected and thus recorded a decline in advertising sales. In view of the continued recession in the traditional media industry in mainland China and the increasingly severe business environment, the Group decided to cease publication of FIGARO since February 2015 upon careful consideration.

Discontinued Business – TV Advertising Business

For the year ended December 31, 2014, the TV advertising business recorded revenue of RMB30,286,000 (2013 annual: RMB209,512,000). On January 1, 2014, the State Administration of Press, Publication, Radio, Film and Television implemented a new policy which limits the airtime, content and frequency of advertising on satellite television channels. Taking the further tightening of industry regulations and thus even more severe business environment into consideration, the Group has been gradually winding down this business, and terminated its long-term exclusive cooperation agreement involving advertising with the Gansu Provincial Film and TV Broadcast Group at the end of 2013, and also ceased cooperation involving advertising with the Shenzhen Media Group in May 2014.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group's capital expenditure, daily operations and investments are mainly funded by cash generated from its operations and equity financing. As at December 31, 2014, the Group maintained cash and bank balances of RMB5,048,295,000 (2013: RMB155,619,000). As at December 31, 2014, the equity attributable to owners of the Company amounted to RMB6,067,656,000 (2013: RMB1,382,911,000) with total borrowings of nil (2013: RMB20,921,000). As at December 31, 2014, the Group's gearing ratio (net borrowings including convertible notes deducting the cash and bank balances over total equity) was nil (2013: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

On March 18, 2014 and May 15, 2014, the Company issued a total of 60,000,000 new ordinary shares of the Company of HK\$0.25 each at an exercise price of HK\$0.50 per share upon exercise of the subscription rights attaching to the warrants which were issued by the Company on June 7, 2013. The net proceeds of approximately RMB23,120,000 (equivalent to HK\$29,238,000) raised from the issue of new ordinary shares of the Company upon exercise of the subscription rights attaching to the warrants were used for investments in the Group's films and TV series. The warrant placing was an appropriate means of raising additional capital for the Company while broadening the shareholder and capital base of the Company. The aggregate of the issue price of HK\$0.01 per warrant and the initial subscription price of HK\$0.50 per warrant was HK\$0.51. This represented (i) a premium of 67.2% over the closing price of HK\$0.305 per ordinary share of the Company as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on May 22, 2013, being the date of the placing agreement entered into between the Company and UOB Kay Hian (Hong Kong) Limited as placing agent (the "Placing Agreement"); and (ii) a premium of about 65% over the average closing price of approximately HK\$0.309 per ordinary share of the Company as quoted on the Stock Exchange for the last five trading days up to and including the date of the Placing Agreement. The places for the warrants under the placing of warrant were:

- Pacific Alliance Asia Opportunity Fund LP, a Cayman Islands exempted limited partnership;
- Asian Equity Special Opportunities Portfolio Master Fund Limited, an open-end investment company incorporated in the Cayman Islands with limited liability; and
- Asian Opportunities Absolute Return Fund Limited, an open-end investment company incorporated in the Cayman Islands with limited liability.

On March 8, 2014 and May 20, 2014, the Company entered into a subscription agreement and a deed of novation with an independent third party, Alibaba Investment Limited ("AIL"), a wholly-owned subsidiary of AGHL and Ali CV, a wholly-owned subsidiary of AIL, pursuant to which Ali CV conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue a total of 12,488,058,846 new ordinary shares of the Company of HK\$0.25 each at an issue price of HK\$0.50 per share with aggregate subscription price of HK\$6,244,030,000 (equivalent to RMB4,956,200,000). The newly allotted shares represent approximately 150% of the issued share capital of the Company as at March 8, 2014 and approximately 59.61% of the enlarged issued share capital of the Company as at the date of the subscription. The subscription represents a valuable opportunity for the Company to significantly bolster its funding capacity, better position itself strategically and financially to capitalize on new content creation opportunities and potential monetization platforms in online entertainment and media-related areas, and expedite the development of the Group's businesses. The market closing price per share of the Company was HK\$0.64 per share as quoted on the Stock Exchange on February 25, 2014, being the last trading day immediately prior to the entering of the subscription agreement (the "Last Trading Day") and HK\$0.63 per share as quoted on the Stock Exchange on February 24, 2014, being the full trading day immediately prior to the Last Trading Day. The net proceeds of approximately RMB4,951,075,000 from the subscription were expected to be used as the Group's general working capital and/or for investments when opportunities arise. Approximately RMB51,850,000 has been used for investments in the Group's films and TV series, approximately RMB17,558,000 has been used for the Group's operating expenses and the remaining RMB4,881,667,000 of the net proceeds has not yet been utilized. The subscription has been completed on June 24, 2014. Ali CV becomes the immediate holding company and controlling shareholder of the Company after the subscription.

MANAGEMENT DISCUSSION AND ANALYSIS

On January 28, 2015, subject to the acceptance of the Grantees the Group granted a total of 285,019,800 share options to certain eligible participants (“Grantees”) under the share option scheme adopted by the shareholders of the Company on June 11, 2012. Each share option shall entitle the Grantee to subscribe for one ordinary share of HK\$0.25 each in the capital of the Company upon exercise of such share option. The exercise price of the share options is HK\$1.67 per share. The validity period of the share options is ten years from January 28, 2015 to January 27, 2025 with vesting schedule over a period of four to five years commencing from the employment date of the relevant Grantees.

Foreign Exchange Fluctuation

The Group’s operations are mainly located in the PRC and its transactions, related working capital and borrowings are primarily denominated in RMB and HK\$. The Group monitors its foreign exchange exposure and will consider hedging significant currency exposure when needed.

Charges on Assets

As at December 31, 2014, the Group did not have any charge of assets (2013: nil).

Contingent Liabilities

As at December 31, 2014, the Group had no material contingent liabilities (2013: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2014, the Group, including its subsidiaries but excluding its associates, employed 209 (2013: 250) employees. The remuneration policies of the Group are based on the prevailing market levels and the performance of the respective group companies and individual employees. These policies are reviewed on a regular basis.

RISK MANAGEMENT

During the year, the Group constantly reviewed the risk and credit control systems of its profit centres to improve the overall control system and mitigate the credit risk.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

2015 will be the year we embark on a new journey. With the completed acquisition by Ali CV and the Group's new Chairman and new Chief Executive Officer taking office, the Group's strategic development is increasingly decisive.

As for the long-term vision, the Group, as the flagship unit of Alibaba Group's entertainment business, will fully leverage the Alibaba Group ecosystem. It will make good use of Alibaba Group's online specialisms and resources for the content creation, production, investment and distribution of films and television dramas. The Group will use innovative models that revolve around customer demand and the customer experience, speeding up the integration of entertainment resources and the expansion of the business. In view of the Group's strategic commitment to establish a platform serving as the new business model, the Group will continue to explore the business model and invest funds and resources. Therefore, the Group's results may be affected over a certain period. The Group will not seek to maximize profits in the foreseeable future and will not compromise its long-term customer interest and operating strategy in favor of short-term interests.

FILM AND TV DRAMA SERIES PRODUCTION AND DISTRIBUTION BUSINESS

According to data from the State Administration of Press, Publication, Radio, Film, and Television, box office sales grew by 36.15% year on year to RMB29.639 billion in 2014. The Group believes that China's consumption of cultural products, including film and TV drama series, will continue to grow, and fuel the development of the film and television market.

In future, the Group will strive to produce high-quality film and TV drama series. The growing popularity of big data will bring the Group closer to the market and its audience, and will continue to increase its operating efficiency and offerings to meet audience needs. In response to the latest industry trends and dynamic changes in audience demand, the Group will develop a consumer-to-business model for film and TV drama series production. For example, January 2015 saw the launch of "Bai Du Ren" (擺渡人), the film project in which the Group led investment. "Bai Du Ren" features some of the top talent in the Chinese-speaking film industry, bringing together Mr. Wang Kar-wai, Mr. Zhang Jiajia and Mr. Tony Leung. The film reflects the Group's commitment to quality content in its projects going forward. With its quality plot, first-rate screenwriter and star-studded cast, the film is able to completely satisfy audience demand.

In addition, we will strive to distribute film and TV drama series productions using innovative channels. In February 2015, the Group agreed separate strategic partnership frameworks with Shenzhen Media Group and Guangdong Television to benefit from their resource bases and distribution channels and to explore mechanisms for cooperation on custom-made dramas for e-commerce. These agreements involve developing joint investment projects to produce custom-made dramas for e-commerce according to the requirements of the broadcasting platform. As part of the development of these dramas, the Group and the two abovementioned partners will explore entry into the industry chain and cooperate on the marketing of the television drama and sale of the online product at the time of broadcast. This would ensure growth for both parties. The Group is currently working closely with Guangdong Television on the development of the first custom-made drama for e-commerce.

MANAGEMENT DISCUSSION AND ANALYSIS

With the speedy development of the Group's products, the effect of the synergy between the Group and Alibaba Group have started to emerge. The Group will draw on Alibaba Group's well-established internet ecosystem and big data to integrate and collaborate in key business areas. Meanwhile, the Group will also actively explore innovative business models.

The Group believes that the exploration and development of the aforementioned business model will take time to deliver results. The Group will not pursue a business strategy for short-term profits, but place more emphasis on shaping the long-term development of its core business.

Looking ahead, the Group and its first-rate team will continue to produce and distribute a diverse range of high-quality content that caters to mainstream tastes in the market. The Group will also further enhance the competitive advantages of its products in order to gradually increase its market share in the film and television industry.



BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Executive Directors

Mr. SHAO Xiaofeng, aged 49 and appointed on June 24, 2014, is the chairman and executive director, chairman and member of each of the executive committee and the nomination committee and a member of the remuneration committee of the Company. He joined Alibaba Group in 2005 and has been its chief risk officer since June 2012. Mr. Shao has extensive experience in network security, e-commerce, online transactions and payments. From August 2010 to June 2011, he was a general manager of Alibaba.com's China Business Unit. He served as Alipay's executive president and then president from January 2009 to March 2010. Prior to that, Mr. Shao was a vice president of Taobao, responsible for Taobao's strategic development planning, overall marketing and business modeling. He holds an executive master's degree in business administration from China Europe International Business School.

Mr. LIU Chunng, aged 39 and appointed on June 24, 2014, is an executive director and a member of the executive committee of the Company. He was appointed as a non-executive director of the Company for the period from June 24, 2014 to June 26, 2014 and the acting chief executive officer of the Company for the period from June 27, 2014 to August 4, 2014. He joined Alibaba Group in August 2013 and is currently a vice president of Alibaba Group and the general manager of Alibaba Group's OSTV division. Mr. Liu is also the chief executive of Alibaba Group's digital entertainment division which was set up in September 2013. Mr. Liu is experienced in business management. Prior to joining Alibaba Group, Mr. Liu worked at Tencent Technology Co., Ltd as a general manager of its strategic development division in 2005 and of its business development division in 2006. From 2007 to 2013, he served as a general manager of the e-commerce business, online video and digital multi-media products divisions and as a vice president of Tencent Technology Co., Ltd. He holds master's degrees in engineering and business administration from Beijing Institute of Technology.

Mr. ZHANG Qiang, aged 51 and appointed on August 5, 2014, is an executive director and the chief executive officer and a member of the executive committee of the Company. He has more than 25 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.

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Non-Executive Director

Mr. LI Lian Jie, aged 52 and appointed on June 24, 2014, is a 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 and 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.

Independent Non-Executive Directors

Ms. SONG Lixin, aged 47 and appointed 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 14 years to date. Ms. Song holds a bachelor's degree in law from Renmin University and received an MBA degree from Tsinghua University.

Mr. TONG Xiaomeng, aged 41 and appointed on June 27, 2014, is an independent non-executive director, chairman and member 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.

Ms. ZHANG Yu, aged 42 and appointed on June 27, 2014, is an independent non-executive director, chairman and member of the audit committee and a member of the nomination committee of the Company. She has been the partner of the Corporate Finance Audit (CFA) function in Siemens AG's East Asia Pacific Region since October 2010 where she manages a team with more than 30 professionals across the finance, operations, IT, compliance and forensic audit disciplines, serving regions and countries such as the PRC, Japan, Korea, Australia and New Zealand. From July 1996 to September 2010, Ms. Zhang was a partner at KPMG, where she had worked for more than 14 years serving large multinational companies and PRC companies. She has extensive business experience working with audit committees and management. Ms. Zhang holds a bachelor's degree in economics from Renmin University of China and a master's degree in accounting from University of Denver, the United States. She is also a Certified Public Accountant in the PRC and the United States.



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 believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

CORPORATE GOVERNANCE

In light of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Board reviewed the corporate governance practices of the Company with adoption and improvement of various procedures and documentation which are detailed in the report. Throughout the year ended December 31, 2014, the Company applied and complied with the applicable code provisions of the CG Code except for certain deviation with considered reasons as explained below. The Board will review the current code at least annually and make appropriate changes if considered necessary.

THE BOARD

The Board currently comprises seven Directors in total, with three executive Directors, one non-executive Director and three independent non-executive Directors ("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. Shao Xiaofeng (*Chairman*) (*Appointed on June 24, 2014*)

Mr. Liu Chunling (*Appointed as Non-Executive Director on June 24, 2014 and re-designated as Executive Director on June 27, 2014*)

Mr. Zhang Qiang (*Chief Executive Officer*) (*Appointed on August 5, 2014*)

Mr. Dong Ping (*Resigned on June 27, 2014*)

Mr. Ng Qing Hai (*Resigned on June 24, 2014*)

Mr. Zhao Chao (*Resigned on June 24, 2014*)

Non-Executive Directors

Mr. Li Lian Jie (*Appointed as Independent Non-Executive Director on June 24, 2014 and re-designated as Non-Executive Director on December 22, 2014*)

Mr. Kong Muk Yin (*Resigned on June 24, 2014*)

Independent Non-Executive Directors

Ms. Song Lixin (*Appointed on December 22, 2014*)

Mr. Tong Xiaomeng (*Appointed on June 27, 2014*)

Ms. Zhang Yu (*Appointed on June 27, 2014*)

Mr. Chen Ching (*Resigned on June 24, 2014*)

Mr. Jin Hui Zhi (*Resigned on June 27, 2014*)

Mr. Li Chak Hung (*Resigned on June 27, 2014*)

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

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 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 Details in Respect of Directors” section on pages 14 and 15. There are no family or other material relationships among members of the Board.

During the year, the non-executive Directors (“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”).

Throughout the year and up to the date of this report, the Company had three INEDs representing more than one-third of the Board. At least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise under Rules 3.10(1) and 3.10(2) of the Listing Rules. The Board has received from each INED an annual confirmation of his/her independence and considers that all the INEDs are 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.



CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

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, three regular Board meetings were held. The attendance of each Director at regular Board meetings and general meetings of the Company are set out as follows:-

Directors	Number of meetings attended/ eligible to attend	
	Board Meetings	General Meetings
Executive Directors		
Mr. Shao Xiaofeng (Chairman) (Appointed on June 24, 2014)	1/1	0/1
Mr. Liu Chunling (Appointed as Non-Executive Director on June 24, 2014 and re-designated as Executive Director on June 27, 2014)	1/1	0/1
Mr. Zhang Qiang (Chief Executive Officer) (Appointed on August 5, 2014)	1/1	–
Mr. Dong Ping (Resigned on June 27, 2014)	2/2	0/2
Mr. Ng Qing Hai (Resigned on June 24, 2014)	2/2	0/1
Mr. Zhao Chao (Resigned on June 24, 2014)	2/2	1/1
Non-Executive Directors		
Mr. Li Lian Jie (Appointed as Independent Non-Executive Director on June 24, 2014 and re-designated as Non-Executive Director on December 22, 2014)	1/1	0/1
Mr. Kong Muk Yin (Resigned on June 24, 2014)	2/2	1/1
Independent Non-Executive Directors		
Ms. Song Lixin (Appointed on December 22, 2014)	–	–
Mr. Tong Xiaomeng (Appointed on June 27, 2014)	1/1	0/1
Ms. Zhang Yu (Appointed on June 27, 2014)	1/1	0/1
Mr. Chen Ching (Resigned on June 24, 2014)	2/2	0/1
Mr. Jin Hui Zhi (Resigned on June 27, 2014)	2/2	1/2
Mr. Li Chak Hung (Resigned on June 27, 2014)	2/2	2/2

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.

CORPORATE GOVERNANCE REPORT

THE BOARD (Continued)

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 2014, the Board only held three regular Board meetings. However, the Board held a number of ad hoc meetings during the year to discuss and resolve certain significant potential issues. 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. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company Secretary regularly circulates details of training materials which may be of useful and interest to Directors. Directors are continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance code. During the year, all Directors, namely, Mr. Shao Xiaofeng, Mr. Liu Chunling, Mr. Zhang Qiang, Mr. Li Lian Jie, Ms. Song Lixin, Mr. Tong Xiaomeng and Ms. Zhang Yu, were provided with training materials and/or received training with emphasis on the roles and duties of directors of the Company as well as the applicable legal and regulatory requirements and the Company's policies and practices on corporate governance. 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.

CORPORATE GOVERNANCE REPORT

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. There had been no separation of the roles of the chairman and the chief executive since the appointment of Mr. Dong Ping (who was also the chairman of the Board until June 24, 2014) as acting chief executive officer of the Company with effect from January 9, 2012. In view of Mr. Dong Ping's extensive experience in the industry and in-depth knowledge of the Group's operation and business, there was no imminent need to separate the roles into two individuals. Following the appointment of Mr. Shao Xiaofeng as chairman of the Board and Mr. Liu Chunming as acting chief executive officer of the Company with effect from June 27, 2014, the Company has fully complied with the code provision A.2.1 of the CG Code. On August 5, 2014, Mr. Zhang Qiang was appointed as chief executive officer and Mr. Liu Chunming ceased to be acting chief executive officer of the Company.

Code provision A.2.7 of the CG Code stipulates that the chairman of the board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. As the current Chairman and other Board members were newly appointed in or after June 2014, and there were a number of significant potential issues that required discussion and consideration among all Board members or Board committee members collectively, during the year, the Chairman did not hold any meeting with NEDs without the presence of other executive Directors. Nevertheless, the NEDs (including INEDs) are always encouraged to express their views directly to the Chairman whenever required. The Company is of the view that efficient communications have been maintained between the NEDs (including INEDs) and the Chairman.

CORPORATE GOVERNANCE REPORT

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 executive Directors 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.

