2017
SECOND INTERIM REPORT

阿里巴巴 影业集团™
Alibaba Pictures

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

Stock Code:1060

This Second Interim Report printed on environmentally friendly paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Li Lian Jie
Mr. Shao Xiaofeng

Independent Non-Executive Directors

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

EXECUTIVE COMMITTEE

Mr. Fan Luyuan *(Committee Chairman)*
Ms. Zhang Wei

REMUNERATION COMMITTEE

Mr. Tong Xiaomeng *(Committee Chairman)*
Mr. Fan Luyuan
Ms. Song Lixin

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. Fan Luyuan *(Committee 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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Hamilton HM 11, Bermuda

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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

	Note	For the twelve months ended December 31, 2017 (Unaudited) RMB'000	2016 (Audited) RMB'000
Revenue	6	**2,366,136**	904,582
Cost of sales and services		**(609,775)**	(718,530)
Gross profit		**1,756,361**	186,052
Selling and marketing expenses		**(2,087,268)**	(1,079,562)
Administrative expenses		**(740,800)**	(719,758)
Other income	7	**108,907**	63,414
Other gains, net	8	**61,363**	45,911
Operating loss		**(901,437)**	(1,503,943)
Finance income	9	**76,545**	545,921
Finance expenses	9	**(215,379)**	(11,975)
Finance (expenses)/income, net		**(138,834)**	533,946
Share of profit or loss of and gain on dilution of investments accounted for using the equity method	12	**13,173**	12,502
Loss before income tax		**(1,027,098)**	(957,495)
Income tax expense	10	**(25,383)**	(18,649)
Loss for the period		**(1,052,481)**	(976,144)
Attributable to:			
Owners of the Company		**(950,259)**	(958,576)
Non-controlling interests		**(102,222)**	(17,568)
Loss per share attributable to owners of the Company for the period *(expressed in RMB cents per share)*	11		
– Basic		**(3.76)**	(3.80)
– Diluted		**(3.76)**	(3.80)

The notes on pages 10 to 47 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Loss for the period	**(1,052,481)**	(976,144)
Other comprehensive (loss)/income:		
Item that may be reclassified to profit or loss		
Currency translation differences	**(86,917)**	(3,402)
Change in fair value of available-for-sale financial assets, net of tax	**(7,961)**	301
Other comprehensive loss for the period, net of tax	**(94,878)**	(3,101)
Total comprehensive loss for the period	**(1,147,359)**	(979,245)
Attributable to:		
Owners of the Company	**(1,044,799)**	(962,036)
Non-controlling interests	**(102,560)**	(17,209)
Total comprehensive loss for the period	**(1,147,359)**	(979,245)

The notes on pages 10 to 47 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at December 31, 2017 (Unaudited) RMB'000	2016 (Audited) RMB'000
Assets			
Non-current assets			
Property, plant and equipment	13	**208,831**	99,265
Goodwill	13	**3,596,058**	3,532,107
Intangible assets	13	**162,005**	176,901
Deferred income tax assets		**525**	1,012
Investments accounted for using the equity method	12	**2,377,946**	2,280,839
Available-for-sale financial assets		**52,000**	20,000
Financial assets at fair value through profit or loss	15	**1,067,337**	1,025,170
Trade and other receivables, and prepayments	14	**111,402**	93,391
		7,576,104	7,228,685
Current assets			
Inventories		**1,159**	890
Film and TV copyrights		**832,433**	809,004
Trade and other receivables, and prepayments	14	**1,106,460**	1,322,353
Current income tax recoverable		**6,248**	–
Available-for-sale financial assets		**1,140,793**	1,954,107
Cash and cash equivalents		**2,548,745**	6,220,966
Bank deposits with the maturity over three months		**2,422,155**	–
Restricted cash		**1,019,524**	2,027,057
		9,077,517	12,334,377
Total assets		**16,653,621**	19,563,062
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	16	**5,131,405**	5,081,884
Shares held for share award scheme		**(152,172)**	–
Reserves		**9,744,551**	11,836,139
		14,723,784	16,918,023
Non-controlling interests		**135,149**	213,909
Total equity		**14,858,933**	17,131,932

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

	Note	As at December 31, 2017 (Unaudited) RMB'000	As at December 31, 2016 (Audited) RMB'000
Liabilities			
Non-current liabilities			
Borrowings	18	**14,753**	–
Deferred income tax liabilities		**38,394**	42,922
Finance lease liabilities		**6,228**	–
		59,375	42,922
Current liabilities			
Trade and other payables, and accrued charges	19	**738,505**	405,542
Current income tax liabilities		**–**	2,666
Borrowings	18	**993,000**	1,980,000
Finance lease liabilities		**3,808**	–
		1,735,313	2,388,208
Total liabilities		**1,794,688**	2,431,130
Total equity and liabilities		**16,653,621**	19,563,062

The notes on pages 10 to 47 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to owners of the Company											
	Note	Share capital RMB'000	Share premium RMB'000	Shares held for share award shceme RMB'000	Other reserve RMB'000	Shareholder's contribution reserve RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Share-based compensation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
For the twelve months ended December 31, 2017 (Unaudited)													
At January 1, 2017		5,081,884	12,063,133	–	168,183	48,527	11,349	9,547	251,434	(716,034)	16,918,023	213,909	17,131,932
Loss for the period		–	–	–	–	–	–	–	–	(950,259)	(950,259)	(102,222)	(1,052,481)
Other comprehensive loss for the period:													
Fair value loss on available-for-sale financial assets, net of tax		–	–	–	–	–	–	(7,623)	–	–	(7,623)	(338)	(7,961)
Currency translation differences		–	–	–	–	–	(86,917)	–	–	–	(86,917)	–	(86,917)
Total comprehensive loss for the period		–	–	–	–	–	(86,917)	(7,623)	–	(950,259)	(1,044,799)	(102,560)	(1,147,359)
Issuance of shares under share award scheme	16	49,521	214,360	(263,881)	–	–	–	–	–	–	–	–	–
Shares purchased for share award scheme	17(c)	–	–	(19,526)	–	–	–	–	–	–	(19,526)	–	(19,526)
Shares vested under share award scheme	17(c)	–	–	131,235	–	–	–	–	(131,235)	–	–	–	–
Value of employee services provided under share option scheme and share award scheme	17(a)(c)	–	–	–	–	–	–	–	98,482	–	98,482	–	98,482
Value of employee services provided in relation to share-based payment transactions with Alibaba Group Holding Limited ("AGHL")	17(b)	–	–	–	–	–	–	–	11,160	–	11,160	–	11,160
Acquisition of non-controlling interests in subsidiaries	22(1)	–	–	–	(1,242,359)	–	–	–	–	–	(1,242,359)	(91,892)	(1,334,251)
Non-controlling interests arising on business combinations	21	–	–	–	–	–	–	–	–	–	–	65,631	65,631
Disposal of certain equity interest in a subsidiary without loss of control	22(2)	–	–	–	2,803	–	–	–	–	–	2,803	38,724	41,527
Others		–	–	–	–	–	–	–	–	–	–	11,337	11,337
At December 31, 2017		5,131,405	12,277,493	(152,172)	(1,071,373)	48,527	(75,568)	1,924	229,841	(1,666,293)	14,723,784	135,149	14,858,933

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

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

The notes on pages 10 to 47 are an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the twelve months ended December 31, 2017 (Unaudited) *RMB'000*	2016 (Audited) *RMB'000*
Cash flows from operating activities			
Cash used in operating activities		**(745,280)**	(1,956,021)
Income tax paid		**(22,353)**	(54,478)
Net cash used in operating activities		**(767,633)**	(2,010,499)
Cash flows from investing activities			
Change in available-for-sale financial assets, net		**770,700**	(871,700)
Amount received/(paid) in relation to the restructuring of an associate		**405,809**	(506,179)
Investment income received		**89,978**	50,214
Interest received		**68,963**	134,455
Refund of investment in an associate	12	**50,000**	–
Disposal of investment in an associate	12	**38,403**	–
Interest received on convertible bonds	15	**19,500**	–
Investment in a newly established subsidiary		**9,800**	–
Change in bank deposits with the maturity over three months, net		**(2,588,506)**	7,379,636
Investment in associates	12	**(201,828)**	(2,248,893)
Purchases of property, plant and equipment ("PPE")		**(145,172)**	(56,590)
Acquisition of subsidiaries, net of cash acquired	21	**(29,894)**	(116,771)
Purchase of intangible assets		**(32)**	(492)
Loan repayment received from a third party		**–**	15,000
Proceeds from disposal of art works		**–**	8,000
Investment in convertible bonds		**–**	(1,000,000)
Prepayment of investment		**–**	(45,000)
Net cash (used in)/generated from investing activities		**(1,512,279)**	2,741,680

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Continued)

		For the twelve months ended December 31,	
		2017	2016
		(Unaudited)	(Audited)
	Note	***RMB'000***	*RMB'000*
Cash flows from financing activities			
Change in restricted cash in relation to financing activities		**1,006,286**	(5,509)
Proceeds from disposal of interest in a subsidiary	22(2)	**41,527**	1,500
Proceeds from bank borrowings	18	**17,753**	–
Acquisition of non-controlling interests in subsidiaries	22(1)	**(1,334,251)**	–
Repayment of borrowings	18	**(990,000)**	–
Shares purchased for share award scheme		**(19,526)**	–
Interest paid		**(13,867)**	(9,500)
Proceeds from capital injection into a subsidiary		**–**	1,700,000
Net cash (used in)/generated from financing activities		**(1,292,078)**	1,686,491
Net (decrease)/increase in cash and cash equivalents		**(3,571,990)**	2,417,672
Cash and cash equivalents at beginning of the period		**6,220,966**	3,677,988
Exchange (loss)/gains on cash and cash equivalents		**(100,231)**	125,306
Cash and cash equivalents at end of the period		**2,548,745**	6,220,966

The notes on pages 10 to 47 are an integral part of this interim condensed consolidated financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Alibaba Pictures Group Limited (the "Company") and its subsidiaries (together, the "Group") form an internet-driven integrated platform that covers content production, promotion and distribution, IP licensing, cinema ticketing management and data services for the entertainment industry.

