2015
ANNUAL REPORT

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

Stock Code:1060

This Annual Report is printed on environmentally friendly paper

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BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Director

Mr. Li Lian Jie

Independent Non-Executive Directors

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

EXECUTIVE COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Ng Lok Ming, William

SOLICITOR

Freshfields Bruckhaus Deringer

AUDITOR

PricewaterhouseCoopers

WEBSITE

www.irasia.com/listco/hk/alibabapictures

PRINCIPAL BANKERS

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

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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The Belvedere Building, 69 Pitts Bay Road
Pembroke HM08, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Level 22, Hopewell Centre
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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

Dear Shareholders,

In 2015, Alibaba Pictures Group Limited (the "Company", together with its subsidiaries, the "Group") undertook various key operational and commercial initiatives, which let us put in place what we view as key components of the foundation for our continuous development into a vertically integrated entertainment powerhouse, with critical capabilities along the industry's value chain. While we made strides to create a platform where creativity and innovative ideas can flourish, the consumer entertainment market maintained robust growth in 2015, led by the PRC market where year-on-year box office numbers surged by approximately 48.7% to RMB44.1 billion, according to the State Administration of Radio, Film and Television.

With such momentum in the end-user market, the Group took a series of actions to expand its footprint in the industry. To achieve our vision for development and growth, we completed a new share issuance in June 2015, with net proceeds amounting to approximately HK$12.1 billion.

One important aspect towards building our franchise was business acquisition. In 2015, we completed three major transactions that strengthened our overall business profile. In June 2015, we acquired Guangdong Yueke Software Engineering Company Limited ("Yueke"), one of the largest suppliers of cinema ticketing systems in the PRC. In December 2015, we invested approximately RMB3.1 billion to acquire, from Alibaba Group Holding Limited ("AGHL"), two strategic operating assets: (i) "Taobao Movie", an online movie ticketing business, and (ii) "Yulebao", a C2B financing platform through which users can invest in select projects such as movies, TV shows, and variety shows. Through our M&A efforts, we are building an internet-powered integrated platform which spans financing and investment, entertainment content production, promotion and distribution, fan-based economics, and cinema service provision. Going forward, extending from the current platform, we also intend to develop more fan-based interactive functions and a business line for entertainment-related merchandise.

As part of a strategy to position our Group on a global scale, we opened an office in Los Angeles, USA in 2015. This gives us a strategic presence in Hollywood, where we are striving to build close working relationships with the studios in the U.S. One particular blockbuster project that we were able to participate in was Mission: Impossible – Rogue Nation, whose worldwide box office reached US$682 million. We expect to see more collaboration opportunities with the major studios in Hollywood, as our brand continues to gain recognition through the projects in which we are involved.

In addition to Hollywood, the Group is collaborating with outstanding talents in Europe and Asia Pacific. For instance, we announced in October 2015 that we would invest in a Korean film project named REAL, starring popular Korean actor Kim Soo Hyun. The Group holds exclusive distribution rights for this film in the PRC market.

Domestically, we have made steady progress in our content production business. Several key projects in the pipeline are well into production and will be released progressively. Ferryman (擺渡人), a film produced by Wong Kar Wai and directed by the author of the original story Zhang Jia Jia, featuring popular film stars Tony Leung and Angelababy, is expected to be released in the second half of 2016. Ao Jiao Yu Pian Jian (傲嬌與偏見), a film adapted from a domestically popular online novel, will also be released in the second half of 2016.

CHAIRMAN'S STATEMENT

Another major production, Three Lives Three Worlds Ten Miles of Peach Blossom (三生三世十里桃花), the story of which is drawn from a very popular novel in the PRC, will feature top-of-the-line visual effects and star Liu Yifei and Yang Yang. The casting for this movie was done with a novel twist, taking into account popular demand by the public. During the process of making this film, we saw various interesting fan-driven activities take place, and will closely monitor these activities to enable closer interaction with our audiences. This project is expected to be released in 2017.

To further strengthen our capabilities and reach in content distributions, our Group entered into a strategic collaboration agreement in October 2015 with the Dadi Cinema group, which is one of the largest theatre chains in the PRC, to foster opportunities for the joint production, promotion and distribution of movies. In December 2015, we agreed to invest US$86 million to join a consortium of investors to privatize NASDAQ-listed BONA Film Group Limited ("BONA"). BONA is one of the major film studios in the PRC and has a proven track record of producing high-quality content. Along with its investment, the Company also intends to develop a strong working relationship with BONA on content productions and distributions.

We believe that the development of young talents and directors is essential to the continuous advancement of our industry. Alibaba Pictures has committed resources to Project A, which aims to nurture a new generation of promising content production talents.

Looking forward, we will continue to develop our business model and core competency on the platform that we have built so far. Critical components of our effort will involve integrating our current resources and fully tapping the resources available in the Alibaba Group's e-commerce ecosystem. For our audiences, we are working to create more variety and innovative ideas in terms of entertainment content.

Our vision cannot be realized without the hard work of our staff, the appreciation from our customers, and the support of our shareholders and business partners. Therefore, I would like to sincerely thank everyone who makes possible what we do. As the dynamics of our industry continue to evolve, the constant emergence of both opportunities and challenges accompanies our growth.

Shao Xiaofeng
Chairman

Hong Kong, March 29, 2016

BUSINESS REVIEW

Major indicators of the financial results for the years ended December 31, 2015 and 2014 are summarised in the table below:

	Year ended December 31, 2015 RMB'000	Year ended December 31, 2014 RMB'000
Continuing operations		
Revenue	**263,717**	126,631
Gross loss	**(25,064)**	(62,607)
Profit/(loss) for the year from continuing operations	**472,703**	(380,254)
Discontinued operations		
Loss for the year from discontinued operations	**(6,689)**	(35,037)
Profit/(loss) for the year	**466,014**	(415,291)
Profit/(loss) attributable to Owners of the Company	**466,040**	(417,276)

	Revenue Year ended December 31,		Segment Results Year ended December 31,	
	2015 RMB'000	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
Continuing operations				
Content production	**55,520**	115,386	**(106,050)**	(65,969)
Internet-based promotion and distribution	**136,250**	–	**21,887**	–
Entertainment e-commerce	**2,807**	–	**1,685**	–
International operations	**68,700**	–	**6,907**	–
Other operations	**440**	11,245	**221**	1,861
Total	**263,717**	126,631	**(75,350)**	(64,108)

In 2015, the Group recorded revenue of RMB263.7 million, an increase of 108.3% year-on-year. The increase in revenue resulted primarily from the contributions of Yueke, which we acquired in June 2015. Gross loss was RMB25.1 million, compared with RMB62.6 million in the previous year. Net profit attributable to the owners of the Company amounted to RMB466.0 million in 2015, compared with a loss of RMB417.3 million in 2014. The boost to the Group's bottom line stemmed primarily from a net finance income of RMB882.8 million. In 2015, the Group reported results in five segments: (i) Content Production, (ii) Internet-based Promotion and Distribution, (iii) Entertainment E-commerce, (iv) International Operations, and (v) Other Operations. Segments (ii), (iii) and (iv) are the new businesses launched during the year.

In 2015, the domestic movie industry continued to demonstrate strong growth momentum, with overall box office revenues increasing by approximately 48.7% to RMB44.1 billion, according to the State Administration of Radio, Film and Television. This growth rate showed a trend of acceleration, compared with growth rates of 36.2% and 27.5% in 2014 and 2013 respectively. As going to the cinema has become an ever more popular form of entertainment in Mainland China, the industry will continue to quickly develop and transform. Since the formation of Alibaba Pictures, we have been consistently updating and implementing our strategic initiatives to build a business operation that incorporates various critical components of the industry value chain, from financing and investment, content sourcing and production, internet-based promotion and distribution, cinema service provision to merchandise and fan-based economics. To achieve our goal, our management has pursued a strategy of expansion by business acquisitions. We believe this is an effective way to attain strategically important assets for our long-term development. In 2015, several major acquisitions were made, involving a cinema ticketing system provider, an online movie ticketing portal, and a C2B financing platform for entertainment related projects.

BUSINESS ACQUISITIONS

Yueke

In June 2015, the Group completed a full acquisition of Yueke, one of the largest suppliers of cinema ticketing systems in the PRC. At the end of 2015, Yueke supplies to more than 1,800 cinemas nationwide with local cinema ticketing systems, and connecting software for more than 30 mainstream online movie ticketing portals. As our national box office ticket sales continue to rise, we believe Yueke is in an attractive position to capture the market's potential economics.

Since the acquisition of Yueke, we have worked closely with its management to further enhance its operational profile. Not only are we looking to further increase the market share of its existing products, we are also working to expand Yueke's service portfolio to offer more value-added services to the cinemas. The long history of Yueke's collaboration with cinemas has resulted in it developing certain insights into cinema operations and management in the PRC.

Online Movie Ticketing and Yulebao

In December 2015, the Group acquired from AGHL two operating assets; an online ticketing business and Yulebao. Both assets serve critical functions on Alibaba Pictures' integrated entertainment platform.

Online ticketing has quickly become the leading method of purchasing movie tickets in China. In addition to ticket sales, online ticketing platform provides movie-related entertainment information and promotion, which will complement our existing offline marketing and distribution capabilities. Through this platform, the Group is able to reach a much larger and growing online user base, further enhancing our marketing and distribution power. From the increasing user actions on the platform, we expect to gain a better understanding of consumer behavior, which is critical in forming our business strategies.

Yulebao was the first C2B financing platform for entertainment related projects. Its functions are being expanded to include more fan-based economics. In the future, it will not only offer the audience investment products, but also a wide range of entertainment related merchandise. By engaging producers, actors, viewers, and fans at the onset of production and throughout the content creation and distribution process, the Group will be able to better understand and evaluate user preferences to create more customized content, marketing campaigns and distribution plans.

The Group's focus in the near future will be to integrate these newly acquired assets and strengthen their respective businesses. Our management closely monitors their performances and identifies key areas for improvement. On a standalone basis, each of our acquired assets is expected to further develop its core competency and gain market share for its products or services. It is with strong components that our overall entertainment platform will flourish.