CORPORATE GOVERNANCE REPORT

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 Mr. Chen Ching as INED with effect from June 24, 2014, (i) the number of members of the Audit Committee fell below the minimum number required under Rule 3.21 of the Listing Rules; and (ii) there was a vacancy for the position of the chairman of the Remuneration Committee which was required under Rule 3.25 of the Listing Rules. On June 27, 2014, the Audit Committee and the Remuneration Committee were reconstituted, including (i) the appointment of Mr. Li Lian Jie, Mr. Tong Xiaomeng and Ms. Zhang Yu (all being INEDs) as members of the Audit Committee and the appointment of Ms. Zhang Yu as the chairman of the Audit Committee; and (ii) the appointment of Mr. Shao Xiaofeng, Mr. Li Lian Jie and Ms. Zhang Yu as members of the Remuneration Committee and the appointment of Ms. Zhang Yu as the chairman of the Remuneration Committee. Hence, the requirements under Rules 3.21 and 3.25 of 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. Shao Xiaofeng 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 (if any) 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.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

On March 31, 2015, the Board adopted a set of revised written terms of reference of the Remuneration Committee which will be fully in line with the CG Code with effect from April 1, 2015. Before the adoption of the revised terms of reference of the Remuneration Committee, the Company deviated from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The prior Board considered that the Remuneration Committee should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of executive Directors only and not senior management for the following reason: the Remuneration Committee, comprising only NEDs previously, was not in a position to evaluate the performance of senior management. The evaluation process was more effectively carried out by the executive Directors who were in a better position to supervise senior management, monitor their performance, and hence, make meaningful assessment of their compensation.

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

The Remuneration Committee shall meet at least once a year. Two committee meetings were held in 2014 and the attendance of each member is set out as follows:

Committee members	Number of Committee meetings attended/eligible to attend
Mr. Tong Xiaomeng <i>(Chairman) (Appointed on October 3, 2014)</i>	1/1
Mr. Shao Xiaofeng <i>(Appointed on June 27, 2014)</i>	1/1
Ms. Song Lixin <i>(Appointed on December 22, 2014)</i>	–
Mr. Li Lian Jie <i>(Appointed on June 27, 2014 and ceased as a member on December 22, 2014)</i>	1/1
Ms. Zhang Yu <i>(Appointed on June 27, 2014, ceased as a chairman on October 3, 2014 and as a member on December 22, 2014)</i>	1/1
Mr. Chen Ching <i>(Resigned on June 24, 2014)</i>	1/1
Mr. Jin Hui Zhi <i>(Resigned on June 27, 2014)</i>	1/1
Mr. Li Chak Hung <i>(Resigned on June 27, 2014)</i>	1/1

Apart from the Committee meetings, the Remuneration Committee also dealt with matters by way of circulation during 2014. In 2014 and up to the date of this report, 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 executive Directors and NEDs (including INEDs); (iii) the bonus to a Director for the year; and (iv) the share-based award to the employees of the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

Each Director will be entitled to a Director's fee which is to be proposed for the Shareholders' approval at the AGM each year. 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 10 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 11.

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 schemes of the Company and the outstanding share options as at December 31, 2014 are set out in the Directors' Report on page 38 and note 28 to the consolidated financial statements.

Audit Committee

The Audit Committee has been established since August 2001 with a set of revised written terms of reference adopted in March 2012, 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 Ms. Zhang Yu (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.

CORPORATE GOVERNANCE REPORT

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 committee meetings were held in 2014 and the attendance of each member is set out as follows:

Committee members	Number of Committee meetings attended/eligible to attend
Ms. Zhang Yu (Chairman) (Appointed on June 27, 2014)	1/1
Ms. Song Lixin (Appointed on December 22, 2014)	–
Mr. Tong Xiaomeng (Appointed on June 27, 2014)	1/1
Mr. Li Lian Jie (Appointed on June 27, 2014 and ceased as a member on December 22, 2014)	1/1
Mr. Li Chak Hung (Resigned on June 27, 2014)	1/1
Mr. Chen Ching (Resigned on June 24, 2014)	1/1
Mr. Jin Hui Zhi (Resigned on June 27, 2014)	1/1

Apart from the Committee meetings, the Audit Committee also dealt with matters by way of circulation during 2014. In 2014 and up to the date of this report, the Audit Committee had performed the work summarised as below:

- (i) reviewed and recommended for the Board's approval the audit scope and fees proposed by the external auditors in respect of the final audit for the year ended December 31, 2013 (the "2013 Final Audit"), the interim results review for the six months ended June 30, 2014 (the "2014 Interim Review") and the final audit for the year ended December 31, 2014 (the "2014 Final Audit") of the Group;
- (ii) reviewed the external auditor's report of findings, independent review report and audit completion report in relation to the 2013 Final Audit, the 2014 Interim Review and the 2014 Final Audit;
- (iii) reviewed and recommended for the Board's approval the financial reports for the year ended December 31, 2013, for the six months ended June 30, 2014 and for the year ended December 31, 2014 together with the relevant management representation letters;
- (iv) reviewed the internal control and risk management plans and measures; and
- (v) recommended to the Board, for the approval by the Company's shareholders, of the appointment of new auditor.

CORPORATE GOVERNANCE REPORT

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. During the year, the Nomination Committee was not chaired by either the chairman of the Board or an INED subsequent to the resignation of Mr. Dong Ping as chairman of the Board with effect from June 24, 2014. In order to comply with the requirement of CG Code, Mr. Shao Xiaofeng (being Chairman of the Board) was appointed as Chairman of the Nomination Committee with effect from June 27, 2014.

The Nomination Committee currently consists of three members, including Mr. Shao Xiaofeng (Chairman), Mr. Tong Xiaomeng and Ms. Zhang Yu. 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.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

The Nomination Committee shall meet at least once a year. Two committee meetings were held in 2014 and the attendance of each member is set out as follows:

Committee members	Number of Committee meetings attended/eligible to attend
Mr. Shao Xiaofeng <i>(Chairman) (Appointed on June 27, 2014)</i>	1/1
Mr. Tong Xiaomeng <i>(Appointed on June 27, 2014)</i>	1/1
Ms. Zhang Yu <i>(Appointed on June 27, 2014)</i>	1/1
Mr. Liu Chuning <i>(Appointed on June 27, 2014 and ceased as a member on December 22, 2014)</i>	1/1
Mr. Li Lian Jie <i>(Appointed on June 27, 2014 and ceased as a member on December 22, 2014)</i>	1/1
Mr. Dong Ping <i>(Resigned on June 27, 2014)</i>	1/1
Mr. Zhao Chao <i>(Resigned on June 24, 2014)</i>	1/1
Mr. Chen Ching <i>(Resigned on June 24, 2014)</i>	1/1
Mr. Jin Hui Zhi <i>(Resigned on June 27, 2014)</i>	1/1
Mr. Li Chak Hung <i>(Resigned on June 27, 2014)</i>	1/1

Apart from the Committee meetings, the Nomination Committee also dealt with matters by way of circulation during 2014. In 2014 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 independence of all the INEDs; and (iv) 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.



CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Executive Committee

The Executive Committee has been established since December 2004 and currently consists of three executive Directors, namely Messrs. Shao Xiaofeng (Chairman), Liu Chunling and Zhang Qiang. 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 of 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, 2014, 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.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT (Continued)

Financial Reporting (Continued)

The Audit Committee has recommended the Board to appoint PricewaterhouseCoopers (“PwC”) as auditor of the Group to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu (“Deloitte”) on January 21, 2015. The reporting responsibilities of the Company’s external auditor, PwC, are set out in the Independent Auditor’s Report on pages 43 and 44.

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.

Pursuant to code provision C.1.2 of the CG Code, 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.

Internal Control

The purpose of the internal control systems is to 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 the management of risks that are significant to the fulfilment of business objectives. It is the Board’s responsibility to review the effectiveness of the Group’s internal control systems and ensure that the controls are sound and effective to safeguard the Shareholders’ investment and the Group’s assets at all times.

In response to the areas for improvements in the Group’s internal control system, as disclosed in the Company’s announcement dated December 9, 2014, the Group has engaged a professional consultant to perform a full scope review and provide professional advices for a substantive remediation plan in December 2014. Based on the suggestions of remedial actions provided by the internal control consultant, the Group has implemented the following remedial measures:

- (i) established the internal audit/internal control function under the Audit Committee in December 2014 and corresponding charters were adopted since then, this function reports internal audit and internal control work to the Audit Committee and the chief financial officer of the Company;
- (ii) identified the structure and delineation of duties and responsibilities within the finance function and built specialized working teams, including those for treasury and budgeting management; some working teams, such as tax and investor relations are still in the recruitment process;

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(Continued)*

Internal Control *(Continued)*

- (iii) the Group began to update a set of policies and procedures in December 2014. The major improvements include:
- In the process of updating the company level policies in regard to related party transactions, connected transactions, disclosure and handling of inside information and price sensitive information, risk and internal control management mechanism, etc.;
 - In the process of updating the policies and procedures in business process level, including, among others, the accounting policy, accounting manual, treasury management process and the financial closing procedures, implemented the updated authorization and approval limit framework, and the intellectual property asset management manuals; and
 - In the process of updating IT management policies with regard to such areas as system operation, information security, etc.
- (iv) the Group is now in the process of improving the control operating effectiveness, and according to the remediation plan, the Group is taking the following measures:
- internal audit department provides necessary internal control training of the updated policies and procedures to all employees, during the remediation period, including related party transaction, connected transaction, inside information and price sensitive information protection and disclosure;
 - the progress of internal control remediation plan of each division is closely monitored, and the remediation status is reported to top management on monthly basis. In order to enforce the control operation effectiveness, the internal audit department is also involved in monitoring key controls, such as company level control and financial closing process; and
 - the Group has conducted a comprehensive assessment on the implementation status and result of internal control remediation plan. The assessment has been completed before end of March 2015 and the result includes the progress of the implementation of remedial measures on deficiencies noted in the last disclosure, the evaluation on the effectiveness of remedial actions taken, and corresponding follow-up action plan. The result of this assessment has been reviewed by the Audit Committee.

The Company has adopted a policy on disclosure of inside information and the handling and dissemination of inside information which is restricted to a need-to-know basis. All Directors and senior executives together with the related officers who are responsible for handling inside information and related issues are regularly reminded of the compliance requirements of the policy.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT (Continued)

External Auditors' Remuneration

On January 21, 2015, Deloitte rendered its resignation as auditor of the Group and meanwhile, the Board proposed to appoint PwC as new auditor of the Group, which has been approved by the Shareholders at a special general meeting of the Company on February 16, 2015.

During the year, the remuneration paid/payable to the Company's external auditors, are set out as follows:

Services rendered for the Group	Fee paid/payable
	RMB'000
Deloitte	
Audit services	—
Non-audit services (including review of interim results)	1,203
PwC	
Audit services	2,200
Non-audit services (including financial inspection, internal control and tax advisory)	7,150
Total	<u>10,553</u>

COMPANY SECRETARY

The Company has appointed Ms. Wong Lai Kin, Elsa, as its Company Secretary. Pursuant to code provision F.1.2 of the CG Code, the appointment of the company secretary should be dealt with by a physical board meeting rather than a written resolution. The appointment of the current Company Secretary of the Company was dealt with by way of passing a written resolution duly signed by all Directors in October 2014. Prior to such appointment, all Directors were consulted with no dissenting opinion on the proposed matter. It was considered that there was no need to hold a physical Board meeting for approving the said appointment.

Ms. Wong has confirmed that she has taken no less than 15 hours of relevant professional training in 2014. Ms. Wong is not an employee of the Company and Mr. Shao Xiaofeng, the Chairman of the Company, is the person whom Ms. Wong can contact for the purpose of code provision F.1.1 of the CG Code.

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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

(Continued)

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 2014, the AGM ("2014 AGM") and a special general meeting of the Company ("SGM") were held on June 27, 2014 and June 16, 2014 respectively. At the 2014 AGM, the Chairman of the Audit Committee was present thereat and answered any questions raised by the Shareholders. Mr. Shao Xiaofeng (appointed as Chairman of the Board with effect from June 27, 2014) due to other pre-arranged business engagement prior to his appointment, and Mr. Li Lian Jie (appointed as INED with effect from June 24, 2014), Mr. Tong Xiaomeng and Ms. Zhang Yu (both appointed as INEDs with effect from June 27, 2014) due to their other respective pre-arranged commitments prior to their appointment, were unable to attend the 2014 AGM. Mr. Jin Hui Zhi (resigned as INED with effect from June 27, 2014) was also unable to attend the 2014 AGM due to other overseas commitment. At SGM, Mr. Chen Ching (resigned as INED with effect from June 24, 2014) was unable to attend the SGM due to other commitment. However, there were an executive Director, a non-executive Director and INEDs present at the SGM to enable the Board to develop a balanced understanding of the views of 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.

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 June 2012 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 REPORT

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.

On behalf of the Board

Shao Xiaofeng

Chairman

Hong Kong, March 31, 2015

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, 2014.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 38 and 13 respectively to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2014 are set out in the consolidated income statement on page 45.

The Directors do not recommend the payment of a dividend for the year ended December 31, 2014 (2013: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movement in the share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

CONVERTIBLE NOTES

Details of the convertible notes of the Company are set out in note 30 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 50 and in note 29 to the consolidated financial statements respectively.

DONATIONS

The Group made charitable donations of approximately RMB55,000 for the year ended December 31, 2014.



DIRECTORS' REPORT

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 150.

DIRECTORS

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

Executive Directors

Mr. Shao Xiaofeng (*Chairman*) (*Appointed on June 24, 2014*)

Mr. Liu Chunming (*Appointed as Non-Executive Director on June 24, 2014 and re-designated as Executive Director on June 27, 2014*)

Mr. Zhang Qiang (*Chief Executive Officer*) (*Appointed on August 5, 2014*)

Mr. Dong Ping (*Resigned on June 27, 2014*)

Mr. Ng Qing Hai (*Resigned on June 24, 2014*)

Mr. Zhao Chao (*Resigned on June 24, 2014*)

Non-Executive Directors

Mr. Li Lian Jie (*Appointed as Independent Non-Executive Director on June 24, 2014 and re-designated as Non-Executive Director on December 22, 2014*)

Mr. Kong Muk Yin (*Resigned on June 24, 2014*)

Independent Non-Executive Directors

Ms. Song Lixin (*Appointed on December 22, 2014*)

Mr. Tong Xiaomeng (*Appointed on June 27, 2014*)

Ms. Zhang Yu (*Appointed on June 27, 2014*)

Mr. Chen Ching (*Resigned on June 24, 2014*)

Mr. Jin Hui Zhi (*Resigned on June 27, 2014*)

Mr. Li Chak Hung (*Resigned on June 27, 2014*)

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

The Directors' biographical details are set out on pages 14 and 15.

DIRECTORS' REPORT

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at December 31, 2014, 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:

Long positions in the shares and underlying shares of associated corporation

Associated corporation	Name of Director	Number of shares/underlying shares held			Approximate percentage of associated corporation's issued share capital	Notes
		Personal interests	Other interests	Total interests		
AGHL	Shao Xiaofeng	550,000	1,524,031	2,074,031	0.08%	1 & 3
AGHL	Liu Chunling	340,000	–	340,000	0.01%	2 & 3

Notes:

- These interests represent (a) 20,000 issued ordinary shares of AGHL directly held by Mr. Shao Xiaofeng; (b) 424,031 issued ordinary shares of AGHL held by The MM & BB Limited (a company ultimately owned by a trust established by Mr. Shao for the benefit of himself and certain his family members); (c) restricted share units in respect of 530,000 underlying ordinary shares of AGHL granted to Mr. Shao by AGHL; (d) relevant interests in respect of 600,000 underlying ordinary shares of AGHL held by Alternate Solutions Management Limited which were owned by The MM & BB Limited pursuant to certain senior management equity incentive scheme of AGHL; and (e) relevant interests in respect of 500,000 underlying ordinary shares of AGHL which were owned by BMN Limited (a company ultimately owned by a trust in which Mr. Shao is a beneficiary) pursuant to another senior management equity incentive scheme of AGHL.
- These interests represent (a) 10,000 issued ordinary shares of AGHL directly held by Mr. Liu Chunling; and (b) restricted share units in respect of 330,000 underlying ordinary shares of AGHL granted to Mr. Liu by AGHL.
- As of December 31, 2014, AGHL had a total of 2,491,772,645 ordinary shares in issue.

Details of the Company's share options, duly granted to the former Directors pursuant to the share option scheme adopted on May 23, 2002 (the "2002 Share Option Scheme"), which constitute interests in underlying ordinary shares of equity derivatives of the Company under the SFO are set out in the section headed "Share Options" of this report.

DIRECTORS' REPORT

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE (Continued)

Save as disclosed above, as at December 31, 2014, 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 OPTIONS

At the AGM held on June 11, 2012, the shareholders of the Company approved the adoption of a new share option scheme (the "2012 Share Option Scheme"). No Share Options was granted under the 2012 Share Option Scheme during the year. Details of the 2012 Share Option Scheme are set out in note 28 to the consolidated financial statements.

The 2002 Share Option Scheme expired on May 23, 2012. The share options granted under the 2002 Share Option Scheme prior to its expiry shall continue to be valid and exercisable in accordance with the provisions of the 2002 Share Option Scheme. Movement of the share options granted by the Company pursuant to the 2002 Share Option Scheme during the year ended December 31, 2014 are as follows:

Category	Date of grant	Exercise price per share HK\$	Outstanding as at January 1, 2014	Number of share options				
				Transfer from other category during the year	Transfer to other category during the year	Exercised during the year	Lapsed during the year	Outstanding as at December 31, 2014
1. Ex-Directors								
(Note 5)								
Dong Ping	04/05/2010	0.560	14,100,000	-	(14,100,000)	-	-	-
Zhao Chao	04/05/2010	0.560	8,910,000	-	(8,910,000)	-	-	-
Kong Muk Yin	04/05/2010	0.560	3,000,000	-	-	(3,000,000)	-	-
Chen Ching	04/05/2010	0.560	1,050,000	-	-	(1,050,000)	-	-
Jin Hui Zhi	04/05/2010	0.560	1,050,000	-	-	(1,050,000)	-	-
Li Chak Hung	04/05/2010	0.560	1,050,000	-	-	(1,050,000)	-	-
2. Employees								
	18/03/2010	0.475	82,250,000	-	(6,150,000)	(76,100,000)	-	-
	04/05/2010	0.560	7,200,000	-	(7,200,000)	-	-	-
3. Consultants	18/03/2010	0.475	29,300,000	-	(3,000,000)	(26,300,000)	-	-
4. Others								
	18/03/2010	0.475	-	9,150,000	-	-	(5,100,000)	4,050,000
	04/05/2010	0.560	-	30,210,000	-	(23,010,000)	(7,200,000)	-
Total:			147,910,000	39,360,000	(39,360,000)	(131,560,000)	(12,300,000)	4,050,000

DIRECTORS' REPORT

SHARE OPTIONS (Continued)

Notes:

1. The share options are exercisable as follows:

Exercise criteria	Amount of share options that can be exercised
(i) On completion of the continuous employment/ service of the grantee with the Group for 1 year commencing from April 23, 2009 or the date of the relevant grantee's commencement of employment/ service (whichever is the later)	Up to one-third of the share options granted
(ii) On completion of the continuous employment/ service of the grantee with the Group for 2 years commencing from April 23, 2009 or the date of the relevant grantee's commencement of employment/ service (whichever is the later)	Up to two-thirds of the share options granted
(iii) On completion of the continuous employment/ service of the grantee with the Group for 3 years commencing from April 23, 2009 or the date of the relevant grantee's commencement of employment/ service (whichever is the later)	Up to all of the share options granted

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

3. Employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance.

4. During the year, no share options were granted or cancelled.

5. All Ex-Directors resigned or ceased to act as directors before the year ended December 31, 2014.

6. The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK\$1.68.

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 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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 had a material interest, whether directly or indirectly, 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).