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

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange") and secondary listing on the Singapore Exchange Securities Trading Limited. As at December 31, 2017, the Company is 49.03% 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 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.

2 BASIS OF PREPARATION

On December 12, 2017, the Company announced to change the financial year end date of the Company from December 31 to March 31 to coincide with the natural business cycle of the Company's certain business lines, including its online movie ticketing services and entertainment content promotion and distribution business. Accordingly, the current interim financial period covers a twelve-month period from January 1, 2017 to December 31, 2017 with the comparative financial period from January 1, 2016 to December 31, 2016.

This condensed consolidated interim financial information for the twelve months ended December 31, 2017 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 twelve months ended December 31, 2016, 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, 2016, as described in those annual financial statements, except for the adoption of amendments to HKFRSs effective for the financial period beginning on January 1, 2017.

(a) Amendments to HKFRSs effective for the financial period beginning on January 1, 2017 do not have a 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'

Nature of change

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.

Impact

The Group has reviewed its financial assets and liabilities and does not expect any significant impact from the adoption of the new standard from the financial year beginning on April 1, 2018, for the following reasons:

- The debt instruments that are currently classified as available-for-sale ("AFS") financial assets appear to satisfy the conditions for classification as fair value through other comprehensive income ("FVOCI") and hence there will be no change to the accounting for these assets.

- A FVOCI election is available for the equity instruments which are currently classified as AFS.

- Equity investments currently measured at fair value through profit or loss will likely continue to be measured on the same basis under HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The derecognition rules have been transferred from HKAS 39 'Financial Instruments: Recognition and Measurement' and have not been changed.

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

3 ACCOUNTING POLICIES *(Continued)*

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

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

Impact (Continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 'Revenue from Contracts with Customers', lease receivables, loan commitments and certain financial guarantee contracts. While the Group is in the process of undertaking a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

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

Date of adoption by the Group

Must be applied for financial years commencing on or after January 1, 2018. The Group will apply the new standard retrospectively from the financial year beginning on April 1, 2018, with the practical expedients permitted under the standard.

3 ACCOUNTING POLICIES *(Continued)*

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

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

Nature of change

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.

Impact

Management is assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that may be affected:

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

- accounting for costs incurred in fulfilling a contract and revenue through online promotion activities and transactions – certain costs which are currently expensed may need to be recognized as an asset or reclassified within the statement of profit or loss, while certain of the revenue may be accounted for differently under HKFRS 15

Date of adoption by the Group

Mandatory for financial years commencing on or after January 1, 2018. The Group intends to adopt the new standard using the modified retrospective approach from the financial year beginning on April 1, 2018, which means that the cumulative impact of the adoption will be recognized in retained earnings as of April 1, 2018 and that comparatives will not be restated.

3 ACCOUNTING POLICIES *(Continued)*

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

(iii) HKFRS 16 'Leases'

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has certain non-cancellable operating lease commitments. The Group estimates that part of these relate to payments for short-term and low value leases which will be recognized on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognized on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by the Group

Mandatory for financial years commencing on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

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, 2016.

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 foreign exchange risk and cash flow and fair value interest rate 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, 2016.

There have been no material changes in the risk management policies since December 31, 2016.

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 December 31, 2017.

	Unaudited			
	Level 1 ***RMB'000***	**Level 2** ***RMB'000***	**Level 3** ***RMB'000***	**Total** ***RMB'000***
Assets				
Available-for-sale financial assets				
Investments in wealth management products	**–**	**–**	**1,140,793**	**1,140,793**
Investments in unlisted fund	**–**	**–**	**32,000**	**32,000**
Financial assets at fair value through profit or loss				
Convertible bonds	**–**	**–**	**1,067,337**	**1,067,337**
Total assets	**–**	**–**	**2,240,130**	**2,240,130**

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

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

5.2 Fair value estimation *(Continued)*

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

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.

5.3 Fair value measurements using significant unobservable inputs

The following table presents the changes in level 3 instruments for the twelve months ended December 31, 2017 and 2016.

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Available-for-sale financial assets		
Opening balance at January 1	**1,954,107**	1,102,006
Change in investment amount, net	**(770,700)**	851,700
Fair value changes reclassified to profit or loss upon disposal	**(13,207)**	(12,806)
Revaluation gain recognized in other comprehensive income	**2,593**	13,207
Closing balance at December 31	**1,172,793**	1,954,107

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Financial assets at fair value through profit or loss		
Opening balance at January 1	**1,025,170**	–
Addition	**–**	1,000,000
Interest received	**(19,500)**	–
Change in fair value	**61,667**	25,170
Closing balance at December 31	**1,067,337**	1,025,170

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

5.3 Fair value measurements using significant unobservable inputs *(Continued)*

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Financial liabilities at fair value through profit of loss		
Opening balance at January 1	–	33,000
Derecognition upon expiry	–	(33,000)
Closing balance at December 31	–	–

6 REVENUES AND SEGMENT INFORMATION

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

The Board of Directors considers the business from perspective of types of goods or services delivered or provided. During the twelve months ended December 31, 2017, the Group's operating and reportable segments are as follows:

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

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

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

6 REVENUES AND SEGMENT INFORMATION *(Continued)*

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Internet-based promotion and distribution	**1,970,374**	682,607
Content production	**341,292**	211,834
Integrated development	**54,470**	6,010
Other operations	**–**	4,131
Total revenues	**2,366,136**	904,582

Segment revenue and results

	For the twelve months ended December 31, 2017 (Unaudited)			
	Internet-based promotion and distribution	**Content production**	**Integrated development**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue	**1,970,374**	**341,292**	**54,470**	**2,366,136**
Segment results	**(351,370)**	**4,060**	**30,740**	**(316,570)**
Unallocated selling and marketing expenses				**(14,337)**
Administrative expenses				**(740,800)**
Other income				**108,907**
Other gains, net				**61,363**
Finance income				**76,545**
Finance expenses				**(215,379)**
Share of profit or loss of and gain on dilution of investments accounted for using the equity method				**13,173**
Loss before income tax				**(1,027,098)**

6 REVENUES AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

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

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 INCOME

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Investment income on available-for-sale financial assets	**89,978**	43,434
Local government subsidies	**11,624**	5,665
Investment income on loan receivable	**–**	4,579
Sundry income	**7,305**	9,736
Total	**108,907**	63,414

8 OTHER GAINS, NET

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Change in fair value of financial assets at fair value through profit or loss *(Note 15)*	**61,667**	25,170
Change in fair value of assets held-for-sale	**–**	(12,218)
Gain on derecognition of repurchase option upon expiry	**–**	33,000
Others	**(304)**	(41)
Total	**61,363**	45,911

9 FINANCE INCOME AND EXPENSES

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Finance income		
– Interest income on bank deposits	**76,545**	118,386
– Exchange gain, net	**–**	427,535
	76,545	545,921
Finance expenses		
– Exchange loss, net	**(202,997)**	–
– Interest expenses on bank borrowings	**(12,382)**	(11,975)
	(215,379)	(11,975)
Finance (expenses)/income, net	**(138,834)**	533,946

10 INCOME TAX EXPENSE

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Current income tax	**26,770**	7,494
Deferred income tax	**(1,387)**	11,155
	25,383	18,649

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

11 LOSS PER SHARE

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB cents	*RMB cents*
Basic/diluted loss per share	**(3.76)**	(3.80)

(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.

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Loss attributable to owners of the Company	**(950,259)**	(958,576)
Weighted average number of ordinary shares in issue less shares held for share award scheme *(thousands)*	**25,253,506**	25,234,561

(b) Diluted

Diluted earnings or loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares for the twelve months ended December 31, 2017, which are share options and unvested awarded shares; while the company has only one category of dilutive potential ordinary shares for the twelve months ended December 31, 2016, 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 or loss per share.

The computation of diluted loss per share for the twelve months ended December 31, 2017 and 2016 did not assume the issuance of any dilutive potential ordinary share since they are antidilutive, which would decrease the loss per share.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investment in associates

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
At January 1	**2,280,839**	19,081
Additions	**201,828**	2,248,893
Disposal of investment in an associate	**(38,403)**	–
Refund of investments in an associate	**(50,000)**	–
Share of (loss)/profit of investments	**(65,795)**	12,502
Gain on dilution of interest in an associate *(Note)*	**78,968**	–
Currency translation differences	**(29,491)**	363
At December 31	**2,377,946**	2,280,839

Note:

The amount represented the dilution gain on the Group's investment in Bona Film Group Limited ("Bona Film"). As at December 31, 2016, the Group's interests in Bona Film was 8.24%. During the period ended December 31, 2017, Bona Film issued new shares to certain investors. Consequently, the Group's interests in Bona Film was diluted from 8.24% to 7.72%. The difference between (1) the decrease in the carrying value of the Group's interest in Bona Film resulting from the decrease in shareholding; and (2) the Group's share of the proceeds received for the new shares issued resulted in a dilution gain of RMB78,968,000 and was recognized in the interim condensed consolidated statement of profit or loss for the twelve months ended December 31, 2017.

