

2016

INTERIM REPORT



Alibaba Pictures Group Limited 阿里巴巴影业集团有限公司

Stock Code: 1060

This Interim Report is printed on environmentally friendly paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Shao Xiaofeng (*Chairman*)
Mr. Zhang Qiang (*Chief Executive Officer*)
Mr. Deng Kangming
Ms. Zhang Wei (*President*)
Mr. Fan Luyuan

Non-Executive Directors

Mr. Li Lian Jie
Mr. Yu Yongfu

Independent Non-Executive Directors

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

EXECUTIVE COMMITTEE

Mr. Shao Xiaofeng (*Chairman*)
Mr. Zhang Qiang
Mr. Deng Kangming
Ms. Zhang Wei
Mr. Fan Luyuan

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. Shao Xiaofeng (*Chairman*)
Mr. Tong Xiaomeng
Mr. Johnny Chen

COMPANY SECRETARY

Mr. Ng Lok Ming, William

AUDITOR

PricewaterhouseCoopers

WEBSITE

www.irasia.com/listco/hk/alibabapictures

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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BEIJING OFFICE

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building, 69 Pitts Bay Road
Pembroke HM08, Bermuda

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited	
		For the six months ended June 30,	
		2016	2015
	Note	RMB'000	RMB'000
Continuing operations			
Revenue	6	257,257	22,938
Cost of sales and services		(179,952)	(72,925)
		77,305	(49,987)
Gross profit/(loss)			
Selling and marketing expenses		(523,708)	(26,441)
Administrative expenses		(278,310)	(129,100)
Other income		17,828	2,595
Other gains/(losses), net	7	32,116	(3,909)
		(674,769)	(206,842)
Operating loss			
Finance income	8	240,522	65,283
Finance expenses	8	(6,094)	(2,604)
		234,428	62,679
Finance income, net			
Share of (loss)/profit of investments accounted for using the equity method		(122)	20
		(440,463)	(144,143)
Loss before income tax			
Income tax expense	9	(25,244)	(3,059)
		(465,707)	(147,202)
Loss for the period from continuing operations			
Discontinued operations			
Loss for the period from discontinued operations		–	(4,593)
		(465,707)	(151,795)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(Continued)

		Unaudited	
		For the six months ended June 30,	
		2016	2015
	Note	RMB'000	RMB'000
Loss attributable to:			
Owners of the Company		(465,869)	(151,819)
Non-controlling interests		162	24
		<u> </u>	<u> </u>
Loss attributable to owners of the Company:			
Continuing operations		(465,869)	(147,226)
Discontinued operations		–	(4,593)
		<u> </u>	<u> </u>
Loss per share from continuing and discontinued operations attributable to owners of the Company for the period			
(expressed in RMB cents per share)	10		
Basic loss per share			
From continuing operations		(1.85)	(0.68)
From discontinued operations		–	(0.02)
		<u> </u>	<u> </u>
		(1.85)	(0.70)
Diluted loss per share			
From continuing operations		(1.85)	(0.68)
From discontinued operations		–	(0.02)
		<u> </u>	<u> </u>
		(1.85)	(0.70)

The notes on pages 10 to 27 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	For the six months ended June 30,	
	2016	2015
	RMB'000	RMB'000
Loss for the period	(465,707)	(151,795)
Other comprehensive income/(loss):		
<i>Item that may be reclassified to profit or loss</i>		
Currency translation differences	4,695	(36)
Fair value gains on available-for-sale financial assets, net of tax	3,802	1,332
Other comprehensive income for the period, net of tax	8,497	1,296
Total comprehensive loss for the period	(457,210)	(150,499)
Attributable to:		
Owners of the Company	(457,372)	(150,523)
Non-controlling interests	162	24
Total comprehensive loss for the period	(457,210)	(150,499)
Total comprehensive loss attributable to owners of the Company arises from:		
Continuing operations	(457,372)	(145,930)
Discontinued operations	-	(4,593)
	(457,372)	(150,523)

The notes on pages 10 to 27 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited June 30, 2016	Audited December 31, 2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Non-current assets			
Property, plant and equipment	11	81,120	57,136
Goodwill	11	3,490,574	3,490,574
Intangible assets	11	184,245	191,331
Financial assets at fair value through profit or loss	13	1,000,000	–
Investments accounted for using the equity method		29,380	19,081
Deferred income tax assets		975	18,310
Trade and other receivables, and prepayments	12	720,029	122,928
		<u>5,506,323</u>	<u>3,899,360</u>
Current assets			
Inventories		372	306
Film and TV copyrights		696,881	383,761
Trade and other receivables, and prepayments	12	1,310,149	789,113
Available-for-sale financial assets		1,044,775	1,102,006
Cash and cash equivalents		2,919,245	3,677,988
Bank deposits with the maturity over three months		5,411,597	7,089,781
Restricted cash	16	2,023,431	2,021,328
		<u>13,406,450</u>	<u>15,064,283</u>
Assets held-for-sale		9,116	12,218
		<u>13,415,566</u>	<u>15,076,501</u>
Total assets		<u>18,921,889</u>	<u>18,975,861</u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	14	5,081,884	5,081,884
Reserves		10,738,098	11,113,927
		<u>15,819,982</u>	<u>16,195,811</u>
Non-controlling interests		<u>(2,069)</u>	<u>(2,231)</u>
Total equity		<u>15,817,913</u>	<u>16,193,580</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

		Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
	<i>Note</i>		
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		48,406	48,965
		<u>48,406</u>	<u>48,965</u>
Current liabilities			
Trade and other payables, and accrued charges	17	1,049,895	670,666
Borrowings	16	1,980,000	1,980,000
Derivative financial liability	7	–	33,000
Current income tax liabilities		25,675	49,650
		<u>3,055,570</u>	<u>2,733,316</u>
Total liabilities		<u>3,103,976</u>	<u>2,782,281</u>
Total equity and liabilities		<u>18,921,889</u>	<u>18,975,861</u>

The notes on pages 10 to 27 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited
Attributable to owners of the Company

								(Accumulated			
	Issued share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Other reserve <i>RMB'000</i>	Shareholder's contribution reserve <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	Investment revaluation reserve <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	losses)/ retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2016	5,081,884	12,063,133	(1,346,285)	48,527	14,751	9,605	81,654	242,542	16,195,811	(2,231)	16,193,580
(Loss)/profit for the period	-	-	-	-	-	-	-	(465,869)	(465,869)	162	(465,707)
Other comprehensive income for the period:											
Fair value gains on available-for-sale financial assets, net of tax	-	-	-	-	-	3,802	-	-	3,802	-	3,802
Currency translation differences	-	-	-	-	4,695	-	-	-	4,695	-	4,695
Total comprehensive (loss)/income for the period	-	-	-	-	4,695	3,802	-	(465,869)	(457,372)	162	(457,210)
Value of services provided under share option scheme	-	-	-	-	-	-	65,461	-	65,461	-	65,461
Share-based payment transactions with AGHL	-	-	-	-	-	-	16,082	-	16,082	-	16,082
At June 30, 2016	5,081,884	12,063,133	(1,346,285)	48,527	19,446	13,407	163,197	(223,327)	15,819,982	(2,069)	15,817,913
At January 1, 2015	4,253,771	3,334,827	(1,345,955)	48,527	314	-	566	(224,394)	6,067,656	(588)	6,067,068
(Loss)/profit for the period	-	-	-	-	-	-	-	(151,819)	(151,819)	24	(151,795)
Other comprehensive income/(loss) for the period:											
Fair value gains on available-for-sale financial assets, net of tax	-	-	-	-	-	1,332	-	-	1,332	-	1,332
Currency translation differences	-	-	-	-	(36)	-	-	-	(36)	-	(36)
Total comprehensive (loss)/income for the period	-	-	-	-	(36)	1,332	-	(151,819)	(150,523)	24	(150,499)
Issue of placing shares	828,113	8,778,000	-	-	-	-	-	-	9,606,113	-	9,606,113
Transaction costs attributable to issue of placing shares	-	(49,694)	-	-	-	-	-	-	(49,694)	-	(49,694)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(1,123)	(1,123)
Lapse of share options	-	-	(330)	-	-	-	(566)	896	-	-	-
Value of services provided under share option scheme	-	-	-	-	-	-	72,924	-	72,924	-	72,924
At June 30, 2015	5,081,884	12,063,133	(1,346,285)	48,527	278	1,332	72,924	(375,317)	15,546,476	(1,687)	15,544,789