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for approximately 96.33% and the largest customer accounted for approximately 31.59% of the Group's total turnover during the year.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 26.35%.

None of the Directors, their associates, or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2014, 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	Capacity in which interests are held	Number of Shares/underlying Shares held	Long position/ Short position	Approximate percentage of issued share capital ¹
Ali CV	Beneficial owner and party acting in concert ¹	12,828,256,866	Long position	60.98%
AIL	Held by controlled corporation ²	12,828,256,866	Long position	60.98%
AGHL	Held by controlled corporation ²	12,828,256,866	Long position	60.98%
Zhao Chao	Party acting in concert ³	12,828,256,866	Long position	60.99%
Gold Ocean Media Inc.	Beneficial owner ⁴	1,930,282,500	Long position	9.18%
Huang Youlong	Held by controlled corporation ⁴	1,930,282,500	Long position	9.18%
Zhao Wei	Interest of spouse ⁴	1,930,282,500	Long position	9.18%
Dong Ping	Beneficial owner	1,305,282,500	Long position	6.21%
	Beneficial owner	1,305,282,500	Short position	6.21%

DIRECTORS' REPORT

INTERESTS OF SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

1. This represents (i) the interests in 331,288,020 Shares held by Mr. Zhao Chao through his controlled corporation, Basic Charm Investment Limited which was wholly owned by Rainstone International Limited in which Mr. Zhao Chao maintained 100% beneficial interest; (ii) the interests in 8,910,000 Shares held by Mr. Zhao Chao as beneficial owner; and (iii) the interests in 12,488,058,846 Shares held by Ali CV as beneficial owner. As of December 31, 2014, Mr. Zhao Chao was a party acting in concert with Ali CV and thus, Ali CV was deemed to be interested in 340,198,020 Shares held by Mr. Zhao Chao.
2. This represents (i) the interests in 331,288,020 Shares held by Mr. Zhao Chao through his controlled corporation, Basic Charm Investment Limited which was wholly owned by Rainstone International Limited in which Mr. Zhao Chao maintained 100% beneficial interest; (ii) the interests in 8,910,000 Shares held by Mr. Zhao Chao as beneficial owner; and (iii) the interests in 12,488,058,846 Shares held by Ali CV as beneficial owner. As of December 31, 2014, 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.
3. This represents (i) the interests in 331,288,020 Shares held by Mr. Zhao Chao through his controlled corporation, Basic Charm Investment Limited which was wholly owned by Rainstone International Limited in which Mr. Zhao Chao maintained 100% beneficial interest; (ii) the interests in 8,910,000 Shares held by Mr. Zhao Chao as beneficial owner; and (iii) the interests in 12,488,058,846 Shares held by Ali CV as beneficial owner. As of December 31, 2014, Mr. Zhao Chao was a party acting in concert with Ali CV and thus, Mr. Zhao Chao was deemed to be interested in 12,488,058,846 Shares held by Ali CV.
4. This represents the interest in 1,930,282,500 Shares held by Gold Ocean Media Inc. as beneficial owner. Mr. Huang Youlong maintained 100% beneficial interest in Gold Ocean Media Inc. Ms. Zhao Wei was a spouse of Mr. Huang Youlong. As such, Mr. Huang Youlong and Ms. Zhao Wei were deemed to have the same interest held by Gold Ocean Media Inc.
5. As of December 31, 2014, the Company had a total of 21,034,991,410 Shares in issue.

Save as disclosed above, as at December 31, 2014, 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.

DIRECTORS' REPORT

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.

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, 2014.

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 16 to 34.

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.

EVENT AFTER THE BALANCE SHEET DATE

Details of event occurring after the balance sheet date are set out in note 39 to the consolidated financial statements.

AUDITORS

On January 21, 2015, Deloitte 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, 2014 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

Shao Xiaofeng

Chairman

Hong Kong, March 31, 2015

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

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

We have audited the consolidated financial statements of Alibaba Pictures Group Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 45 to 149, which comprise the consolidated and company balance sheets as at December 31, 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 31, 2015

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2014

	NOTES	Year ended December 31,	
		2014 RMB'000	2013 RMB'000 (Restated)
Continuing operations			
Revenue	6	126,631	349,378
Cost of sales and service	9	(189,238)	(180,976)
Gross (loss)/profit		(62,607)	168,402
Distribution expenses	9	(1,501)	(27,437)
Administrative expenses	9	(156,357)	(94,734)
Other income	7	2,214	9,475
Other (losses)/gains, net	8	(18,317)	164,585
Operating (loss)/profit		(236,568)	220,291
Finance income	11	15,954	107
Finance expenses	11	(26,853)	(19,295)
Finance expenses, net		(10,899)	(19,188)
Share of losses of investments accounted for using the equity method	13	(4,190)	(2,070)
Impairment loss on interest in an associate	13	(111,216)	–
(Loss)/profit before income tax		(362,873)	199,033
Income tax expense	14	(17,381)	(33,126)
(Loss)/profit for the year from continuing operations		(380,254)	165,907
Discontinued operations			
(Loss)/profit for the year from discontinued operations	26	(35,037)	20,172
(Loss)/profit for the year		(415,291)	186,079
(Loss)/profit attributable to:			
Owners of the Company		(417,276)	179,671
Non-controlling interests		1,985	6,408
(Loss)/profit attributable to owners of the Company:			
Continuing operations		(381,000)	170,244
Discontinued operations		(36,276)	9,427
(Loss)/earnings per share from continuing and discontinued operations attributable to owners of the Company for the year (expressed in RMB cents per share)			
	15		
Basic (loss)/earnings per share			
From continuing operations		(2.54)	2.13
From discontinued operations		(0.24)	0.12
From (loss)/profit for the year		(2.78)	2.25
Diluted (loss)/earnings per share			
From continuing operations		(2.54)	2.13
From discontinued operations		(0.24)	0.12
From (loss)/profit for the year		(2.78)	2.25

The notes on pages 52 to 149 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014

	Year ended December 31,	
	2014 RMB'000	2013 RMB'000 (Restated)
(Loss)/profit for the year	(415,291)	186,079
Other comprehensive loss:		
<i>Item that may be reclassified to profit or loss</i>		
Currency translation differences	(742)	(4,674)
Other comprehensive loss for the year, net of tax	(742)	(4,674)
Total comprehensive (loss)/income for the year	(416,033)	181,405
Attributable to:		
– Owners of the Company	(418,018)	174,997
– Non-controlling interests	1,985	6,408
Total comprehensive (loss)/income for the year	(416,033)	181,405
Total comprehensive (loss)/income attributable to owners of the Company arises from:		
Continuing operations	(381,742)	165,570
Discontinued operations	(36,276)	9,427
	(418,018)	174,997

The notes on pages 52 to 149 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 2014

	NOTES	As at December 31,		As at January 1,
		2014	2013	2013
		RMB'000	RMB'000	RMB'000
			(Restated)	(Restated)
Assets				
Non-current assets				
Property, plant and equipment	16	24,522	27,596	12,473
Goodwill	17	159,813	159,813	159,813
Intangible assets	17	7,808	9,032	9,650
Investments accounted for using the equity method	13	18,804	151,288	511,543
Art works	18	–	127,281	132,103
Club debenture		2,280	2,280	2,280
Deferred income tax assets	32	1,188	54,005	43,908
Trade and other receivables, and prepayments	23	124,400	102,834	54,245
		338,815	634,129	926,015
Current assets				
Film and TV copyrights	20	164,520	285,346	136,114
Trade and other receivables, and prepayments	23	525,747	631,576	454,954
Available-for-sale financial assets	22	240,000	–	–
Financial assets at fair value through profit or loss	24	2,685	2,541	17,341
Cash and cash equivalents	25	30,158	155,619	86,633
Bank deposits with the maturity over three months	25	5,018,137	–	–
		5,981,247	1,075,082	695,042
Assets held-for-sale	19	17,370	–	–
		5,998,617	1,075,082	695,042
Total assets		6,337,432	1,709,211	1,621,057

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 2014

	NOTES	As at December 31,		As at January 1,
		2014	2013	2013
		RMB'000	RMB'000	RMB'000
			(Restated)	(Restated)
Equity and liabilities				
Equity attributable to owners of the Company				
Share capital	27	4,253,771	1,731,568	1,616,499
Reserves		1,813,885	(348,657)	(613,909)
		6,067,656	1,382,911	1,002,590
Non-controlling interests		(588)	13,651	27,364
Total equity		6,067,068	1,396,562	1,029,954
Liabilities				
Non-current liabilities				
Convertible notes	30	–	20,921	18,503
Current liabilities				
Trade and other payables, and accrued charges	31	175,682	156,164	175,902
Current income tax liabilities		94,682	134,289	93,315
Derivative financial instruments		–	1,275	–
Convertible notes	30	–	–	303,383
		270,364	291,728	572,600
Total liabilities		270,364	312,649	591,103
Total equity and liabilities		6,337,432	1,709,211	1,621,057
Net current assets		5,728,253	783,354	122,442
Total assets less current liabilities		6,067,068	1,417,483	1,048,457

The notes on pages 52 to 149 are an integral part of these consolidated financial statements.

The financial statements on pages 45 to 149 were approved by the Board of Directors on March 31, 2015 and were signed on its behalf.

DIRECTOR

DIRECTOR

BALANCE SHEET

AT DECEMBER 31, 2014

	NOTES	As at December 31, 2014 RMB'000	As at December 31, 2013 RMB'000 (Restated)	As at January 1, 2013 RMB'000 (Restated)
Assets				
Non-current assets				
Investments in subsidiaries	12	1,667,782	1,667,782	1,580,738
Amounts due from subsidiaries	12	673,620	594,325	533,425
		2,341,402	2,262,107	2,114,163
Current assets				
Trade and other receivables, and prepayments		15,134	126	12,547
Amounts due from subsidiaries	12	–	91,236	422,244
Financial assets at fair value through profit or loss	24	2,685	2,541	17,341
Cash and cash equivalents	25	13,777	28,949	8,297
Bank deposits with the maturity over three months	25	5,018,137	–	–
		5,049,733	122,852	460,429
Total assets		7,391,135	2,384,959	2,574,592
Equity and liabilities				
Equity attributable to owners of the Company				
Share capital	27	4,253,771	1,731,568	1,616,499
Reserves	29	2,972,545	473,393	464,019
Total equity		7,226,316	2,204,961	2,080,518
Liabilities				
Non-current liabilities				
Convertible notes	30	–	22,285	20,349
Current liabilities				
Trade and other payables, and accrued charges		11,059	4,806	16,093
Amounts due to subsidiaries	12	153,760	151,632	148,631
Derivative financial instruments		–	1,275	–
Convertible notes	30	–	–	309,001
		164,819	157,713	473,725
Total liabilities		164,819	179,998	494,074
Total equity and liabilities		7,391,135	2,384,959	2,574,592
Net current assets		4,884,914	(34,861)	(13,296)
Total assets less current liabilities		7,226,316	2,227,246	2,100,867

The notes on pages 52 to 149 are an integral part of these consolidated financial statements.

The financial statements on pages 45 to 149 were approved by the Board of Directors on March 31, 2015 and were signed on its behalf.

DIRECTOR

DIRECTOR



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014

	NOTES	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	Convertible notes equity reserve RMB'000	Share option reserve RMB'000	Retained earnings/ losses (accumulated) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2013		1,616,499	617,488	(1,317,931)	48,527	5,730	3,224	19,737	64,562	1,057,836	27,364	1,085,200
Prior year adjustments	3	-	5,536	(5,536)	-	-	(285)	-	(54,961)	(55,246)	-	(55,246)
At January 1, 2013 (as restated)		1,616,499	623,024	(1,323,467)	48,527	5,730	2,939	19,737	9,601	1,002,590	27,364	1,029,954
Profit for the year		-	-	-	-	-	-	-	179,671	179,671	6,408	186,079
Other comprehensive loss for the year		-	-	-	-	(4,674)	-	-	-	(4,674)	-	(4,674)
Total comprehensive (loss)/income for the year		-	-	-	-	(4,674)	-	-	179,671	174,997	6,408	181,405
Issue of subscription shares	27(b)	115,069	96,658	-	-	-	-	-	-	211,727	-	211,727
Transaction costs attributable to issue of subscription shares		-	(6,403)	-	-	-	-	-	-	(6,403)	-	(6,403)
Reclassified to retained earnings upon mature of convertible notes		-	-	-	-	-	(162)	-	162	-	-	-
Dividend paid by a subsidiary to a non-controlling interest		-	-	-	-	-	-	-	-	-	(20,121)	(20,121)
At December 31, 2013 (as restated)		1,731,568	713,279	(1,323,467)	48,527	1,056	2,777	19,737	189,434	1,382,911	13,651	1,396,562
At January 1, 2014		1,731,568	707,743	(1,317,931)	48,527	5,740	2,898	19,737	228,811	1,427,093	13,651	1,440,744
Prior year adjustments	3	-	5,536	(5,536)	-	(4,684)	(121)	-	(39,377)	(44,182)	-	(44,182)
At January 1, 2014 (as restated)		1,731,568	713,279	(1,323,467)	48,527	1,056	2,777	19,737	189,434	1,382,911	13,651	1,396,562
(Loss)/profit for the year		-	-	-	-	-	-	-	(417,276)	(417,276)	1,985	(415,291)
Other comprehensive loss for the year		-	-	-	-	(742)	-	-	-	(742)	-	(742)
Total comprehensive (loss)/income for the year		-	-	-	-	(742)	-	-	(417,276)	(418,018)	1,985	(416,033)
Issue of subscription shares	27(f)	2,478,100	2,478,100	-	-	-	-	-	-	4,956,200	-	4,956,200
Transaction costs attributable to issue of subscription shares		-	(5,125)	-	-	-	-	-	-	(5,125)	-	(5,125)
Issue of shares upon exercise of warrants	27(c)	11,865	66,347	-	-	-	-	-	-	78,212	-	78,212
Transaction costs attributable to issuance shares through exercise of warrant		-	(610)	-	-	-	-	-	-	(610)	-	(610)
Issue of shares upon exercise of share options	27(d)	26,238	59,235	(15,988)	-	-	-	(17,509)	-	51,976	-	51,976
Lapse of share options		-	-	(1,786)	-	-	-	(1,662)	3,448	-	-	-
Issue of shares upon conversion of convertible notes	27(e)	6,000	23,601	(4,714)	-	-	(2,777)	-	-	22,110	-	22,110
Dividend paid by a subsidiary to a non-controlling interest		-	-	-	-	-	-	-	-	-	(240)	(240)
Deregistration of a subsidiary	26	-	-	-	-	-	-	-	-	-	(15,984)	(15,984)
At December 31, 2014		4,253,771	3,334,827	(1,345,955)	48,527	314	-	566	(224,394)	6,067,656	(588)	6,067,068

The notes on pages 52 to 149 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	NOTES	Year ended December 31,	
		2014 RMB'000	2013 RMB'000 (Restated)
Cash flows from operating activities			
Cash used in operations activities	34	(34,505)	(205,473)
Income tax paid		(9,326)	(3,449)
Net cash used in operating activities		<u>(43,831)</u>	<u>(208,922)</u>
Cash flows from investing activities			
Disposal of subsidiaries, net of cash and cash equivalents	35	129,878	84,736
Proceeds from sale of art works		105,052	60,639
Interest received		1,899	324
Proceeds from sale of property, plant and equipment ("PPE")		837	126
Repayment from a former subsidiary		–	33,104
Invest in bank deposits with the maturity over three months	25	(5,045,519)	–
Invest in available-for-sale financial assets	22	(240,000)	–
Purchase of art works		(34,780)	(40,529)
Purchases of PPE		(9,231)	(19,737)
Purchase of intangible assets		(336)	(1,511)
Capital injection into an associate		–	(19,724)
Net cash (used in)/generated from investing activities		<u>(5,092,200)</u>	<u>97,428</u>
Cash flows from financing activities			
Proceeds from issue of subscription shares	27(f)	4,956,200	211,727
Proceeds from issue of shares upon exercise of share options	27(d)	51,976	–
Proceeds from issue of shares upon exercise of warrants	27(c)	23,730	–
Proceeds from issue of warrants		–	380
Repayments to a non-controlling interest for deregistration of a subsidiary	26	(15,984)	–
Transaction costs attributable to issue of subscription shares		(5,125)	(6,403)
Transaction costs attributable to issue of shares upon exercise of warrants		(610)	–
Dividends paid to non-controlling interests of subsidiaries		(240)	(20,121)
Repayments to a non-controlling interest		–	(484)
Advance from related companies		–	(881)
Net cash generated from financing activities		<u>5,009,947</u>	<u>184,218</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		155,619	86,633
Exchange gains/(losses) on cash and cash equivalents		623	(3,738)
Cash and cash equivalents at the end of the year		<u>30,158</u>	<u>155,619</u>

The notes on pages 52 to 149 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

1 GENERAL INFORMATION

Alibaba Pictures Group Limited (formerly known as “ChinaVision Media Group Limited”) are principally engaged in film and television drama series production and distribution.

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 and secondary listing on the Singapore Exchange Securities Trading Limited.

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

On June 24, 2014, the Company issued 12,488,058,846 new ordinary shares of HK\$0.25 each at a subscription price of HK\$0.50 per share to Ali CV, for aggregate subscription price totalling HK\$6,244,030,000 (equivalent to approximately RMB4,956,200,000), which represented approximately 59.61% of the enlarged issued share capital of the Company as at the date of subscription. Ali CV became the immediate holding company of the Company after the subscription. Ali CV is a wholly-owned subsidiary of AIL which is in turn wholly-owned by AGHL, the ultimate holding company and ultimate controlling party.

At a special general meeting of the Company held on June 16, 2014, the Company’s shareholders approved to change the English name of the Company from ChinaVision Media Group Limited to Alibaba Pictures Group Limited and to adopt 阿里巴巴影业集团有限公司 as the Company’s secondary name. The change of name became effective on June 30, 2014. On July 29, 2014, the new English and Chinese names of the Company were registered with the Registrar of Company in Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

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 has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements has been prepared under the historical cost convention, as financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets, which are carried at fair value.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Company Ordinance (Cap. 32) for this financial year and the comparative period.

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 judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Amendments and interpretation to standards adopted by the Group

The following amendments and interpretation to standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2014.