13 PROPERTY, PLANT AND EQUIPMENT, GOODWILL AND INTANGIBLE ASSETS

	Property, plant and equipment *RMB'000*	Goodwill *RMB'000*	Intangible assets *RMB'000*
For the twelve months ended December 31, 2017 (Unaudited)			
Opening net book amount as at January 1, 2017	**99,265**	**3,532,107**	**176,901**
Additions	**139,212**	**–**	**32**
Acquisition of subsidiaries *(Note 21)*	**23,793**	**63,951**	**–**
Disposals	**(2,220)**	**–**	**–**
Depreciation and amortization	**(51,219)**	**–**	**(14,928)**
Closing net book amount as at December 31, 2017	**208,831**	**3,596,058**	**162,005**
For the twelve months ended December 31, 2016 (Audited)			
Opening net book amount as at January 1, 2016	57,136	3,490,574	191,331
Additions	59,065	–	492
Acquisition of a subsidiary	12,725	41,533	–
Disposals	(253)	–	–
Depreciation and amortization	(29,408)	–	(14,922)
Closing net book amount as at December 31, 2016	99,265	3,532,107	176,901

14 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

	As at December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Trade receivables *(Note a)*		
– Third parties	**379,934**	211,368
– Related parties *(Note 23(b))*	**33,350**	100,801
Less: allowance for impairment of trade receivables	**(25,528)**	(31,028)
Trade receivables – net	**387,756**	281,141
Prepayment for investment in film and TV copyrights	**128,648**	32,421
Prepaid film deposits	**90,000**	90,000
Prepayment to related parties *(Note 23(b))*	**39,518**	97,952
Prepayment for investment in an associate and a subsidiary	**–**	45,000
Other prepayments	**78,718**	23,140
Other receivables arising from:		
– Receivables in respect of Yulebao's business	**199,785**	201,813
– Refund receivable in relation to the restructuring of Bona Film	**100,370**	506,179
– Deductible VAT input	**43,121**	34,031
– Interest income receivables	**15,645**	8,063
– Receivables from related parties *(Note 23(b))*	**10,365**	63,043
– Refundable film copyrights investment cost	**–**	12,000
– Other receivables and deposits	**167,489**	55,052
Less: allowance for impairment of other receivables and prepayments	**(43,553)**	(34,091)
Other receivables and prepayments – net	**830,106**	1,134,603
Total trade and other receivables, and prepayments	**1,217,862**	1,415,744
Less: non-current portion *(Note (b))*	**(111,402)**	(93,391)
Current portion	**1,106,460**	1,322,353

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

14 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS *(Continued)*

Notes:

(a) 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 recognition date is as follows:

	As at December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
0 – 90 days	**270,551**	192,433
91 – 180 days	**39,088**	45,498
181 – 365 days	**31,464**	40,830
Over 365 days	**72,181**	33,408
	413,284	312,169

(b) As at December 31, 2017, non-current balances mainly represented prepayments for film deposits. These prepaid film deposits represented the prepayments made by the Group to Mr. Chan Ho Sun, Ms. Chai Zhi Ping and Mr. Wong Kar Wai pursuant to their respective film cooperation agreements.

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Convertible bonds

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Opening balance at January 1	**1,025,170**	–
Addition	**–**	1,000,000
Interest received	**(19,500)**	–
Change in fair value	**61,667**	25,170
Closing balance at December 31	**1,067,337**	1,025,170

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

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

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

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

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

The fair value of the convertible bonds was determined by an independent qualified valuer engaged by the Group. For the debt component of the convertible bonds, the fair value was derived as the present value of contractual determined stream of future cash flows discounted at the discount rate of 12.3%.

For the conversion right of the convertible bonds, the fair value was determined using the binomial model, and the inputs adopted in the model include risk free rate of 1.049% and volatility of 41%. Risk free rate is based on the yield of Hong Kong government bond with a similar maturity of the convertible bonds, plus country risk differential and converted into continuously compounded. Volatility is calculated with reference to comparable companies' historical share price movement matching the period of the contractual life of the convertible bonds.

16 SHARE CAPITAL

Ordinary shares of HK$0.25 each, issued and fully paid:

	Number of shares	Share capital *HK$'000*	Equivalent to *RMB'000*
At January 1, 2017	**25,234,561,410**	**6,308,640**	**5,081,884**
Issuance of shares under share award scheme	235,142,500	58,786	49,521
At December 31, 2017 (Unaudited)	**25,469,703,910**	**6,367,426**	**5,131,405**
At January 1 and December 31, 2016 (Audited)	25,234,561,410	6,308,640	5,081,884

17 SHARE-BASED PAYMENT

During the twelve months ended December 31, 2017 and 2016, share-based payment expenses recognized in the interim condensed consolidated statement of profit or loss included:

	For the twelve months ended December 31,	
	2017 (Unaudited) *RMB'000*	2016 (Audited) *RMB'000*
Share-based payment under the 2012 Share Option Scheme and Share Award Scheme *(Note a and c)*	**98,482**	143,476
Share-based payment transactions with AGHL *(Note b)*	**11,160**	26,304
Share-based payment to certain employees of a subsidiary	**–**	31,700
	109,642	201,480

17 SHARE-BASED PAYMENT *(Continued)*

(a) The 2012 share option scheme (the "2012 Share Option Scheme")

The 2012 share option scheme was adopted by the Company pursuant to a resolution passed by the Company's shareholders on June 11, 2012 for the primary purpose of providing incentives or rewards to any director, employee and other eligible participants who may make contribution to the Group. The 2012 Share Option Scheme will 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 twelve months ended December 31, 2017 are as below:

Grant date:	**Unaudited Fair value** *RMB'000*
January 13, 2017	6,860
July 17, 2017	11,191
October 24, 2017	6,645
	24,696

The weighted average fair value of options granted during the twelve months ended December 31, 2017 determined using the binomial model was HK$0.502 per option. The significant inputs into the model were weighted average share price of HK$1.290 at the grant date, weighted average exercise price of HK$1.290, volatility of 40%, zero expected dividend yield, a contractual option life of ten years, and an annual risk-free interest rate of 1.49%~1.74%.

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.

17 SHARE-BASED PAYMENT *(Continued)*

(a) The 2012 share option scheme (the "2012 Share Option Scheme") *(Continued)*

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

	For the twelve months ended December 31, 2017 (Unaudited)		For the twelve months ended December 31, 2016 (Audited)	
	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	**1.902**	**725,265,800**	2.081	415,797,800
Granted	**1.290**	**56,700,000**	1.734	383,560,000
Lapsed	**1.902**	**(406,846,800)**	2.029	(74,092,000)
Cancelled *(Note)*	**1.886**	**(301,201,000)**	–	–
Closing balance	**1.505**	**73,918,000**	1.902	725,265,800

Note:

During the twelve months ended December 31, 2017, an aggregate of 301,201,000 share options were cancelled and replaced by 118,630,000 awarded shares which are granted to the relevant grantees in accordance with the terms of the share award scheme (Note 17(c)).

For the twelve months ended December 31, 2017, value of employee services provided under share option scheme recognized in the interim condensed consolidated statement of profit or loss was a credit to expenses of RMB6,929,000 (2016: a charge to expenses of RMB143,476,000).

(b) Share-based payment transactions with AGHL

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

During the twelve months ended December 31, 2017, share-based payment expenses recognized in relation to above reimbursement amounted to RMB11,160,000 (2016: RMB26,304,000).

17 SHARE-BASED PAYMENT *(Continued)*

(c) Share Award Scheme (the "Share Award Scheme")

On December 30, 2016 ("Adoption Date"), the Company adopted the Share Award Scheme as approved by the Board of Directors. The purpose of the Share Award Scheme is to (a) recognize the contributions by certain persons, including employees of the Group, any company in which a group company may have direct or indirect investment in 20% or more of its voting powers and AGHL (including its subsidiaries) to provide incentives thereto to retain them for the continual operation and development of the Group and (b) attract suitable personnel for further development of the Group.

The Group has established a trust ("Share Award Trust") to hold and administer the Company's shares before they are vested and transferred to selected grantees. Upon granting of shares to selected grantees, the awarded shares are either subscribed by the allotment and issuance of new shares of the Company or purchased from the open market by the Share Award Trust (with funds provided by the Company by way of settlement or otherwise contributed by the Company).

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

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

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

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

As at December 31, 2017, the remaining life of the Share Award Scheme is approximately 14 years.

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

The trustee of the Share Award Scheme shall not exercise the voting rights in respect of any shares held by it under the Share Award Scheme. Dividends declared for any shares held by the Share Award Trust shall become part of the trust fund for future purchase of shares.

17 SHARE-BASED PAYMENT *(Continued)*

(c) Share Award Scheme (the "Share Award Scheme") *(Continued)*

Movements of the awarded shares granted by the Company pursuant to the Share Award Scheme are as below:

	For the twelve months ended December 31, 2017 (Unaudited)		For the twelve months ended December 31, 2016 (Audited)	
	Weighted average fair value in HK$ (per share)	**Number of awarded shares granted**	Weighted average fair value in HK$ (per share)	Number of awarded shares granted
Opening balance	–	–	–	–
Granted *(Note)*	**1.308**	**262,509,000**	–	–
Vested	**1.320**	**(72,245,500)**	–	–
Lapsed	**1.317**	**(31,234,500)**	–	–
Closing balance	**1.301**	**159,029,000**	–	–

Note:

Among the above awarded shares granted, 118,630,000 awarded shares are granted to the relevant grantees in replacement of share options previously granted to them under the 2012 Share Option Scheme (the "Replacement Awarded Shares"). Upon the grant of the 118,630,000 Replacement Awarded Shares and the acceptance of the relevant grantees, 301,201,000 share options under the 2012 Share Option Scheme have been cancelled (Note 17(a)).

The directors of the Company are of the view that above grant of the Replacement Awarded Shares constitute a modification to the original share options granted under the 2012 Share Option Scheme. The incremental fair value of RMB32,815,000 will be recognized as an expense over the period from the modification date to the end of the remaining vesting period. The expense for the original share options grant will continue to be recognized as if they had not been cancelled.

The fair value of restricted shares charged to the interim condensed consolidated statement of profit or loss was RMB105,411,000 during the twelve months ended December 31, 2017 (2016: nil).

18 BORROWINGS

	As at December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Current	**993,000**	1,980,000
Non-Current	**14,753**	–
	1,007,753	1,980,000

Movements in borrowings are analysed as follows:

	RMB'000
Twelve months ended December 31, 2017 (Unaudited)	
Opening amount as at January 1, 2017	**1,980,000**
Repayments of bank borrowings	**(990,000)**
Proceeds from bank borrowings	**17,753**
Closing amount as at December 31, 2017	**1,007,753**
At January 1 and December 31, 2016 (Audited)	1,980,000

Note:

As at December 31, 2017, short-term borrowings of RMB990,000,000 (December 31,2016: RMB1,980,000,000) are secured by restricted cash of RMB1,001,153,000 (December 31, 2016: RMB2,007,439,000), 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.