The notes on pages 10 to 27 are an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited	
		For the six months ended June 30,	
		2016	2015
		RMB'000	RMB'000
Cash flows from operating activities			
Cash used in operating activities		(1,162,710)	(168,025)
Income tax paid		(33,710)	(67,187)
Net cash used in operating activities		(1,196,420)	(235,212)
Cash flows from investing activities			
Prepayment for investment	12(b)	(1,133,972)	–
Investment in convertible bonds	13	(1,000,000)	–
Purchases of property, plant and equipment (“PPE”)		(30,209)	(1,426)
Investment in an associate		(10,000)	–
Purchase of intangible assets		(335)	–
Change in bank deposits with the maturity over three months, net		1,796,103	288,857
Change in available-for-sale financial assets (“AFS”), net		62,300	–
Interest received		44,863	2,081
Proceeds from collection of loan receivable		15,000	–
Investment income received		12,892	1,623
Proceeds from disposal of art works		8,000	153,114
Settlement of receivable from disposal of subsidiaries		–	19,101
Proceeds from disposal of financial assets at fair value through profit or loss		–	3,536
Proceeds from disposal of PPE		–	4
Acquisition of a subsidiary, net of cash acquired		–	(811,884)
Transaction costs attributable to acquisition of a subsidiary		–	(9,938)
Disposal of a subsidiary, net of cash disposed		–	(647)
Net cash used in investing activities		(235,358)	(355,579)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

	Note	Unaudited	
		2016	2015
		RMB'000	RMB'000
Cash flows from financing activities			
Proceeds from capital injection into a subsidiary	17(b)	633,500	–
Interest paid		(6,094)	–
Increase in restricted cash in relation to financing activities		(2,749)	–
Proceeds from issue of shares		–	9,606,113
Proceeds from borrowings		–	900,000
Transaction costs attributable to issue of shares		–	(47,456)
		<hr/>	<hr/>
Net cash generated from financing activities		624,657	10,458,657
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents		(807,121)	9,867,866
Cash and cash equivalents at the beginning of the period		3,677,988	30,158
Exchange gains on cash and cash equivalents		48,378	15,384
		<hr/>	<hr/>
Cash and cash equivalents at the end of the period		2,919,245	9,913,408
		<hr/>	<hr/>

The notes on pages 10 to 27 are an integral part of this condensed consolidated interim financial information.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Alibaba Pictures Group Limited (the “Company”) and its subsidiaries (together, the “Group”) operate an internet-powered integrated platform which includes financing and investment, entertainment content production, promotion and distribution, fan-based social economics, and cinema service provision.

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

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the “HK Stock Exchange”) and secondary listing on the Singapore Exchange Securities Trading Limited. As at June 30, 2016, the Company is 49.49% owned by Ali CV Investment Holding Limited (“Ali CV”). Ali CV is a wholly-owned subsidiary of Alibaba Investment Limited (“AIL”) which is in turn wholly-owned by Alibaba Group Holding Limited (“AGHL”).

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

Key Events

On May 13, 2016, the Group entered into an agreement in relation to the investment in Bona Film Group Co., Ltd. (“BONA Beijing”, a company incorporated in Beijing, the PRC). Further details are given in Note 12(b).

On May 15, 2016, the Group entered into an agreement with certain investors in relation to the capital injection of an indirect wholly-owned subsidiary of the Company, which operates the online movie ticketing business. Further details are given in Note 17.

On June 15, 2016, the Group completed the subscription of convertible bonds issued by Dadi Cinema (HK) Limited (“Dadi”), a subsidiary of Nan Hai Corporation Limited (whose shares are listed on the HK Stock Exchange) for an aggregate principal amount of RMB1,000,000,000. Further details are given in Note 13.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended June 30, 2016 has been prepared in accordance with Hong Kong Accounting Standard 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”).

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2015, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending December 31, 2016.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) Amendments to standards effective for annual periods beginning on or after January 1, 2016

Amendments to HKAS 16 and HKAS 38 “Clarification of acceptable methods of depreciation and amortization” clarify when a method of depreciation or amortization based on revenue may be appropriate.

The amendment to HKAS 38 establishes a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances:

- where the intangible asset is expressed as a measure of revenue; or
- where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The adoption of the above amendments and other amendments effective for the financial year ended December 31, 2016 do not have material impact on the Group.

3 ACCOUNTING POLICIES (Continued)

(b) Impact of standards issued but not yet applied by the Group

(i) HKFRS 9 Financial instruments

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until January 1, 2018 but is available for early adoption. The Group is currently assessing the effects of applying the new standard on the Group's financial statements.

(ii) HKFRS 15 Revenue from contracts with customers

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers revenue arising from the sale of goods and the rendering of services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after January 1, 2018, and will allow early adoption. The Group is currently assessing the effects of applying the new standard on the Group's financial statements.

(c) Financial assets designated as at fair value through profit or loss

During the period, the Group invested in convertible bonds, which contained embedded derivatives (Note 13) and are designated as financial assets at fair value through profit or loss. The accounting policies adopted by the Group on financial assets designated as at fair value through profit or loss were as follows:

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

- the financial assets are managed, evaluated and reported internally on a fair value basis; and
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets.

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

- the embedded derivatives does not significantly modify the cash flows that would otherwise be required under the contract; or
- it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivatives is prohibited.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein are recognized in profit or loss.

4 ESTIMATES

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2015.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2015.

There have been no changes in the risk management policies since year end.

5.2 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined 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).

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(Continued)

5.2 Fair value estimation (Continued)

The following table presents the Group's financial assets that are measured at fair value at June 30, 2016.

	Unaudited			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Assets				
Available-for-sale financial assets				
Investments in wealth management products	-	-	1,024,775	1,024,775
Financial assets at fair value through profit or loss				
Convertible bonds	-	-	1,000,000	1,000,000
Total assets	-	-	2,024,775	2,024,775

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

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

For the available-for-sale financial assets, the fair values are based on cash flow discounted using the expected return based on management judgment.

For the financial assets at fair value through profit or loss, the fair value is determined using the binomial model with key assumptions including volatility rate, risk-free rate and bond yield.

6 SEGMENT INFORMATION

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

The Board of Directors considers the business from perspective of types of goods or services delivered or provided. During this interim period, the Group's operating and reportable segments for continuing operations are as follows:

- Content production: the production of entertainment content such as film and TV dramas.
- Internet-based promotion and distribution: the operation of an integrated O2O platform for the promotion and distribution of entertainment content. The provision of online movie ticketing service for consumers and ticket issuance system for cinema.
- Entertainment e-commerce: the operation of a C2B financing platform for entertainment content. The development and online sales of entertainment related merchandise.
- International operations: the commercial involvement in international entertainment related projects or businesses.