CONTENT PRODUCTION

Alibaba Pictures is committed to delivering high-quality entertainment content. We have the capabilities to source, evaluate, select, and produce our film and TV projects. In addition to our own production of movies and TV dramas, we selectively invest in various projects led by other major studios. As an increasing amount of variety and talents emerge in our industry, it is critical for us to procure co-investment opportunities for high-quality movie projects, for some of which we will participate not only as an investor but also as the marketing and distribution partner.

Regarding our own productions, we have built a pipeline of upcoming releases. Ferry Man (擺渡人), a film produced by Wong Kar Wai and starring popular actor Tony Leung, is expected to be released in the second half of 2016. The film is an adaptation of a popular short story written by Zhang Jiajia, who is also directing the film. Other major productions include *Three Lives Three Worlds Ten Miles of Peach Blossom* (三生三世十里桃花) and *The Heroic Age* (蠻荒記), both of which will feature cutting edge special effects that deliver visual delights for our audiences. Another project, *Return of the Pearl Princess* (還珠格格), will incorporate the story of a highly successful TV drama in the past and turn it into an animation film, directed by renowned actress/director Zhao Wei.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded revenue of RMB55.5 million for our content production business in 2015, compared with RMB115.4 million in 2014. Segment loss was RMB106.1 million, up from RMB66.0 million in 2014. The increase was primarily attributed to the fact that most of our projects were still in development stage during the year.

INTERNET-BASED PROMOTION AND DISTRIBUTION

In 2015, we provided promotion and distribution services for films such as *Tiny Times 4* (小時代4：靈魂盡頭), Mission: Impossible – Rogue Nation (碟中諜5：神秘國度), and *The Third Way of Love* (第三種愛情). Through these projects our team has gained valuable experiences and established a solid track record. Over the years, the rise of mobile apps and online social networks has made the internet an important channel for the promotion and distribution of movies. During the reporting year, the Group made substantial progress in building an integrated O2O competence, adding two important assets – online movie ticketing portal and Yueke – to our existing business.

The integration of the newly acquired assets will broaden the reach of our promotion and distribution functions. We believe that Alibaba Group's existing massive online user base can only add to our online movie ticketing portal's advantages. The combination of online and offline capabilities makes us a total solution provider for entertainment content promotion and distribtution. Given multiple channels of data feedback from the on-the-ground team, the online ticketing portal and the cinemas through Yueke, we are able to develop more efficient and comprehensive promotion campaigns to attract viewers' interests and ultimately enhance box office performances of our projects.

In terms of financial results, our internet-based promotion and distribution business line generated RMB136.3 million of revenue in 2015 (2014: nil), primarily from Yueke. The segment profit was RMB21.9 million (2014: nil), partly impacted by our project related marketing and distribution expenses. Going forward, we expect to commit the necessary financial resources to our online ticketing portal to further enhance its user experience and increase its market position.

ENTERTAINMENT E-COMMERCE

Our entertainment e-commerce segment now consists of two main functions – C2B financing for entertainment projects and merchandising. IP-centric merchandise is a natural play for the Group because on the one hand, our content production and distribution businesses are able to generate or bring intellectual assets that can potentially transfer to other physical products, and on the other hand, our online merchandising know-how and resources inherited from Alibaba Group give us significant advantages in building this business line. We are currently assembling an IP product databank and will selectively open pilot sales outlets on first-rate web-based platforms.

Yulebao, which serves as a C2B financing platform for entertainment related projects, was fully acquired from Alibaba Group on December 31, 2015. Through Yulebao, the general public can invest in selected movie or TV drama productions. This enables Yulebao to provide an alternative source of funding for some of our projects, beyond the Group's own working capital. Although the individual investment amounts need not be large, having a stake heightens investors' interest in these projects. We intend to continue to create more functions in Yulebao to reward its investors.

As our merchandise business was in its infancy and the Yulebao acquisition was completed on December 31, 2015, the Group's entertainment e-commerce business line recorded RMB2.8 million in revenue (2014: nil) and RMB1.7 million in segment profit in 2015 (2014: nil).

INTERNATIONAL OPERATIONS

The Group's office in Los Angeles, USA, has been in operation since the second quarter of 2015. Our participation in Paramount Pictures' Mission: Impossible – Rogue Nation marked the beginning of our collaborations with major Hollywood studios. The contributions from this Hollywood blockbuster, whose worldwide box office reached US$682 million, brought our International Operations business line's revenue to RMB68.7 million (2014: nil) and segment profit to RMB6.9 million in 2015 (2014: nil).

We will continue to selectively invest in international projects, as partnering with global talents on industry-leading projects is a cornerstone of our development strategy. In late 2015, we announced our involvement in *REAL*, a Korean production for which we hold the exclusive distribution rights for the PRC market. Headquartered in China, the world's second largest box office market, we expect cross-border collaboration opportunities to accelerate in the coming years.

PROSPECTS

As seen in the strong box office growth in recent years, public demand for entertainment content in the PRC is on a rising trend. Meeting this demand will require increasingly higher content quality and variety. In our productions, we use talents which are both domestic and international, as well as those that are established and fledgling, with the goal to spark creative ideas and deliver innovative products. In addition to our own productions, we are constantly sourcing and evaluating investment opportunities in IPs, film and TV projects, and corporates along the industry value chain. 2016 looks to be another fruitful year in our strategic journey.

FINANCIAL REVIEW

Revenue and Profit for the year

During the year ended December 31, 2015, the Group recorded revenue of RMB263.7 million, compared with RMB126.6 million in 2014. The increase in revenue was mainly due to the contribution from Yueke.

Net profit attributable to the owners of the Company for the year 2015 amounted to RMB466.0 million, up significantly from the net loss of RMB417.3 million in 2014. The year-on-year increase was caused by a net finance income of RMB882.8 million, comprising foreign exchange gains and interest income.

For the year ended December 31, 2015, earnings per share (basic and diluted) for the Group amounted to RMB1.99 cents, up from a loss per share of RMB2.78 cents in 2014.

Selling, Marketing and Administrative Expenses

Selling, marketing and administrative expenses for 2015 were RMB389.5 million, compared with approximately RMB157.9 million in 2014. The increase is attributable to employee benefit expenses related to higher headcounts across multiple functions, as well as share option issuances to attract a number of critical management personnel.

Finance Income/(expenses), net

In 2015, the Group recorded finance income of RMB894.1 million, offset in part by finance expenses of RMB11.3 million. Our finance income is strongly correlated to our cash balance, which is held in multiple currencies. As our functional currency of the Company and certain subsidiaries is RMB, some of our cash reserves in foreign currencies contributed foreign exchange gains which made up a majority of our finance income.

Financial Resources and Liquidity

As of December 31, 2015, the Group had cash reserves equivalent to RMB12.8 billion in multiple currencies. In June 2015, the Group completed an issuance of almost 4.2 billion new shares at HKD2.9 each. This share placement generated net proceeds of approximately HKD12.1 billion for the Group. Our significant cash reserves give us the financial means to undertake a variety of business initiatives and projects in the near future. At the end of 2015, the Group had no long-term debt obligations, only short-term borrowings of RMB1.98 billion. As at December 31, 2015, the Group's gearing ratio (net borrowings deducting cash and bank balances over total equity) was nil (2014: nil).

Foreign Exchange Risks

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

Charge on Assets

As of December 31, 2015, the Group did not have any charge on assets (2014: nil).

Contingent Liabilities

As of December 31, 2015, the Group did not have any material contingent liability (2014: nil).

Employees and Remuneration Policies

By the end of 2015, the Group, including its subsidiaries but excluding its associates, had 343 employees (2014: 209). The remuneration policies of the Group are based on the prevailing market levels and performance of the respective group companies and individual employees. These policies are reviewed on a regular basis.

Executive Director

Mr. SHAO Xiaofeng, aged 50 and appointed on June 24, 2014, is the chairman and executive director, chairman and member of each of the executive committee and the nomination committee and a member of the remuneration committee of the Company. He joined Alibaba Group in March 2005 and was a vice president of Taobao from January 2007 to January 2008, responsible for Taobao's strategic development planning, overall marketing and business modeling. He served as Alipay's executive president and then president from January 2008 to March 2010. From August 2010 to June 2011, he was a general manager of Alibaba.com's China Business Unit. Mr. Shao was the chief risk officer from June 2012 to May 2015, responsible for the Group's risk management strategies and planning and the implementation of the risk management system. He has been the chief secretary of the Group since March 2010, responsible for the coordination and development of the strategic cooperation among the subsidiaries. Mr. Shao has extensive experience in network security, e-commerce, online transactions and payments. He holds an executive master's degree in business administration from China Europe International Business School.

Mr. ZHANG Qiang, aged 52 and appointed on August 5, 2014, is an executive director and the chief executive officer and a member of the executive committee of the Company. He has more than 26 years of experience in the media industry. Mr. Zhang has been the vice president of China Film Co., Ltd. since November 2011. From June 2006 to November 2011, he was the Deputy General Editor of Beijing Television and the chairman of Beijing Forbidden City Film Co., Ltd. From November 2003 to June 2006, he was the General Manager of Beijing Forbidden City Film Co., Ltd. From April 2000 to November 2003, he was the General Manager of Beijing Forbidden City Xindu TV Media Co., Ltd. Mr. Zhang is the chief line producer of a number of award-winning Chinese movies including American Dreams in China 《中國合夥人》 and So Young 《致我們終將逝去的青春》. Mr. Zhang holds a bachelor's degree in Chinese Literature from Peking University and a master's degree in film aesthetics from Beijing Film Academy.

Mr. DENG Kangming, aged 50 and appointed on January 1, 2016, is an executive director and the chief operating officer and a member of the executive committee of the Company. He joined Alibaba Group in July 2004. He served as chief people officer, senior vice president of Alibaba Group and executive director of Alibaba.com Limited. He held various senior management positions within Alibaba Group. Prior to joining Alibaba Group, Mr. Deng served as human resources director for several multinational companies including Microsoft China, Oracle China, Danone China and Janssen Pharmaceutical, a subsidiary of Johnson & Johnson. He has extensive expertise in the field of business operations and executive experience working at multinational and local companies in China. Mr. Deng holds a bachelor's degree in law from Fudan University in Shanghai and an executive master's degree in business administration from Rutgers University, New Jersey, USA.