Amendments and interpretation to standards

		Effective for accounting periods beginning on or after
Amendment to HKAS 32	'Financial instruments: Presentation' on offsetting of financial asset and financial liability	January 1, 2014
Amendment to HKAS 36	'Impairment of assets' on the recoverable amount disclosures for the non-financial assets	January 1, 2014
Amendment to HKAS 39	'Financial Instruments: Recognition and Measurement' – Novation of derivatives and the continuation of hedging accounting	January 1, 2014
Amendment to HKFRS 10, HKFRS 12 and HKAS 27	Consolidation for investment entities	January 1, 2014
HK(IFRIC) – Int 21	Levies	January 1, 2014

None of the above amendments and interpretation to standards has material impact to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New standards and amendments not yet adopted

The following are standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after January 1, 2016 or later periods, but have not been early adopted by the Group.

New standards and amendments to existing standards

		Effective for accounting periods beginning on or after
Amendment to HKAS 27	Equity method in separate financial statements	January 1, 2016
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortization	January 1, 2016
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	January 1, 2016
Amendment to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception	January 1, 2016
HKFRS 15	Revenue from contracts with customers	January 1, 2017
HKFRS 9	Financial instruments	January 1, 2018

The Group will apply the above new standards and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new standards and amendments to standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(c) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company’s first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

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 has 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”) and 北京世通寰亞廣告有限公司 (“Beijing Shitong”) respectively, and their equity holders, which enable the Group to:

- exercise effective financial and operational control over Zhonglian Jinghua and Beijing Shitong;
- exercise equity holders’ voting rights of Zhonglian Jinghua and Beijing Shitong;
- receive substantially all of the economic interest returns generated by Zhonglian Jinghua and Beijing Shitong.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

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 Zhonglian Jinghua and Beijing Shitong. However, as a result of the Contractual Arrangements, the Group has rights to receive variable returns from its involvement with Zhonglian Jinghua and Beijing Shitong and has the ability to affect those returns through its power over Zhonglian Jinghua and Beijing Shitong and is considered to control Zhonglian Jinghua and Beijing Shitong. Consequently, the Company regards Zhonglian Jinghua and Beijing Shitong as indirect subsidiaries under HKFRS 10. The Group has consolidated the financial position and results of Zhonglian Jinghua and Beijing Shitong in the consolidated financial statements of the Group during the year ended December 31, 2014 and 2013.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Zhonglian Jinghua and Beijing Shitong and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Zhonglian Jinghua and Beijing Shitong. 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. 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 a business combination 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

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 income statement (Note 2.10).

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

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(d) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Associates (Continued)

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.

The Group's share of post-acquisition profit or loss is recognized in the income statement, 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 losses of investments accounted for using equity method' in the income statement.

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 income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Joint arrangements

Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of loss in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 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.

(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 the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and bank balances are presented in the income statement within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains, net'.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(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:

- (a) Assets and liabilities for each financial statements presented are translated at the closing rate at the date of that financial statements;
- (b) income and expenses for each income statement 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
- (c) 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.

2.7 Property, plant and equipment

Leasehold land and building classified as finance lease and all other 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 income statement during the financial period in which they are incurred.

Leasehold land and building classified as finance lease commences amortization from the time when the land and building interest becomes available for its intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

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 land and building classified as finance lease	Shorter of remaining lease term or useful life
– Leasehold improvements	Shorter of remaining lease term or 8 years
– 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 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other (losses)/gains, net' in the income statement.

2.8 Art works

Art works are shown at historical cost less any identified impairment loss.

2.9 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 and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Intangible assets (Continued)

(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 People's Republic of China (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 2.10).

(c) Other intangible assets

Intangible assets of mobile game and eBook publication 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 2 years.

2.10 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 fair value less costs to sell and value in use. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 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.

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 income statement, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity investments. 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.

(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' (Notes 2.17), 'cash and cash equivalents' (Note 2.18) and 'bank deposits with the maturity over three months' 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

2.12.2 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 income statement. 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 income statement within ‘Other (losses)/gains, net’ in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement 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 income statement within ‘Other (losses)/gains, net’.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 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.

2.14 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 income statement. If a loan or held-to-maturity investment 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 income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 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 income statement.

2.15 Film and TV copyrights

(a) Film and TV copyrights

Film and TV copyrights represent films, television programmes and television drama series produced by the Group or acquired by the Group. Film and TV copyrights are stated at cost less any identified impairment loss. Cost of film and TV copyrights comprise fees paid and payable under agreements, direct costs/expenses incurred during the production of films and TVs, for the reproduction and/or distribution of films and TVs. The costs of film and TV copyrights are recognized as an expense in the consolidated income statement based on the proportion of actual income earned from a film and TV during the year to the total estimated income from the distribution of film and TV copyrights for that film and TV.

(b) Film and TV in production

Costs of film and TV in production include all direct costs associated with the production of films and TVs are transferred to film and TV copyrights upon completion.

(c) Impairment

At each balance sheet date, both internal and external market information are considered to assess whether there is any indication that assets included in film and TV copyrights (including film and TV in production) are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 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.

2.17 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.

2.18 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.

2.19 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable 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.

2.21 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

The liability component of a convertible instrument is classified as current 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognized in the income statement, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Current and deferred income tax (Continued)

(b) *Deferred income tax (Continued)*

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 utilised.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 income statement, 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 recognising 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.26 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 film exhibition/showing is recognized when the film is shown and the right to receive payment is established.
- (c) Revenue from sales of television advertising ("TV advertising") air-times is recognized when the advertisements are broadcasted.
- (d) Revenue from publication of advertisements on magazines is recognized when the advertisements are published.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.29 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 income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 income statement 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 income statement 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3 RESTATEMENTS

- (a) The Company has carried out a reassessment on the Group's consolidated financial statements for the prior years and identified the following misstatements. The directors of the Company decided that the most appropriate treatment for these misstatements is to restate the comparative figures in the Group's consolidated financial statements. A detailed description of the nature of each prior year restatement is provided in notes 3(a)(i) to 3(a)(iii) below. The amounts of the prior year restatements for each financial statement line item affected are presented in the tables in note 3(c) below.
- (i) There were misstatements on certain tax areas in prior years, including PRC Enterprise Income Tax ("PRC EIT"), Business Tax and Value-added Tax ("VAT"), arising, in particular, from (1) not yet obtaining and/or issuing official tax invoices, and/or delay in doing so, for the purchase and/or sale of certain artwork and film and TV copyrights as well as for certain TV drama production costs; and (2) the application of lower VAT tax rates and/or adjustments in certain PRC tax computations.

In respect of (1) above, in prior years, certain of the Group's PRC subsidiaries did not obtain the official tax invoices at the time of purchase of certain art works and film and TV copyright and the incurrence of TV drama production costs in the PRC. In assessing the PRC EIT liabilities of each of the individual PRC subsidiaries, the costs were considered as incurred from genuine transactions and valid official tax invoices would be obtained in subsequent periods from the relevant vendors for the purpose of formalizing the procedures to claim the tax deductions. However, tax deductions are generally disallowed in the period in which the costs were incurred in the PRC in the absence of the official tax invoices and tax deductions would be allowed once the official tax invoices are obtained. At the same time, some of the Group's PRC subsidiaries did not issue official tax invoices at the time of sale of certain art works, film and TV copyrights in the PRC and therefore the tax payments had been delayed which may result in interest payment for such late payment (see below).

In respect of (2) above, in prior years, when estimating the related tax positions in the past, the Group had applied lower VAT rates in respect of the sale of certain art works and film and TV copyrights by certain of its PRC subsidiaries, where these subsidiaries were in fact already qualified as normal taxpayers in the relevant periods and were therefore required to apply a higher VAT rate. In addition, certain PRC subsidiaries did not take into account the fact that the selling price of some art works and film and TV copyrights was inclusive of VAT.

Adjustments are also made to account for the interest payments likely to be incurred for the late payment of taxes by the Group's PRC subsidiaries concerned in respect of the above matters.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3 RESTATEMENTS (Continued)

- (a) (Continued)
- (ii) As a result of (a)(i)(1) above, deferred income tax assets are recognized for those expenses of which the official tax invoices had not been received by the Group at the end of the relevant reporting periods but were expected to be received subsequently, instead of treating them as deductible expenses in calculation of current tax liabilities in the years they incurred.
- (iii) There was a misstatement on the financial impact of convertible notes (the “CB”) in the previous years. Refer to Note 30 for the details of the CB issued by the Company in 2010 and 2011. Due to (1) the incorrect assessment of fair value of the CB based on the valuation report, and (2) inaccurate exchange realignment process, the Group had continued to translate the CB based on period end exchange rate even though the CB settlement was fixed at RMB (being the functional currency of the Company). As such, there were inaccurate amounts applied in the accounting for the CB issued by the Company in 2010 and 2011 that affected the initial recognition, exchange realignment of the CB on each period end, and settlement of the CB in subsequent periods.
- (b) In addition, following the acquisition by AGHL, the ultimate holding company, in June 2014, the Group has changed its accounting policies, as described below. These changes have been applied to the Group’s financial statements on a retrospective basis. The effect of adopting the new accounting policies is presented in the tables in Note 3(c) below.
- (i) In prior years, according to the local government policies, certain of the Group’s PRC subsidiaries were entitled to subsidies as determined according to the amounts of taxes (i.e. PRC EIT and VAT) paid. The Group had recognized such local government grant income when the taxes were accrued in the consolidated financial statements, instead of paid, as it was believed that there was reasonable assurance that the Group would comply with the conditions attaching to the local government policies and that the grants would be received.
- After the acquisition of a majority stake by AGHL in the Company in June 2014, the Group has reassessed the application of the Group’s accounting policy in respect of these government grants. In view of the potential uncertainties inherent to such government grants until the grants are received, the directors of the Company consider it appropriate to align the relevant accounting policy to that adopted by AGHL, such that the Group would only recognize government grants when all the conditions are met and when such grants are received.
- (ii) In prior years, the Group’s consolidated financial statements were presented in HK dollar (“HK\$”). After the acquisition of a majority stake by AGHL in the Company in June 2014, the Group decided to change the Group’s and the Company’s presentation currency from HK\$ to RMB, which is the Company’s functional currency, and consistent to the presentation currency of AGHL’s financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3 RESTATEMENTS (Continued)

(c) Summary of the effects of restatements

The following is a summary of the effects of the restatements on:

- (i) The Group's consolidated income statement and statement of comprehensive income for the year ended December 31, 2013;

	For the year ended December 31, 2013		Adjustments			For the year ended December 31, 2013	For the year ended December 31, 2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	RMB'000
	(As originally stated)	(a)(i)	(a)(ii)	(a)(iii)	(b)(i)	(Restated)	(Restated)
Continuing operations							
Revenue	452,432	(11,299)	-	-	-	441,133	349,378
Cost of sales and service	(233,009)	4,505	-	-	-	(228,504)	(180,976)
Gross profit	219,423	(6,794)	-	-	-	212,629	168,402
Distribution expenses	(34,643)	-	-	-	-	(34,643)	(27,437)
Administrative expenses	(119,613)	-	-	-	-	(119,613)	(94,734)
Other income	16,437	-	-	-	(4,473)	11,964	9,475
Other gains, net	144,367	10,412	-	53,030	-	207,809	164,585
Finance income	135	-	-	-	-	135	107
Finance expenses	(21,850)	-	-	(2,512)	-	(24,362)	(19,295)
Share of losses of investments accounted for using the equity method	(2,614)	-	-	-	-	(2,614)	(2,070)
Profit before income tax	201,642	3,618	-	50,518	(4,473)	251,305	199,033
Income tax expense	(13,713)	(28,114)	-	-	-	(41,827)	(33,126)
Profit for the year from continuing operations	187,929	(24,496)	-	50,518	(4,473)	209,478	165,907
Discontinued operations							
Profit for the year from discontinued operations	26,186	(198)	-	-	(518)	25,470	20,172
Profit for the year	214,115	(24,694)	-	50,518	(4,991)	234,948	186,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3 RESTATEMENTS (Continued)

(c) Summary of the effects of restatements (Continued)

- (i) The Group's consolidated income statement and statement of comprehensive income for the year ended December 31, 2013; (Continued)

	For the year ended December 31, 2013				For the year ended December 31, 2013		For the year ended December 31, 2013
	HK\$'000 (As originally stated)	HK\$'000 (a)(i)	Adjustments HK\$'000 (a)(ii) (a)(iii)		HK\$'000 (b)(i)	HK\$'000 (Restated)	RMB'000 (Restated)
Other comprehensive income for the year:							
Exchange difference arising on translation to presentation currency	41,985	(1,063)	–	(6,693)	(892)	33,337	(4,674)
Share of exchange differences of associates and joint ventures	1,695	–	–	–	–	1,695	–
Other comprehensive income for the year	43,680	(1,063)	–	(6,693)	(892)	35,032	(4,674)
Total comprehensive income for the year	257,795	(25,757)	–	43,825	(5,883)	269,980	181,405
	HK cents	HK cents	HK cents	HK cents	HK cents	HK cents	RMB cents
Earnings per share							
From continuing and discontinued operations							
Basic	2.58	(0.31)	–	0.63	(0.06)	2.84	2.25
Diluted	2.58	(0.31)	–	0.63	(0.06)	2.84	2.25
From continuing operations							
Basic	2.42	(0.30)	–	0.63	(0.06)	2.69	2.13
Diluted	2.42	(0.30)	–	0.63	(0.06)	2.69	2.13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3 RESTATEMENTS (Continued)

(c) Summary of the effects of restatements (Continued)

(ii) The Group's consolidated balance sheet as at December 31, 2013;

	As at				As at		As at
	December 31,		Adjustments		December 31,		December 31,
	2013				2013	2013	
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	RMB'000
	(As originally stated)	(a)(i)	(a)(ii)	(a)(iii)	(b)(i)	(Restated)	(Restated)
Assets							
Non-current assets							
Property, plant and equipment	35,288	-	-	-	-	35,288	27,596
Goodwill	175,986	-	-	28,378	-	204,364	159,813
Intangible assets	11,550	-	-	-	-	11,550	9,032
Investments accounted for using the equity method	193,463	-	-	-	-	193,463	151,288
Art works	162,764	-	-	-	-	162,764	127,281
Club debenture	2,916	-	-	-	-	2,916	2,280
Deferred income tax assets	1,219	-	67,841	-	-	69,060	54,005
Trade and other receivables, and prepayments	131,501	-	-	-	-	131,501	102,834
Current assets							
Film and TV copyrights	364,892	-	-	-	-	364,892	285,346
Trade and other receivables, and prepayments	779,782	58,510	-	-	(30,649)	807,643	631,576
Financial assets at fair value through profit or loss	3,249	-	-	-	-	3,249	2,541
Cash and cash equivalents	199,001	-	-	-	-	199,001	155,619
Total assets	2,061,611	58,510	67,841	28,378	(30,649)	2,185,691	1,709,211

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3 RESTATEMENTS (Continued)

(c) Summary of the effects of restatements (Continued)

(ii) The Group's consolidated balance sheet as at December 31, 2013; (Continued)

	As at				As at		As at
	December 31,		Adjustments		December 31,		December 31,
	2013				2013	2013	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	RMB'000
	(As originally stated)	(a)(i)	(a)(ii)	(a)(iii)	(b)(i)	(Restated)	(Restated)
Equity							
Share capital	2,081,343	-	-	-	-	2,081,343	1,731,568
Reserves	(255,353)	(52,297)	-	25,383	(30,649)	(312,916)	(348,657)
Non-controlling interests	17,460	-	-	-	-	17,460	13,651
Total equity	1,843,450	(52,297)	-	25,383	(30,649)	1,785,887	1,396,562
Liabilities							
Non-current liabilities							
Convertible notes	23,758	-	-	2,995	-	26,753	20,921
Current liabilities							
Trade and other payables, and accrued charges	148,245	51,452	-	-	-	199,697	156,164
Current income tax liabilities	44,528	59,355	67,841	-	-	171,724	134,289
Derivative financial instruments	1,630	-	-	-	-	1,630	1,275
Total liabilities	218,161	110,807	67,841	2,995	-	399,804	312,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3 RESTATEMENTS (Continued)

(c) Summary of the effects of restatements (Continued)

(iii) The Group's consolidated balance sheet as at January 1, 2013;

	As at				As at		As at	
	January 1, 2013		Adjustments		January 1, 2013		January 1, 2013	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	RMB'000	
	(As originally stated)	(a)(i)	(a)(ii)	(a)(iii)	(b)(i)	(Restated)	(Restated)	
Assets								
Non-current assets								
Property, plant and equipment	15,514	-	-	-	-	15,514	12,473	
Goodwill	171,160	-	-	27,601	-	198,761	159,813	
Intangible assets	12,003	-	-	-	-	12,003	9,650	
Investments accounted for using the equity method	636,248	-	-	-	-	636,248	511,543	
Art works	164,307	-	-	-	-	164,307	132,103	
Club debenture	2,836	-	-	-	-	2,836	2,280	
Deferred income tax assets	1,319	-	53,293	-	-	54,612	43,908	
Trade and other receivables, and prepayments	67,468	-	-	-	-	67,468	54,245	
Current assets								
Film and TV copyrights	169,296	-	-	-	-	169,296	136,114	
Trade and other receivables, and prepayments	573,065	17,566	-	-	(24,766)	565,865	454,954	
Financial assets at fair value through profit or loss	21,569	-	-	-	-	21,569	17,341	
Cash and cash equivalents	107,753	-	-	-	-	107,753	86,633	
Total assets	1,942,538	17,566	53,293	27,601	(24,766)	2,016,232	1,621,057	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3 RESTATEMENTS (Continued)

(c) Summary of the effects of restatements (Continued)

(iii) The Group's consolidated balance sheet as at January 1, 2013; (Continued)

	As at January 1, 2013		Adjustments		As at January 1, 2013		As at January 1, 2013
	HK\$'000 (As originally stated)	HK\$'000 (a)(i)	HK\$'000 (a)(ii)	HK\$'000 (a)(iii)	HK\$'000 (b)(i)	HK\$'000 (Restated)	RMB'000 (Restated)
Equity							
Share capital	1,935,686	-	-	-	-	1,935,686	1,616,499
Reserves	(618,946)	(26,540)	-	(18,442)	(24,766)	(688,694)	(613,909)
Non-controlling interests	34,037	-	-	-	-	34,037	27,364
Total equity	1,350,777	(26,540)	-	(18,442)	(24,766)	1,281,029	1,029,954
Liabilities							
Non-current liabilities							
Convertible notes	21,244	-	-	1,769	-	23,013	18,503
Current liabilities							
Trade and other payables, and accrued charges	205,046	13,738	-	-	-	218,784	175,902
Current income tax liabilities	32,402	30,368	53,293	-	-	116,063	93,315
Convertible notes	333,069	-	-	44,274	-	377,343	303,383
Total liabilities	591,761	44,106	53,293	46,043	-	735,203	591,103