Segment revenue and results

	Unaudited				Total RMB'000
	For the six months ended June 30, 2016				
	Content production RMB'000	Internet-based promotion and distribution RMB'000	Entertainment e-commerce RMB'000	International operations RMB'000	
Segment revenue	21,523	211,950	1,961	21,823	257,257
Segment results	3,896	(373,579)	(13,444)	(48,943)	(432,070)
Unallocated selling and marketing expenses					(14,333)
Administrative expenses					(278,310)
Other income					17,828
Other gains, net					32,116
Finance income					240,522
Finance expenses					(6,094)
Share of loss of investments accounted for using the equity method					(122)
Loss before income tax					(440,463)

6 SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

	Unaudited					Total RMB'000
	For the six months ended June 30, 2015					
	Content production RMB'000	Internet-based promotion and distribution RMB'000	Entertainment e-commerce RMB'000	International operations RMB'000	Other operations RMB'000	
Segment revenue	11,515	10,323	963	–	137	22,938
Segment results	(59,102)	(15,644)	(1,052)	–	137	(75,661)
Unallocated selling and marketing expenses						(767)
Administrative expenses						(129,100)
Other income						2,595
Other losses, net						(3,909)
Finance income						65,283
Finance expenses						(2,604)
Share of profit of investments accounted for using the equity method						20
Loss before income tax						(144,143)

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

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

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

7 OTHER GAINS/(LOSSES), NET

	Unaudited	
	For the six months ended June 30,	
	2016	2015
	RMB'000	RMB'000
Gain on derecognition of repurchase option (Note)	33,000	–
Others	(884)	(3,909)
Total	32,116	(3,909)

Note:

It represented the gain on derecognition of the repurchase option in relation to the acquisition of Guangdong Yueke Software Engineering Company Limited which was expired on March 10, 2016.

8 FINANCE INCOME AND EXPENSES

	Unaudited	
	For the six months ended June 30,	
	2016	2015
	RMB'000	RMB'000
Finance income		
– Exchange gain, net	163,102	13,627
– Interest income on bank deposits	77,420	47,963
– Others	–	3,693
	240,522	65,283
Finance expenses		
– Interest expenses on bank borrowings	(6,094)	–
– Interest expenses on entrusted loan	–	(2,604)
	(6,094)	(2,604)
Finance income, net	234,428	62,679

9 INCOME TAX EXPENSE

	Unaudited	
	For the six months ended June 30,	
	2016	2015
	RMB'000	RMB'000
Current income tax – PRC enterprise income tax	9,735	2,198
Deferred income tax	15,509	861
	<u>25,244</u>	<u>3,059</u>

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

10 LOSS PER SHARE

	Unaudited	
	For the six months ended June 30,	
	2016	2015
	RMB cents	RMB cents
Basic/diluted loss per share		
From continuing operations	(1.85)	(0.68)
From discontinued operations	–	(0.02)
	<u>(1.85)</u>	<u>(0.70)</u>

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited	
	For the six months ended June 30,	
	2016	2015
	RMB'000	RMB'000
Loss from continuing operations attributable to owners of the Company	(465,869)	(147,226)
Loss from discontinued operations attributable to owners of the Company	–	(4,593)
Loss attributable to owners of the Company	<u>(465,869)</u>	<u>(151,819)</u>
Weighted average number of ordinary shares in issue (thousands)	<u>25,234,561</u>	<u>21,499,032</u>

10 LOSS PER SHARE (Continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares during the periods ended June 30, 2016 and 2015, which is share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the closing market price per share for the period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

The computation of diluted loss per share for the six months ended June 30, 2016 and 2015 did not assume the issuance of any dilutive potential ordinary share since they are antidilutive, which would decrease the loss per share for the six months ended June 30, 2016 and 2015.

11 PROPERTY, PLANT AND EQUIPMENT, GOODWILL AND INTANGIBLE ASSETS

	Unaudited		
	Property, plant and equipment <i>RMB'000</i>	Goodwill <i>RMB'000</i>	Intangible assets <i>RMB'000</i>
For the six months ended June 30, 2016			
Opening net book amount as at January 1, 2016	57,136	3,490,574	191,331
Additions	35,394	–	335
Disposals	(28)	–	–
Depreciation and amortization	(11,382)	–	(7,421)
Closing net book amount as at June 30, 2016	81,120	3,490,574	184,245
For the six months ended June 30, 2015			
Opening net book amount as at January 1, 2015	24,522	159,813	7,808
Acquisition of a subsidiary	3,434	649,346	191,113
Additions	1,426	–	–
Disposals	(25)	–	–
Disposal of a subsidiary	(139)	–	–
Depreciation and amortization	(13,861)	–	(1,215)
Closing net book amount as at June 30, 2015	15,357	809,159	197,706

12 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
Trade receivables (Note a)	313,214	280,513
Less: allowance for impairment of trade receivables	(51,948)	(51,948)
	<hr/>	<hr/>
Trade receivables – net	261,266	228,565
	<hr/>	<hr/>
Prepayment for investment in BONA Beijing (Note b)	627,793	–
Prepaid film deposits	90,000	120,000
Prepayment for investment in film and TV copyrights	51,907	16,702
Other prepayments	22,362	10,795
Other receivables arising from:		
– Refund receivable in relation to the restructuring of BONA Beijing (Note b)	506,179	–
– Receivables in respect of Yulebao's business	262,799	382,895
– Refundable investment cost (Note c)	72,000	2,090
– Interest income receivable	56,689	24,132
– Refundable deposit in relation to acquisition of an investee (Note d)	24,000	24,000
– Disposal of art works	12,000	20,000
– Loan receivable	–	15,000
– Investment income receivable	–	2,201
– Other receivables and deposits	44,461	67,261
Less: allowance for impairment of other receivables and prepayments	(1,278)	(1,600)
	<hr/>	<hr/>
Other receivables and prepayments – net	1,768,912	683,476
	<hr/>	<hr/>
Total trade and other receivables, and prepayments	2,030,178	912,041
Less: non-current portion	(720,029)	(122,928)
	<hr/>	<hr/>
Current portion	1,310,149	789,113
	<hr/>	<hr/>

As at June 30, 2016, non-current balances mainly represented prepayment for investment in BONA Beijing and prepaid film deposits. The fair values of the current portion of trade and other receivables, and prepayments approximate their carrying value.

12 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS (Continued)

Notes:

(a) Trade receivables

The normal credit period granted to the trade debtors of the Group generally ranges from 30 days to one year. Before accepting any new debtor, the Group assesses the potential debtor's credit quality and defines credit limits by debtors. Credit limits granted to debtors are reviewed regularly.

The aging analysis of the trade receivables based on invoice date is as follows:

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
0 – 90 days	146,818	99,276
91 – 180 days	35,680	99,699
181 – 365 days	71,541	16,773
Over 365 days	59,175	64,765
	313,214	280,513

(b) Prepayment for investment in BONA Beijing and refund receivable in relation to the restructuring of BONA Beijing

On December 15, 2015, the Group entered into an investment agreement (the "Investment Agreement") and agreed to purchase 8.29% (on a fully diluted basis) indirect equity interests in Bona Film Group Limited ("BONA Cayman", a company incorporated in the Cayman Islands whose shares were formerly listed on the NASDAQ), for a consideration of US\$85,983,000 (equivalent to approximately RMB570,784,000).

On May 13, 2016, the Group entered into a restructuring framework agreement (the "Restructuring Framework Agreement"), pursuant to which the Group injected capital of RMB563,188,000 into BONA Beijing (a wholly-owned subsidiary of BONA Cayman) and to obtain approximately 8.29% (on a fully diluted basis) equity interests in BONA Beijing. In addition, according to the Restructuring Framework Agreement, the investment previously prepaid by the Group in relation to the investment in BONA Cayman amounting to RMB506,179,000 will be refunded to the Group.