Ms. ZHANG Wei, aged 45 and appointed on January 1, 2016, is an executive director and the president and a member of the executive committee of the Company. She served as a senior vice president of Alibaba Group, where she leads the Alibaba Group Investment team. Prior to joining Alibaba Group in July 2008, Ms. Zhang served as the chief operating officer of STAR (China) Ltd., where she was in charge of STAR Group Ltd.'s operation in the People's Republic of China. Previously, Ms. Zhang served as a managing director of CNBC China and prior to that, she worked as a consultant at Bain & Company and also served as a finance specialist of General Electric Company and GE Capital. Ms. Zhang holds a MBA degree from Harvard Business School and a bachelor's degree in international organizational management from Seton Hill College, Pennsylvania.

Executive Director *(Continued)*

Mr. FAN Luyuan, aged 43 and appointed on January 1, 2016, is an executive director and member of the executive committee of the Company. Mr. Fan is the president of Alipay Business Group at Ant Financial Services Group. Mr. Fan joined Alipay in 2007, and since then had served as senior director of Development Department, assistant president, vice president and senior vice president. In 2010, he and his team pioneered the first ever Quick Payment, which largely improved the success rate of online transactions as well as user experience. In 2013, Mr. Fan created Yu'e Bao with his team, which is now one of the world's sizeable internet financial products with over 200 million users, and encourages inclusive financial system for individual consumers. He holds an executive master's degree in business administration from Cheung Kong Graduate School of Business.

Non-Executive Director

Mr. LI Lian Jie, aged 53 and appointed on June 24, 2014, is a non-executive director of the Company. Mr. Li served as independent non-executive director of the Company for the period from June 24, 2014 to December 21, 2014 and was re-designated as a non-executive director of the Company since December 22, 2014. He is a world-renowned martial artist, movie star and social entrepreneur. Mr. Li was a five-time consecutive All-Around National Martial Arts Champion of China from 1975 to 1979. He has more than 30 years of experience in the film industry and has starred in countless classic Chinese martial arts movies and international hits, including Shaolin Temple, Once Upon a Time in China, Fist of Legend, Hero and Fearless, Lethal Weapon 4, Romeo Must Die, The Mummy 3 and Expendables. In 2007, Mr. Li founded One Foundation, which advocates broad-based participation in philanthropy and volunteerism and established China's first philanthropy research institute in partnership with Beijing Normal University in 2010 to cultivate the next generation of social sector leaders in China through degree granting programmes and corporate training programmes.

Independent Non-Executive Director

Ms. SONG Lixin, aged 48 and appointed on December 22, 2014, is an independent non-executive director and a member of each of the audit committee and the remuneration committee of the Company. She is the president of Talents Magazine and served as its editor-in-chief since 1997. Ms. Song has more than 20 years of experience in the cultural and business sector. Despite facing fierce competition in the print media industry, Ms. Song has built Talents Magazine into a well-known brand in China. Talents Magazine focuses on business leaders and major companies. With its unique reporting perspective, Talents Magazine has become a leading magazine in advanced management ideas. Talents Magazine is also recognized as one of the most influential business magazines in the finance and economics fields. Ms. Song also founded the China Annual Management Summit in 2001 which has continued to run for a consecutive 15 years to date. Ms. Song holds a bachelor's degree in law from Renmin University and received an MBA degree from Tsinghua University.

Mr. TONG Xiaomeng, aged 42 and appointed on June 27, 2014, is an independent non-executive director, chairman and member of the remuneration committee and a member of each of the audit committee and nomination committee of the Company. He is a co-founder and managing partner at Boyu Capital. Prior to founding Boyu Capital, Mr. Tong was a managing director at General Atlantic and Providence Equity Partners, where he headed both firms' Greater China practice and served as a director at a number of publicly-listed and privately-held companies. Mr. Tong graduated from Harvard University where he was a member of Phi Beta Kappa.

Independent Non-Executive Director *(Continued)*

Mr. Johnny CHEN, aged 56 and appointed on January 29, 2016, is an independent non-executive director, chairman and member of the audit committee and member of nomination committee of the Company. Mr. Chen is currently an Adjunct Associate Professor of Department of Finance and Department of Management, Hong Kong University of Science and Technology. Mr. Chen joined the management of Zurich Insurance Group ("Zurich") in 2005. He worked in Zurich from March 2005 to February 2015 in multiple senior managerial roles in Asia-Pacific region. His last position in Zurich was the chairman of China. Prior to joining Zurich, Mr. Chen was an executive member of the Greater-China Management Board and the Operating Committee of PricewaterhouseCoopers ("PwC"), as well as a managing partner of PwC's Beijing office. Mr. Chen holds a Master of Science Degree in Accounting from the University of Rhode Island and a Bachelor Degree of Accounting from the Johnson & Wales University. He is a U.S. certified public accountant.

Senior Management

Ms. XU Xiaojun, aged 43, is the chief finance officer of the Company. She joined the Company on June 12, 2014. Before joining the Company, Ms. Xu served as an audit partner at KPMG in Beijing. In her 17 years with KPMG, Ms. Xu was the audit partner for initial public offering and audits for serveral Chinese companies listed overseas and provided auditing and advisory services to several major multinational companies. Ms. Xu holds a Bachelor Degree of Economics from the Central University of Finance and Economics. She is a member of the Chinese Insititute of Certified Public Accountants.

Company Secretary

Mr. NG Lok Ming, William, aged 43, is the company secretary of the Company. Mr. Ng is also the legal director – company secretarial and compliance of Alibaba Group Holding Limited. He has more than 8 years of experience working in senior legal positions and as Company Secretary of companies listed in Hong Kong. Mr. Ng graduated from the University of Hong Kong with a LL.B. and a P.C.LL. in 1995 and 1996, respectively. He later obtained a LL.M. in Comparative and PRC law from the City University of Hong Kong in 2002. Mr. Ng was admitted as a solicitor of the High Court of Hong Kong in 2001. He is also a member of the Law Society of Hong Kong.

CORPORATE GOVERNANCE REPORT

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

Throughout the year ended December 31, 2015, the Company has applied and complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), except for certain deviations with considered reasons as explained below.

Code provision A.1.1 stipulates that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the year ended December 31, 2015, the Board only held two regular Board meetings. However, the Board held a number of ad hoc meetings during the year to discuss and resolve certain significant potential issues. The Company's daily business operations are under the management of its executive directors. In addition to regular meetings, the Board will hold ad hoc meetings from time to time as necessitated by business needs in order to consider and resolve all material business or management issues of the Company.

Code provision A.5.1 stipulates that the Company should establish a nomination committee which is chaired by the Chairman of the Board or an INED and comprise a majority of INEDs. Following the resignation as a member of Ms. Zhang Yu with effect from November 3, 2015, the number of members of nomination committee of the Company fell below the minimum number requirement. The Company appointed Mr. Johnny Chen as a member of the nomination committee of the Company with effect from January 29, 2016. Following the appointment of Mr. Johnny Chen, the Company has been fully in line with the code provision A.5.1 with effect from January 29, 2016.

Code provision B.1.2 stipulates that the terms of reference of the remuneration committee should include, as a minimum, those specific duties as set out in the code provision. Before March 31, 2015, the Company deviated from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board has adopted a set of revised terms of reference of the remuneration committee of the Company, which is fully in line with the CG Code, with effect from April 1, 2015.

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

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

Code provision F.1.2 stipulates that the appointment and dismissal of the company secretary should be dealt with by a physical board meeting rather than a written board resolution. The appointment of Mr. Ng as the company secretary of the Company on November 3, 2015 was not dealt with by a physical Board meeting as the Company considered that such change in company secretary of the Company did not involve in dismissal of the company secretary and should not be controversial. The appointment of Mr. Ng as the company secretary of the Company was ratified and approved by the Board at a subsequent meeting of the Board held on March 29, 2016.

THE BOARD

The Board currently comprises nine directors of the Company (the "Directors") in total, with five executive Directors, one non-executive Director ("NED(s)") and three independent non-executive Directors ("INED(s)"). The composition of the Board during the year and up to the date of this report is set out as follows:

Executive Directors

Mr. Shao Xiaofeng *(Chairman)*
Mr. Liu Chunning *(Removed on January 1, 2016)*
Mr. Zhang Qiang *(Chief Executive Officer)*
Mr. Deng Kangming *(Chief Operating Officer) (Appointed on January 1, 2016)*
Ms. Zhang Wei *(President) (Appointed on January 1, 2016)*
Mr. Fan Luyuan *(Appointed on January 1, 2016)*

Non-Executive Director

Mr. Li Lian Jie

Independent Non-Executive Directors

Ms. Song Lixin
Mr. Tong Xiaomeng
Ms. Zhang Yu *(Resigned on November 3, 2015)*
Mr. Johnny Chen *(Appointed on January 29, 2016)*

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

An updated list of Board members identifying their roles and functions is maintained on the websites of the Company and the Stock Exchange. The brief biographical details of the Directors are set out in the "Biographical Information of Directors and Senior Management" section on pages 11 to 13. There is no family or other material relationships among members of the Board.

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

THE BOARD *(Continued)*

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

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group and to review and approve the Group's annual and interim results. Directors may participate either in person or through electronic means of communications. During the year ended December 31, 2015, fifteen (15) Board meetings and three (3) general meetings of the Company were held. The attendance of each Director at Board meetings and general meetings of the Company are set out as follows:–

	Number of meetings attended/ eligible to attend	
Directors	**Board Meetings**	**General Meetings**
Executive Directors		
Mr. Shao Xiaofeng *(Chairman)*	12/15	1/3
Mr. Liu Chunning[1]	8/15	1/3
Mr. Zhang Qiang *(Chief Executive Officer)*	14/15	3/3
Mr. Deng Kangming *(Chief Operating Officer)*[2]	–	–
Ms. Zhang Wei *(President)*[2]	–	–
Mr. Fan Luyuan[2]	–	–
Non-Executive Director		
Mr. Li Lian Jie	14/15	1/3
Independent Non-Executive Directors		
Ms. Song Lixin	14/15	1/3
Mr. Tong Xiaomeng	15/15	0/3
Ms. Zhang Yu[3]	8/13	1/2
Mr. Johnny Chen[4]	–	–

Notes:

1. Mr. Liu Chunning was removed as executive director on January 1, 2016.

2. Mr. Deng Kangming, Ms. Zhang Wei and Mr. Fan Luyuan were appointed as executive directors on January 1, 2016.

3. Ms. Zhang Yu resigned as independent non-executive director on November 3, 2015.

4. Mr. Johnny Chen was appointed as independent non-executive director on January 29, 2016.

THE BOARD *(Continued)*

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

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

The Board should meet regularly at least four times a year at approximately quarterly intervals. In 2015, the Board only held two regular Board meetings. However, the Board held a number of ad hoc meetings during the year to discuss and resolve certain significant potential issues. The Company's daily business operations are under the management of its executive Directors. In addition to regular meetings, the Board will hold ad hoc meetings from time to time as necessitated by business needs in order to consider and resolve all material business or management issues of the Company. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before the same will be tabled at the following Board meeting for approval. All minutes are kept in the Company Secretarial Department of the Company and are open for inspection at any reasonable time on reasonable notice by any Director.