19 TRADE AND OTHER PAYABLES, AND ACCRUED CHARGES

	As at December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Trade payables *(Note)*		
– Third parties	**51,569**	31,172
– Related parties *(Note 23(b))*	**26,616**	5,964
	78,185	37,136
Other payables and accrued charges		
Amounts due to related parties *(Note 23(b))*	**181,335**	52,105
Payable in respect of Yulebao's business	**162,987**	41,187
Payroll and welfare payable	**64,047**	55,616
Advance from customers	**57,426**	34,711
Other tax payable	**56,138**	59,264
Accrued marketing expense	**38,236**	29,312
Payable in relation to distribution of films	**24,630**	29,489
Professional fees payable	**4,141**	9,288
Interest payable	**3,102**	4,587
Payable for property, plant and equipment	**903**	6,863
Consideration payable for business combination	**–**	3,900
Other payables and accrued charges	**67,375**	42,084
	660,320	368,406
Total trade and other payables, and accrued charges	**738,505**	405,542

Note:

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

	As at December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
0 – 90 days	**55,913**	21,914
91 – 180 days	**4,655**	286
181 – 365 days	**4,938**	404
Over 365 days	**12,679**	14,532
	78,185	37,136

20 DIVIDENDS

The Board has resolved not to declare a dividend for the twelve months ended December 31, 2017 (2016: nil).

21 BUSINESS COMBINATION

(1) Orbgen Technologies Private Limited ("Orbgen")

On January 25, 2017, the Company, through Wormhole Technology (Singapore) Private Limited ("Wormhole SG", an indirect wholly-owned subsidiary of the Company) acquired 75% of the equity interests of Orbgen, a company that principally operates an online movie ticketing platform namely "TicketNew" in India. Upon completion of the above acquisition, Orbgen became an indirect non-wholly-owned subsidiary of the Company. In September 2017, the Group disposed of an aggregate of 32.2% interest of Wormhole SG to certain related companies of the Group, further details are given in Note 22(2).

(a) Consideration

The total cash consideration for the acquisition of Orbgen was US$16,021,000 (equivalent to approximately RMB109,969,000).

(b) Recognized amounts of identifiable assets acquired and liabilities assumed

The fair value of net assets of Orbgen acquired as at January 25, 2017 are as follows:

	Provisional Fair value *RMB'000*
Current assets	
Trade and other receivables, and prepayments *(Note)*	**2,482**
Cash and cash equivalents	**79,670**
Non-current assets	
Property, plant and equipment	**985**
Current liabilities	
Trade and other payables, and accrued charges	**(2,584)**
Total identifiable net assets	**80,553**

21 BUSINESS COMBINATION *(Continued)*

(1) Orbgen *(Continued)*

(b) Recognized amounts of identifiable assets acquired and liabilities assumed (Continued)

Note:

Acquired trade and other receivables, and prepayments

The fair value of trade and other receivables, and prepayments is RMB2,482,000, including trade receivables with a fair value of RMB1,080,000. The gross contractual amount for trade receivables is RMB1,080,000, of which none is expected to be uncollectible.

(c) Goodwill arising from the acquisition

The goodwill of RMB49,554,000 arises from the synergy with the Group and work force that did not meet the criteria for recognition as intangible assets. The excess amount of the cash consideration over the fair value of the net identifiable assets of Orbgen is recognized as goodwill.

	Unaudited
	RMB'000
Total cash consideration	**109,969**
Less: fair value of net assets acquired by the Group	**(80,553)**
Add: non-controlling interests in net assets of Orbgen	**20,138**
Goodwill	**49,554**

The goodwill arising on the acquisition is attributable to the segment of the internet-based promotion and distribution of the Group.

21 BUSINESS COMBINATION *(Continued)*

(1) Orbgen *(Continued)*

(d) Related costs for the acquisition

	Unaudited
	RMB'000
Acquisition-related costs (included in administrative expenses in the interim condensed consolidated statement of profit or loss for the twelve months ended December 31, 2017)	**1,776**

(e) Cash outflow for the acquisition

	Unaudited
	RMB'000
Outflow of cash for the acquisition, net of cash acquired	
– Bank balances and cash acquired	**79,670**
– Cash consideration	**(109,969)**
Cash outflow for the acquisition	**(30,299)**

(f) Revenue and profit contribution impact

The acquired business contributed revenue of RMB11,700,000 and net loss of RMB19,568,000 to the Group for the period from January 25, 2017 to December 31, 2017. Had Orbgen been consolidated from January 1, 2017, the interim condensed consolidated statement of profit or loss would show pro-forma revenue of RMB2,367,959,000 and net loss of RMB1,052,843,000 respectively, which are calculated by aggregating the financial information of Orbgen and the Group.

21 BUSINESS COMBINATION *(Continued)*

(2) Nanjing Pairui Cinema Management Company Limited ("Nanjing Pairui")

On January 1, 2017, the Company, through an indirect wholly-owned subsidiary, acquired 55% of the equity interests of Nanjing Pairui, a cinema operator in Nanjing, the People's Republic of China. Upon completion of the acquisition, Nanjing Pairui became an indirect non-wholly-owned subsidiary of the Company.

(a) Consideration

The total cash consideration for the acquisition was RMB70,000,000, including an amount of RMB5,000,000 prepaid by the Group in 2016. All the above consideration was injected into Nanjing Pairui as the Group's investment.

(b) Recognized amounts of identifiable assets acquired and liabilities assumed

The fair value of net assets of Nanjing Pairui acquired as at January 1, 2017 are as follows:

	Fair value
	RMB'000
Current assets	
Other receivables, and prepayments *(Note)*	**85,789**
Cash and cash equivalents	**405**
Non-current assets	
Property, plant and equipment	**22,808**
Current liabilities	
Trade and other payables, and accrued charges	**(7,906)**
Total identifiable net assets	**101,096**

Note:

Acquired other receivables, and prepayments

The fair value of other receivables, and prepayments is RMB85,789,000. There is no trade receivable acquired.

21 BUSINESS COMBINATION *(Continued)*

(2) Nanjing Pairui *(Continued)*

(c) Goodwill arising from the acquisition

The goodwill of RMB14,397,000 arises from the synergy with the Group and work force that did not meet the criteria for recognition as intangible assets. The excess amount of the cash consideration over the fair value of the net identifiable assets of Nanjing Pairui is recognized as goodwill.

	Unaudited
	RMB'000
Total cash consideration	**70,000**
Less: fair value of net assets acquired by the Group	**(101,096)**
Add: non-controlling interests in net assets of Nanjing Pairui	**45,493**
Goodwill	**14,397**

The goodwill arising on the acquisition is attributable to the segment of the internet-based promotion and distribution of the Group.

(d) Related costs for the acquisition of Nanjing Pairui

	Unaudited
	RMB'000
Acquisition-related costs (included in administrative expenses in the interim condensed consolidated statement of profit or loss for the twelve months ended December 31, 2017)	**150**

(e) Cash inflow for the acquisition

	Unaudited
	RMB'000
Cash inflow for the acquisition,	
– Bank balances and cash acquired	**405**

The consideration of RMB70,000,000 was paid by the Group in the form of capital injection into Nanjing Pairui and was considered as a non-cash transaction in the interim condensed consolidated statement of cash flows.

(f) Revenue and profit contribution impact

The acquired business contributed revenue of RMB24,847,000 and net loss of RMB16,518,000 to the Group for the twelve months ended December 31, 2017.

22 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

(1) Acquisition of additional interest in subsidiaries

(a) Tao Piao Piao

In July 2017, the Group acquired an aggregate 9.12% equity interest in the Group's subsidiary that operates Tao Piao Piao from certain non-controlling shareholders, for a purchase consideration of approximately RMB1,332,751,000. Among the 9.12% equity interest acquired, 2.26% were acquired from the Group's associates, for a purchase consideration of approximately RMB331,447,000. The carrying amount of the non-controlling interests in Tao Piao Piao on the date of acquisition was RMB104,308,000. The Group recognized a decrease in non-controlling interests of RMB76,697,000 and a decrease in equity attributable to owners of the Company of RMB1,256,054,000. The effect of the above transaction on the equity attributable to owners of the Company during the twelve months ended December 31, 2017 is summarized as follows:

	For the twelve month ended December 31, 2017 (Unaudited) ***RMB'000***
Consideration paid to non-controlling interests	**1,332,751**
Less: carrying amount of non-controlling interests acquired	**(76,697)**
Excess of consideration paid recognized within equity	**1,256,054**

22 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL *(Continued)*

(1) Acquisition of additional interest in subsidiaries *(Continued)*

(b) Guangdong Alibaba Pictures Yunzhi Software Company Limited ("Yunzhi")

In September 2017, the Group acquired an aggregate 4% equity interest in Yunzhi from certain non-controlling shareholders, for a purchase consideration of RMB1,500,000. The carrying amount of the non-controlling interests in Yunzhi on the date of acquisition was RMB15,195,000. The Group recognized a decrease in non-controlling interests of RMB15,195,000 and an increase in equity attributable to owners of the Company of RMB13,695,000. The effect of the above transaction on the equity attributable to owners of the Company during the twelve months ended December 31, 2017 is summarized as follows:

	For the twelve month ended December 31, 2017 (Unaudited) *RMB'000*
Consideration paid to non-controlling interests	**1,500**
Less: carrying amount of non-controlling interests acquired	**(15,195)**
Gain on acquisition recognized within equity	**(13,695)**

22 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL *(Continued)*

(2) Disposal of interest in a subsidiary without loss of control

In September 2017, the Group disposed of 18.4% and 13.8% of interest in Wormhole SG to UCWeb Singapore Pte. Ltd. ("UCWeb SG", an indirect wholly-owned subsidiary of AGHL) and Alipay Singapore Holding Pte. Ltd. ("Alipay SG", a related party of the Group) respectively. The total consideration for the 32.2% interest disposed of was USD6,020,000 (equivalent to approximately RMB41,527,000), including USD3,440,000 (equivalent to approximately RMB23,730,000) paid by UCWeb SG and USD2,580,000 (equivalent to approximately RMB17,797,000) paid by Alipay SG. The Group recognized non-controlling interests of RMB38,724,000 and an increase in equity attributable to owners of the Company of RMB2,803,000. The effect of the above transaction on the equity attributable to owners of the Company during the period is summarized as follows:

	For the twelve month ended December 31, 2017 (Unaudited) ***RMB'000***
Consideration received from non-controlling interests	**41,527**
Less: Carrying amount of non-controlling interests disposed of	**(38,724)**
Amount recognized within equity	**2,803**

(3) Effects of changes in ownership interests in subsidiaries without change of control on the equity

	For the twelve month ended December 31, 2017 (Unaudited) ***RMB'000***
Changes in equity attributable to owners of the Company arising from:	
– Acquisition of additional interests in subsidiaries *(Note (1) above)*	**(1,242,359)**
– Disposal of interests in a subsidiary without loss of control *(Note (2) above)*	**2,803**
Net effect for changes in ownership interests in subsidiaries without change of control on equity attributable to owners of the Company	**(1,239,556)**

23 RELATED PARTY TRANSACTIONS

As at December 31, 2017, the Company is 49.03% owned by Ali CV. The remaining 50.97% of the Company's shares are widely held. The ultimate controlling shareholder of the Company is AGHL, shares of which 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

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Sales of film and TV copyrights to associates	**6,304**	47,111
Sales of film and TV copyrights to AGHL's subsidiary	**9,628**	–
Purchase of services from AGHL's subsidiaries and an associate	**42,605**	29,050
Provision of services to AGHL's subsidiary	**7,194**	–
Provision of services to associates	**29,061**	10,048
Purchase of services from related companies of AGHL	**60,633**	28,670

In the opinion of the Company's directors, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements.