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3 RESTATEMENTS (Continued)

(c) Summary of the effects of restatements (Continued)

(iv) The Company's balance sheet as at December 31, 2013;

	As at December 31, 2013 HK\$'000 (As originally stated)	Adjustments HK\$'000 (a)(iii)	As at December 31, 2013 HK\$'000 (Restated)	As at December 31, 2013 RMB'000 (Restated)
Assets				
Non-current assets				
Investments accounted for using the equity method	2,132,714	–	2,132,714	1,667,782
Amounts due from subsidiaries	728,601	31,406	760,007	594,325
Current assets				
Trade and other receivables, and prepayments	161	–	161	126
Amounts due from subsidiaries	116,670	–	116,670	91,236
Financial assets at fair value through profit or loss	3,249	–	3,249	2,541
Cash and bank balances	37,019	–	37,019	28,949
Total assets	3,018,414	31,406	3,049,820	2,384,959
Equity				
Share capital	2,081,343	–	2,081,343	1,731,568
Reserves	711,634	26,666	738,300	473,393
Total equity	2,792,977	26,666	2,819,643	2,204,961
Liabilities				
Non-current liabilities				
Convertible notes	23,758	4,740	28,498	22,285
Current liabilities				
Trade and other payables, and accrued charges	6,146	–	6,146	4,806
Amounts due to subsidiaries	193,903	–	193,903	151,632
Derivative financial instruments	1,630	–	1,630	1,275
Total liabilities	225,437	4,740	230,177	179,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

3 RESTATEMENTS (Continued)

(c) Summary of the effects of restatements (Continued)

(v) The Company's balance sheet as at January 1, 2013;

	As at January 1, 2013 HK\$'000 (As originally stated)	Adjustments HK\$'000 (a)(iii)	As at January 1, 2013 HK\$'000 (Restated)	As at January 1, 2013 RMB'000 (Restated)
Assets				
Non-current assets				
Investments accounted for using the equity method	1,966,092	–	1,966,092	1,580,738
Trade and other receivables, and prepayments	588,932	74,532	663,464	533,425
Current assets				
Trade and other receivables, and prepayments	15,606	–	15,606	12,547
Amounts due from subsidiaries	525,179	–	525,179	422,244
Financial assets at fair value through profit or loss	21,569	–	21,569	17,341
Cash and bank balances	10,319	–	10,319	8,297
Total assets	3,127,697	74,532	3,202,229	2,574,592
Equity				
Share capital	1,935,686	–	1,935,686	1,616,499
Reserves	632,817	19,206	652,023	464,019
Total equity	2,568,503	19,206	2,587,709	2,080,518
Liabilities				
Non-current liabilities				
Convertible notes	21,244	4,066	25,310	20,349
Current liabilities				
Trade and other payables, and accrued charges	20,016	–	20,016	16,093
Amounts due to subsidiaries	184,865	–	184,865	148,631
Convertible notes	333,069	51,260	384,329	309,001
Total liabilities	559,194	55,326	614,520	494,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

4 FINANCIAL MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency 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 Company'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.

(a) Market risk

Foreign exchange risk

The Group's businesses are principally conducted in RMB and is exposed to foreign currency risk with respect to primarily HK dollar and 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 year ended December 31, 2014 and 2013.

As at December 31, 2014, 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, 2014		December 31, 2013	
	HK dollar RMB'000	US dollar RMB'000	HK dollar RMB'000 (Restated)	US dollar RMB'000 (Restated)
Cash and bank balances	4,440,206	98,158	29,035	23,201
Trade and other receivables	5,318	71	–	91,025
Trade and other payables	411	–	5,675	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

4 FINANCIAL MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

Foreign exchange risk (Continued)

As at December 31, 2014, if RMB had weakened/strengthened by 5% (2013: 5%), against HK dollar with all other variables held constant, pre-tax loss for the year would have been RMB222,256,000 lower/higher (2013: post-tax profit for the year RMB1,168,000, higher/lower), mainly as a result of foreign exchange gains/losses on translation of HK dollar-denominated cash and cash equivalents and trade and other payables.

As at December 31, 2014, if RMB had weakened/strengthened by 5% (2013: 5%), against US dollar with all other variables held constant, pre-tax loss for the year would have been RMB4,911,000 lower/higher (2013: post-tax profit for the year RMB5,711,000, higher/lower), mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated cash and cash equivalents and trade and other receivables.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and bank balances. 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, 2014 is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet.

In order to minimize credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual debt receivables regularly to ensure that adequate impairment losses are recognized for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

4 FINANCIAL MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

As at December 31, 2014, the Group had significant concentration of credit risk on several debtors, which is set out below:

	2014 RMB'000	2013 RMB'000 (Restated)
Receivables arising from disposal of art works	172,683	84,747
Receivables arising from distribution of film and TV copyrights – long aging	149,998	78,193
Receivable arising from refund of film investment cost	52,000	–
Receivable arising from refundable deposit in relation to acquisition of an investee	24,000	24,000
Receivables arising from disposal of subsidiaries	19,101	135,226
	<u>19,101</u>	<u>135,226</u>

The Group exercises continuous monitoring procedures and ensures that follow-up actions are taken to ensure settlement of the debtors. For the trade and other receivables as above, around RMB302,800,000 of such balances had been settled subsequently during the first quarter of year 2015. For the remaining balances, the management had considered the recoverability and made adequate impairment provision.

For the year ended December 31, 2014, the Group has concentration of credit risk as 36% and 86% of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the production and distribution of film and TV copyrights segment. These customers are PRC film distributors which have been established and engaged in film production and distributions for a number of years. The Group's concentration of credit risk by geographical location is in the PRC, which accounts for all of the trade receivables as at December 31, 2014.

The Group's bank balances are balances deposited in those banks with good reputation in Hong Kong and the PRC. Accordingly, the credit risk on liquid funds is limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

4 FINANCIAL MANAGEMENT (Continued)

4.1 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. 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 and the Company'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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
The Group				
As at December 31, 2014				
Trade and other payables	66,627	-	-	66,627
The Group				
As at December 31, 2013 (Restated)				
Trade and other payables	62,831	-	-	62,831
Convertible notes	-	-	27,300	27,300
	62,831	-	27,300	90,131
The Company				
As at December 31, 2014				
Trade and other payables	164,412	-	-	164,412
The Company				
As at December 31, 2013 (Restated)				
Trade and other payables	156,047	-	-	156,047
Convertible notes	-	-	27,300	27,300
	156,047	-	27,300	183,347

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

4 FINANCIAL MANAGEMENT (Continued)

4.2 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.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. As at December 31, 2014, the Group has no borrowings.

4.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at December 31, 2014 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).

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2014.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
Trading securities – Healthy industry	673	–	–	673
Trading securities – Media industry	2,012	–	–	2,012
Available-for-sale financial assets	–	–	240,000	240,000
Total assets	2,685	–	240,000	242,685

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

4 FINANCIAL MANAGEMENT (Continued)

4.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2013.

	Level 1 RMB'000 (Restated)	Level 2 RMB'000 (Restated)	Level 3 RMB'000 (Restated)	Total RMB'000 (Restated)
Assets				
Financial assets at fair value through profit or loss				
Trading securities – Health industry	453	–	–	453
Trading securities – Media industry	2,088	–	–	2,088
Total assets	2,541	–	–	2,541
Liabilities				
Financial liabilities at fair value through profit or loss				
Warrant	–	–	1,275	1,275
Total liabilities	–	–	1,275	1,275

There were no transfers between levels 1 and 3 during the year.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise equity investments classified as trading securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

4 FINANCIAL MANAGEMENT *(Continued)*

4.3 Fair value estimation *(Continued)*

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

4 FINANCIAL MANAGEMENT (Continued)

4.3 Fair value estimation (Continued)

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended December 31, 2014 and 2013.

	Available-for-sale financial assets	
	2014 RMB'000	2013 RMB'000
Opening balance	–	–
Addition	240,000	–
Closing balance	240,000	–
	Financial liabilities at fair value through profit or loss	
	2014 RMB'000	2013 RMB'000 (Restated)
Opening balance	1,275	–
Cash proceeds	–	380
Losses recognized in profit or loss	53,207	895
Exercised	(54,482)	–
Closing balance	–	1,275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

5.1 Critical accounting estimates and assumptions

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 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 present value of the expected future revenue generated from the film less future cost of sales and service.

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. In the current year, the management adjusted downward the estimated future cash flows expected to be generated from certain film and TV copyrights, mainly taking into account (i) restriction imposed by the PRC authority on the broadcasting of a film in the PRC; (ii) dispute between a film distributor and a film producer on profit sharing of a film in which the Group has invested; and (iii) sales contracts entered with TV stations by the Group subsequent to the end of the reporting period.

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 RMB102,172,000 (2013: RMB3,204,000) was made as at December 31, 2014.

(b) *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 aged analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. Based on the assessment's on the collectability and ageing analysis of accounts, the directors of the Company determined that an impairment provision of RMB55,889,000 (2013: nil) was required as at December 31, 2014. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

5.1 Critical accounting estimates and assumptions *(Continued)*

(c) *Estimated impairment of goodwill and intangible assets with indefinite lives*

The Group tests annually whether goodwill and intangible assets with indefinite lives have suffered any impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates. According to the management's assessment (Note 17), there is no impairment in goodwill and intangible assets with indefinite lives as at December 31, 2014. The testing result will not be changed if the discount rates increase by 5% or the profit from operations decrease by 10%.

(d) *Estimated impairment of investment in associates*

At the end of the reporting period, the management of the Group assessed the impairment on investment in associates. The impairment loss was recognized as the carrying amount exceeded the recoverable amount, which is determined based on the fair value less cost of disposal of the Group's interest in the associate. The fair value is estimated by reference to the Group's share of net assets of these associates.

(e) *Income taxes, business taxes and value-added taxes*

The Group is subject to income taxes, business taxes and value-added taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes, business taxes and value-added taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred income tax assets, which principally relate to temporary differences, depend on the management's expectation of the timing of reversal and the taxable profit that will be available against which tax losses can be utilized. The outcome of their actual utilization or reversal may be different.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

6 REVENUES AND SEGMENT INFORMATION

Revenues from continuing operations include gross revenues from production and distribution of film and TV copyrights, TV programme packaging services and other services, net of discounts allowed, where applicable. Revenues recognized during the year are as follows:

	2014 RMB'000	2013 RMB'000 (Restated)
Production and distribution of film and TV copyrights	115,386	326,638
Others:		
– TV programme packaging services	7,827	11,318
– Agency services	2,999	3,530
– Mobile value-added services	419	7,892
Total revenues from continuing operations	126,631	349,378

AGHL became the ultimate holding company of the Company after the completion of share subscription on June 24, 2014. The new management and the new board of directors of the Company were formed on or after that date. The newly appointed executive and non-executive directors of the Company is the Group's chief operating decision-maker ("New CODM"). Management has determined the operating segments based on the information reviewed by New CODM for the purposes of allocating resources and assessing performance.

The New CODM considers the business from perspective of types of goods or services delivered or provided. The Group's operating and reportable segments are for continuing operations as follows:

- Production and distribution of film and TV copyrights
- Other operations that primarily comprise TV program packaging services, agency services and mobile value-added services

During the year ended December 31, 2014, the New CODM decided to discontinue the sales of TV advertising air-time and magazine advertising and distribution business segments. Accordingly, these two operating segments are considered as discontinued operations in 2014 (refer to Note 26 for details) and 2013 segment information is presented to align this change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

6 REVENUES AND SEGMENT INFORMATION (Continued)

Segment revenue and results

	Year ended December 31, 2014		
	Production and distribution of film and TV copyrights RMB'000	Other segments RMB'000	Total RMB'000
Segment revenue	115,386	11,245	126,631
Segment results	(65,969)	1,861	(64,108)
Administrative expenses			(156,357)
Other income			2,214
Other losses, net			(18,317)
Finance income			15,954
Finance expenses			(26,853)
Share of losses of investments accounted for using the equity method			(4,190)
Impairment loss on interest in an associate			(111,216)
Loss before income tax			(362,873)

	Year ended December 31, 2013		
	Production and distribution of film and TV copyrights RMB'000 (Restated)	Other segments RMB'000 (Restated)	Total RMB'000 (Restated)
Segment revenue	326,638	22,740	349,378
Segment results	151,333	(10,368)	140,965
Administrative expenses			(94,734)
Other income			9,475
Other gains, net			164,585
Finance income			107
Finance expenses			(19,295)
Share of losses of investments accounted for using the equity method			(2,070)
Profit before income tax			199,033

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

6 REVENUES AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

All of the segment revenue reported above is from external customers and there were no intersegment sales for both years.

Segment results represent the gross loss incurred or gross profit generated by each segment without allocation of administrative expenses, other income, other (losses)/gains, net, finance income, finance expenses, share of losses of investments accounted for using the equity method and impairment loss on interest in an associate. 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 Group's New CODM and therefore information of separate segment assets and liabilities is not presented.

The Group's securities trading and investments are carried out in Hong Kong. All other segment revenues are derived from the PRC.

As at December 31, 2014, the Group's non-current assets, other than financial instruments and deferred income tax assets, are located in the mainland of PRC, Hong Kong and Taiwan amounted to RMB198,310,000, RMB120,389,000 and RMB18,804,000 (2013: RMB458,918,000, RMB100,649,000 and RMB19,501,000, respectively).

For the year ended December 31, 2014, approximately 46% of the total revenues of the Group are derived from top two external customers (2013: 73%, from top four external customers).

7 OTHER INCOME

	2014	2013
	RMB'000	RMB'000
		(Restated)
Local government subsidies	1,374	7,403
Sundry income	840	2,072
	2,214	9,475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

8 OTHER (LOSSES)/GAINS, NET

	2014 RMB'000	2013 RMB'000 (Restated)
Gain on disposal of art works	17,586	72,324
Gain on disposal of a subsidiary (Note 35)	8,861	93,442
Other payables waived	11,177	–
Change in fair value of financial assets at fair value through profit or loss	125	(827)
Gain on disposal of financial assets at fair value through profit or loss	–	4,175
Change in fair value of derivative financial instruments (Note)	(53,207)	(895)
Tax surcharge	(2,027)	(4,061)
Others	(832)	427
	(18,317)	164,585

Note:

Amount represents a loss of approximately RMB53,207,000 (2013: RMB895,000) on change in fair value of warrants. All the warrants were exercised in 2014 and converted to ordinary shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

9 EXPENSES BY NATURE

	2014 RMB'000	2013 RMB'000 (Restated)
Film and TV copyrights recognized as cost of sales and services (Note a)	183,493	147,326
Employee benefit expense (Note 10)	41,097	42,554
Operating lease payments	22,653	16,192
Depreciation and amortization (Notes 16 and 17)	9,826	5,871
Provision for impairment of intangible assets (Note 17)	–	1,245
Distribution and operation fee	2,100	19,526
Impairment provision for trade and other receivables, and prepayments (Note b)	55,889	–
Auditors' remuneration		
– Audit services	2,200	2,059
– Non-audit services	8,353	523
Advertising costs	1,070	18,593
Market consultation costs	473	12,814
Other expenses	19,942	36,444
	<hr/>	<hr/>
Total cost of sales and service, distribution expenses and administrative expenses	347,096	303,147
	<hr/>	<hr/>

Notes:

- (a) Amount included impairment loss on film and TV copyrights of RMB102,172,000 (2013: RMB3,204,000).
- (b) As at December 31, 2014, the management considered that it is not probable to recover the balance of approximately RMB55,889,000 (2013: nil) and therefore, impairment loss was recognized on trade and other receivables, and prepayments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

10 EMPLOYEE BENEFIT EXPENSE

	2014 RMB'000	2013 RMB'000 (Restated)
Wage and salaries	32,627	35,749
Social security cost and housing fund	3,673	3,719
Pension cost – defined contribution plans (Note)	3,048	3,086
Termination benefit	1,749	–
	<hr/>	<hr/>
Total employee benefit expense	41,097	42,554

Note:

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. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK\$1,500 per person (the maximum monthly contribution is HK\$1,250 per person before June 1, 2014).

All of the Group's full-time Chinese employees 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% (2013: 20%) of the employees' basic salaries subject to a cap determined by the state on an annual basis.

During the year, the Group made total contributions to the retirement benefits schemes of RMB3,048,000 (2013: RMB3,086,000). Included in the total contribution made, RMB93,000 (2013: RMB124,000) was contribution made for Hong Kong employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

10 EMPLOYEE BENEFIT EXPENSE (Continued)

(a) Directors' and chief executives' emoluments

The remuneration of directors and the chief executives of the Company for the year ended December 31, 2014 is set out below:

Name	Directors' fees RMB'000	Salaries and other benefits RMB'000	Contributions		Total RMB'000
			to the retirement scheme RMB'000	Performance related incentive RMB'000	
Shao Xiaofeng (Note i)	–	–	–	–	–
Liu Chunning (Note i)	–	–	–	–	–
Zhang Qiang (Notes i and ii)	–	588	17	426	1,031
Li Lian Jie (Note i)	129	–	–	–	129
Tong Xiaomeng (Note i)	126	–	–	–	126
Zhang Yu (Note i)	142	–	–	–	142
Song Lixin (Note i)	6	–	–	–	6
Dong Ping (Notes iii and iv)	237	665	6	–	908
Ng Qing Hai (Notes iii and iv)	–	–	–	790	790
Zhao Chao (Note iii)	228	–	6	–	234
Kong Muk Yin (Note iii)	91	–	–	–	91
Chen Ching (Note iii)	4	42	–	–	46
Jin Hui Zhi (Note iii)	4	43	–	–	47
Li Chak Hung (Note iii)	4	55	–	–	59
	971	1,393	29	1,216	3,609

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

10 EMPLOYEE BENEFIT EXPENSE (Continued)

(a) Directors' and chief executives' emoluments (Continued)

The remuneration of directors and the chief executives of the Company for the year ended December 31, 2013 is set out below:

Name	Directors' fees RMB'000 (Restated)	Contributions			Total RMB'000 (Restated)
		Salaries and other benefits RMB'000 (Restated)	to the retirement scheme RMB'000 (Restated)	Performance related incentive RMB'000 (Restated)	
Dong Ping (Notes iii and iv)	475	2,378	12	792	3,657
Ng Qing Hai (Notes iii and iv)	–	–	–	396	396
Zhao Chao (Note iii)	475	–	12	792	1,279
Kong Muk Yin (Note iii)	190	–	–	317	507
Chen Ching (Note iii)	8	87	–	–	95
Jin Hui Zhi (Note iii)	8	87	–	–	95
Li Chak Hung (Note iii)	8	111	–	–	119
	<u>1,164</u>	<u>2,663</u>	<u>24</u>	<u>2,297</u>	<u>6,148</u>

Notes:

- (i) Mr. Shao Xiaofeng, Mr. Liu Chunning and Mr. Li Lian Jie were appointed as directors of the Company on June 24, 2014. Mr. Tong Xiaomeng and Ms. Zhang Yu were appointed as directors of the Company on June 27, 2014. Mr. Zhang Qiang was appointed as director of the Company on August 5, 2014. Ms. Song Lixin was appointed as director on 22 December 2014.