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

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

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

THE BOARD *(Continued)*

Training and Support for Directors

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

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

	Attending seminars and/or conferences and/or forums relating to directors' duties or other relevant topics	Reading newspaper, journals and updates relating to the economy, general business or directors' duties etc
Executive Directors		
Mr. Shao Xiaofeng	✔	✔
Mr. Liu Chunning *(Removed on January 1, 2016)*	✔	✔
Mr. Zhang Qiang	✔	✔
Mr. Deng Kangming *(Appointed on January 1, 2016)*	✔	✔
Ms. Zhang Wei *(Appointed on January 1, 2016)*	✔	✔
Mr. Fan Luyuan *(Appointed on January 1, 2016)*	✔	✔
Non-Executive Director		
Mr. Li Lian Jie	✔	✔
Independent Non-Executive Directors		
Ms. Song Lixin	✔	✔
Mr. Tong Xiaomeng	✔	✔
Ms. Zhang Yu *(Resigned on November 3, 2015)*	✔	✔
Mr. Johnny Chen *(Appointed on January 29, 2016)*	✔	✔

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

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

ROLES OF CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The roles of the chairman and the chief executive were performed by Mr. Shao Xiaofeng and Mr. Zhang Qiang, respectively.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

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

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

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

BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee, an Audit Committee, a Nomination Committee and an Executive Committee, to perform their distinct roles in accordance with their respective terms of reference. Following the resignation of Ms. Zhang Yu as INED with effect from November 3, 2015, (i) the number of members of the Audit Committee fell below the minimum number required under Rule 3.21 of the Listing Rules and the Audit Committee's terms of reference; and (ii) the number of members of the Nomination Committee fell below the minimum number required under code provision A.5.1 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. Following the appointment of Mr. Johnny Chen as INED, the chairman of the Audit Committee and a member of the Nomination Committee with effect from January 29, 2016, the Audit Committee and the Nomination Committee were reconstituted. Hence, the relevant requirements under the Listing Rules were fulfilled since then.

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

Remuneration Committee

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

The major roles and functions of the Remuneration Committee are:

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

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

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

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

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

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

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

The Remuneration Committee shall meet at least once a year. Two Remuneration committee meetings were held in 2015 and the attendance of each member is set out as follows:

Committee members	**Number of Committee meetings attended/eligible to attend**
Mr. Tong Xiaomeng *(Chairman)*	2/2
Mr. Shao Xiaofeng	2/2
Ms. Song Lixin	2/2

In 2015, the Remuneration Committee reviewed and recommended for the Board's approval (i) the existing policy and structure for the remuneration of Directors; (ii) the remuneration packages (including share-based award) of the executive Directors and NEDs (including INEDs); (iii) the bonus to a Director for the year; and (iv) the share-based award to the employees of the Company.

Each Director will be entitled to a Director's fee which is to be proposed for the Shareholders' approval at the AGM each year. Further remuneration payable to Directors including any other fees to the INEDs for their additional responsibilities and services will be approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 34 to the consolidated financial statements. Details of the remuneration policy of the Group are also set out in the "Employees and Remuneration Policies" section in the Management Discussion and Analysis on page 10.

The Company's share option scheme (which was adopted by the Company pursuant to a resolution passed by the Shareholders on May 23, 2002) expired on May 22, 2012. At the AGM held on June 11, 2012, the Shareholders approved the adoption of a new share option scheme. Details of the share option schemes of the Company and the outstanding share options as at December 31, 2015 are set out in the Directors' Report on page 36 and note 22 to the consolidated financial statements.

BOARD COMMITTEES *(Continued)*

Audit Committee

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

The major roles and functions of the Audit Committee are:

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

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

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

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

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

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

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

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

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

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

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

The Audit Committee shall meet at least twice a year. Two Audit Committee meetings were held in 2015 and the attendance of each member is set out as follows:

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

Note:

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

2. Ms. Zhang Yu resigned as chairman of the Audit Committee on November 3, 2015.

In 2015, the Audit Committee had performed the work summarised as below:

(i) reviewed and recommended for the Board's approval the audit scope and fees proposed by the external auditors in respect of the final audit for the year ended December 31, 2014 (the "2014 Final Audit"), the interim results review for the six months ended June 30, 2015 (the "2015 Interim Review") and the final audit for the year ended December 31, 2015 (the "2015 Final Audit") of the Group;

(ii) reviewed the external auditor's report of findings, independent review report and audit completion report in relation to the 2014 Final Audit, the 2015 Interim Review and the 2015 Final Audit;

(iii) reviewed and recommended for the Board's approval the financial reports for the year ended December 31, 2014, for the six months ended June 30, 2015 and for the year ended December 31, 2015 together with the relevant management representation letters;

(iv) reviewed the internal control and risk management plans and measures; and

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

BOARD COMMITTEES *(Continued)*

Nomination Committee

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

The major roles and function of the Nomination Committee are:

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

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

(iii) to assess the independence of INEDs;

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

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

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

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

The Nomination Committee shall meet at least once a year. Two Nomination Committee meetings were held in 2015 and the attendance of each member is set out as follows:

Committee members	Number of Committee meetings attended/eligible to attend
Mr. Shao Xiaofeng *(Chairman)*	2/2
Mr. Tong Xiaomeng	2/2
Ms. Zhang Yu[1]	1/1
Mr. Johnny Chen[2]	–

Notes:

1. Ms. Zhang Yu resigned as member of Nomination Committee on November 3, 2015.

2. Mr. Johnny Chen was appointed as member of Nomination Committee on January 29, 2016.

In 2015 and up to the date of this report, the Nomination Committee (i) reviewed the Board Diversity Policy and its implementation; (ii) reviewed the structure, size and composition of the Board; (iii) assessed the independence of all the INEDs; and (iv) reviewed and recommended for the Board's approval on the appointment and re-designation of Directors as well as re-election of the retiring Directors at the AGM.

Executive Committee

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibilities for preparing, with the support from the finance department, the consolidated financial statements of the Group. The Directors also acknowledge their responsibilities to ensure that the financial statements of the Group are published in a timely manner. In preparing the consolidated financial statements for the year ended December 31, 2015, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance were complied with. Appropriate accounting policies have also been applied consistently.

The Audit Committee has recommended the Board to re-appoint PricewaterhouseCoopers ("PwC") as auditor of the Group. The reporting responsibilities of the Company's external auditor, PwC, are set out in the Independent Auditor's Report on pages 43 and 44.

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

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

Risk Management and Internal Control

The purposes of the risk management and internal control systems are to evaluate and determine the nature and extent of the risks the Board is willing to take in achieving the Company's strategic objectives, and keep the Group on course towards achieving its performance and profitability goals and its overall mission. The immediate aim of internal control is to help provide a reasonable level of assurance that the Group will meet the agreed objectives and goals. It has a key role in the management of risks that are significant to the fulfilment of business objectives. It is the Board's responsibility to review the effectiveness of the Group's risk management and internal control systems and ensure that the controls are sound and effective to safeguard the Shareholders' investment and the Group's assets at all times.

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Controls *(Continued)*

The Audit Committee performs the duties of risk management and internal control on behalf of the Board to oversee the management in design, implementation and monitoring of the risk management and internal control systems.

In respect of the internal control system, procedures have been designed for safeguarding assets against unauthorized use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance of applicable law, rules and regulations.

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

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

A comprehensive internal control self-review has been conducted and reported to both Audit Committee and the Board during the year, and there were no significant deficiencies identified. The Board believes that, in the year ended December 31, 2015, the existing internal control system of the Company is sufficient and effective, to assure the interests of the Company and its shareholders.

In respect of risk management system, the Board will take the responsibility to establish and maintain appropriate and effective risk management system, and will oversee management in the design, implementation and monitoring of the risk management system and assess the effectiveness of the risk management system annually.

External Auditor's Remuneration

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

Services rendered for the Group	Fee paid/payable
PwC	
Audit services (including annual audit and interim review)	RMB3,000,000
Non-audit services (including financial due diligence, internal control and tax advisory)	RMB2,491,000
Total	RMB5,491,000

COMPANY SECRETARY

The Company has appointed Mr. Ng Lok Ming, William, as its company secretary. The company secretary reports to the chairman of the Company and is responsible for advising the Board on governance matters, new director's induction and professional development of Directors as well as ensuring good information flow between the Board members and the compliance of the policy and procedure of the Board.

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

The Company's general meetings are valuable forum for the Board to communicate directly with the Shareholders. The Company encourages the participation of the Shareholders through AGMs and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their rights to vote at meetings. The chairman of any independent board committee formed as necessary or pursuant to the Listing Rules (or if no such chairman is appointed, at least a member of the independent board committee) will also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to the independent Shareholders' approval. In 2015, the AGM ("2015 AGM") was held on June 5, 2015 and special general meetings of the Company were held on February 16, 2015 and December 29, 2015, respectively. At the 2015 AGM, the Chairman of the Audit Committee was present thereat and answered any questions raised by the Shareholders. A separate resolution is proposed by the Chairman of the Board on each substantial issue, including the election of individual Directors, to be considered at the general meetings.

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

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

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

CORPORATE GOVERNANCE ENHANCEMENT

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

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended December 31, 2015.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 33 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2015 are set out in the consolidated income statement on page 45.

The Directors do not recommend the payment of a dividend for the year ended December 31, 2015 (2014: nil).