As at June 30, 2016, the above transaction under the Restructuring Framework Agreement has not been completed. The total amount prepaid by the Group under the Investment Agreement and the Restructuring Framework Agreement amounted to RMB1,133,972,000, of which RMB506,179,000 represented a refund receivable and was recorded as other receivables, and the remaining balance of RMB627,793,000 represented a prepayment for investment in the condensed consolidated balance sheet.

(c) Refundable investment cost

The amount is unsecured and non-interest bearing. It is expected to be fully settled within 2016.

(d) Refundable deposit in relation to acquisition of an investee

The balance represents a refundable deposit in relation to an investment, which has been fully collected in July 2016.

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
Convertible bonds	<u>1,000,000</u>	<u>—</u>

The balance represents the convertible bonds issued by Dadi, which are compound instruments and designated as financial assets at fair value through profit or loss.

The issuance of the convertible bonds was completed on June 15, 2016 (the "Issue Date"). The convertible bonds bear interest at 1.95% per annum and have a conversion period of 3 years (the "Conversion Period").

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

In terms of redemption, the Group can, at any time after the 2nd anniversary of the Issue Date, require Dadi to redeem all the convertible bonds outstanding at an amount which yields an internal rate of return of 5.50% per annum on the subscription amount paid by the Group (the "Redemption Price"). Upon maturity of the Conversion Period, Dadi will redeem all the convertible bonds outstanding (which have not been redeemed or converted) at the Redemption Price.

According to the valuation report issued by an independent qualified valuer, the fair value of the convertible bonds on the Issue Date approximated its principal amount of RMB1,000,000,000. As a result, the convertible bonds were initially recognized at the principal amount of RMB1,000,000,000.

As at June 30, 2016, the directors of the Company are of the view that there is no significant change in the fair value of the convertible bonds as compared to the fair value on the Issue Date.

14 SHARE CAPITAL

	Number of shares	Unaudited	
		Share capital HK\$'000	RMB'000
Ordinary shares of HK\$0.25 each, issued and fully paid:			
At January 1 and June 30, 2016	25,234,561,410	6,308,640	5,081,884
At January 1, 2015	21,034,991,410	5,258,748	4,253,771
Issue of placing shares	4,199,570,000	1,049,892	828,113
At June 30, 2015	25,234,561,410	6,308,640	5,081,884

15 SHARE-BASED PAYMENT

The 2012 share option scheme (the “2012 Share Option Scheme”) was adopted by the Company pursuant to a resolution passed by the Company’s shareholders on June 11, 2012 for the primary purpose of providing incentives or rewards to any director, employee and other eligible participants who may make contribution to the Group. The 2012 Share Option Scheme will expire on June 12, 2022.

The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2012 Share Option Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time.

The fair values of the options granted pursuant to the 2012 Share Option Scheme during the six months ended June 30, 2016 are as below:

Grant date

	Unaudited Fair value	
	HK\$'000	RMB'000
January 25, 2016	12,100	10,216
April 13, 2016	76,737	64,063
April 15, 2016	10,800	9,021
June 3, 2016	95,045	80,237
	194,682	163,537

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 interim condensed consolidated statement of profit or loss, with a corresponding adjustment to the share option reserve.

15 SHARE-BASED PAYMENT (Continued)

Details of the movements of the share options granted by the Company pursuant to the 2012 Share Option Scheme are as below:

	Unaudited Six months ended June 30, 2016		Unaudited Six months ended June 30, 2015	
	Weighted average exercise price in HK\$ per share option	Number of share options	Weighted average exercise price in HK\$ per share option	Number of share options
Opening balance	2.081	415,797,800	-	-
Granted	1.853	256,290,000	2.059	340,819,800
Lapsed	2.131	(44,136,000)	-	-
Closing balance	1.984	627,951,800	2.059	340,819,800

For the six months ended June 30, 2016, value of services provided under share option scheme recognized in the interim condensed consolidated statement of profit or loss was RMB65,461,000 (2015 interim: RMB72,924,000).

16 BORROWINGS

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
Bank borrowings	1,980,000	1,980,000

Bank borrowings are secured by restricted cash of RMB2,004,686,000, repayable at the discretion of the Group and bear interest at 0.3% per annum.

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

17 TRADE AND OTHER PAYABLES, AND ACCRUED CHARGES

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
Trade payables (Note a)		
– Related parties (Note 19(b))	12,598	–
– Third parties	31,758	27,534
	<u>44,356</u>	<u>27,534</u>
Other payables and accrued charges		
Investment prepaid by non-controlling investors of a subsidiary (Note b)	633,500	–
Amounts due to related parties (Note 19(b))	122,259	466,147
Advance from customers	58,925	4,448
Other tax payable	35,823	63,987
Accrued marketing expense	29,205	–
Payroll and welfare payable	27,186	45,316
Amount received on behalf of cinemas	13,143	–
Payable in relation to distribution of films	12,209	14,305
Professional fees payable	5,554	9,789
Payable for property, plant and equipment	5,185	–
Other payables and accrued charges	62,550	39,140
	<u>1,005,539</u>	<u>643,132</u>
Total trade and other payables, and accrued charges	<u>1,049,895</u>	<u>670,666</u>

Notes:

- (a) The aging analysis of the trade payables based on invoice date is as follows:

	Unaudited June 30, 2016 RMB'000	Audited December 31, 2015 RMB'000
0 – 90 days	23,666	15,146
91 – 180 days	7,367	–
181 – 365 days	2,102	58
Over 365 days	11,221	12,330
	<u>44,356</u>	<u>27,534</u>

- (b) On May 15, 2016, the Group entered into an agreement with certain investors (the “Investors”), pursuant to which the Investors will inject capital of RMB1,700,000,000 into a wholly-owned subsidiary of the Company, for a total of 12.4% equity interests in this subsidiary. As at June 30, 2016, the above transaction has not been completed and the investment prepaid by the Investors of RMB633,500,000 (including RMB150,000,000 prepaid by a company controlled by a key management personnel of AGHL) is recorded as “Trade and other payables, and accrued charges” in the condensed consolidated balance sheet.

18 DIVIDEND

The Board has resolved not to declare a dividend for the six months ended June 30, 2016 (2015 interim: nil).

19 RELATED PARTY TRANSACTIONS

As at June 30, 2016, the Company is 49.49% owned by Ali CV. The remaining 50.51% of the Company's shares are widely held. The ultimate parent of the Company is AGHL, a company whose shares are listed on New York Stock Exchange.

Save as disclosed elsewhere in this condensed consolidated interim financial information, the following transactions were carried out with related parties:

(a) Transactions with related parties

	Unaudited	
	For the six months ended June 30,	
	2016	2015
	RMB'000	RMB'000
Purchase of services from companies controlled by a key management personnel of AGHL	41,497	–
Purchase of services from AGHL's subsidiaries and an associate	10,525	–
Entrusted loan provided by AGHL's subsidiary	–	900,000
Interest expenses related to entrusted loan provided by AGHL's subsidiary	–	2,604
	<u> </u>	<u> </u>

(b) Balances with related parties

	Unaudited	Audited
	June 30, 2016	December 31, 2015
	RMB'000	RMB'000
Amounts due to AGHL and its subsidiaries	104,776	466,147
Amounts due to a company controlled by a key management personnel of AGHL	30,081	–
	<u> </u>	<u> </u>
	<u>134,857</u>	<u>466,147</u>

As at June 30, 2016, the Group had certain amounts of cash held in accounts managed by a company controlled by a key management personnel of AGHL in connection with the provision of online and mobile commerce and related services for a total amount of RMB153,625,000, which have been classified as cash and cash equivalents in the condensed consolidated balance sheets.