The emoluments of Mr. Shao Xiaofeng and Mr. Liu Chunning which were not included in directors' and supervisors' emoluments, were paid by the Alibaba Group.

During the year, the total remuneration paid to each of Mr. Li Lian Jie, Ms. Song Lixin, Mr. Tong Xiaomeng and Ms. Zhang Yu comprised of director's fee and the fee for acting as chairman and/or member of the Company's board committees.

- (ii) Mr. Zhang Qiang is a director of the Company and is also the chief executive officer of the Company effective on August 5, 2014.
- (iii) Mr. Ng Qing Hai, Mr. Zhao Chao, Mr. Kong Muk Yin and Mr. Chen Ching resigned as directors of the Company on June 24, 2014. Mr. Dong Ping, Mr. Jin Hui Zhi and Mr. Li Chak Hung resigned as directors of the Company on June 27, 2014.
- (iv) Mr. Dong Ping served as a director of the Company until the conclusion of 2014 AGM held on June 27, 2014 and also served as the acting chief executive officer of the Company before June 24, 2014. Mr. Ng Qing Hai served as a director and the president of the Company before June 24, 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

10 EMPLOYEE BENEFIT EXPENSE (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2013: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2013: three) individuals during the year are as follows:

	2014 RMB'000	2013 RMB'000 (Restated)
Salaries bonus and other benefits	3,265	6,719
Contributions to the retirement scheme	65	184
	<u>3,330</u>	<u>6,903</u>

The emoluments fell within the following bands:

	Number of individuals	
	2014	2013
Emolument bands (in HK dollar)		
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$3,000,001 to HK\$3,500,000	–	–
HK\$5,500,001 to HK\$6,000,000	–	1
	<u>3</u>	<u>3</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

11 FINANCE INCOME AND EXPENSES

	2014 RMB'000	2013 RMB'000 (Restated)
Finance income		
– Interest income on bank deposits	15,427	107
– Interest income on available-for-sale financial assets	527	–
	<u>15,954</u>	<u>107</u>
Finance expenses		
– Exchange loss, net	(25,664)	(1,760)
– Interest expenses on convertible notes	(1,189)	(17,535)
	<u>(26,853)</u>	<u>(19,295)</u>
Finance expenses, net	<u>(10,899)</u>	<u>(19,188)</u>

12 SUBSIDIARIES – THE COMPANY

	2014 RMB'000	2013 RMB'000 (Restated)
Non-current assets		
Investments, at cost: unlisted shares (Note a)	1,667,782	1,667,782
Amounts due from subsidiaries	673,620	594,325
	<u>2,341,402</u>	<u>2,262,107</u>
Current assets		
Amounts due from subsidiaries (Note b)	–	91,236
Current liabilities		
Amounts due to subsidiaries (Note b)	<u>153,760</u>	<u>151,632</u>

Notes:

- (a) Investments are recorded at cost, which is the fair value of the consideration paid. The list of the principal subsidiaries are disclosed in Note 38.
- (b) As at December 31, 2014, amounts due from/(to) subsidiaries are unsecured, interest free, and repayable on demand. The carrying amounts of amounts due from/(to) subsidiaries approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investment in associates

	For the year ended December 31,	
	2014 RMB'000	2013 RMB'000 (Restated)
At January 1,	151,288	–
New investment	–	19,724
Change from a subsidiary to an associate (Note i)	–	135,471
Share of losses of investments	(4,190)	(3,909)
Impairment loss (Note i)	(111,216)	–
Currency translation differences	292	2
Transfer to assets held-for-sale (Note i)	(17,370)	–
	<hr/>	<hr/>
At December 31,	18,804	151,288

The amounts recognized in the consolidated income statement are as follows:

	For the Year ended December 31,	
	2014 RMB'000	2013 RMB'000 (Restated)
Associates	(4,190)	(3,909)
Joint ventures (Note)	–	1,839
	<hr/>	<hr/>
Total	(4,190)	(2,070)

Note:

All the Group's joint ventures had been disposed of in 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(Continued)

Investment in associates (Continued)

Set out below are the associates of the Group as at December 31, 2014 and 2013, which, in the opinion of the directors of the Company, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares; the country of incorporation or registration is also their principal place of business.

Nature of investment in associates as at December 31, 2014 and 2013:

Name of entity	Place of business/country of incorporation	% of ownership interest		Measurement method
		2014	2013	
北京北大文化發展有限公司 Beijing Beida Culture Development Co., Limited ("Beida Culture") (Note i)	PRC	-	30%	Equity
華文創股份有限公司 Mandarin Vision Inc. (" <u>MandarinVision</u> ") (Note ii)	Taiwan	37.308%	37.308%	Equity

Note:

- (i) During the year ended December 31, 2013, Beida Culture ceased to be a wholly-owned subsidiary of the Group and became an associate as a result of the Group's disposal of 70% equity interest in Beida Culture. As at December 31, 2014, Beida Culture was regarded as 'assets held-for-sale' as the directors of the Company determined that the carrying amount of this investment will be recovered principally by a sale transaction rather than continuing use. An impairment loss of RMB111,216,000 was recorded in 2014 and this investment is classified as 'assets held-for-sale' as at December 31, 2014 (Note 19). Beida Culture owns 50% equity interest of Jinghua Culture Broadcast Company Limited.
- (ii) Mandarin Vision is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interest in the associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(Continued)

Summarized financial information for associates

Set out below are the summarized financial information for Beida Culture and Mandarin Vision which are accounted for using the equity method.

Summarized balance sheet

	Mandarin Vision		Beida
	2014	2013	Culture
	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)
Total current assets	46,009	52,673	12,506
Total current liabilities	2,060	690	7,068
Total non-current assets	6,452	286	69,278
Net assets	50,401	52,269	74,716

Summarized income statement and statement of comprehensive income

	Mandarin Vision		Beida
	2014	2013	Culture
	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)
Revenue	6,998	51	–
Loss from continuing operations	(2,329)	(603)	(94,658)
Currency translation differences	461	3	–
Total comprehensive loss	(1,868)	(600)	(94,658)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(Continued)

Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of its interest in associates.

Summarized financial information

	Mandarin Vision		Beida Culture
	2014	2013	2013
	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)
Opening net assets as at January 1,	52,269	–	169,374
Shareholder's capital injection when set up	–	52,869	–
Loss for the year	(2,329)	(603)	(94,658)
Currency translation differences	461	3	–
	<hr/>	<hr/>	<hr/>
Closing net assets as at December 31,	50,401	52,269	74,716
	<hr/>	<hr/>	<hr/>
Interest in associates (30% and 37.308%, respectively)	18,804	19,501	22,414
Goodwill	–	–	109,373
	<hr/>	<hr/>	<hr/>
Carrying value	18,804	19,501	131,787
	<hr/>	<hr/>	<hr/>

The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

14 INCOME TAX EXPENSE

	2014 RMB'000	2013 RMB'000 (Restated)
Current tax	(27,498)	42,714
Deferred income tax (Note 32)	44,879	(9,588)
	17,381	33,126

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

The statutory rate for PRC EIT is generally 25%. Pursuant to the relevant laws and regulations in the PRC, 中聯華盟(上海)文化傳媒有限公司 (“Huameng Shanghai”) is subject to PRC EIT at the PRC EIT rate of 25% on ten percent of its gross revenue.

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

	2014 RMB'000	2013 RMB'000 (Restated)
(Loss)/profit before income tax	(362,873)	199,033
Tax calculated at a tax rate of 25% (2013: 25%)	(90,718)	49,758
Tax effects of:		
– Associates and joint ventures' results reported net of tax	1,048	518
– Effect of different tax rates of subsidiaries	4,255	(65,501)
– Income not subject to tax	(3,482)	–
– Expenses not deductible for tax purposes	10,916	9,502
– Utilization of previously unrecognized tax losses	(1,455)	–
– Other temporary differences for which no deferred income tax asset was recognized	41,444	7,947
– Tax losses not recognized	46,468	30,902
– Reversal of previously recognized deferred income tax assets	8,905	–
Tax charge	17,381	33,126



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

15 (LOSS)/EARNINGS PER SHARE

	2014 RMB cents	2013 RMB cents (Restated)
Basic/diluted (loss)/earnings per share		
From continuing operations	(2.54)	2.13
From discontinued operations	(0.24)	0.12
	<hr/>	<hr/>
From (loss)/profit for the year	(2.78)	2.25
	<hr/>	<hr/>

(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.

	2014 RMB'000	2013 RMB'000 (Restated)
(Loss)/profit from continuing operations attributable to owners of the Company	(381,000)	170,244
(Loss)/profit from discontinued operations attributable to owners of the Company	(36,276)	9,427
	<hr/>	<hr/>
(Loss)/profit attributable to owners of the Company	(417,276)	179,671
	<hr/>	<hr/>
Weighted average number of ordinary shares in issue (thousands)	14,978,061	7,998,144
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

15 (LOSS)/EARNINGS PER SHARE *(Continued)*

(b) Diluted

The computation of diluted loss per share for the year ended December 31, 2014 did not assume the conversion of the Company's outstanding convertible notes, the exercise of share options and warrants as their assumed conversion and exercise would decrease the loss per share in the year.

The computation of diluted earnings per share for the year ended December 31, 2013 did not assume the conversion of the Company's outstanding convertible notes as their assumed conversion would increase the earnings per share in that period. In addition, the computation of diluted earnings per share did not assume the exercise of share options and warrants because the exercise price of these share options and warrants was higher than the average market price for shares during the year ended December 31, 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

16 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Land and buildings RMB'000	Leasehold improvement RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At January 1, 2013 (as restated)					
Cost	154	2,185	6,016	11,942	20,297
Accumulated depreciation	(7)	(1,398)	(2,719)	(3,700)	(7,824)
Net book amount	147	787	3,297	8,242	12,473
Year ended December 31, 2013 (as restated)					
Opening net book amount	147	787	3,297	8,242	12,473
Currency translation differences	(4)	(47)	6	301	256
Additions	-	19,881	1,044	-	20,925
Disposals	-	-	-	(126)	(126)
Disposals of subsidiaries	-	-	(51)	(894)	(945)
Depreciation charge	(8)	(727)	(1,543)	(2,709)	(4,987)
Closing net book amount	135	19,894	2,753	4,814	27,596
At December 31, 2013 (as restated)					
Cost	150	22,003	6,968	10,528	39,649
Accumulated depreciation	(15)	(2,109)	(4,215)	(5,714)	(12,053)
Net book amount	135	19,894	2,753	4,814	27,596
Year ended December 31, 2014					
Opening net book amount	135	19,894	2,753	4,814	27,596
Currency translation differences	1	30	5	6	42
Additions	-	5,291	3,918	22	9,231
Disposals	-	-	(656)	(3,052)	(3,708)
Disposals of subsidiaries (Note 35)	-	-	-	(373)	(373)
Depreciation charge	(8)	(5,746)	(1,485)	(1,027)	(8,266)
Closing net book amount	128	19,469	4,535	390	24,522
At December 31, 2014					
Cost	151	25,636	8,414	3,512	37,713
Accumulated depreciation	(23)	(6,167)	(3,879)	(3,122)	(13,191)
Net book amount	128	19,469	4,535	390	24,522

In 2014, depreciation expense of RMB8,266,000 (2013: RMB4,987,000) has been charged in 'administrative expenses'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

17 GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Film and television programme production and distribution license	Mobile game	eBook publication	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2013 (as restated)					
Cost	159,813	7,808	1,714	1,012	170,347
Accumulated amortization and impairment	-	-	(336)	(548)	(884)
Net book amount	159,813	7,808	1,378	464	169,463
Year ended December 31, 2013 (as restated)					
Opening net book amount	159,813	7,808	1,378	464	169,463
Additions	-	-	579	932	1,511
Impairment charge	-	-	(1,245)	-	(1,245)
Amortization charge	-	-	(712)	(172)	(884)
Closing net book amount	159,813	7,808	-	1,224	168,845
At December 31, 2013 (as restated)					
Cost	159,813	7,808	2,293	1,944	171,858
Accumulated amortization and impairment	-	-	(2,293)	(720)	(3,013)
Net book amount	159,813	7,808	-	1,224	168,845
Year ended December 31, 2014					
Opening net book amount	159,813	7,808	-	1,224	168,845
Additions	-	-	-	336	336
Amortization charge	-	-	-	(1,560)	(1,560)
Closing net book amount	159,813	7,808	-	-	167,621
At December 31, 2014					
Cost	159,813	7,808	2,293	2,280	172,194
Accumulated amortization and impairment	-	-	(2,293)	(2,280)	(4,573)
Net book amount	159,813	7,808	-	-	167,621

In 2014, amortization expense of RMB1,560,000 (2013: RMB884,000) has been charged in 'cost of sales and service'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

17 GOODWILL AND INTANGIBLE ASSETS (Continued)

Impairment tests for goodwill and assets with indefinite useful life

For the purpose of impairment testing, goodwill and intangible assets with indefinite useful life have been allocated to a CGU, including several subsidiaries in production and distribution of film and TV copyrights segment (“Film and TV”). The carrying amounts of goodwill and intangible assets with indefinite useful life as at December 31, 2014 allocated to this unit are RMB159,813,000 (2013: RMB159,813,000) and RMB7,808,000 (2013: RMB7,808,000), respectively.

During the year ended December 31, 2014, the directors of the Company determined that there was no impairment of any of its CGU containing goodwill and intangible assets with indefinite useful lives.

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

The recoverable amounts of Film and TV as at December 31, 2014 have been determined on the basis of value in use calculations. Its recoverable amounts are based on certain key assumptions. The value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period and a discount rate of 18.5%. Film and TV’s cash flows beyond the 5-year period are extrapolated using a 2% growth rate. The 2% growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on Film and TV’s past performance and management’s expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Film and TV to exceed the aggregate recoverable amount of Film and TV.

18 ART WORKS

	Year ended December 31,	
	2014	2013
	RMB'000	RMB'000
		(Restated)
Opening net book amount	127,281	132,103
Currency translation differences	–	(1,684)
Additions	34,780	55,529
Disposals	(162,061)	(58,667)
Closing net book amount	–	127,281

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

19 ASSETS HELD-FOR-SALE

As at December 31, 2014, the Group decided to recover the carrying amount of the investment in Beida Culture, principally through a sale transaction in the future. Accordingly, the investment in Beida Culture is considered as assets held-for-sale as at December 31, 2014. The directors of the Company expected to complete the disposal in year 2015 (Note 13).

20 FILM AND TV COPYRIGHTS

	As at December 31,	
	2014 RMB'000	2013 RMB'000 (Restated)
Film and TV copyrights		
– Under production	33,015	208,929
– Completed production	131,505	76,417
	164,520	285,346
	Year ended December 31,	
	2014 RMB'000	2013 RMB'000 (Restated)
Opening net book amount	285,346	136,114
Additions	134,667	296,558
Recognized as an expense included in cost of sales and services	(81,321)	(144,122)
Impairment loss recognized in the year (Note a)	(102,172)	(3,204)
Refund of investment (Note b)	(72,000)	–
	164,520	285,346

Notes:

- (a) In 2014, management of the Group considered the expected future income of certain film and TV copyrights could not recover the respective relevant film and TV production costs and an impairment charge of RMB102,172,000 (2013: RMB3,204,000) was recognized.
- (b) It represented the refund of investment cost of certain film and TV copyrights, among which, RMB20,000,000 has been settled during the year 2014 and the remaining RMB52,000,000 is included in 'trade and other receivables, and prepayments' (Note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

21 FINANCIAL INSTRUMENTS BY CATEGORY – THE GROUP AND THE COMPANY

(a) The Group

	Loans and receivables RMB'000	Assets at fair value through the profit & loss RMB'000	Available- for-sale RMB'000	Total RMB'000
December 31, 2014				
Assets as per balance sheet				
Trade and other receivables excluding prepayments	514,231	-	-	514,231
Available-for-sale financial assets	-	-	240,000	240,000
Financial assets at fair value through profit or loss	-	2,685	-	2,685
Cash and cash equivalents	30,158	-	-	30,158
Bank deposits with the maturity over three months	5,018,137	-	-	5,018,137
Total	5,562,526	2,685	240,000	5,805,211
		Liabilities at fair value through the profit & loss RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000
Liabilities as per balance sheet				
Trade and other payables excluding non-financial liabilities		-	66,627	66,627

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

21 FINANCIAL INSTRUMENTS BY CATEGORY – THE GROUP AND THE COMPANY (Continued)

(a) The Group (Continued)

	Loans and receivables RMB'000 (Restated)	Assets at fair value through the profit & loss RMB'000 (Restated)	Available- for-sale RMB'000 (Restated)	Total RMB'000 (Restated)
December 31, 2013				
Assets as per balance sheet				
Trade and other receivables excluding prepayments	642,507	–	–	642,507
Financial assets at fair value through profit or loss	–	2,541	–	2,541
Cash and cash equivalents	155,619	–	–	155,619
Total	798,126	2,541	–	800,667
		Liabilities at fair value through the profit & loss RMB'000 (Restated)	Other financial liabilities at amortized cost RMB'000 (Restated)	Total RMB'000 (Restated)
Liabilities as per balance sheet				
Trade and other payables excluding non-financial liabilities		–	62,831	62,831
Derivative financial instruments		1,275	–	1,275
Convertible notes		–	20,921	20,921
Total		1,275	83,752	85,027

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

21 FINANCIAL INSTRUMENTS BY CATEGORY – THE GROUP AND THE COMPANY (Continued)

(b) The Company

	Loans and receivables RMB'000	Assets at fair value through the profit & loss RMB'000	Total RMB'000
December 31, 2014			
Assets as per balance sheet			
Trade and other receivables excluding prepayments	13,987	–	13,987
Financial assets at fair value through profit or loss	–	2,685	2,685
Cash and cash equivalents	13,777	–	13,777
Bank deposits with the maturity over three months	5,018,137	–	5,018,137
Total	5,045,901	2,685	5,048,586
		Other financial liabilities at amortized cost RMB'000	Total RMB'000
Liabilities as per balance sheet			
Trade and other payables excluding non-financial liabilities	–	164,412	164,412

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

21 FINANCIAL INSTRUMENTS BY CATEGORY – THE GROUP AND THE COMPANY (Continued)

(b) The Company (Continued)

	Loans and receivables RMB'000 (Restated)	Assets at fair value through the profit & loss RMB'000 (Restated)	Total RMB'000 (Restated)
December 31, 2013			
Assets as per balance sheet			
Trade and other receivables excluding prepayments	91,236	–	91,236
Financial assets at fair value through profit or loss	–	2,541	2,541
Cash and cash equivalents	28,949	–	28,949
Total	120,185	2,541	122,726
		Other	
	Liabilities at fair value through the profit & loss RMB'000 (Restated)	financial liabilities at amortized cost RMB'000 (Restated)	Total RMB'000 (Restated)
Liabilities as per balance sheet			
Trade and other payables excluding non-financial liabilities	–	156,047	156,047
Derivative financial instruments	1,275	–	1,275
Convertible notes	–	22,285	22,285
Total	1,275	178,332	179,607

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2014 RMB'000	2013 RMB'000
At January 1,	–	–
Additions	240,000	–
At December 31,	240,000	–

The available-for-sale financial assets represent investments in wealthy management products issued by state-owned banks in the PRC with expected return range from 0% to 3.6% per annum and will mature within one year. As at December 31, 2014, the carrying amount approximated 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 the wealth management products classified as available-for-sale.