SHARE ISSUED IN THE YEAR

Details of shares issued in the year ended December 31, 2015 are set out in note 21 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group as at December 31, 2015 is set out under the section headed "Management Discussion and Analysis" of this report on pages 5 to 10.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 146.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

Mr. Shao Xiaofeng *(Chairman)*
Mr. Liu Chunning *(Removed on January 1, 2016)*
Mr. Zhang Qiang *(Chief Executive Officer)*
Mr. Deng Kangming *(Chief Operating Officer) (Appointed on January 1, 2016)*
Ms. Zhang Wei *(President) (Appointed on January 1, 2016)*
Mr. Fan Luyuan *(Appointed on January 1, 2016)*

Non-Executive Director

Mr. Li Lian Jie

Independent Non-Executive Directors

Ms. Song Lixin
Mr. Tong Xiaomeng
Ms. Zhang Yu *(Resigned on November 3, 2015)*
Mr. Johnny Chen *(Appointed on January 29, 2016)*

In accordance with bye-law 87(2) of the Bye-laws, Messrs. Zhang Qiang, Song Lixin and Tong Xiaomeng shall retire from office by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

In accordance with bye-law 86(2) of the Bye-laws, Messrs. Deng Kangming, Zhang Wei, Fan Luyuan and Johnny Chen shall hold office only until the forthcoming AGM and, being eligible, offer themselves for re-election.

The Directors' biographical details are set out on pages 11 and 13.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at December 31, 2015, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in the shares and underlying shares of the Company

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

Notes:

1. Based on a total of 25,234,561,410 ordinary shares of the Company in issue as at December 31, 2015.

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

Save as disclosed above, as at December 31, 2015, none of the Directors, chief executive of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

The shareholders of the Company approved the adoption of the share option schemes on May 23, 2002 (the "2002 Share Option Scheme") and June 11, 2012 (the "2012 Share Option Scheme") respectively. Details of the 2012 Share Option Scheme are set out in note 22 to the consolidated financial statements. The 2002 Share Option Scheme expired on May 23, 2012 and no further share options of the Company (the "Share Options") shall be granted under the 2002 Share Option Scheme. The Share Options granted under the 2002 Share Option Scheme prior to its expiry shall continue to be valid and exercisable.

Movements of the Share Options granted by the Company pursuant to the 2002 Share Option Scheme and 2012 Share Option Scheme during the year were as follows:

(i) 2002 Share Option Scheme

			Number of Share Options				
Category	Date of grant	Exercise price as per share HK$	Outstanding as at January 1, 2015	Exercised during the year	Lapsed during the year	Outstanding as at December 31, 2015	Vesting period (Note)
Others	18/03/2010	0.475	4,050,000	–	(4,050,000)	–	1
Total:			4,050,000		(4,050,000)		

(ii) 2012 Share Option Scheme

			Number of Share Options					
Category	Date of grant	Exercise price as per share HK$	Outstanding as at January 1, 2015	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at December 31, 2015	Vesting period (Notes)
Director								
Zhang Qiang	28/01/2015	1.670	–	210,119,800	–	–	210,119, 800	2(i)
Employees	28/01/2015	1.670	–	74,900,000	–	(1,200,000)	73,700,000	2(ii)
	15/04/2015	4.090	–	25,800,000	–	(2,400,000)	23,400,000	2(ii)
	28/04/2015	4.004	–	30,000,000	–	–	30,000,000	2(ii)
	02/07/2015	3.156	–	16,800,000	–	(1,200,000)	15,600,000	2(ii)
	24/09/2015	1.860	–	17,400,000	–	–	17,400,000	2(ii)
	05/11/2015	2.170	–	17,800,000	–	–	17,800,000	2(ii)
	06/11/2015	2.130	–	10,000,000	–	–	10,000,000	2(ii)
	16/12/2015	1.900	–	17,778,000	–	–	17,778,000	2(ii)
Total:			–	420,597,800	–	(4,800,000)	415,797,800	

SHARE OPTIONS *(Continued)*

Notes:

1. The Share Options are exercisable under the 2002 Share Option Scheme as follows:

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

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

(i) Director

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) Employees

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.

SHARE OPTIONS *(Continued)*

Notes: *(Continued)*

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

4. During the year, no share options were granted, exercised or cancelled under the 2002 Share Option Scheme.

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

For details of relationship with the employees, please refer to the paragraph headed "Employees and Remuneration Policies" in the "Management Discussion and Analysis" section as set out on page 10 of this report.

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

PERMITTED INDEMNITY PROVISION

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

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended December 31, 2015 and up to the date of this report, to the best knowledge of the Directors, the Group complied with applicable laws, rules and regulations in all material aspects.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2015, the percentage of the Group's revenue attributable to the Group's five largest customers combined was less than 30%; the percentage of the Group's purchases attributable to the Group's five largest suppliers combined was less than 30%.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at December 31, 2015, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

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

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

Notes:

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, 2015, 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. This represents the interest in 1,674,282,500 shares of the Company held by Gold Ocean Media Inc. as beneficial owner. Mr. Huang Youlong maintained 100% beneficial interest in Gold Ocean Media Inc. Ms. Zhao Wei was a spouse of Mr. Huang Youlong. As such, Mr. Huang Youlong and Ms. Zhao Wei were deemed to have the same interest held by Gold Ocean Media Inc.

3. As of December 31, 2015, the Company had a total of 25,234,561,410 shares in issue.

Save as disclosed above, as at December 31, 2015, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' INTEREST IN COMPETING BUSINESSES

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended December 31, 2015.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance code. Information on the corporate governance code adopted by the Company is set out in the Corporate Governance Report on pages 14 to 32.

PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board
Shao Xiaofeng
Chairman

Hong Kong, March 29, 2016

pwc 羅兵咸永道

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

We have audited the consolidated financial statements of Alibaba Pictures Group Limited (the "Company") and its subsidiaries set out on pages 45 to 145, which comprise the consolidated balance sheet as at December 31, 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at December 31, 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 29, 2016

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2015

	Note	Year ended December 31, 2015 RMB'000	2014 RMB'000
Continuing operations			
Revenue	5	**263,717**	126,631
Cost of sales and services	8	**(288,781)**	(189,238)
Gross loss		**(25,064)**	(62,607)
Selling and marketing expenses	8	**(111,947)**	(1,501)
Administrative expenses	8	**(277,580)**	(156,357)
Other income	6	**21,666**	2,214
Other losses, net	7	**(2,270)**	(18,317)
Operating loss		**(395,195)**	(236,568)
Finance income	10	**894,144**	15,954
Finance expenses	10	**(11,305)**	(26,853)
Finance income/(expenses), net		**882,839**	(10,899)
Share of loss of investments accounted for using the equity method	13	**(862)**	(4,190)
Impairment loss on interest in an associate	13	**–**	(111,216)
Profit/(loss) before income tax		**486,782**	(362,873)
Income tax expense	11	**(14,079)**	(17,381)
Profit/(loss) for the year from continuing operations		**472,703**	(380,254)
Discontinued operations			
Loss for the year from discontinued operations		**(6,689)**	(35,037)
Profit/(loss) for the year		**466,014**	(415,291)
Profit/(loss) attributable to:			
Owners of the Company		**466,040**	(417,276)
Non-controlling interests		**(26)**	1,985
Profit/(loss) attributable to owners of the Company arises from:			
Continuing operations		**472,729**	(381,000)
Discontinued operations		**(6,689)**	(36,276)
Earnings/(loss) per share from continuing and discontinued operations attributable to owners of the Company for the year ***(expressed in RMB cents per share)***	12		
Basic earnings/(loss) per share			
From continuing operations		**2.02**	(2.54)
From discontinued operations		**(0.03)**	(0.24)
From profit/(loss) for the year		**1.99**	(2.78)
Diluted earnings/(loss) per share			
From continuing operations		**2.02**	(2.54)
From discontinued operations		**(0.03)**	(0.24)
From profit/(loss) for the year		**1.99**	(2.78)

The notes on pages 52 to 145 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Profit/(loss) for the year	**466,014**	(415,291)
Other comprehensive income/(loss):		
Items that may be reclassified to profit or loss		
Currency translation differences	**14,437**	(742)
Fair value gains on available-for-sale financial assets, net of tax	**9,605**	–
Other comprehensive income/(loss) for the year, net of tax	**24,042**	(742)
Total comprehensive income/(loss) for the year	**490,056**	(416,033)
Attributable to:		
– Owners of the Company	**490,082**	(418,018)
– Non-controlling interests	**(26)**	1,985
Total comprehensive income/(loss) for the year	**490,056**	(416,033)
Total comprehensive income/(loss) attributable to owners of the Company arises from:		
Continuing operations	**496,771**	(381,742)
Discontinued operations	**(6,689)**	(36,276)
	490,082	(418,018)

The notes on pages 52 to 145 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 2015

	Note	As at December 31, 2015 RMB'000	2014 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	14	**57,136**	24,522
Goodwill	15	**3,490,574**	159,813
Intangible assets	15	**191,331**	7,808
Investments accounted for using the equity method	13	**19,081**	18,804
Club debenture		**–**	2,280
Deferred income tax assets	26	**18,310**	1,188
Trade and other receivables, and prepayments	19	**122,928**	124,400
		3,899,360	338,815
Current assets			
Inventories		**306**	–
Film and TV copyrights	16	**383,761**	164,520
Trade and other receivables, and prepayments	19	**789,113**	525,747
Available-for-sale financial assets	18	**1,102,006**	240,000
Financial assets at fair value through profit or loss		**–**	2,685
Cash and cash equivalents	20	**3,677,988**	30,158
Bank deposits with the maturity over three months	20	**7,089,781**	5,018,137
Restricted cash	20	**2,021,328**	–
		15,064,283	5,981,247
Assets held-for-sale		**12,218**	17,370
		15,076,501	5,998,617
Total assets		**18,975,861**	6,337,432

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 2015

	Note	As at December 31, 2015 RMB'000	2014 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	21	**5,081,884**	4,253,771
Reserves		**11,113,927**	1,813,885
		16,195,811	6,067,656
Non-controlling interests		**(2,231)**	(588)
Total equity		**16,193,580**	6,067,068
Liabilities			
Non-current liabilities			
Deferred income tax liablities	26	**48,965**	–
		48,965	–
Current liabilities			
Trade and other payables, and accrued charges	24	**670,666**	175,682
Borrowings	25	**1,980,000**	–
Derivative financial liability	29(1)(c)	**33,000**	–
Current income tax liabilities		**49,650**	94,682
		2,733,316	270,364
Total liabilities		**2,782,281**	270,364
Total equity and liabilities		**18,975,861**	6,337,432

The notes on pages 52 to 145 are an integral part of these financial statements.