(b) Balances due from related parties

	As at December 31, 2017	As at December 31, 2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Trade receivables		
Amounts due from associates	**26,065**	95,905
Amounts due from AGHL's subsidiaries	**7,285**	4,896
Other receivables		
Amounts due from associates	**7,729**	29,882
Amounts due from AGHL's subsidiaries	**2,636**	33,161
Prepayment		
Prepayment to AGHL's subsidiaries	**92**	86
Prepayment to related companies of AGHL	**39,426**	97,866

23 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances due from related parties *(Continued)*

The balances due from related parties are unsecured, non-interest bearing and due in accordance with the terms of the underlying agreements.

As at December 31, 2017, the Group had a total amount of RMB128,351,000 (December 31, 2016: RMB218,699,000) in the Group's settlement accounts maintained with Alipay.com Co., Ltd (a related company of AGHL), which have been recorded as 'cash and cash equivalents' in the interim condensed consolidated balance sheet and are the settlement amounts derived from the transactions between the Group and third parties.

(c) Balances due to related parties

	As at December 31, 2017 (Unaudited) ***RMB'000***	As at December 31, 2016 (Audited) *RMB'000*
Trade payable		
Amounts due to AGHL's subsidiaries	**10,215**	1,363
Amounts due to related companies of AGHL	**16,401**	4,601
Other payable		
Amounts due to associates	**143,815**	22,460
Amounts due to AGHL's subsidiaries	**37,223**	29,645
Amounts due to related companies of AGHL	**297**	–

The balances due to related parties are unsecured, non-interest bearing and due in accordance with the terms of the underlying agreement.

23 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management compensation

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

	For the twelve months ended December 31,	
	2017	2016
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Salaries, allowances and other benefits	**7,480**	10,995
Share-based payments	**5,205**	55,508
Reversal of share-based payments upon lapse of share options granted to key management	**(24,116)**	–
	(11,431)	66,503

INTERIM DIVIDEND

The board of the directors of the Company (the "Board") has resolved not to declare an interim dividend for the twelve months ended December 31, 2017 (Twelve months ended December 31, 2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Having invested strategically to build the foundations of its entertainment ecosystem over the past few years, the Group experienced material business progress in 2017. Year-over-year, the Group's revenue grew by 162% to RMB2,366.1 million in 2017. Each of its three business segments contributed strong revenue growth, spearheaded by the internet-based promotion and distribution business, which recorded RMB1,970 million in revenue, an annual growth of 189%. As an integral part of the new industry infrastructure, the Group's online movie ticketing platform Tao Piao Piao has continued to expand its footprints and transform the industry. In 2017, the online penetration of movie ticketing continued to make record high, accounting for over 82% of all tickets sold in China. Mass consumers have not only developed the habit of purchasing movie tickets through online platforms, but have also begun to browse them for information that revolves around movies, cinemas, and celebrities. Tao Piao Piao has become a powerful tool for digital promotion of entertainment content.

After the domestic box office recorded a single digit annual percentage growth in 2016, it returned to a healthy 13.5% increase in 2017. According to China's State Administration of Press, Publication, Radio, Film and Television ("SARFT"), the overall box office reached RMB55.9 billion in 2017. Total box office growth was driven mainly by the increase in the number of cinema admissions rather than ticket price increase. Movies remained a popular form of entertainment content consumption. According to data from Ent Group, the number of cinemas in the PRC increased to approximately 9,000 by the end of 2017. As the number of cinemas increased, the Group's Yunzhi (formerly known as "Yueke") continued to record stable business growth and consistent cash flow generation.

In 2017, the Group recorded a net loss attributable to the owners of the Company of RMB950.3 million, which was primarily attributable to the marketing expenses incurred by Tao Piao Piao, as the Group continued to invest in expanding Tao Piao Piao's market share. Although comparable with a net loss of RMB958.6 million in 2016, the Group's overall profitability in 2017 was impacted by a substantial foreign exchange loss, as RMB appreciated against foreign currencies such as USD and HKD. Foreign exchange loss in 2017 was RMB203.0 million, compared with a gain of RMB427.5 million in 2016. Without this factor, which is linked to currency fluctuations, the Group's operational profitability demonstrated material improvement in 2017. Substantial progress was made in each of its three major business segments: (i) internet-based promotion and distribution, (ii) content production, and (iii) integrated development. Details are elaborated in the section headed "Business Review" section below.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW

INTERNET-BASED PROMOTION AND DISTRIBUTION

In 2017, the online movie ticketing industry experienced further growth and consolidation. In the second half of 2017, two major ticketing platforms, namely Maoyan and Yu Piao Er, were merged. The industry transformed from a multi-player scenario a few years ago to now a dichotomy. Using an effective marketing strategy, combined with continuously upgrading its user experience, the Group's online movie ticketing platform Tao Piao Piao was able to increase its gross merchandise value (GMV) at a rate much faster than the overall growth of the box office. The Group is confident in the future commercial potentials of Tao Piao Piao. Therefore, the Group continued to allocate substantial resources to improve its overall business profile. In addition, the Group increased its equity stake in Tao Piao Piao by 9.12% to 96.71% in July 2017.

During 2017, Tao Piao Piao steadily expanded its revenue base. Its ticketing fee grew in line with its GMV. As Tao Piao Piao continued to solidify its market presence, an increasing number of film producers began to engage Tao Piao Piao for online promotion for their films, e.g. *Dangal* (摔跤吧！爸爸), *Duckweed* (乘風破浪), both of which achieved strong box office performances in the PRC. In 2017, the Group also provided joint efforts in promoting and distributing such hits as *The Adventurers* (俠盜聯盟) and *Dunkirk* (敦刻爾克). In addition, the Group was in charge of the overall promotion and distribution services for several projects in 2017, such as *A Dog's Purpose* (一條狗的使命) and *Mr. Pride vs Miss Prejudice* (傲嬌與偏見). A Dog's Purpose, a film developed by the Group's investee company Amblin Partners, was promoted with creative digital methods and attained a domestic box office of over RMB600 million, which exceeded that of North America.

Yunzhi continued to deliver steady performance in 2017. At the end of 2017, Yunzhi is connected to more than 2,700 cinemas in the PRC. In terms of financial results, the Group's internet-based promotion and distribution business segment generated RMB1,970.4 million of revenue in 2017, an increase of 188.7% from RMB682.6 million in the previous year. The surge was primarily contributed by the increase in online ticketing fees and online promotion and distribution fees. Throughout 2017 Tao Piao Piao's market share expanded steadily, which accompanied higher year-over-year marketing expenses. Given increases in revenue exceeding that of expense, the segment loss decreased materially to RMB351.4 million in 2017 from RMB607.4 million in 2016.

CONTENT PRODUCTION

The Group released several films in 2017. In April, the Group released *Mr. Pride Vs Miss Prejudice* (傲嬌與偏見), the domestic box office of which reached RMB124 million. In August, the much anticipated film *Once Upon a Time* (三生三世十里桃花), featuring highly popular actress Liu Yifei and actor Yang Yang, was released and its box office totaled RMB534 million. In addition to these projects, the Group also co-invested in films developed by other producers. Such films include *This is Not What I Expected* (喜歡你), a film starring *Takeshi Kaneshiro and Zhou Dongyu, and Paradox* (殺破狼：貪狼), featuring Louis Koo. These films grossed RMB210 million and RMB523 million in domestic box office respectively. Internationally, the thriller film *Real* (真實) was released in Korea in the summer of 2017. The Group continues to invest in the development of entertainment content selectively. *Swords of Legend 2* (古劍奇譚2), which is based on a widely popular game in the PRC, is being developed into a film and TV drama concurrently.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

CONTENT PRODUCTION *(Continued)*

The Group's content business spans both movies and drama series. In 2017, the Group sold the broadcasting rights of several drama series to Youku, a related company of the Group. *Ugly Girl Hai Ru Hua* (囧女翻身之嗨如花), a series in the genre of romance and comedy, has been released on Youku. In terms of financial results, the content production business segment of the Group recorded revenue of RMB341.3 million in 2017, compared with RMB211.8 million in 2016. Although partly affected by some legacy projects from the previous years, the Group recorded a segment profit of RMB4.1 million in 2017, a significant improvement from a loss of RMB243.5 million in 2016.

Full-cycle content production involves significant upfront capital and time investment. In respect of the strategy for the content production business in the future, the Group will also place emphasis on developing creative, positive, family oriented content. In addition, the Group will continue to source and evaluate co-investment opportunities. For the producers, the Group not only offers monetary resources, but also the services that originate from its entire ecosystem.