19 RELATED PARTY TRANSACTIONS *(Continued)***(c) Key management compensation**

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

	Unaudited	
	Six months ended June 30,	
	2016	2015
	RMB'000	RMB'000
Salaries, allowances and other benefits	35,405	59,267

For the six months ended June 30, 2016 and 2015, these amounts mainly represented the share-based compensation in relation to the share options granted to key management under the 2012 Share Option Scheme.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2016 (2015 interim: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In the reporting period ended June 30, 2016, the Group achieved substantial business development on the back of significant capital and resource devotion. In this period, the Group continued building an innovative platform centered around its internet-based promotion and distribution system and integrating content creation and other related businesses spanning the entire entertainment industry value chain. Achieving certain magnitude, the platform is beginning to gain industry influence and form its unique entertainment ecosystem. In addition, the Group made good progress in expanding and enhancing the capabilities and services of its platform, which began to draw an increasing amount of business activities and experienced a robust growth of revenue. The Group continues to implement corporate strategies that will lay solid foundation for its sustainable development.

For the first half of 2016, the Group recorded revenue of RMB257.3 million, an increase of 1022% from the same period in the previous year. The increase was primarily generated by the internet-based promotion and distribution segment, which includes Guangdong Yueke Software Engineering Company Limited (“Yueke”), which was acquired in June 2015. The Group’s internet-based promotion and distribution business has been well positioned to benefit from the overall box office growth and the increasing adoption of online movie ticketing in China. According to the State Administration of Radio, Film and Television, the overall box office revenues in the PRC exceeded RMB24.5 billion for the first half of 2016, compared with RMB20.4 billion in the first half of 2015. Over the last several years, online movie ticketing has grown rapidly in China due to several factors. The convenience of ticket purchase and seat selection, and price discounts provided by many of the online movie ticketing platforms are among the major reasons for inducing a large portion of movie-viewers to begin or develop the habit of online movie ticket purchase. By the Group’s estimate, more than 70% of all movie tickets sold in China are being purchased through online movie ticketing platforms. Our core operating asset Tao Piao Piao has emerged as one of the leading players in this fast developing O2O business segment.

For the first half of 2016, the Group recorded a net loss of RMB465.7 million, compared with RMB151.8 million for the same period in the previous year. The increase in net loss was primarily attributable to Tao Piao Piao’s marketing expenses. Tao Piao Piao has incurred these expenses, which consisted mainly of ticket subsidies to movie-viewers, to successfully build its user base. Utilizing this market strategy, Tao Piao Piao’s market share has grown sharply and is now one of the leading online movie ticketing platforms in China. Tao Piao Piao offers online ticketing and seat selection services in more than 5,000 theaters nationwide, covering 95% of the country’s total box office. In May 2016, a group of series A investors, led by CDH Investments, Ant Financial Services Group, and Sina.com, invested RMB1.7 billion into Tao Piao Piao for a 12.4% stake. The proceeds serve to support Tao Piao Piao’s operations (including to further enhance user experience) and further strengthen its market position. As the Group continues to invest in Tao Piao Piao, it will also adjust and optimize Tao Piao Piao’s business model with respect to market conditions.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

OVERVIEW (Continued)

In terms of our overall operations, steady progress has been made in each of our four major business segments: (i) Content Production, (ii) Internet-based Promotion and Distribution, (iii) Entertainment E-commerce, and (iv) International Operations.

Details are further elaborated in the BUSINESS REVIEW section below.

BUSINESS REVIEW

CONTENT PRODUCTION

Content creation often involves significant upfront capital and time investment. In the first half of 2016, progress has been made on various projects. *Ferry Man* (擺渡人), a film produced by Wong Kar Wai and featuring Tony Leung and a string of other popular actors and actresses, has finished production and is slated to be released in the second half of 2016. The filming for *Three Lives Three Worlds Ten Miles of Peach Blossom* (三生三世十里桃花), a film adaptation of the acclaimed Chinese fantasy romance novel of the same name, has been completed and its visual effect is currently being developed. This film is scheduled for a 2017 release.

Other major projects in early stage development include *The Heroic Age* (蠻荒記) and *ZhengTu* (征途). *The Heroic Age* (蠻荒記) will be based on the popular fantasy adventure novel of the same name, while *ZhengTu* (征途) will derive its themes from the widely popular game of the same name. Both of these films will feature industry leading visual effects on par with Hollywood productions. As the Group is still in an expansion cycle in terms of content production, this business segment recorded revenue of RMB21.5 million and segment gain of RMB3.9 million for the six months ended June 30, 2016, primarily derived from investments in TV dramas including *Tou Hao Qian Qi* (頭號前妻). For the same period in 2015, the Group recorded segment revenue and loss of RMB11.5 million and RMB59.1 million, respectively, for the content production business segment.

INTERNET-BASED PROMOTION AND DISTRIBUTION

For the first half of 2016, the Group made substantial effort in integrating the online movie ticketing platform Tao Piao Piao with the Group's existing resources and improving its overall business profile. Combining both online and on-the-ground promotional and distribution capabilities, Tao Piao Piao has strengthened its core competency and differentiated itself from some of its competitors. In May 2016, it raised RMB1.7 billion from a group of series A investors including CDH Investments, Ant Financial Services Group, Sina.com and various movie industry participants such as Hehe Pictures, BONA Film Group, Zhejiang Huace Film & TV, demonstrating wide recognition by the industry towards its business strategy, market prospects and operational capability. With a post money valuation of RMB13.7 billion, Tao Piao Piao will utilize the proceeds from series A financing to support its operations and implement its business strategies.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

INTERNET-BASED PROMOTION AND DISTRIBUTION *(Continued)*

Given the overall box office growth and rising trend of online movie ticketing, Yueke has continued to deliver solid performance in the first half of 2016, contributing to the Group's year-on-year revenue growth. The profit generating Yueke has started to work closely with head office and other business lines of the Group to explore the development of more service offerings for cinema operators. In terms of financial results, the Group's internet-based promotion and distribution business line generated RMB212.0 million of revenue in the first six months of 2016, an increase from RMB10.3 million for the same period in the previous year. In the interim period, the segment loss was RMB373.6 million, compared with RMB15.6 million in the corresponding period in 2015. Yueke's increased profits were offset by Tao Piao Piao's marketing expenses, which were mainly incurred for attracting movie-goers to use its online ticketing function.

ENTERTAINMENT E-COMMERCE

The Group's entertainment e-commerce segment consists of two main functions – C2B financing for entertainment projects and merchandising. Yulebao, which serves as a C2B financing platform for entertainment related projects, was fully acquired from Alibaba Group on December 31, 2015. The Group has been re-evaluating its ongoing commercial strategies, in the context of aiming to increase investors' interests and participation in their invested projects. The Group also follows closely on the latest developments with respect to regulations on P2P financings in the PRC.

IP-centric merchandise is an important business initiative for the Group. We have licensed a number of products for sale and established our flagship sales outlets on first-rate web-based platforms such as Tmall.com. In addition, the Group has also obtained several IP rights for merchandise development and will be involved in the conceptual design of potential products. Yulebao will provide various professional services which align with the Big Data objectives of Alibaba Group, with a focus on design, production techniques and marketing channels. The collaborations between the Group and Hollywood film studios on various films with respect to merchandise have advanced steadily.

As the merchandise business was in an early stage of development, the Group's E-commerce business line recorded RMB2.0 million in revenue and RMB13.4 million in segment loss for the first six months of 2016, compared with RMB1.0 million in revenue and RMB1.1 million in segment loss for the same period in 2015.

INTERNATIONAL OPERATIONS

Following last year's Mission: Impossible – Rogue Nation, the Group has collaborated with Paramount Pictures on two more projects – Teenage Mutant Ninja Turtles: Out of the Shadows and Star Trek Beyond. For both films, the Group invests in the projects and provide promotional activities in the PRC. Teenage Mutant Ninja Turtles: Out of the Shadows has been released in early July in the PRC, while Star Trek Beyond is scheduled to be released in September 2016 in the PRC.