The financial statements on pages 45 to 145 were approved by the Board of Directors on March 29, 2016 and were signed on its behalf.

Director *Director*

		Attributable to owners of the Company										
	Note	Issued share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Shareholder's contribution reserve RMB'000	Translation reserve RMB'000	Convertible notes equity reserve RMB'000	Share option reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2014		1,731,568	713,279	(1,323,467)	48,527	1,056	2,777	19,737	189,434	1,382,911	13,651	1,396,562
(Loss)/profit for the year		–	–	–	–	–	–	–	(417,276)	(417,276)	1,985	(415,291)
Other comprehensive loss for the year		–	–	–	–	(742)	–	–	–	(742)	–	(742)
Total comprehensive (loss)/income for the year		–	–	–	–	(742)	–	–	(417,276)	(418,018)	1,985	(416,033)
Issue of subscription shares	21	2,478,100	2,478,100	–	–	–	–	–	–	4,956,200	–	4,956,200
Transaction costs attributable to issue of subscription shares		–	(5,125)	–	–	–	–	–	–	(5,125)	–	(5,125)
Issue of shares upon exercise of warrants	21	11,865	66,347	–	–	–	–	–	–	78,212	–	78,212
Transaction costs attributable to issuance shares through exercise of warrant		–	(610)	–	–	–	–	–	–	(610)	–	(610)
Issue of shares upon exercise of share options	21	26,238	59,235	(15,988)	–	–	–	(17,509)	–	51,976	–	51,976
Lapse of share options		–	–	(1,786)	–	–	–	(1,662)	3,448	–	–	–
Issue of shares upon conversion of convertible notes	21	6,000	23,601	(4,714)	–	–	(2,777)	–	–	22,110	–	22,110
Dividend paid by a subsidiary to a non-controlling interest		–	–	–	–	–	–	–	–	–	(240)	(240)
Deregistration of a subsidiary		–	–	–	–	–	–	–	–	–	(15,984)	(15,984)
At December 31, 2014		4,253,771	3,334,827	(1,345,955)	48,527	314	–	566	(224,394)	6,067,656	(588)	6,067,068

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2015

		Attributable to owners of the Company										
	Note	Issued share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Shareholder's contribution reserve RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Share option reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2015		4,253,771	3,334,827	(1,345,955)	48,527	314	-	566	(224,394)	6,067,656	(588)	6,067,068
Profit/(loss) for the year		-	-	-	-	-	-	-	466,040	466,040	(26)	466,014
Other comprehensive income for the year:												
Fair value gains on available-for-sale financial assets, net of tax		-	-	-	-	-	9,605	-	-	9,605	-	9,605
Currency translation differences		-	-	-	-	14,437	-	-	-	14,437	-	14,437
Total comprehensive income for the year		-	-	-	-	14,437	9,605	-	466,040	490,082	(26)	490,056
Issue of placing shares	21	828,113	8,778,000	-	-	-	-	-	-	9,606,113	-	9,606,113
Transaction costs attributable to issue of placing shares	21	-	(49,694)	-	-	-	-	-	-	(49,694)	-	(49,694)
Disposal of subsidiaries		-	-	-	-	-	-	-	-	-	(1,617)	(1,617)
Lapse of share options		-	-	(330)	-	-	-	(566)	896	-	-	-
Value of services provided under share option scheme		-	-	-	-	-	-	122,832	-	122,832	-	122,832
Share-based payment transactions among group entities	29(2)(a)	-	-	-	-	-	-	(41,178)	-	(41,178)	-	(41,178)
At December 31, 2015		5,081,884	12,063,133	(1,346,285)	48,527	14,751	9,605	81,654	242,542	16,195,811	(2,231)	16,193,580

The notes on pages 52 to 145 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

	Note	Year ended December 31, 2015 RMB'000	2014 RMB'000
Cash flows from operating activities			
Cash used in operations activities	28	**(427,868)**	(34,505)
Income tax paid		**(60,329)**	(9,326)
Net cash used in operating activities		**(488,197)**	(43,831)
Cash flows from investing activities			
Interest received		**155,512**	1,899
Proceeds from disposal of art works		**152,683**	105,052
Disposal of subsidiaries, net of cash disposed		**19,171**	129,878
Investment income received		**5,063**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**3,536**	–
Proceeds from disposal of property, plant and equipment ("PPE")		**377**	837
Acquisition of subsidiaries, net of cash acquired	29	**(3,515,562)**	–
Change in investment in bank deposits with the maturity over three months		**(1,997,373)**	(5,045,519)
Change in investment in available-for-sale financial assets		**(817,900)**	(240,000)
Purchases of PPE		**(18,192)**	(9,231)
Change in loan receivable		**(15,000)**	–
Purchase of intangible assets		**(824)**	(336)
Purchase of art works		**–**	(34,780)
Net cash used in investing activities		**(6,028,509)**	(5,092,200)
Cash flows from financing activities			
Proceeds from issue of shares	21	**9,606,113**	4,956,200
Proceeds from borrowings		**2,880,000**	–
Change in restricted cash in relation to financing activities		**(2,001,938)**	–
Repayment of borrowings		**(900,000)**	–
Transaction costs attributable to issue of shares	21	**(49,426)**	(5,125)
Repayment of borrowings cost		**(9,193)**	–
Proceeds from issue of shares upon exercise of share options		**–**	51,976
Proceeds from issue of shares upon exercise of warrants		**–**	23,730
Repayments to a non-controlling interest for deregistration of a subsidiary		**–**	(15,984)
Transaction costs attributable to issue of shares upon exercise of warrants		**–**	(610)
Dividends paid to non-controlling interests of subsidiaries		**–**	(240)
Net cash generated from financing activities		**9,525,556**	5,009,947
Net increase/(decrease) in cash and cash equivalents		**3,008,850**	(126,084)
Cash and cash equivalents at beginning of year		**30,158**	155,619
Exchange gains on cash and cash equivalents		**638,980**	623
Cash and cash equivalents at end of year		**3,677,988**	30,158

The notes on pages 52 to 145 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

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

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

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange") and secondary listing on the Singapore Exchange Securities Trading Limited. As at December 31, 2015, the Company is 49.49% owned by Ali CV Investment Holding Limited ("Ali CV"). Ali CV is a wholly-owned subsidiary of Alibaba Investment Limited ("AIL") which is in turn wholly-owned by Alibaba Group Holding Limited ("AGHL").

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) New standards and amendments adopted by the Group

The Group has adopted the following amendments to standards which are mandatory for the financial year beginning on January 1, 2015:

Amendments to standards		**Effective for accounting periods beginning on or after**
Amendment to HKAS 19	Defined benefit plan: employee contributions	July 1, 2014
Annual Improvement Projects	Annual improvements 2010-2012 Cycle and 2011-2013 Cycle	July 1, 2014

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

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2015 are not material to the Group.

(b) New standards and amendments not yet adopted

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

New standards and amendments to standards		**Effective for accounting periods beginning on or after**
Amendment to HKAS 1	Disclosure initiative	January 1, 2016
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortization	January 1, 2016
Amendment to HKAS 27	Equity method in separate financial statements	January 1, 2016
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Effective date is to be determined
Amendment to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception	January 1, 2016
Amendment to HKFRS 11	Accounting for acquisitions of interests in joint operations	January 1, 2016
Annual Improvement Project	Annual Improvements to 2012-2014 Cycle	January 1, 2016
HKFRS 9	Financial instruments	January 1, 2018
HKFRS 15	Revenue from contracts with customers	January 1, 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Subsidiaries arising from contractual arrangements

The Group's wholly-owned subsidiaries have entered into certain contractual arrangements (the "Contractual Arrangements") with 中聯京華文化傳播（北京）有限公司 ("Zhonglian Jinghua"), 北京世通寰亞廣告有限公司 ("Beijing Shitong") and 北京阿里淘影視文化有限公司 ("Ali Tao") respectively, and their equity holders, which enable the Group to:

– exercise effective financial and operational control over Zhonglian Jinghua, Beijing Shitong and Ali Tao;
– exercise equity holders' voting rights of Zhonglian Jinghua, Beijing Shitong and Ali Tao;
– receive substantially all of the economic interest returns generated by Zhonglian Jinghua, Beijing Shitong and Ali Tao.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) Subsidiaries arising from contractual arrangements (Continued)

The Group does not have any equity interest in Zhonglian Jinghua, Beijing Shitong and Ali Tao. However, as a result of the Contractual Arrangements, the Group has rights to receive variable returns from its involvement with Zhonglian Jinghua, Beijing Shitong and Ali Tao and has the ability to affect those returns through its power over Zhonglian Jinghua, Beijing Shitong and Ali Tao and is considered to control Zhonglian, Beijing Shitong and Ali Tao. Consequently, the Company regards Zhonglian Jinghua, Beijing Shitong and Ali Tao as indirect subsidiaries under HKFRS 10. The Group has consolidated the financial position and results of Zhonglian Jinghua, Beijing Shitong and Ali Tao in the consolidated financial statements of the Group during the year ended December 31, 2015.

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

(b) Business combinations

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

(b) Business combinations (Continued)

Acquisition-related costs are expensed as incurred.

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

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

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

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

(c) Disposal of subsidiaries

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial statements

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

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

2.3 Associates

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates *(Continued)*

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

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

Gains or losses on dilution of equity interest in associates are recognized in the income statement.

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

(b) Transactions and balances

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

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

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

(c) Group companies

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other losses, net' in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets

(a) Goodwill

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

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

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

(b) Licences

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets *(Continued)*

(c) Contractual customer relationships

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

(d) Computer software

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

(e) Other intangible assets

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

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

2.8 Impairment of non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

2.10 Financial assets

2.10.1 Classification

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.1 Classification *(Continued)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' (Note 2.16), 'cash and cash equivalents' (Note 2.17), 'bank deposits with the maturity over three months' and 'restricted cash' in the consolidated financial statements.