INTEGRATED DEVELOPMENT

IP-centric merchandising possesses outstanding business potential for the Group. In 2017, the Group has licensed the merchandising rights of *Once Upon a Time* (三生三世十里桃花) to selective e-merchants on the Taobao and Tmall platforms. Total related GMV for *Once Upon a Time* have exceeded RMB300 million. The ability to, through big data, identify and source suitable e-merchants in the Alibaba ecosystem is one of the advantages of the Group. In addition to license its own IPs for derivative merchandising, the Group can sub-license IPs from third parties in order to develop more products. Going forward, the Group will also work increasingly with Alibaba Group on furthering the entertainment content display and utilization on its e-commerce platforms. Doing so will boost overall user interest and be mutually beneficial for both parties.

The Group's integrated development business segment also consists of Yulebao – a C2B financing platform. The Group completed several C2B financing projects in 2017. In addition, the Group has made implementations to lower the overall costs of the C2B financial service and enhance counter-party risk control. The growth and development of the Group's merchandising business contributed significantly to the improved financial performance of integrated development business segment. For 2017, the segment recorded revenue of RMB54.5 million and profit of RMB30.7 million, greatly improved from revenue of RMB6.0 million and loss of RMB15.0 million in 2016. As Yulebao has gained solid experiences in project sourcing and selection over the past few years, it will be allowed to co-invest in movies and drama series either with third party funding or internal resources.

PROSPECTS

In the second half of 2017, the Group appointed Mr. Fan Luyuan as its new CEO and Chairman of the Board. Mr. Fan led his team to pioneer the first ever Quick Payment and create Yu'e Bao at Alipay, now one of the largest online third party payment solution providers in the world. Under his leadership, the Group moves forward on its mission of building a technology driven infrastructure for improving the efficiency of the industry.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

PROSPECTS *(Continued)*

One ongoing initiative is enriching Tao Piao Piao's information and media functions, continuing its transformation from a "ticketing platform" to a "social platform revolving around movie content". Already recognized for its online promotion capabilities, Tao Piao Piao will continue to enhance its features and usability. As announced by the Group on February 1, 2018, the Group plans to accelerate its investment of resources to expand and fortify the market-leading position of Tao Piao Piao. Besides efforts to further develop user-driven (to C) infrastructures, the Group has also been working on its business-driven (to B) initiatives, e.g., upgrading Tao Piao Piao Pro, an App aimed towards industry participants. Tao Piao Piao Pro provides comprehensive information on box office data and information to various industry participants. These endeavors to further improve the Group's products and services will continue to be financed by its existing internal resources. In addition, the Group, through Yunzhi, continues to drive the adoption of its cloud-based ticket issuance systems which will enhance the operational efficiency of cinema operators.

In terms of content development, the Group is developing its in-house production capabilities, supporting young production talents through its Plan A initiative, and building extensive collaborative relationships with top-tier production houses both domestically and internationally. In addition to these endeavors, the Group will also accelerate the cross-development between content and merchandise, games, etc. Such initiative can extend the revenue stream of an original IP and allow for its sustainable development.

On the back of Alibaba Group's strategic goals with regards to its entire media and entertainment footprints, the Group will strengthen its business collaboration with Alibaba Group. The collaboration will not be limited to Alibaba Group's media and digital entertainment matrix, but also extend to its E-commerce platforms, and also Ant Financial Services. All of these platforms have established large user bases, who have an increasing demand for media and entertainment content. Management is confident and excited about the growth prospects of the industry and the Group, the ecosystem of which will not only originate and provide creative and quality content to consumers, but also empower industry participants with its new infrastructures for the industry.

FINANCIAL REVIEW

Revenue and Profit for the period

During the reporting period, the Group recorded revenue of RMB2,366.1 million, representing an increase of 162% year-over-year. Gross profit during the reporting period was RMB1,756.4 million, compared with RMB186.1 million for the twelve months ended December 31, 2016. All three business segments recorded substantial increases in revenue and improvement in results, and the internet-based promotion and distribution segment accounted for the largest portion of the improvement in the overall top and bottom line.

Net loss attributable to the owners of the Company amounted to RMB950.3 million, compared with RMB958.6 million in 2016. The improvement in the Group's business operations was offset in part by the increase in foreign exchange loss due to currency fluctuations.

For the twelve months ended December 31, 2017, loss per share (basic and diluted) for the Group amounted to RMB3.76 cents, compared with RMB3.80 cents for the previous year.

FINANCIAL REVIEW *(Continued)*

Selling, Marketing and Administrative Expenses

Selling and marketing expenses for 2017 were RMB2.09 billion, compared with approximately RMB1.08 billion in 2016. The increase in selling and marketing expenses was primarily attributable to the marketing expenses incurred by Tao Piao Piao as it expanded its GMV and market share. Administrative expenses increased slightly from RMB719.8 million to RMB740.8 million year-over-year.

Finance Income

For the twelve months ended December 31, 2017, the Group recorded net finance expense of RMB138.8 million, which included foreign exchange loss of RMB203.0 million, compared with net finance income of RMB533.9 million, which included foreign exchange gain of RMB427.5 million in 2016. The decrease in net interest income reflected lower interest income generated in 2017 compared with 2016, as a result of lower cash reserves. As the Group's cash reserves are held in multiple currencies, the foreign exchange loss resulted from an appreciation of RMB against other currencies such as USD and HKD in the Reporting Period.

Material Investments

In 2017, the Group completed the acquisition of majority stakes (with UCWeb and Alipay as minority shareholders) in Orbgen Technologies Private Ltd., which operates the online movie ticketing platform TicketNew in India, and Nanjing Pairui Cinema Management Company Ltd., a cinema operator in Nanjing, the PRC. In July 2017, the Group increased its equity stake in the subsidiary that operates Tao Piao Piao by 9.12% to 96.71%.

Besides acquisitions, the Group has also made minority investments in businesses in the entertainment industry over the past several years. As at December 31, 2017, the Group held more than 10 investments in associates, all of which were accounted for using the equity method, and combined for a total book value of approximately RMB2.38 billion. The three largest investments are in BONA Film Group Ltd. ("BONA"), Hehe (Shanghai) Pictures Co. Ltd., ("Hehe"), and Storyteller Holding Co., LLC ("Amblin"), which are all involved in film production or distribution. For 2017, the Group recorded a total gain of RMB13.2 million in its investments in associates.

Financial Resources and Liquidity

As at December 31, 2017, the Group had cash and cash equivalents, and bank deposits of approximately RMB5.0 billion in multiple currencies. The Group had short-term available-for-sale financial assets of approximately RMB1.1 billion. The short-term available-for-sale financial assets mainly represent investments in wealth management products issued by listed banks in the PRC with expected return range from 2.3% to 4.8% per annum and redeemable within one year. The Group recognized an investment income of approximately RMB90.0 million (as recorded as "other income" in the interim condensed consolidated statement of profit or loss) from its available-for-sale financial assets in 2017. The investments in wealth management products under available-for-sale financial assets were made in line with the Group's treasury and investment policies, after taking into account, among others, the level of risk, return on investment, liquidity and the term to maturity. The Group's significant cash reserves give it the financial means to undertake a variety of business initiatives and projects in the near future, including potential acquisitions of strategic assets to complement the Group's existing businesses. As at December 31, 2017, the Group had short-term and long-term borrowings of RMB3.0 million and RMB14.8 million respectively, which bear fixed interest at 6.555% per annum, under a five-year RMB-denominated bank facility with credit limit at RMB48 million. In addition to the borrowings under this facility, the Group also had a short-term borrowing of RMB990.0 million as at December 31, 2017, which is secured by restricted cash of approximately RMB1.0 billion and repayable at the discretion of the Group, and bear interest at 0.3% per annum. The Group is in a net cash position and its gearing ratio (being net borrowings deducting cash and bank balances over total equity) was nil (December 31, 2016: nil).

FINANCIAL REVIEW *(Continued)*

Foreign Exchange Risks

The Company holds its cash reserves in RMB, USD and HKD. Although the majority of production costs and administrative expenses are denominated in RMB, many investment opportunities and collaborations with studios outside Mainland China require foreign currencies. Given the Group's substantial cash reserves in foreign currencies and volatilities in their exchange rates, it incurred a material foreign exchange loss in 2017, the year in which USD and HKD depreciated by approximately 6.7% and 7.6% against RMB, respectively. The Group continues to monitor its capital needs closely and manage foreign currency reserves according to both internal needs and external environment. The Group has not used any currency hedging instruments but continues to evaluate ways to manage its exposure to foreign currency fluctuations in a cost-effective manner.

Charge on Assets

As at December 31, 2017, the Group did not have any charge on assets (December 31, 2016: nil).

Contingent Liabilities

As at December 31, 2017, the Group did not have any material contingent liabilities (December 31, 2016: nil).

Employees

As at December 31, 2017, the Group, including its subsidiaries but excluding its associates, had 1,455 (December 31, 2016: 863) employees. The total employee benefit expenses of the Group were RMB546.7 million in 2017, compared with RMB540.9 million in 2016. The remuneration policies of the Group are based on prevailing market levels and performance of the respective group companies and individual employees. These policies are reviewed on a regular basis.

CONTRACTUAL ARRANGEMENTS

Overview

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

CONTRACTUAL ARRANGEMENTS *(Continued)*

Overview *(Continued)*

As a result, the Group currently conducts its domestic entertainment content production, distribution, cinema operation and investment businesses through (i) 中聯京華文化傳播 (北京) 有限公司 ("Zhonglian Jinghua"), (ii) 北京阿里淘影視文化有限公司 ("Beijing Ali Tao") and (iii) 上海淘票票影視文化有限公司 ("Shanghai Tao Piao Piao"), (together, the "OPCOs") by themselves or through their subsidiaries. The Group, through the Subsidiaries, has entered into three sets of contractual arrangements (the "Structured Contracts") with each of the OPCOs, the major terms of which are substantially the same. The Structured Contracts, through which the Company obtains control over and derives economic benefits from the OPCOs, have been narrowly tailored to achieve the Group's business objectives in domestic content production, distribution, cinema operation and investment while minimizing the potential conflict with relevant PRC laws and regulations.