In addition, the Group has partnered with Skydance Media for the production of Flying Tigers, a film about a group of volunteer pilots from the US Air Force, Navy and Marine Corps who fought alongside the Chinese during World War II. The Group continues to explore various opportunities to work with global talents on industry leading projects.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

INTERNATIONAL OPERATIONS *(Continued)*

In terms of financial performance, for the first six months of 2016 the International Operations business line recorded revenue of RMB21.8 million (2015 interim: nil) and segment loss of RMB48.9 million (2015 interim: nil). The loss was primarily attributable to provision made for the film *Teenage Mutant Ninja Turtles: Out of the Shadows*, as a result of its global box office performance.

PROSPECTS

The Group continues to source blockbuster IPs and film projects both domestically and internationally. Meanwhile, due to the strategic importance and immense potential of its internet-based promotion and distribution unit, the Group is committed to invest the necessary resources to further advance the market positions of Tao Piao Piao and Yueke. In terms of entertainment merchandise, although it is still at an early stage of development in the PRC, it is highly valued by studios for certain film projects. Its growth is expected to be in-line with the overall increase of variety and creativity in content creation. As each of its business segments advanced steadily, the Group expects to see a substantial increase in revenue in the second half of 2016, compared with the first half.

As the Group works to strengthen each of its business segments, it continues to enrich its ecosystem, which remains a key part of its long term strategic goals. In a fast growing and developing industry, the Group continues to source and evaluate potential investment or acquisition opportunities that can be beneficial to the Group's overall strategic growth in the industry. Based on its existing platform, the Group has researched the current competitive landscape of cinema lines in the PRC and evaluated the commercial opportunities in this segment. Recently the Group announced investments in selected cinema operators, where it is exploring the possibility of using its existing data, internet know-how and resources to improve the operational efficiency of cinemas. Continuing to discover new business initiatives that can potentially add value to the Group's vertically integrated model continues to be at the forefront of our efforts.

In the second quarter of 2016, Alibaba Group announced that its key media-related investments, including Youku Tudou, UCWeb and OTT TV were combined into a Digital Media and Entertainment unit that would be under a unified management structure. Alibaba Pictures is expected to work more closely with Alibaba Group's Digital Media and Entertainment unit, which includes also Alibaba Music, Alibaba Literature and Alibaba Sports. The synergies derived from tighter collaborations will potentially accelerate development and catalyze future growth for the Group.

FINANCIAL REVIEW

Revenue and Profit for the period

During the reporting period, the Group recorded revenue of RMB257.3 million, compared with RMB22.9 million in the corresponding period in 2015. Gross profit during the reporting period was RMB77.3 million, compared with a gross loss of RMB50.0 million for the same period in the previous year. The increase in revenue and gross profit were mainly due to the contribution from Yueke.

Net loss attributable to the owners of the Company amounted to RMB465.9 million, up from net loss of RMB151.8 million in the first half of 2015. The year-on-year increase in net loss was caused by an increase in marketing expenses, offset in part by a net finance income of RMB234.4 million, comprising foreign exchange gain and interest income.

For the six months ended June 30, 2016, loss per share (basic and diluted) for the Group amounted to RMB1.85 cents, up from a loss per share of RMB0.70 cents for the same period in the previous year.

Selling, Marketing and Administrative Expenses

Selling and marketing expenses for the reporting period were RMB523.7 million, compared with approximately RMB26.4 million in the corresponding period in 2015. The increase is primarily attributable to the marketing expenses of Tao Piao Piao in its efforts to attract movie-goers to use Tao Piao Piao's online ticketing platform. Administrative expenses increased from RMB129.1 million to RMB278.3 million year-on-year mainly due to employee benefit expenses related to higher headcounts across multiple functions as a result of the acquisitions of Tao Piao Piao and Yulebao.

Finance Income

For the first six months of 2016, the Group recorded finance income of RMB240.5 million, offset in part by a finance expense of RMB6.1 million. The Group's cash reserves are held in multiple currencies. Both interest income and foreign exchange gains contributed to finance income.

Financial Resources and Liquidity

The Group continued to utilize the proceeds from its equity placement in June 2015 to invest in various businesses in its industry. In the first six months of 2016, approximately RMB2,144.0 million were used for such investments which included Dadi Cinema Group and BONA Film Group. As at June 30, 2016, the Group had cash reserves and available-for-sale financial assets of RMB11.4 billion in multiple currencies. The Group's significant cash reserves give it the financial means to undertake a variety of business initiatives and projects in the near future, including potential acquisitions of strategic assets to complement the Group's existing businesses. As at June 30, 2016, the Group had no long-term debt obligations. Short-term borrowings amounted to RMB1.98 billion. The Group is in a net cash position and its gearing ratio (net borrowings deducting cash and bank balances over total equity) was nil (December 31, 2015: nil).

FINANCIAL REVIEW *(Continued)*

Future Plans for Material Investments or Capital Assets

On July 25, 2016, the Group announced that it would invest in the establishment of Hainan Alibaba Pictures Entertainment Industry Investment Fund. Its capital commitment is expected to be between RMB200 million and RMB500 million. On August 22, 2016, the Group announced that it entered into agreement to acquire a majority stake in Hangzhou Xingji, a cinema operator, with total investment of RMB100 million. Utilizing its existing financial resources, the Group plans to continue to grow its businesses by acquisition and investment. Over the next year, the Group expects to incur no less than RMB1 billion for such initiatives.

Foreign Exchange Risks

The Company holds its cash reserves in RMB, USD, and HKD. Although the majority of production costs and management expenses are denominated in RMB, many investment opportunities and collaborations with studios outside Mainland China require foreign currencies. The Group continues to monitor capital needs closely and manage foreign currency exposure accordingly.

Charge on Assets

As at June 30, 2016, the Group did not have any charge on assets (December 31, 2015: nil).

Contingent Liabilities

As at June 30, 2016, the Group did not have any material contingent liabilities (December 31, 2015: nil).

Employees

As at June 30, 2016, the Group, including its subsidiaries but excluding its associates, had 745 (December 31, 2015: 343) employees. The remuneration policies of the Group are based on the prevailing market levels and performance of the respective group companies and individual employees. These policies are reviewed on a regular basis.

CONTRACTUAL ARRANGEMENTS

Overview

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

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

By virtue of the Structured Contracts, the financial position and results of operations of Zhonglian Jinghua and Beijing Ali Tao were consolidated into our financial position and results of operations as they are regarded as indirect subsidiaries of the Group under HKFRS 10 during the reporting period. As the OPCOs and their subsidiaries hold some key requisite PRC permits, licenses and approvals including the Permit to Produce and Distribute Radio or Television Programs (廣播電視節目製作經營許可證), Permit to Produce Movies (攝製電影許可證), Permit to Distribute Movies (電影發行經營許可證) and the Permit to Operate the Projection of Movies (電影放映經營許可證), as well as some of our intellectual property rights, the OPCOs and their subsidiaries are significant to our Group. For the six months ended June 30, 2016, the OPCOs and their subsidiaries contributed approximately 23% of the Group’s total revenue. Please refer to Revenue and assets involved in Structured Contracts below for more details.

CONTRACTUAL ARRANGEMENTS (Continued)

Overview (Continued)

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

Particulars of the OPCOs and their Registered Owners

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

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

Zhang Yong, the Chief Executive Officer of Alibaba Group, is not a connected person of the Group.
Jiang Fang, the Chief People Officer of Alibaba Group, is not a connected person of the Group.
Both Zheng Jun Fang and Ni Xing Jun, employee of Alibaba Group and Ant Financial Services Group respectively, are not connected persons of the Group.