(c) Available-for-sale financial assets

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

2.10.2 Recognition and measurement

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.2 Recognition and measurement *(Continued)*

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

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement within 'other losses, net'.

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

2.11 Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets

(a) Assets carried at amortized cost

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets *(Continued)*

(b) Assets classified as available-for-sale

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

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

2.13 Inventories

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

2.14 Film and TV copyrights

(a) Film and TV copyrights

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Film and TV copyrights *(Continued)*

(b) Film and TV in production

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

(c) Impairment

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

2.15 Film deposits

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

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

2.16 Trade and other receivables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Cash and cash equivalents

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

2.18 Share capital

Share capital is classified as equity.

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

2.19 Trade payables

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

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

2.20 Borrowings

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

2.22 Current and deferred income tax

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

(a) Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(c) Offsetting

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

2.23 Employee benefits

(a) Pension obligations

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

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

(b) Termination benefits

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

(c) Bonus plans

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Share-based payments

Equity-settled share-based payment transactions

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Provisions

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

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

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

2.26 Revenue recognition

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

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

(b) Revenue from film exhibition/showing is recognized when the film is shown and the right to receive payment is established.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Interest income

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

2.28 Dividend income

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

2.29 Leases

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

2.30 Government grants

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

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

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

2.31 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB and US dollar, which is exposed to foreign currency risk with respect to transactions denominated in currencies other than RMB or US dollar. Foreign exchange risk arises from recognized assets and liabilities and net investments in foreign operations. The Group did not enter into any forward contract to hedge its exposure to foreign currency risk for the year ended December 31, 2015 and 2014.

As at December 31, 2015, the carrying amounts of the Group's monetary assets and liabilities that are denominated in currency other than functional currencies of the respective group entities are as follows:

	December 31, 2015		December 31, 2014	
	HK dollar RMB'000	**US dollar RMB'000**	HK dollar RMB'000	US dollar RMB'000
Cash and bank balances	**5,208,068**	**3,462,514**	4,440,206	98,158
Trade and other receivables	**12,318**	**11,460**	5,318	71
Trade and other payables	**2,840**	**2,189**	411	–

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) *Market risk* *(Continued)*

(i) *Foreign exchange risk* *(Continued)*

As at December 31, 2015, if RMB had weakened/strengthened by 5% (2014: 5%) with all other variables held constant, pre-tax profit for the year would have been RMB434,467,000 higher/lower (2014: pre-tax loss for the year would have been RMB227,167,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of HK and US dollar-denominated cash and bank balances and trade and other receivables.

(ii) *Cash flow interest rate risk*

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

As at December 31, 2015, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, pre-tax profit for the year would have been RMB7,040,000 (2014: nil) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

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

The Group's maximum exposure to credit risk which will cause a financial loss to the Group in the event of the counterparties' failure to perform their obligations as at December 31, 2015 is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet.

For the year ended December 31, 2015, the Group has concentration of credit risk as 30.24% and 78.88% of the total trade receivables were due from the Group's largest debtor and the five largest debtors, respectively. These debtors include a PRC film distributor, an overseas film producer and three major electronic business platforms providing on-line ticketing in the PRC. The Group's concentration of credit risk by geographical location is in the PRC and the United States of America (the "USA"), which accounts for 67.49% and 30.24% of the total trade receivables as at December 31, 2015 respectively.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

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

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2015				
Trade and other payables	**560,296**	**–**	**–**	**560,296**
Borrowings	**1,987,854**	**–**	**–**	**1,987,854**
	2,548,150	**–**	**–**	**2,548,150**
As at December 31, 2014				
Trade and other payables	66,627	–	–	66,627

3.2 Capital management

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

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

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

As at December 31, 2015 and 2014, the Group's gearing ratio is nil as its cash and cash equivalents exceeded its total borrowings.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at December 31, 2015 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

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

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

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

(a) Financial instruments in level 1

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(b) Financial instruments in level 2

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

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

Specific valuation techniques used to value financial instruments include:

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended December 31, 2015 and 2014.

	Available-for-sale financial assets	
	2015	2014
	RMB'000	RMB'000
Opening balance	**240,000**	–
Addition, net	**849,200**	240,000
Gains recognized in other comprehensive income	**12,806**	–
Closing balance	**1,102,006**	240,000

	Financial liabilities at fair value through profit or loss	
	2015	2014
	RMB'000	RMB'000
Opening balance	**–**	1,275
Addition	**35,749**	–
(Gains)/losses recognized in profit or loss	**(2,749)**	53,207
Exercised	**–**	(54,482)
Closing balance	**33,000**	–

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

(a) Estimated impairment of film and TV copyrights

At the end of the reporting period, the management of the Group assesses the impairment on film and TV copyrights with reference to its recoverable amount. The assessment was made on a film-by-film basis. The recoverable amount of the film and TV copyrights was determined based on the present value of the expected future revenue generated from the film less future cost of sales and service.

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

Based on the management assessment's on the recoverability of film and TV copyrights, the directors of the Company determined that an impairment provision of RMB70,538,000 (2014: RMB102,172,000) to be charged to cost of sales and services during the year ended December 31, 2015.

(b) Allowances for bad and doubtful debts

The policy of allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor. Based on the assessment on the collectability and aging analysis of accounts, the directors of the Company determined that a reversal of impairment provision of RMB6,916,000 (2014: an impairment provision of RMB55,889,000) was required during the year ended December 31, 2015. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(Continued)*

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

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

According to the management's assessment (Note 15), there is no impairment in goodwill and intangible assets with indefinite lives as at December 31, 2015 (2014: nil).

(d) Income taxes and value-added taxes

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

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

5 REVENUES AND SEGMENT INFORMATION

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

The Board of Directors considers the business from perspective of types of goods or services delivered or provided. During the year ended December 31, 2015, the Group has expanded its operations and redefined its operational strategies. During 2015, the Group's operating and reportable segments for continuing operations are as follows:

– Content production: the production of entertainment content such as film and TV dramas.

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

– Entertainment e-commerce: the operation of a C2B financing platform for entertainment content. The development and online sales of entertainment related merchandise.

– International operations: the commercial involvement in international entertainment related projects or businesses.

– Other operations.

Segment revenue and results

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Content production	**55,520**	115,386
Internet-based promotion and distribution	**136,250**	–
Entertainment e-commerce	**2,807**	–
International operations	**68,700**	–
Other operations	**440**	11,245
Total revenues from continuing operations	**263,717**	126,631

5 REVENUES AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

	Year ended December 31, 2015					
	Content production RMB'000	Internet-based promotion and distribution RMB'000	Entertainment e-commerce RMB'000	International operations RMB'000	Other operations RMB'000	Total RMB'000
Segment revenue	55,520	136,250	2,807	68,700	440	263,717
Segment results	(106,050)	21,887	1,685	6,907	221	(75,350)
Unallocated selling and marketing expenses						(61,661)
Administrative expenses						(277,580)
Other income						21,666
Other losses, net						(2,270)
Finance income						894,144
Finance expenses						(11,305)
Share of loss of investments accounted for using the equity method						(862)
Profit before income tax						486,782

5 REVENUES AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

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

5 REVENUES AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

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

Segment results represent the gross loss incurred or gross profit generated by each segment after allocation of cetain 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.

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

As at December 31, 2015, the Group's non-current assets, other than financial instruments and deferred income tax assets, which are located in the mainland of the PRC, Hong Kong, Taiwan and the USA amounting to RMB3,740,618,000, RMB120,326,000, RMB19,081,000 and RMB1,025,000 (2014: RMB198,310,000, RMB120,389,000, RMB18,804,000 and nil) respectively.

For the year ended December 31, 2015, approximately 19% of the total revenues of the Group are derived from top one external customer (2014: 46%, from top two external customers).

6 OTHER INCOME

	Year ended December, 31	
	2015	2014
	RMB'000	RMB'000
Local government subsidies	**13,551**	1,374
Investment income on available-for-sale financial assets	**5,063**	–
Investment income on loan receivable	**2,201**	–
Sundry income	**851**	840
	21,666	2,214

7 OTHER LOSSES, NET

	Year ended December, 31	
	2015	2014
	RMB'000	RMB'000
Change in fair value of assets held-for-sale (Note)	**(5,152)**	–
Change in fair value of repurchase option	**2,749**	–
Gain on disposal of financial assets at fair value through profit or loss	**851**	125
Gain on disposal of subsidiaries	**200**	8,861
Change in fair value of warrants	**–**	(53,207)
Gain on disposal of art works	**–**	17,586
Other payables waived	**–**	11,177
Others	**(918)**	(2,859)
	(2,270)	(18,317)

Note:

Amount represented additional write down of the carrying value of the investment in Beijing Beida Culture Development Co., Limited ("Beida Culture") in 2015. The Group expected to recover the investment in Beida Culture principally through a sale transaction in the future, which is expected to be completed in year 2016.

8 EXPENSES BY NATURE

	Year ended December, 31	
	2015	2014
	RMB'000	RMB'000
Film and TV copyrights recognized as cost of sales and services (Note)	**244,028**	183,493
Cost of inventories recognized as cost of sales and services	**4,290**	–
Employee benefit expense (Note 9)	**241,788**	41,097
Marketing and operation expenses	**64,835**	2,100
Depreciation and amortization (Note 14 and 15)	**31,554**	9,826
Operating lease payments	**29,525**	22,653
Transaction cost in relation to business combination	**17,174**	–
Auditor's remuneration		
– Audit services	**3,000**	2,832
– Non-audit services	**2,491**	7,721
(Reversal of impairment provision)/impairment provision for trade and other receivables, and prepayments	**(6,916)**	55,889
Other expenses	**46,539**	21,485
Total cost of sales and services, selling and marketing expenses and administrative expenses	**678,308**	347,096

Note:

Amount included impairment loss on film and TV copyrights of RMB70,538,000 (2014: RMB102,172,000) in 2015.