None of these available-for-sale financial assets is either past due or impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

23 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

	2014 RMB'000	2013 RMB'000 (Restated)
Trade receivables	232,198	362,967
Less: allowance for impairment of trade receivables	(53,702)	–
	<hr/>	<hr/>
Trade receivables – net	178,496	362,967
	<hr/>	<hr/>
Film deposits (Note a)	134,400	89,480
Other prepayments	2,024	2,423
Other receivables arising from:		
– Refund of film investment cost (Note c)	52,000	–
– Refundable deposit in relation to acquisition of an investee (Note b)	24,000	24,000
– Disposal of art works	172,683	84,747
– Disposal of subsidiaries and joint venture (Note d)	19,101	135,226
– Interest income receivable	14,060	–
– Other receivables and deposits	55,570	35,567
Less: allowance for impairment of prepayment and other receivables	(2,187)	–
	<hr/>	<hr/>
Other receivables and prepayments – net	471,651	371,443
	<hr/>	<hr/>
Total trade and other receivables, and prepayments	650,147	734,410
Less: non-current portion	(124,400)	(102,834)
	<hr/>	<hr/>
Current portion	525,747	631,576
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As at December 31, 2014, non-current balances represented prepayments for film deposits.

The fair values of the current portion of trade and other receivables, and prepayments approximate their carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

23 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS (Continued)

Notes:

- (a) In November 2013, the Group entered into a film cooperation agreement with a company owned by Mr. Chan Ho Sun (also known as Peter Chan, "Mr. Chan"), pursuant to which Mr. Chan will provide proposals for 5 film projects, to be developed by Mr. Chan himself or jointly with others (the "Target Films with Chan"), in the coming 7 years for the Group, and the Group will contribute RMB10,000,000 towards the production costs of each film or each film investment opportunity. The Group paid an amount of RMB10,000,000 and RMB40,000,000 during 2013 and 2014 respectively for the investment opportunities of the Target Films with Chan. In 2014, as the first production of film had completed and released successfully, a portion of the prepayment amounting to RMB10,000,000 was transferred to film and TV copyrights (and then recognize in cost of sales and service) and the remaining RMB40,000,000 was classified as non-current asset.

In March 2014, the Group entered into a film cooperation agreement with a company owned by Ms. Chai Zhi Ping (also known as Angie Chai, "Ms. Chai"), pursuant to which Ms. Chai will provide proposals for 5 film projects to be developed by Ms. Chai herself or jointly with others (the "Target Films with Chai"), in the coming 5 years for the Group, and the Group will contribute RMB10,000,000 towards the production costs of each film or each film investment opportunity. The Group paid a total amount of RMB50,000,000 in 2014 for the investment opportunities of the Target Films with Chai. In 2014, a proposal for a film project had been delivered to the Group. However, as at December 31, 2014, the Group considered there were uncertainties concerning the eventual successful completion of this film project and the production has postponed. Accordingly, an impairment loss of RMB10,000,000 was recognized as cost of sales and service and the remaining prepayment of RMB40,000,000 was classified as non-current asset.

In May 2014, the Group entered into a film cooperation agreement with a company owned by Mr. Wong Kar Wai ("Mr. Wong"), pursuant to which Mr. Wong will provide proposals for 5 films projects to be developed by Mr. Wong himself or jointly with others (the "Target Films with Wong"), in the coming 5 years for the Group, and the Group will contribute RMB10,000,000 towards the production costs of each film or each film investment opportunity. The Group paid a total amount of RMB50,000,000 in 2014 for the investment opportunities of the Target Films with Wong and production of the first film has been commenced in January 2015. Accordingly, a portion of the prepayment amounting to RMB10,000,000 was classified as current asset and the remaining RMB40,000,000 is classified as non-current asset.

In September 2012, the Group entered into a film cooperation agreement with Mr. Chiau Sing Chi (also known as Stephen Chow, "Mr. Chiau"), pursuant to which Mr. Chiau will provide proposals for 5 film projects to be developed by Mr. Chiau himself or jointly with others (the "Target Films with Chiau"), in the coming 7 years for the Group, and the Group will contribute RMB10,000,000 towards the production costs for each film or each film investment opportunity. The Group paid a total amount of RMB50,000,000 during the year ended December 31, 2013 for the investment opportunities of the Target Films with Chiau. In the first half year of 2014, the proposals for 5 film projects were delivered to the Group and none of which the Group had considered to make any investments in. Accordingly, full amount of the prepayment was recognized as expense (and included in cost of sales and service) in 2014.

In 2011, the Group entered into a cooperation agreement with an independent film production company ("Film Workshop") pursuant to which the Group paid start-up costs to Film Workshop, which in return agreed to produce three films within the agreed period as stated in the agreement. The start-up costs amounting to RMB4,400,000 (2013: RMB4,400,000) were classified as non-current asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

23 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS (Continued)

Notes: (Continued)

- (b) In 2011, the Group signed an agreement with a third party, pursuant to which the Group entrusted this third party with and paid a deposit of RMB24,000,000. The third party then submitted an application and paid the deposit to Shanghai United Assets and Equity Exchange (“SUAEE”) to express its intention to acquire for a 50% equity interest in another entity. The deposit is fully refundable after obtaining the approval of SUAEE and completion of the transaction. The demand for refund was submitted during the year ended December 31, 2012 and remained in progress as at December 31, 2014. In the opinion of the directors of the Company, the amount would be refunded within 2015. Accordingly, the balance was classified as current asset.
- (c) The amount is unsecured and non-interest bearing. The amount has been fully settled in March 2015.
- (d) During the Year ended December 31, 2014, the Group disposed of its 100% equity interest in 北京永聯信通科技有限責任公司 (“Youtline Technology”) for a consideration of RMB14,000,000. Such consideration has been settled in March 2015.

An amount of approximately RMB5,101,000 (2013: RMB5,101,000) as at December 31, 2014, represents the unsettled consideration arising from the Group’s disposal of a subsidiary, 北京中聯華視影視文化有限公司 (formerly known as 北京中盛千里傳媒文化有限公司) in 2012. Such consideration has been settled in March 2015.

Trade receivables consist of receivables from debtors arising from production and distribution of film and TV copyrights segment and other business segments, are analyzed as follows:

	2014 RMB’000	2013 RMB’000 (Restated)
Production and distribution of film and TV copyrights	216,667	324,975
Other business segments	15,531	37,992
	<u>232,198</u>	<u>362,967</u>

The normal credit period granted to the trade customers of the Group is generally ranging from 30 days to 1 year. Before accepting any new customer, the Group assesses the potential customer’s credit quality and defines credit limits by customer. Credit limits granted to customers 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 customers; (ii) the market situations that lead to delay of broadcasting; (iii) industry practice in settlement; and (iv) subsequent settlements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

23 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS (Continued)

The following is an aging analysis of trade receivables:

	2014 RMB'000	2013 RMB'000 (Restated)
0 – 90 days	70,081	97,911
91 – 180 days	3,072	9,791
181 – 365 days	4,086	177,072
Over 365 days	154,959	78,193
	<u>232,198</u>	<u>362,967</u>

As of December 31, 2014, trade receivables of RMB108,519,000 (2013: RMB71,685,000) were past due but not impaired. These relate to a number of independent customers 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:

	2014 RMB'000	2013 RMB'000 (Restated)
0 – 90 days	85	14,508
91 – 180 days	3,072	2,466
181 – 365 days	4,086	30,999
Over 365 days	101,276	23,712
	<u>108,519</u>	<u>71,685</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

23 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS (Continued)

As at December 31, 2014, trade receivables of RMB53,702,000 (2013: nil) were impaired. The amount of the provision was RMB53,702,000 as at December 31, 2014 (2013: nil). 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 is as follows:

	2014 RMB'000	2013 RMB'000 (Restated)
0 – 90 days	19	–
91 – 180 days	–	–
181 – 365 days	–	–
Over 365 days	53,683	–
	<u>53,702</u>	<u>–</u>

As of December 31, 2014 and December 31, 2013, all of the carrying amounts of the Group's trade receivables are denominated in RMB.

Movements on the Group's allowance for impairment of trade receivables are as follows:

	2014 RMB'000	2013 RMB'000 (Restated)
At January 1,	–	–
Provision for trade receivables impairment	53,702	–
	<u>53,702</u>	<u>–</u>
At December 31,	53,702	–

The creation of provision for impaired trade receivables have been included in 'administrative expenses' in the consolidated income statement (Note 9).

The Group made the provision of RMB2,187,000 to the allowance for impairment of prepayment and other receivables (included in 'administrative expenses' in the consolidated income statement, note 9). Except the amount mentioned above, there is no impairment made to trade and other receivables, and prepayments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – THE GROUP AND THE COMPANY

	2014 RMB'000	2013 RMB'000 (Restated)
Listed securities – held-for-trading		
– Equity securities listed in Hong Kong	2,685	2,541

The fair value of all equity securities is based on their current bid prices in an active market.

25 CASH AND BANK BALANCES – THE GROUP AND THE COMPANY

	The Group		The Company	
	2014 RMB'000	2013 RMB'000 (Restated)	2014 RMB'000	2013 RMB'000 (Restated)
Cash on hand	208	238	–	–
Bank deposits (Note a)	29,889	151,500	13,777	28,949
Other cash equivalent	61	3,881	–	–
Cash and cash equivalents	30,158	155,619	13,777	28,949
Bank deposits with the maturity over three months (Note b)	5,018,137	–	5,018,137	–
Total cash and bank balances	5,048,295	155,619	5,031,914	28,949

Notes:

- (a) The interest rates on bank deposits as at December 31, 2014 were in the range of 0.01% to 0.385% per annum and such deposits had maturities of less than three months. The deposits earn interests at floating rates based on prevailing market rates.
- (b) The interest rates on bank deposits with the maturity over three months were in the range of 0.92% to 3.93% per annum. The deposits earn interests at floating rates based on prevailing market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

26 DISCONTINUED OPERATIONS

During the year 2014, the directors of the Company decided to concentrate the resources of the Group on the business of production and distribution of film and TV copyrights, and ceased/planned to cease the following business, which are treated as discontinued operations:

- (i) From May 2014 onwards, the Group ceased its TV advertising operation and did not renew the TV advertising air-times supply contract with the Shenzhen Media Group. In addition, during the year 2014, the Group completed the deregistration of a subsidiary engaged in TV advertising business and distributed back RMB15,984,000 to the non-controlling interest on the deregistration date.
- (ii) At the end of 2014, the directors of the Company decided to cease its magazine advertising and distribution operation and terminate the cooperation with SOCIETE DU FIGARO.

Accordingly, these two business segments are presented as discontinued operations in the Group's consolidated income statement in 2014 and 2013. Analysis of the result of discontinued operations is as follows:

(a) Income statement

	2014 RMB'000	2013 RMB'000 (Restated)
Revenue	43,612	236,102
Expenses	(70,710)	(208,868)
(Loss)/profit before income tax of discontinued operations	(27,098)	27,234
Income tax expenses	(7,939)	(7,062)
(Loss)/profit for the year from discontinued operations	(35,037)	20,172
(Loss)/profit for the year from discontinued operations attributable to		
– Owners of the Company	(36,276)	9,427
– Non-controlling interests	1,239	10,745
(Loss)/profit for the year from discontinued operations	(35,037)	20,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

26 DISCONTINUED OPERATIONS (Continued)

(b) Cash flows

	2014 RMB'000	2013 RMB'000 (Restated)
Operating cash flows	295	(16,786)
Investing cash flows	–	(29)
Total cash flows	295	(16,815)

27 SHARE CAPITAL – THE GROUP AND THE COMPANY

	2014		2013	
	Number of shares	Share capital HK\$'000	Number of shares	Share capital HK\$'000
Authorized:				
Ordinary shares of HK\$0.25 each (Note a)	30,000,000,000	7,500,000	10,000,000,000	2,500,000
	Number of shares	Share capital HK\$'000	Share capital RMB'000 (Restated)	
Ordinary shares, issued and fully paid:				
At January 1, 2013	7,742,742,564	1,935,686	1,616,499	
Issue of subscription shares (Note b)	582,630,000	145,657	115,069	
At December 31, 2013	8,325,372,564	2,081,343	1,731,568	
	Number of shares	Share capital HK\$'000	Share capital RMB'000	
At January 1, 2014	8,325,372,564	2,081,343	1,731,568	
Issue of shares upon exercise of warrants (Note c)	60,000,000	15,000	11,865	
Issue of shares upon exercise of share options (Note d)	131,560,000	32,890	26,238	
Issue of shares upon conversion of convertible notes (Note e)	30,000,000	7,500	6,000	
Issue of subscription shares (Note f)	12,488,058,846	3,122,015	2,478,100	
At December 31, 2014	21,034,991,410	5,258,748	4,253,771	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

27 SHARE CAPITAL – THE GROUP AND THE COMPANY (*Continued*)

Notes:

- (a) Pursuant to a resolution passed on June 16, 2014, the authorized share capital of the Company was increased from HK\$2,500,000,000 to HK\$7,500,000,000 by creation of additional 20,000,000,000 shares of HK\$0.25 each.
- (b) On July 25, 2013, the Company issued 582,630,000 ordinary shares of HK\$0.25 each at the subscription price of HK\$0.46 per share to certain independent third parties totalling HK\$268,010,000 (equivalent to approximately RMB211,727,000).
- (c) On March 18, 2014 and May 15, 2014, a total of 60,000,000 new ordinary shares of HK\$0.25 each were issued upon exercise of warrants at a subscription price of HK\$0.50 per share.
- (d) In 2014, 102,400,000 and 29,160,000 new ordinary shares of HK\$0.25 each were issued upon exercise of share options at an exercise price of HK\$0.475 per share and HK\$0.56 per share respectively.
- (e) On June 13, 2014, 30,000,000 new ordinary shares of HK\$0.25 each were issued upon the conversion of Additional CB (as defined and detailed in Note 30).
- (f) On June 24, 2014, the Company issued 12,488,058,846 new ordinary shares of HK\$0.25 each at a subscription price of HK\$0.50 per share to Ali CV for aggregate subscription price totalling HK\$6,244,030,000 (equivalent to approximately RMB4,956,200,000). These shares represented approximately 59.61% of the enlarged issued share capital of the Company as at the date of subscription.

28 SHARE-BASED PAYMENT – THE GROUP AND THE COMPANY

Pursuant to the 2002 Share Option Scheme which was adopted by the Company on May 23, 2002, the board of directors of the Company may grant to any director or employee of the Company or any of its subsidiaries options to subscribe for shares in the Company, in accordance with the terms of the 2002 Share Option Scheme. The 2002 Share Option Scheme expired on May 23, 2012. The share options granted under the 2002 Share Option Scheme prior to its expiry shall continue to be valid and exercisable in accordance with the provisions of the 2002 Share Option Scheme. A summary of the terms applicable to the outstanding share options of the 2002 Share Option Scheme has been disclosed in the Company's 2011 annual report. As at December 31, 2014, a total of 4,050,000 ordinary shares of the Company (representing approximately 0.02% of the existing issued share capital of the Company) are available for issue under the 2002 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 directors of the Company considered that the 2012 Share Option Scheme, which will be valid for 10 years from the date of its adoption, will provide the Company with more flexibility in long term planning of granting of the share options to eligible persons in a longer period in the future after the expiry of the 2002 Share Option Scheme. The 2012 Share Option Scheme will expire on June 12, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

28 SHARE-BASED PAYMENT – THE GROUP AND THE COMPANY (Continued)

The total number of shares in respect of which options may be granted under the 2012 Share Option Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the 2012 Share Option Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. 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. As at December 31, 2014, a total of 774,274,256 ordinary shares of the Company (representing approximately 3.68% of the existing issued share capital of Company) are available for issue under the 2012 Share Option Scheme. No share options were granted under the 2012 Share Option Scheme during the year.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder 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 options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the shareholders of the Company.

Options granted must be taken up within 21 days from date of grant, upon payment of HK\$1 per each grant of options. An option may be exercised in accordance with the terms of the 2012 Share Option Scheme at any time during the effective period of the 2012 Share Option Scheme to be notified by the board of directors of the Company which shall not be later than 10 years from date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the Stock Exchange on the date of grant and, the average closing price of the Company's shares on the Stock Exchange for the five business days immediately preceding the date of grant, provided that the exercise price should not be lower than the nominal value of the Company's share.

The fair values of the options granted on March 18, 2010 and May 4, 2010 under the 2002 Share Option Scheme using the Binomial Model were RMB15,706,000 (equivalent to HK\$19,802,000) and RMB4,031,000 (equivalent to HK\$5,082,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

28 SHARE-BASED PAYMENT – THE GROUP AND THE COMPANY (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 income statement, with a corresponding adjustment to the share option reserve.

Details of the movements of the share options granted by the Company pursuant to the 2002 Share Option Scheme are as below:

	2014		2013	
	Weighted average exercise price in HK\$ per share option	Number of share options (thousands)	Weighted average exercise price in HK\$ per share option	Number of share options (thousands)
At January 1,	0.496	147,910	0.496	147,910
Exercised	0.494	(131,560)	–	–
Lapsed	0.525	(12,300)	–	–
At December 31,	<u>0.475</u>	<u>4,050</u>	<u>0.496</u>	<u>147,910</u>

According to the 2002 Share Option Scheme, all the share options granted on March 18, 2010 and May 4, 2010 were fully vested during the year ended December 31, 2012.