CONTRACTUAL ARRANGEMENTS (Continued)

Particulars of the OPCOs and their Registered Owners (Continued)

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

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

CONTRACTUAL ARRANGEMENTS (Continued)

Particulars of the OPCOs and their Registered Owners (Continued)

Name of Subsidiary/Associate	Holding Company	Ownership	Business Activities
Xian Jinding Film Culture Co., Ltd. (西安金鼎影视文化有限公司)	Zhonglian Jinghua	56%	Production of broadcasting & television programs
Huameng (Tianjin) Culture Investment Co., Ltd. (華盟(天津)文化投資有限公司)	Beijing Asian Union Culture Media Investment Co., Ltd.	100%	Production of broadcasting & television programs
Asian Union (Tianjin) Advertising Co., Ltd. (中聯華盟(天津)廣告有限公司)	Beijing Asian Union Culture Media Investment Co., Ltd.	100%	Advertising and sale of entertainment related merchandise and derivatives
Beijing Pengan Shengshi Advertising Co., Ltd. (北京鵬安盛世廣告有限公司)	Beijing Asian Union Culture Media Investment Co., Ltd.	99%	Design, production, agency sale and release of advertisements; convention and exhibition services; corporate planning; economic and trade consultation

CONTRACTUAL ARRANGEMENTS (Continued)

Particulars of the OPCOs and their Registered Owners (Continued)

Name of Subsidiary/Associate	Holding Company	Ownership	Principal Activities
Beijing Niguang Shunying Film Culture Communication Co., Ltd. (北京逆光順影影視文化傳播有限公司)	Beijing Asian Union Culture Media Investment Co., Ltd.	51%	Organizing cultural and art exchange events (excluding performances); design, production, agency sale and release of advertisements; film & television production planning
Ren He Ren (Tianjin) Advertising Co., Ltd. (人和人(天津)廣告有限公司)	Beijing Ren He Ren Culture Co., Ltd.	100%	Engaging in advertisement business; organizing cultural and art exchange events (excluding performances)

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

Zhejiang Dongyang Xiaoyuzhou Movie & Media Co., Ltd. (浙江東陽小宇宙影視傳媒有限公司)	Beijing Ali Tao	100%	Investment in and production and distribution of film and TV copyrights
Shanghai Alibaba Pictures Co., Ltd. (上海阿里巴巴影業有限公司)	Beijing Ali Tao	100%	Film investment, film production
Beijing Jumihudong Movie & Media Co., Ltd. (北京聚迷互動影視傳媒有限公司)	Beijing Ali Tao	100%	Investment in and production and distribution of film and TV copyrights

CONTRACTUAL ARRANGEMENTS (Continued)

Particulars of the OPCOs and their Registered Owners (Continued)

Name of Subsidiary/Associate	Holding Company	Ownership	Principal Activities
Zhejiang Dongyang Alibaba Pictures Co., Ltd. (浙江東陽阿里巴巴影業有限公司)	Beijing Ali Tao	100%	Investment in and production and distribution of film and TV copyrights
Tianjin Alibaba Pictures Development Co., Ltd. (天津阿里巴巴影業發展有限公司)	Beijing Ali Tao	100%	Construction of cinemas; management and leasing of commercial facilities; engaging in advertisement business; ticketing agency; selling and leasing of audio and visual, cultural and entertainment facilities
Tianjin Alibaba Pictures Management Co., Ltd. (天津阿里巴巴影業管理有限公司)	Tianjin Alibaba Pictures Development Co., Ltd.	100%	Construction of cinemas; management and leasing of commercial facilities; engaging in advertisement business; ticketing agency; selling and leasing of audio and visual, cultural and entertainment facilities
Hangzhou Xingji Media Culture Co., Ltd. (杭州星際影視文化有限公司)	Tianjin Alibaba Pictures Management Co., Ltd.	80% (in the process of completing the acquisition)	Releasing films; design, production, agency sale and release of domestic advertisements
Hainan Alibaba Pictures Investment Management Co., Ltd. (海南阿里巴巴影業投資管理有限公司)	Zhejiang Dongyang Alibaba Pictures Co., Ltd.	40%	Management of private equity investment funds; project investment in the screen culture industry; industrial project investment

CONTRACTUAL ARRANGEMENTS (Continued)

Particulars of the OPCOs and their Registered Owners (Continued)

Name of Subsidiary/Associate	Holding Company	Ownership	Business Activities
Hangzhou Kangmai Investment Management Co., Ltd. (杭州康邁投資管理有限公司)	Zhejiang Dongyang Alibaba Pictures Co., Ltd.	100%	Investment management, industrial investment, investment consultation
Shencheng Pictures Co., Ltd. (申城影業有限公司)	Zhejiang Dongyang Alibaba Pictures Co., Ltd.	20%	Film distribution, film shooting and film production; production and distribution of broadcasting & television programs; design, production, agency sale and release of various advertisements
Hangzhou Alibaba Movie & Media Investment & Management Co., Ltd. (杭州阿里巴巴影視投資管理有限公司)	Zhejiang Dongyang Alibaba Pictures Co., Ltd.	100%	Investment management, industrial investment and investment consultation
Hainan Alibaba Pictures Entertainment Industry Investment Fund (LLP) (海南阿里巴巴影業文化產業基金合夥企業) (the "Investment Fund")	Hainan Alibaba Pictures Investment Management Co., Ltd. (GP)	3.33%*	Equity investment in unlisted companies; investment in the screen culture industry; management of invested projects and assets
	Hangzhou Kangmai Investment & Management Co., Ltd. (LP)	96.67%*	

* Based on the terms of the limited partnership agreement of the Investment Fund, Hainan Alibaba Pictures Investment Management Co., Ltd. (GP) and Hangzhou Kangmai Investment & Management Co., Ltd. (LP)'s ownership in the Investment Fund will be appropriately reduced upon the completion of capital contribution by Wuhu Gopher Asset Management Co., Ltd. For details please refer to the Company's announcement on July 25, 2016.

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

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place

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

- a) Zhonglian Shengshi (as the Company's Subsidiary), Zhonglian Jinghua (as the OPCO), Mr. Zhang Yong and Ms. Jiang Fang (as the registered owners);
- b) Zhonglian Shengshi (as the Company's Subsidiary), Beijing Ali Tao (as the OPCO), Mr. Zhang Yong and Ms. Jiang Fang (as the registered owners); and
- c) Hangzhou Aurora (as the Company's Subsidiary), Shanghai Tao Piao Piao (as the OPCO), Ms. Zheng Jun Fang and Mr. Nin Xing Jun (as the registered owners).

These Structured Contracts enable the Group to:

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

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place *(Continued)*

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

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

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

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

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

CONTRACTUAL ARRANGEMENTS (Continued)

Structured Contracts in place (Continued)

(2) Loan Agreements (借款協議)

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

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

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

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

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

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place *(Continued)*

(4) Powers of Attorney (授權委託書)

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

- (a) attending the shareholders' meeting of the relevant OPCO as representative of the relevant registered owners;
- (b) exercising shareholders' voting right on issues in respect of appointment of directors and senior management, disposal of assets and liquidation etc;
- (c) signing meeting minutes and resolutions;
- (d) signing relevant documents when the relevant registered owners sell or transfer all or part of his/her equity interest pursuant to the Exclusive Option Agreements;
- (e) signing all necessary documents when the relevant Subsidiary exercises its rights under the relevant Equity Interest Pledge Agreement;
- (f) approving filing documents with the relevant competent authorities; and
- (g) other matters decided or executed by the shareholders pursuant to the relevant constitutional documents.

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

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place *(Continued)*

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

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

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

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

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

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

- If the PRC government finds that the Structured Contracts that establish the structure for operating our entertainment content production, distribution, cinema operation and investment businesses in the PRC do not comply with applicable PRC laws and regulations, we could be subject to penalties and our business may be materially and adversely affected.
- Certain terms of our Structured Contracts may not be enforceable under PRC laws.
- Our Structured Contracts may not be as effective in providing control over our OPCOs as equity ownership.