By virtue of the Structured Contracts, the financial position and results of operations of Zhonglian Jinghua, Beijing Ali Tao and Shanghai Tao Piao Piao were consolidated into our financial position and results of operations as they are regarded as indirect subsidiaries of the Group under HKFRS 10 during the Reporting Period. As the OPCOs and their subsidiaries hold some key requisite PRC permits, licenses and approvals including the Permit to Produce and Distribute Radio or Television Programs (廣播電視節目製作經營許可證), Permit to 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 twelve months ended December 31, 2017, the OPCOs and their subsidiaries contributed approximately 20.7% of the Group's total revenue. Please refer to "Revenue and assets involved in Structured Contracts" below for more details.

During the twelve months ended December 31, 2017, 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; film distribution; ticketing agency; technological consultation, technology transfer and technological services in the professional field of network technology; e-commerce

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

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

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

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

Name of Subsidiary	Holding Company	Ownership	Principal Activities
Zhejiang Dongyang 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; investment management
Alibaba Pictures (Beijing) Co., Ltd. (阿里巴巴影業(北京)有限公司)	Beijing Ali Tao	100%	Investment in and production and distribution of film and TV copyrights
Tianjin Alibaba Pictures Development Co., Ltd. (天津阿里巴巴影業發展有限公司)	Beijing Ali Tao	100%	Construction of cinemas; management and leasing of commercial facilities; engaging in advertisement business; ticketing agency; selling and leasing of audio and visual, cultural and entertainment facilities
Tianjin Junsheng Pictures Management Co., Ltd. (天津駿聲影業管理有限公司)	Tianjin Alibaba Pictures Development Co., Ltd.	100%	Construction of cinemas; management and leasing of commercial facilities; engaging in advertisement business; ticketing agency; selling and leasing of audio and visual, cultural and entertainment facilities
Hangzhou Xingji Media Culture Co., Ltd. (杭州星際影視文化有限公司)	Tianjin Junsheng Pictures Management Co., Ltd.	80%	Operation and management of cinema
Shanxi Xingjihui Movie & TV Culture Co. Ltd. (山西星際匯影視文化有限公司)	Hangzhou Xingji Media Culture Co., Ltd.	100%	Operation and management of cinema
Nanjing Pairui Cinema Management Co., Ltd. (南京派瑞影院管理有限公司)	Tianjin Junsheng Pictures Management Co., Ltd.	55%	Operation and management of cinema
Chengmai Galaplex Cinema Co., Ltd. (澄邁銀河歡樂影城有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema
Qianwei Galaplex Cinema Co., Ltd. (犍為銀河歡樂影城有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema
Anji Galaplex Cinema Co., Ltd. (安吉銀河歡樂影院有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema
Qingdao Galaplex Cinema Co., Ltd. (青島銀河歡樂影城有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema
Guilin Galaplex Cinema Co., Ltd. (桂林銀河歡樂影城有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema
Urumqi Pairui Cinema Management Co., Ltd. (烏魯木齊派瑞影院管理有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

Name of Subsidiary	Holding Company	Ownership	Principal Activities
Danyang Pairui Cinema Management Co., Ltd. (丹陽派瑞影院管理有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema
Datong Galaplex Cinema Co., Ltd. (大同銀河歡樂影城有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema
Taizhou Pairui Cinema Management Co., Ltd. (泰州派瑞影院管理有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema
Urumqi Pairui Galaxy Cinema Management Co., Ltd. (烏魯木齊派瑞銀河影院管理有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema
Fujian Nanping Galaxy Cinema Co., Ltd. (福建南平銀河歡樂影城有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema
Hangzhou Pairui Cinema Management Co., Ltd. (杭州派瑞影院管理有限公司)	Nanjing Pairui Cinema Management Co., Ltd.	100%	Operation and management of cinema
Horgos Xiaoyuzhou Media Culture Co., Ltd (霍爾果斯小宇宙影視文化有限公司)	Zhejiang Dongyang Xiaoyuzhou Movie & Media Co., Ltd	100%	Investment in and production and distribution of film & TV copyrights
Hangzhou Kangmai Investment Management Co., Ltd. (杭州康邁投資管理有限公司)	Zhejiang Dongyang Alibaba Pictures Co., Ltd.	100%	Investment management, industrial investment, investment consultation
Hangzhou Alibaba Movie & Media Investment & Management Co., Ltd. (杭州阿里巴巴影視投資管理有限公司)	Zhejiang Dongyang Alibaba Pictures Co., Ltd.	100%	Investment management, industrial investment and investment consultation
Cool Young Culture Communication Co., Ltd. (酷漾文化傳播有限公司)	Zhejiang Dongyang Alibaba Pictures Co., Ltd.	51%	Talent agency, production of broadcasting & television programs, exhibition
Beijing Taoyukuying Culture Media Co., Ltd. (北京淘娛酷影文化傳媒有限責任公司)	Zhejiang Dongyang Alibaba Pictures Co., Ltd.	51%	Production of broadcasting & television programs

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

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place

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

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

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

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

These Structured Contracts enable the Group to:

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

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

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

Pursuant to the Exclusive Consultation and Service Agreements, the relevant OPCO agreed to engage the relevant Subsidiary as its exclusive provider of technical support and consultancy services requested by the relevant OPCO from time to time to the extent permitted under the applicable PRC laws in exchange for service fees. The service fees are fixed with reference to the net profit of the relevant OPCO. In respect of certain specific technical services requested by the relevant OPCO, the relevant OPCO shall pay the relevant Subsidiary a service fee as quoted by the relevant Subsidiary taking into account the nature and workload of such services. The relevant Subsidiary may adjust the amount of service fees with reference 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 the OPCOs or their respective ultimate shareholders to perform their obligations under our Structured Contracts would potentially lead to our having to incur additional costs and expend material resources to enforce such arrangements, temporary or permanent loss of control over our domestic content production, distribution, cinema operation and investment businesses or loss of access to the revenue from these businesses;

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

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

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

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

In terms of the Group's overall business profile, a material expansion has been achieved over the past year. With the addition of Yunzhi Software Systems, online movie ticketing and international operations, the Group has diversified its business segments beyond domestic content production, distribution and investment.

Revenues generated from non-OPCOs are forming a material portion of the Group's total revenue.

Revenue and assets involved in Structured Contracts

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

	Revenue (RMB'000) (proportionate % to the Group) For the twelve months ended December 31, 2017	**Assets (RMB'000) (proportionate % to the Group) As at December 31, 2017**
Zhonglian Jinghua (Consolidated)	267,021 (11.3%)	788,557 (4.7%)
Beijing Ali Tao (Consolidated)	160,095 (6.8%)	223,280 (1.3%)
Shanghai Tao Piao Piao	62,552 (2.6%)	101,391 (0.6%)

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at December 31, 2017, 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	Awarded Shares		
Yu Yongfu	Long position	Interest of Controlled Corporation	7,500,000 *(Note 2)*	–	–	7,500,000	0.03%
Zhang Wei	Long position	Beneficial Owner	218,576	10,000,000 *(Note 3)*	3,500,000 *(Note 4)*	13,718,576	0.05%

Notes:

1. Based on a total of 25,469,703,910 ordinary shares of the Company in issue as at December 31, 2017.

2. 3F Investment Group Inc., a company wholly-owned by Mr. Yu Yongfu, directly holds 7,500,000 ordinary shares of the Company. Accordingly, Mr. Yu Yongfu is deemed to be interested in the 7,500,000 shares held by 3F Investment Group Inc.

3. 10,000,000 share options were granted to Ms. Zhang Wei on April 13, 2016, of which 5,000,000 share options were cancelled upon the grant of 2,000,000 awarded shares on July 28, 2017. Subsequently 5,000,000 share options were granted to Ms. Zhang Wei on October 24, 2017. There were 10,000,000 share options held by Ms. Zhang Wei, but not exercised, as at December 31, 2017.

4. 2,000,000 awarded shares were granted to Ms. Zhang Wei on July 28, 2017 in replacement of the 5,000,000 share options (out of 10,000,000 share options) granted to her on April 13, 2016. Subsequently, 2,000,000 awarded shares were granted to Ms. Zhang Wei on October 27, 2017. There were 3,500,000 awarded shares held by Ms. Zhang Wei, but not vested to her, as at December 31, 2017.

Save as disclosed above, as at December 31, 2017, none of the directors, chief executive of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE INCENTIVE SCHEMES

2012 Share Option Scheme

The shareholders of the Company approved the adoption of the share option scheme on June 11, 2012 (the "2012 Share Option Scheme").

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

Purpose

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

Participants

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

(i) any Employee;

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

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

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

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

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

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

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

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Duration and Administration

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

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

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

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

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

Grant of Options

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

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

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

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Grant of Options *(Continued)*

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

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

Exercise Price

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

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

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

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

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

Exercise of Share Option

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

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Exercise of Share Option *(Continued)*

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

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

Maximum Limit

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

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

Subject to any other relevant provisions in the 2012 Share Option Scheme, the total number of shares of the Company available for issue upon exercise of all Share Options which have been or may be granted under the 2012 Share Option Scheme and any other schemes must not, in aggregate, exceed 774,274,256 shares (the "Scheme Mandate Limit"), representing 10% of the shares of the Company in issue as at the Option Scheme Adoption Date. The Scheme Mandate Limit was refreshed by the shareholders of the Company at the annual general meeting held on June 23, 2017 ("2017 AGM"), pursuant to which the Scheme Mandate Limit had been refreshed to 2,523,456,141 shares, representing 10% of the shares of the Company in issue as at the date of passing the ordinary resolution approving the refreshment of the Scheme Mandate Limit by the shareholders of the Company at the 2017 AGM. The Company may seek separate approval of the shareholders of the Company in general meeting to grant Share Options beyond the Scheme Mandate Limit, provided that the Share Options in excess of the Scheme Mandate Limit are granted only to Participants specifically identified by the Company before such approval is sought.

Individual Limit

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

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

***Maximum Limit** (Continued)*

As at December 31, 2017, a total of 73,918,000 Share Options have been granted and remained outstanding under the 2012 Share Option Scheme, representing approximately 0.29% of the shares of the Company in issue as at the date of this report. No participant was granted with Share Options in excess of the individual limit as set out in the 2012 Share Option Scheme. As at the date of this report, the remaining life of the 2012 Share Option Scheme is approximately 4.5 years. Further details of the 2012 Share Option Scheme are set out in note 17 to the condensed consolidated interim financial information.