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, 2014 had a weighted average remaining contractual life of 6 years (2013: 7 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

29 RESERVES

(a) The Company

Notes	Convertible						Total
	Share premium	Share redemption reserve	Contributed surplus	notes equity reserve	Share option reserve	Accumulate losses	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2013 (as restated)	623,024	863	61,486	36,797	37,841	(295,992)	464,019
Issue of subscription shares 27(b)	96,658	-	-	-	-	-	96,658
Transaction costs attributable to issue of subscription shares	(6,403)	-	-	-	-	-	(6,403)
Reclassified to accumulated losses upon maturity of convertible notes	-	-	-	(30,403)	-	30,403	-
Loss for the year	-	-	-	-	-	(80,881)	(80,881)
At December 31, 2013 (as restated)	713,279	863	61,486	6,394	37,841	(346,470)	473,393
At January 1, 2014 (as restated)	713,279	863	61,486	6,394	37,841	(346,470)	473,393
Issue of subscription shares 27(f)	2,478,100	-	-	-	-	-	2,478,100
Transaction costs attributable to issue of subscription shares	(5,125)	-	-	-	-	-	(5,125)
Issue of shares upon exercise of warrants 27(c)	66,347	-	-	-	-	-	66,347
Transaction costs attributable to issuance shares through exercise of warrants	(610)	-	-	-	-	-	(610)
Issue of shares upon exercise of share options 27(d)	59,235	-	-	-	(33,497)	-	25,738
Lapse of share option	-	-	-	-	(3,448)	3,448	-
Issue of shares upon conversion of convertible notes 27(e)	23,601	-	-	(6,394)	-	-	17,207
Loss for the year	-	-	-	-	-	(82,505)	(82,505)
At December 31, 2014	3,334,827	863	61,486	-	896	(425,527)	2,972,545

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

29 RESERVES (Continued)

(b) The Group

As at December 31, 2014, the Group's (accumulated losses)/retained earnings included PRC subsidiaries' statutory surplus reserve of RMB28,215,000 (December 31, 2013: RMB28,037,000).

In accordance with the relevant laws and regulations of the PRC, when distributing the net profit of each year, 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.

30 CONVERTIBLE NOTES

Pursuant to the equity transfer agreements for acquisition of the entire issued share capital of Prefect Strategy International Limited ("Prefect Strategy") and Main City Limited ("Main City") which have indirect control and an effective interest in Beida Culture, the Company issued two zero coupon convertible notes which have an aggregate principal amount of RMB427,700,000 (equivalent to HK\$470,000,000) on June 3, 2010. The first convertible note ("CB1") amounting to RMB318,500,000 (equivalent to HK\$350,000,000) issued to the then vendor of Prefect Strategy will be matured in the third anniversary after the date of issuance. The second convertible note ("CB2") amounting to RMB109,200,000 (equivalent to HK\$120,000,000) issued to the then vendor of Main City will be matured in the fifth anniversary after the date of issuance. In addition, based on the relevant agreements, the Group was required to issue an additional amount of convertible note of the Company amounting to a principal amount of RMB27,300,000 (equivalent to HK\$30,000,000) (the "Additional CB") to the vendor of Main City if profit after taxation of Beida Culture in the year 2010 exceeds HK\$50,000,000 (the "Condition"). Since the Condition was fulfilled as at December 31, 2010, the obligation of the issuance of the Additional CB was established.

On August 6, 2010, CB2 was fully converted into shares of the Company. CB1 was matured on June 3, 2013 and settled upon the disposal of 70% equity interest in Beida Culture during the year ended December 31, 2013. The Additional CB, a zero coupon convertible note with principal amount of RMB27,300,000 (equivalent to HK\$30,000,000) was issued on March 30, 2011 and will be matured on the fifth anniversary after the date of issuance. On June 13, 2014, the Additional CB with carrying amount of RMB22,110,000 in the consolidated financial statements was fully converted into ordinary shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

31 TRADE AND OTHER PAYABLES, AND ACCRUED CHARGES

	2014 RMB'000	2013 RMB'000 (Restated)
Trade payables	29,104	30,341
Other tax payable	99,505	82,710
Payroll and welfare payable	4,202	9,481
Other payables, accrued charges and advanced from customers	42,871	33,632
	175,682	156,164

As at December 31, 2014, the aging analysis of the trade payables based on invoice date is as follows:

	2014 RMB'000	2013 RMB'000 (Restated)
0 – 90 days	8,662	16,593
91 – 180 days	8,092	653
181 – 365 days	–	11,408
Over 365 days	12,350	1,687
	29,104	30,341

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

32 DEFERRED INCOME TAX ASSETS

The analysis of deferred income tax assets is as follows:

	2014 RMB'000	2013 RMB'000 (Restated)
Deferred income tax assets:		
– Deferred income tax asset to be recovered after more than 12 months	–	10,093
– Deferred income tax asset to be recovered within 12 months	1,188	43,912
	1,188	54,005

The movement in deferred income tax assets during the year is as follows:

	Deductible tax losses	Accrual RMB'000	Allowance for doubtful debts RMB'000	Other RMB'000	Total RMB'000
At January 1, 2013 (as restated)	7,232	35,645	379	652	43,908
(Charged)/credited to the consolidated income statements	(7,232)	17,407	(96)	18	10,097
At December 31, 2013 (as restated)	–	53,052	283	670	54,005
At January 1, 2014	–	53,052	283	670	54,005
Charged to the consolidated income statements	–	(51,864)	(283)	(670)	(52,817)
At December 31, 2014	–	1,188	–	–	1,188

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 31 December 2014, the Group had tax losses of RMB682,807,000 (2013: RMB477,939,000) 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 RMB64,130,000 will expire through year 2015 to 2019 (2013: RMB26,722,000 will expire through year 2014 to 2018), the amount of RMB618,677,000 (2013: RMB451,217,000) with no expiry date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

33 DIVIDENDS

The board of directors of the Company does not recommend the payment of a dividend for the Year ended December 31, 2014 and 2013.

34 CASH USED IN OPERATIONS

	2014 RMB'000	2013 RMB'000 (Restated)
(Loss)/profit before income tax including discontinued operations	(389,971)	226,267
Adjustments for:		
– Depreciation and amortization	9,826	5,871
– Provision for impairment of intangible assets	–	1,245
– Provision for impairment of film and TV copyrights	102,172	3,204
– Provision for impairment of trade and other receivables, and prepayments	55,889	–
– Loss on disposal of property, plant and equipment	2,871	–
– Finance expenses, net	10,894	18,971
– Share of losses from investments accounted for using equity method	4,190	2,070
– Impairment loss on interest in an associate	111,216	–
– Gains on disposal of art works	(17,586)	(72,324)
– Gains on disposal of subsidiaries	(8,861)	(93,442)
– Change in fair value of derivative financial instruments	53,207	895
– Change in fair value of financial assets at fair value through profit or loss	(125)	827
Changes in working capital:		
– Film and TV copyrights	18,654	(152,436)
– Trade and other receivables, and prepayments	(3,615)	(121,178)
– Trade and other payables, and accrued charges	16,734	(40,243)
– Financial assets at fair value through profit or loss	–	14,800
Cash used in operations	(34,505)	(205,473)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

35 DISPOSAL OF SUBSIDIARIES

- (a) On June 2, 2014, a wholly-owned subsidiary of the Group has entered into a conditional sale and purchase agreement with an independent third party pursuant to which the Group will dispose of 100% equity interests in Youline Technology, which is engaged in provision of mobile value-added services, for a consideration of RMB14,000,000 (the "Disposal"). The Disposal was completed on June 9, 2014, on which date control of Youline Technology passed to the acquirer.

	RMB'000
Cash consideration – recorded as receivable in 2014 (Note 23(d))	14,000
Analysis of assets and liabilities over which control was lost	
Property, plant and equipment	373
Trade and other receivables	6,858
Cash and bank balances	247
Trade and other payables	(2,339)
Net assets disposed of	5,139
Gain on disposal of a subsidiary	
Consideration receivable	14,000
Net assets disposed of	(5,139)
Gain on disposal	8,861
Cash outflow arising on disposal	
	RMB'000
Bank balances and cash disposed of	(247)

- (b) In year 2013, the Group disposed 70% of its equity interest of Beida Culture at a consideration of RMB357,600,000, which has been settled by (i) surrender of payables related to the matured CB1 (note 30), and (ii) cash payment of RMB39,100,000 received in the year 2014.

In year 2013, the Group disposed of its entire equity interest of Main City and 49% equity interest of 人民視訊文化有限公司 ("RenMinShiXun"), at a consideration of US\$18,800,000 (equivalent to RMB114,084,000) of which US\$3,800,000 (equivalent to RMB23,060,000) has been settled in 2013 and US\$15,000,000 (equivalent to RMB91,025,000) has been settled in 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

36 COMMITMENTS

(a) Capital commitments

On October 12, 2012, a wholly-owned subsidiary of the Company entered into a film art centre framework agreement with an independent party (the “Framework Agreement”) pursuant to which a company will be established in the PRC (the “PRC Company”) and the Group is required to contribute capital of US\$15,000,000 by way of cash. The PRC Company was established during the year ended December 31, 2013 and has been deregistered in 2014. There’s no capital investment provided to this company by the Group.

As at December 31, 2014, the Group is in the process of termination of the Framework Agreement.

(b) Operating lease commitments – Group as lessee

The Group leases office buildings under non-cancellable operating lease agreements. The lease terms are between 3 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:

	2014 RMB'000	2013 RMB'000 (Restated)
No later than 1 year	22,014	33,822
Later than 1 year and no later than 5 years	68,377	87,102
Later than 5 years	45,713	50,637
	<hr/> 136,104	<hr/> 171,561

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

37 RELATED PARTY TRANSACTIONS

The Company is 59.61% owned by Ali CV. The remaining 40.39% 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

	2014 RMB'000	2013 RMB'000 (Restated)
Administrative service fee paid/payable to AGHL's subsidiary (Note)	139	–
Legal service fee paid/payable to AGHL's subsidiary (Note)	237	–
Advertising service fee received from a joint venture	–	2,913
TV advertising air time fees paid and payable to a non-controlling shareholder of a subsidiary (Note)	–	130,343
	<u> </u>	<u> </u>

Note:

Such transactions constituted connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Balances with related parties

As at December 31, 2014, balances with related parties comprised:

	2014 RMB'000	2013 RMB'000
Amounts due to AGHL's subsidiary	596	–
	<u> </u>	<u> </u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

37 RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

Key management includes directors (executive and non-executive), chief executive officer and chief financial officer. The compensation paid or payable to key management for employee services is shown below:

	2014 RMB'000	2013 RMB'000 (Restated)
Salaries, allowances and other benefits	4,547	6,148

38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries at December 31, 2014:

Name	Place of incorporation/ registration	Place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares indirectly held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities
Banford Limited	Hong Kong	Hong Kong	Ordinary HK\$10,000	-	100	-	Investment holding
Best Venue Limited	British Virgin Islands	Hong Kong	Ordinary US\$1	-	100	-	Investment holding
C8M Limited	Hong Kong	Hong Kong	Ordinary HK\$10,000	-	100	-	Advertising services
Century First Limited	Hong Kong	Hong Kong	Ordinary HK\$1	-	100	-	Investment holding
China Allied Culture Limited	Hong Kong	Hong Kong	Ordinary HK\$1	-	100	-	Investment holding
China Allied Culture Media Group Limited	British Virgin Islands	Hong Kong	Ordinary US\$1	-	100	-	Investment holding
China Entertainment Media Group Limited	Cayman Islands	Hong Kong	Ordinary US\$10,000 Preferred US\$2,500	100	-	-	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares indirectly held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities
Gain Favour Limited	British Virgin Islands	Hong Kong	Ordinary US\$1	-	100	-	Production and distribution of film and TV copyrights
Huge Grand Investments Limited	British Virgin Islands	Hong Kong	Ordinary US\$1	-	100	-	Production and distribution of film and TV copyrights
Orient Ventures Limited	British Virgin Islands	Hong Kong	Ordinary US\$1	-	100	-	Investment holding
Rich Trend Developments Limited	British Virgin Islands	Hong Kong	Ordinary US\$100	-	75	25	Investment holding
SAC Enterprises Limited	Hong Kong	Hong Kong	Ordinary HK\$1,000	100	-	-	Provision of management services to group companies
SAC Nominees Limited	Hong Kong	Hong Kong	Ordinary HK\$100	100	-	-	Provision of nominee services
SAC Secretarials Limited	Hong Kong	Hong Kong	Ordinary HK\$100	100	-	-	Provision of secretarial services
Starry Harbour Limited	Hong Kong	Hong Kong	Ordinary HK\$1	-	75	25	Investment holding
West Gold Limited	British Virgin Islands	Hong Kong	Ordinary US\$1	-	100	-	Production and distribution of film rights over films
Worthwide Limited	British Virgin Islands	Hong Kong	Ordinary US\$1	100	-	-	Investment holding
Year Wealth Limited	British Virgin Islands	Hong Kong	Ordinary US\$50,000	-	100	-	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares indirectly held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities
中聯華文化傳播(北京)有限公司("Zhonglian Jinghua") (Notes i and ii)	PRC (Note iv)	PRC	Registered Capital RMB10,000,000	-	-	-	Investment holding
中聯華盟(上海)文化傳媒有限公司 (Note ii)	PRC (Note iv)	PRC	Registered Capital RMB3,000,000	-	-	-	Production and distribution of film and TV copyrights
北京中聯華盟文化傳媒投資有限公司 (Note ii)	PRC (Note iv)	PRC	Registered Capital RMB10,000,000	-	-	-	Production and distribution of film and TV copyrights
華盟(天津)文化投資有限公司 (Note ii)	PRC (Note iv)	PRC	Registered Capital RMB15,000,000	-	-	-	Production and distribution of film and TV copyrights
浙大商業管理諮詢(上海)有限公司	PRC (Note v)	PRC	Registered Capital US\$100,000	-	100	-	Investment holding
Beijing Shitong (Notes i and iii)	PRC (Note iv)	PRC	Registered Capital RMB200,000	-	-	-	Investment holding
西安金鼎影視文化有限公司 ("Xian Jinding") (Note iii)	PRC (Note iv)	PRC	Registered Capital RMB3,000,000	-	-	-	Production and distribution of film and TV copyrights
中聯盛世文化(北京)有限公司	PRC (Note v)	PRC	Registered Capital RMB100,000,000	-	100	-	Investment holding
天津唐圖科技有限公司 (Note ii)	PRC (Note iv)	PRC	Registered Capital RMB10,000,000	-	-	-	Development and distribution of mobile games
北京中聯同達文化有限公司 (Note ii)	PRC (Note iv)	PRC	Registered Capital RMB1,000,000	-	-	-	Provision of TV programme packaging service
北京騰安盛世廣告有限公司 (Note ii)	PRC (Note iv)	PRC	Registered Capital RMB1,000,000	-	-	-	Sales of TV advertising air-time

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares indirectly held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities
中聯華盟(天津)廣告有限公司 (Note ii)	PRC (Note iv)	PRC	Registered Capital RMB7,500,000	-	-	-	Sales of TV advertising air-time
北京人和人文化有限公司 (Note ii)	PRC (Note iv)	PRC	Registered Capital RMB100,000	-	-	-	Magazine advertising and magazine distribution
人和人(天津)廣告有限公司 (Note ii)	PRC (Note iv)	PRC	Registered Capital RMB7,500,000	-	-	-	Magazine advertising and magazine distribution
友利浩歌(北京)傳媒文化有限公司	PRC (Note v)	PRC	Registered Capital RMB100,000	-	100	-	Investment holding

Notes:

- (i) Zhonglian Jinghua and Beijing Shitong are the subsidiaries arising from the Contractual Arrangements (Note 2.2.1(a)).
- (ii) Zhonglian Jinghua holds non wholly-owned subsidiaries and wholly-owned subsidiaries. Pursuant to the respective Memorandum and Articles of Association of non wholly-owned subsidiaries and wholly-owned subsidiaries, the daily operating and financial affairs of these non wholly-owned subsidiaries and wholly-owned subsidiaries are decided by the board of directors with simple majority of votes. Zhonglian Jinghua controls over 50% of the voting powers in the board of directors of the non wholly-owned subsidiaries and 100% of the voting powers in the board of directors of the wholly-owned subsidiaries, which give the Group the current ability to direct the relevant activities of these entities. 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.
- (iii) Beijing Shitong holds 56% equity interests of Xian Jinding. Pursuant to the Memorandum and Articles of Association of Xian Jinding, the daily operating and financial affairs of Xian Jinding are decided by the board of directors with simple majority of votes. Beijing Shitong controls over 50% of the voting powers in the board of directors of Xian Jinding which gives the Group the current ability to direct the relevant activities of Xian Jinding. Accordingly, it is treated as a subsidiary of the Company under HKFRS 10 and its results, assets and liabilities are consolidated with those of the Group.
- (iv) These subsidiaries are domestic-invested enterprises.
- (v) These subsidiaries are wholly foreign owned enterprises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

38 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES *(Continued)*

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.

39 EVENT AFTER THE BALANCE SHEET DATE

On January 28, 2015, the Group granted a total of 285,019,800 share options to certain eligible participants ("Grantees"), subject to the acceptance of the Grantees, under the 2012 Share Option Scheme. Each share option shall entitle the Grantees to subscribe for one ordinary share of HK\$0.25 each in the capital of the Company upon exercise of such share option. The exercise price of the share options is HK\$1.67 per share. The validity period of the share options is ten years from January 28, 2015 to January 27, 2025 with vesting schedule over a period of four to five years commencing from the employment date of the relevant Grantees.



FINANCIAL SUMMARY

FOR THE YEAR ENDED DECEMBER 31, 2014

RESULTS

	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Continuing operations					
Revenue	–	239,333	643,504	349,378	126,631
(Loss)/profit before taxation	(4,948)	(61,925)	148,558	199,033	(362,873)
Taxation charge	–	(1,662)	(2,252)	(33,126)	(17,381)
(Loss)/profit for the year	(4,948)	(63,587)	146,306	165,907	(380,254)
Discontinued operations					
(Loss)/profit for the year from discontinued operations	–	–	–	20,172	(35,037)
(Loss)/profit attributable to:					
Owners of the Company	(4,948)	(62,533)	143,795	179,671	(417,276)
Non-controlling interests	–	(1,054)	2,511	6,408	1,985
	(4,948)	(63,587)	146,306	186,079	(415,291)

ASSETS AND LIABILITIES

	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000
Total assets	27,954	269,599	1,621,057	1,709,211	6,337,432
Total liabilities	(33,326)	(134,220)	(591,103)	(312,649)	(270,364)
Total equity	(5,372)	135,379	1,029,954	1,396,562	6,067,068
Non-controlling interest	–	(3,826)	(27,364)	(13,651)	588
Equity attributable to owners of the Company	(5,372)	131,553	1,002,590	1,382,911	6,067,656

- (a) The financial figures of assets and liabilities for the year 2012 and the financial figures for the years 2013 and 2014 were extracted from the 2014 Annual report.
- (b) The financial figures of results for the year 2012 were extracted from the 2013 Annual report, and translated at an average exchange rate of HK\$1.00 = RMB0.8117.
- (c) The financial figures for the years 2010 and 2011 were extracted from the 2013 Annual report, and translated at an average exchange rate of HK\$1.00 = RMB0.866 and a closing rate of HK\$1.00 = RMB0.847, and an average exchange rate of HK\$1.00 = RMB0.83 and a closing rate of HK\$1.00 = RMB0.812, respectively.