CONTRACTUAL ARRANGEMENTS (Continued)

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

- Any failure by our OPCOs or their respective ultimate shareholders to perform their obligations under our Structured Contracts would potentially lead to our having to incur additional costs and expend material resources to enforce such arrangements, temporary or permanent loss of control over our domestic content production, distribution, cinema operation and investment businesses or loss of access to the revenue from these businesses.
- The ultimate owners of our OPCOs may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.
- If any of our Subsidiaries or OPCOs becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy certain important assets, which could materially and adversely affect our business.
- Our exercise of the option to acquire the equity interests of our OPCOs may be subject to certain limitations and the ownership transfer may incur substantial costs.

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

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

Revenue and assets involved in Structured Contracts

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

	Revenue (RMB '000) (proportionate % to the Group) For the six months ended June 30, 2016	Assets (RMB '000) (proportionate % to the Group) As at June 30, 2016
Zhonglian Jinghua (Consolidated)	59,444 (23.1%)	1,109,741 (5.9%)
Beijing Ali Tao (Consolidated)	0 (0%)	966,161 (5.1%)
Shanghai Tao Piao Piao*	Not Applicable	Not Applicable

* Shanghai Tao Piao Piao was established after June 30, 2016.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at June 30, 2016, the interests and short positions of the directors and the chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the “SFO”)) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Long/Short Position	Nature of Interest	Number of Ordinary Shares held	Derivatives		Aggregate Interests	Percentage of Aggregate Interests to Total Issued Share Capital of the Company (Note 1)
				Share Options	Other		
Zhang Qiang	Long position	Beneficial Owner	-	210,119,800 (Note 2)	-	210,119,800	0.83%
Deng Kangming	Long position	Beneficial Owner	-	49,500,000 (Note 3)	-	49,500,000	0.20%
Zhang Wei	Long position	Beneficial Owner	-	10,000,000 (Note 4)	-	10,000,000	0.04%

Notes:

1. Based on a total of 25,234,561,410 ordinary shares of the Company in issue as at June 30, 2016.
2. These share options were granted to Mr. Zhang Qiang on January 28, 2015, but not exercised, as at June 30, 2016.
3. 30,000,000 share options, 7,500,000 share options and 12,000,000 share options were granted to Mr. Deng Kangming on April 28, 2015, December 16, 2015 and April 13, 2016, respectively, but not exercised, as at June 30, 2016.
4. These share options were granted to Ms. Zhang Wei on April 13, 2016, but not exercised, as at June 30, 2016.

Save as disclosed above, as at June 30, 2016, none of the Directors, chief executive of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

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

Movements of the Share Options granted by the Company pursuant to the 2012 Share Option Scheme during the period were as follows:

Category	Date of grant	Exercise price per share HK\$	Outstanding as at January 1, 2016	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at June 30, 2016	Vesting period (Notes)
Director								
Zhang Qiang	28/01/2015	1.670	210,119,800	-	-	-	210,119,800	1 (i)
Deng Kangming	28/04/2015	4.004	30,000,000	-	-	-	30,000,000	1 (ii)
Deng Kangming	16/12/2015	1.900	7,500,000	-	-	-	7,500,000	1 (ii)
Deng Kangming	13/04/2016	1.880	-	12,000,000	-	-	12,000,000	1 (iii)
Zhang Wei	13/04/2016	1.880	-	10,000,000	-	-	10,000,000	1 (iii)
Employees								
	28/01/2015	1.670	73,700,000	-	-	(11,400,000)	62,300,000	1 (ii)
	15/04/2015	4.090	23,400,000	-	-	(3,000,000)	20,400,000	1 (ii)
	02/07/2015	3.156	15,600,000	-	-	(1,200,000)	14,400,000	1 (ii)
	24/09/2015	1.860	17,400,000	-	-	-	17,400,000	1 (ii)
	05/11/2015	2.170	17,800,000	-	-	(10,000,000)	7,800,000	1 (ii)
	06/11/2015	2.130	10,000,000	-	-	(10,000,000)	-	1 (ii)
	16/12/2015	1.900	10,278,000	-	-	(906,000)	9,372,000	1 (ii)
	25/01/2016	1.660	-	17,600,000	-	-	17,600,000	1 (ii)
	13/04/2016	1.880	-	75,310,000	-	(3,600,000)	71,710,000	1 (iii)
	15/04/2016	1.842	-	14,400,000	-	(2,400,000)	12,000,000	1 (ii)
	03/06/2016	1.860	-	10,200,000	-	(1,200,000)	9,000,000	1 (ii)
	03/06/2016	1.860	-	116,780,000	-	(430,000)	116,350,000	1 (iii)
Total:			415,797,800	256,290,000	-	(44,136,000)	627,951,800	

SHARE OPTIONS (Continued)

Notes:

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

(i) Category A

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

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

(ii) Category B

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

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

(iii) Category C

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

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

- The period within which the Share Options must be exercised shall not be more than 10 years from the date of grant.
- During the period, no Share Options were exercised or cancelled under the 2012 Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the interim report, at no time during the six months ended June 30, 2016 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 acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at June 30, 2016, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares and underlying shares of the Company

Name	Capacity in which interests are held	Number of shares/underlying shares held	Long position/ Short position	Approximate percentage of issued share capital ³
Ali CV Investment Holding Limited ("Ali CV")	Beneficial owner ¹	12,488,058,846	Long position	49.49%
Alibaba Investment Limited ("AIL")	Held by controlled corporation ¹	12,488,058,846	Long position	49.49%
Alibaba Group Holding Limited ("AGHL")	Held by controlled corporation ¹	12,488,058,846	Long position	49.49%
Gold Ocean Media Inc.	Beneficial owner ²	1,674,282,500	Long position	6.63%
Huang Youlong	Held by controlled corporation ²	1,674,282,500	Long position	6.63%
Zhao Wei	Interest of spouse ²	1,674,282,500	Long position	6.63%

Notes:

- This represents the interest in 12,488,058,846 shares of the Company held by Ali CV as beneficial owner. As of June 30, 2016, Ali CV was wholly owned by AGHL, through its controlled corporation, AIL. Accordingly, AGHL and AIL were deemed to have the same interest held by Ali CV.
- This represents the interest in 1,674,282,500 shares of the Company 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 the 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.
- As of June 30, 2016, the Company had a total of 25,234,561,410 shares in issue.

Save as disclosed above, as at June 30, 2016, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

During the six months ended June 30, 2016, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules except for certain deviations which are summarized below:

Code provision A.5.1 stipulates that the Company should establish a nomination committee which is chaired by the Chairman of the Board or an independent non-executive director (“INED”) and comprise a majority of INEDs. Following the resignation as a member of Ms. Zhang Yu with effect from November 3, 2015, the nomination committee of the Company failed to comprise a majority of INEDs. The Company appointed Mr. Johnny Chen as a member of the nomination committee of the Company with effect from January 29, 2016. Following the appointment of Mr. Johnny Chen, the Company has been fully in line with the code provision A.5.1 with effect from January 29, 2016.

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

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

Code provision F.1.1 stipulates the company secretary should be an employee of the Company and have day-to-day knowledge of the Company’s affairs. Mr. Ng Lok Ming William is not an employee of the Company and Mr. Shao Xiaofeng, the chairman of the Company, is the contact person whom Mr. Ng can contact for the purpose for the code provision.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the six months ended June 30, 2016. 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.

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 six months ended June 30, 2016.

On behalf of the Board
Alibaba Pictures Group Limited
Shao Xiaofeng
Chairman

Hong Kong, August 26, 2016