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$)*	Closing price of shares immediately before the dates on which the Share Options were granted *(HK$)*	Outstanding as at January 1, 2017	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at December 31, 2017	Vesting period *(Notes)*
Director										
Zhang Qiang (Resigned as director on June 23, 2017)	28/01/2015	1.670	1.650	210,119,800	–	–	210,119,800	–	–	1 (i)
Zhang Wei	13/04/2016	1.880	1.890	10,000,000	–	–	–	5,000,000	5,000,000	1 (iii)
	24/10/2017	1.276	1.270	–	5,000,000	–	–	–	5,000,000	
Employees	28/01/2015	1.670	1.650	59,900,000	–	–	23,400,000	28,900,000	7,600,000	1 (ii)
	15/04/2015	4.090	3.720	19,200,000	–	–	6,000,000	13,200,000	–	1 (ii)
	02/07/2015	3.156	3.010	13,200,000	–	–	3,000,000	10,200,000	–	1 (ii)
	28/04/2015	4.004	3.950	30,000,000	–	–	30,000,000	–	–	1 (ii)
	24/09/2015	1.860	1.800	16,200,000	–	–	3,000,000	13,200,000	–	1 (ii)
	05/11/2015	2.170	2.110	7,800,000	–	–	3,000,000	4,800,000	–	1 (ii)
	16/12/2015	1.900	1.800	16,416,000	–	–	11,790,000	4,626,000	–	1 (ii)
	25/01/2016	1.660	1.630	5,400,000	–	–	–	5,400,000	–	1 (ii)
	13/04/2016	1.880	1.890	80,400,000	–	–	34,330,000	42,395,000	3,675,000	1 (iii)
	15/04/2016	1.842	1.860	12,000,000	–	–	12,000,000	–	–	1 (ii)
	03/06/2016	1.860	1.860	9,000,000	–	–	4,200,000	4,800,000	–	1 (ii)
	03/06/2016	1.860	1.860	110,760,000	–	–	14,900,000	86,980,000	8,880,000	1 (iii)
	05/12/2016	1.494	1.470	85,400,000	–	–	29,600,000	44,500,000	11,300,000	1 (ii)
	05/12/2016	1.494	1.470	39,470,000	–	–	5,032,500	33,000,000	1,437,500	1 (iii)
	13/01/2017	1.270	1.290	–	14,400,000	–	10,200,000	4,200,000	–	1 (ii)
	17/07/2017	1.310	1.310	–	26,700,000	–	6,274,500	–	20,425,500	1 (ii)
	24/10/2017	1.276	1.276	–	10,600,000	–	–	–	10,600,000	1 (iii)
Total:				725,265,800	56,700,000	–	406,846,800	301,201,000	73,918,000	

SHARE INCENTIVE SCHEMES *(Continued)*

Notes:

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

(i) Category A

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

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

(ii) Category B

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

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

(iii) Category C

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

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

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

3. During the period, no Share Options were exercised under the 2012 Share Option Scheme.

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme

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

Purposes and Objectives

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

Administration

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

Duration

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

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

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

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

As at December 31, 2017, the remaining life of the Share Award Scheme is approximately 14 years.

Maximum Limit

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

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme *(Continued)*

Restrictions

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

Operation

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

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

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

Vesting and Lapse

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

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme *(Continued)*

Vesting and Lapse *(Continued)*

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

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

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

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

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

Voting Rights

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

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

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme *(Continued)*

Termination

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

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

During the twelve months ended December 31, 2017, the movements of Awarded Shares granted under the Share Award Scheme were as follows:

Date of Grant	Closing price of shares immediately before the dates on which the Awarded Shares were granted *(HK$)*	Number of Awarded Shares outstanding as at January 1, 2017	Number of Awarded Shares granted	Number of Awarded Shares vested as at December 31, 2017	Number of Awarded Shares lapsed as at December 31, 2017	Number of Awarded Shares outstanding as at December 31, 2017
28/07/2017	1.310	–	183,060,000 *(Notes 1 & 3)*	72,245,500	28,875,500	81,939,000
27/10/2017	1.250	–	79,449,000 *(Notes 2 & 3)*	–	2,359,000	77,090,000
Total:			262,509,000	72,245,500	31,234,500	159,029,000

Notes:

Note 1: Among these Awarded Shares, 2,000,000 Awarded Shares were granted to Ms. Zhang Wei, executive director of the Company, and a total of 22,266,500 Awarded Shares were granted to three directors of certain subsidiaries of the Company. The remaining 158,793,500 Awarded Shares were granted to 297 employees of the Company.

Note 2: Among these Awarded Shares, 2,000,000 Awarded Shares were granted to Ms. Zhang Wei, executive director of the Company, and 1,100,000 Awarded Shares were granted to a director of certain subsidiaries of the Company. The remaining 76,349,000 Awarded Shares were granted to 302 employees of the Company.

Note 3: The Awarded Shares granted to each grantee have a specific vesting schedule of not more than 4 years, and the grantees are not required to pay for the grant/vesting/exercise of the Awarded Shares.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Incentive Schemes" above, at no time during the twelve months ended December 31, 2017 was the Company, any of its holding companies, its subsidiaries or its fellow subsidiaries, a party to any arrangements to enable the directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2017, 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[2]
Ali CV Investment Holding Limited ("Ali CV")	Beneficial owner[1]	12,488,058,846	Long position	49.03%
Alibaba Investment Limited ("AIL")	Held by controlled corporation[1]	12,488,058,846	Long position	49.03%
Alibaba Group Holding Limited ("AGHL")	Held by controlled corporation[1]	12,488,058,846	Long position	49.03%

Notes:

1. This represents the interest in 12,488,058,846 shares of the Company held by Ali CV as beneficial owner. As of December 31, 2017, Ali CV was wholly owned by AGHL, through its controlled corporation, AIL. Accordingly, AGHL and AIL were deemed to have the same interest held by Ali CV.
2. As of December 31, 2017, the Company had a total of 25,469,703,910 shares in issue.

Save as disclosed above, as at December 31, 2017, 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 twelve months ended December 31, 2017, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules except for certain deviations which are summarized below:

CORPORATE GOVERNANCE AND OTHER INFORMATION *(Continued)*

CORPORATE GOVERNANCE *(Continued)*

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yu Yongfu, appointed as the chairman of the Board on November 21, 2016, had also been the chief executive officer of the Company during the period from December 5, 2016 to August 2, 2017, the date on which Mr. Fan Luyuan was appointed as the chief executive officer of the Company in place of Mr. Yu. Following the appointment of Mr. Fan Luyuan as the chief executive officer of the Company, the Company has been fully in compliance with the code provision A.2.1 with effect from August 2, 2017. Subsequently, in view of the Group's continuous business growth in line with its clear strategic direction, and the fact that Mr. Fan has demonstrated outstanding management and leadership capabilities along with his thorough understanding of the Group's strategy of building new infrastructure for the domestic movie industry since his appointment as the chief executive officer of the Company, Mr. Yu resigned as chairman of the Board, and Mr. Fan was appointed as chairman of the Board, with effect from October 13, 2017. The Board believed that the balance of power and authority under such arrangement would not be impaired and would continue to be adequately ensured by the current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive directors.

Code provision A.6.7 of the CG Code 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, being independent non-executive directors of the Company, and Mr. Li Lian Jie and Mr. Shao Xiaofeng, being non-executive directors of the Company, were not able to attend the 2017 AGM due to their personal engagements during the meeting time.

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

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 of the Company 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 twelve months ended December 31, 2017. 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

Except that the trustee of the Share Award Scheme purchased a total of 18,070,000 shares of the Company from the market to satisfy the awarded shares granted to connected employees of the Company upon vesting, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the twelve months ended December 31, 2017.

AUDIT COMMITTEE AND AUDITOR REVIEW

The audit committee of the Company (the "Audit Committee") has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the twelve months ended December 31, 2017. The figures in respect of the Group's interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of comprehensive income, interim condensed consolidated balance sheet, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows and the related notes thereto for the twelve months ended December 31, 2017 as set out in this report have been reviewed by the Company's auditor, PricewaterhouseCoopers.

CHANGES IN, AND UPDATES TO, PREVIOUSLY DISCLOSED INFORMATION RELATING TO THE DIRECTORS

As required under Rules 13.51B and 13.51(2) of the Listing Rules, certain changes in, and updates to, the information previously disclosed regarding the directors of the Company during their respective term of office are set out below:

- Mr. Zhang Qiang, the then executive director of the Company, has resigned as executive director of the Company and has ceased to be a member of the executive Committee of the Board (the "Executive Committee") with effect from June 23, 2017;
- Mr. Yu Yongfu, an executive director of the Company, has ceased to be (i) the chief executive officer of the Company and the chairman of the Executive Committee with effect from August 2, 2017; and (ii) the chairman of the Board, the chairman of the nomination committee of the Board (the "Nomination Committee") and a member of the remuneration committee of the Board (the "Remuneration Committee") with effect from October 13, 2017;
- Mr. Fan Luyuan, an executive director of the Company, has been appointed as (i) the chief executive officer of the Company and the chairman of the Executive Committee with effect from August 2, 2017; and (ii) the chairman of the Board, the chairman of the Nomination Committee and a member of the Remuneration Committee with effect from October 13, 2017; and
- Mr. Johnny Chen, an independent non-executive director of the Company, was appointed as an independent non-executive director of China Dongxiang (Group) Co., Ltd., shares of which are listed on the Stock Exchange (Stock Code: 3818), with effect from July 5, 2017. With effect from December 9, 2017, Mr. Johnny Chen was appointed as executive director and the interim chairman of the board of directors of Convoy Global Holdings Limited ("Convoy"), shares of which are listed on the Stock Exchange (Stock Code: 1019). Subsequently, he was appointed as the chairman of the board of directors of Convoy with effect from December 22, 2017.

On behalf of the Board
Alibaba Pictures Group Limited
Fan Luyuan
Chairman & Chief Executive Officer

Hong Kong, February 27, 2018