9 EMPLOYEE BENEFIT EXPENSE

	Year ended December, 31	
	2015	2014
	RMB'000	RMB'000
Wages and salaries	**97,918**	32,627
Social security costs and housing fund (Note)	**20,416**	6,721
Share-based payment expenses (Note 22)	**122,832**	–
Termination benefits	**622**	1,749
Total employee benefit expense	**241,788**	41,097

Note:

All of the Group's full-time employees in the PRC participate in a state-sponsored defined contribution pension plan. The Group is required to make monthly defined contributions to this plan at a rate of 20% (2014: 20%) of the employees' basic salaries subject to a cap determined by the state on an annual basis.

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

During the year, the Group made total contributions to the retirement benefits schemes of RMB9,259,000 (2014: RMB3,048,000). Included in the total contribution made, RMB99,000 (2014: RMB93,000) was contribution made for Hong Kong employees.

9 EMPLOYEE BENEFIT EXPENSE *(Continued)*

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2014: two) directors whose emoluments are reflected in Note 34. The emoluments paid or payable to the remaining four (2014: three) individuals during the year are as follows:

	Year ended December, 31	
	2015	2014
	RMB'000	RMB'000
Salaries, bonus, share options and other benefits	**23,693**	3,265
Contributions to the retirement scheme	**163**	65
	23,856	3,330

The emoluments fell within the following bands:

	Number of individuals	
	2015	2014
Emolument bands (in HK dollar)		
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**1**	–
HK$6,000,001 to HK$6,500,000	**1**	–
HK$15,000,001 to HK$15,500,000	**1**	–
	4	3

10 FINANCE INCOME AND EXPENSES

	Year ended December, 31	
	2015	2014
	RMB'000	RMB'000
Finance income		
– Interest income on bank deposits	**165,584**	15,427
– Exchange gain, net	**728,560**	–
– Other	**–**	527
	894,144	15,954
Finance expenses		
– Interest expenses on bank borrowings	**(4,204)**	–
– Interest expenses on entrusted loan from a related party (Note 31)	**(7,101)**	–
– Interest expenses on convertible notes	**–**	(1,189)
– Exchange loss, net	**–**	(25,664)
	(11,305)	(26,853)
Finance income/(expenses), net	**882,839**	(10,899)

11 INCOME TAX EXPENSE

	Year ended December, 31	
	2015	2014
	RMB'000	RMB'000
Current income tax	**31,945**	(27,498)
Deferred income tax (Note 26)	**(17,866)**	44,879
	14,079	17,381

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

The statutory rate for PRC Enterprise Income Tax ("EIT") is generally 25%. Pursuant to the relevant laws and regulations in the PRC, 中聯華盟（上海）文化傳媒有限公司("華盟上海"), a wholly-owned subsidiary of the Company, was subject to PRC EIT at 25% on ten percent of its gross revenue until December 31, 2014.

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

	Year ended December, 31	
	2015	2014
	RMB'000	RMB'000
Profit/(loss) before income tax	**486,782**	(362,873)
Tax calculated at a tax rate of 25% (2014: 25%)	**121,696**	(90,718)
Tax effects of:		
– Associates' results reported net of tax	**216**	1,048
– Effect of different tax rates of subsidiaries	**–**	4,255
– Income not subject to tax	**(212,019)**	(3,482)
– Expenses not deductible for tax purposes	**3,005**	10,916
– Utilization of previously unrecognized tax losses	**(25)**	(1,455)
– Other temporary differences for which no deferred income tax asset were recognized	**10,277**	41,444
– Tax losses not recognized	**89,741**	46,468
– Reversal of previously recognized deferred income tax assets	**1,188**	8,905
Tax charge	**14,079**	17,381

12 EARNINGS/(LOSS) PER SHARE

	Year ended December, 31	
	2015	2014
	RMB cents	RMB cents
Basic earnings/(loss) per share		
From continuing operations	**2.02**	(2.54)
From discontinued operations	**(0.03)**	(0.24)
From profit/(loss) for the year	**1.99**	(2.78)
Diluted earnings/(loss) per share		
From continuing operations	**2.02**	(2.54)
From discontinued operations	**(0.03)**	(0.24)
From profit/(loss) for the year	**1.99**	(2.78)

(a) Basic

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

	Year ended December, 31	
	2015	2014
	RMB'000	RMB'000
Profit/(loss) from continuing operations attributable to owners of the Company	**472,729**	(381,000)
Loss from discontinued operations attributable to owners of the Company	**(6,689)**	(36,276)
Profit/(loss) attributable to owners of the Company	**466,040**	(417,276)
Weighted average number of ordinary shares in issue (thousands)	**23,382,148**	14,978,061

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

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares during the year ended December 31, 2015, which is share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the closing market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

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

The computation of diluted loss per share for the year ended December 31, 2014 did not assume the issuance of any dilutive potential ordinary share, which would decrease the loss per share in 2014.

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investment in associates

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
At January 1,	**18,804**	151,288
Share of loss of investments	**(862)**	(4,190)
Impairment loss	**–**	(111,216)
Transfer to assets held-for-sale	**–**	(17,370)
Currency translation differences	**1,139**	292
At December 31,	**19,081**	18,804

The directors of the Company are of the view that the Group's associate is not material to the Group as at December 31,2015.

Nature of investment in an associate as at December 31, 2015 and 2014:

Name of entity	Place of business/country of incorporation	% of ownership interest		Measurement method
		2015	2014	
華文創股份有限公司 Mandarin Vision Inc. (Note)	Taiwan	**37.308%**	37.308%	Equity

Note:

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

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2014					
Cost	22,153	6,968	10,528	–	39,649
Accumulated depreciation	(2,124)	(4,215)	(5,714)	–	(12,053)
Net book amount	20,029	2,753	4,814	–	27,596
Year ended December 31, 2014					
Opening net book amount	20,029	2,753	4,814	–	27,596
Currency translation differences	31	5	6	–	42
Additions	5,291	3,918	22	–	9,231
Disposals	–	(656)	(3,052)	–	(3,708)
Disposals of subsidiaries	–	–	(373)	–	(373)
Depreciation charge	(5,754)	(1,485)	(1,027)	–	(8,266)
Closing net book amount	19,597	4,535	390	–	24,522
At December 31, 2014					
Cost	25,787	8,414	3,512	–	37,713
Accumulated depreciation	(6,190)	(3,879)	(3,122)	–	(13,191)
Net book amount	19,597	4,535	390	–	24,522
Year ended December 31, 2015					
Opening net book amount	**19,597**	**4,535**	**390**	**–**	**24,522**
Additions	**9,898**	**7,026**	**250**	**1,018**	**18,192**
Acquisition of subsidiaries (Note 29)	**–**	**38,368**	**428**	**–**	**38,796**
Disposals	**–**	**(1,382)**	**(52)**	**–**	**(1,434)**
Depreciation charge	**(19,949)**	**(2,666)**	**(325)**	**–**	**(22,940)**
Closing net book amount	**9,546**	**45,881**	**691**	**1,018**	**57,136**
At December 31, 2015					
Cost	**9,883**	**48,072**	**2,714**	**1,018**	**61,687**
Accumulated depreciation	**(337)**	**(2,191)**	**(2,023)**	**–**	**(4,551)**
Net book amount	**9,546**	**45,881**	**691**	**1,018**	**57,136**

In 2015, depreciation expense of RMB22,940,000 (2014: RMB8,266,000) has been charged to 'Administrative expenses'.

15 GOODWILL AND INTANGIBLE ASSETS

	Goodwill RMB'000	Film and television programme production and distribution license RMB'000	Operating license of the ticketing system RMB'000	Customer relationship RMB'000	Computer software RMB'000	Others RMB'000	Total RMB'000
At January 1, 2014							
Cost	159,813	7,808	–	–	–	4,237	171,858
Accumulated amortization and impairment	–	–	–	–	–	(3,013)	(3,013)
Net book amount	159,813	7,808	–	–	–	1,224	168,845
Year ended December 31, 2014							
Opening net book amount	159,813	7,808	–	–	–	1,224	168,845
Additions	–	–	–	–	–	336	336
Amortization charge	–	–	–	–	–	(1,560)	(1,560)
Closing net book amount	159,813	7,808	–	–	–	–	167,621
At December 31, 2014							
Cost	**159,813**	**7,808**	**–**	**–**	**–**	**4,573**	**172,194**
Accumulated amortization and impairment	**–**	**–**	**–**	**–**	**–**	**(4,573)**	**(4,573)**
Net book amount	**159,813**	**7,808**	**–**	**–**	**–**	**–**	**167,621**
Year ended December 31, 2015							
Opening net book amount	**159,813**	**7,808**	**–**	**–**	**–**	**–**	**167,621**
Additions	**–**	**–**	**–**	**–**	**–**	**824**	**824**
Acquisition of subsidiaries (Note 29)	**3,330,761**	**–**	**163,000**	**21,300**	**1,413**	**5,600**	**3,522,074**
Amortization charge	**–**	**–**	**(6,339)**	**(1,035)**	**(328)**	**(912)**	**(8,614)**
Closing net book amount	**3,490,574**	**7,808**	**156,661**	**20,265**	**1,085**	**5,512**	**3,681,905**
At December 31, 2015							
Cost	**3,490,574**	**7,808**	**163,000**	**21,300**	**1,413**	**6,424**	**3,690,519**
Accumulated amortization and impairment	**–**	**–**	**(6,339)**	**(1,035)**	**(328)**	**(912)**	**(8,614)**
Net book amount	**3,490,574**	**7,808**	**156,661**	**20,265**	**1,085**	**5,512**	**3,681,905**

In 2015, amortization expense of RMB8,286,000 has been charged to 'Administrative expenses' (2014: nil) and RMB328,000 charged to 'Cost of sales and services' (2014: RMB1,560,000).

15 GOODWILL AND INTANGIBLE ASSETS *(Continued)*

Impairment tests for goodwill and intangible assets with indefinite useful life

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

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

2014	Opening RMB'000	Addition RMB'000	Closing RMB'000
Goodwill			
– Content production	159,813	–	159,813
Intangible assets with indefinite useful life			
– Content production	7,808	–	7,808
	167,621	–	167,621

During the year ended December 31, 2015, the directors of the Company determined that there was no impairment of any of its CGUs containing goodwill and intangible assets with indefinite useful lives.

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

15 GOODWILL AND INTANGIBLE ASSETS *(Continued)*

(a) Content production

The recoverable amount of the goodwill in the content production segment as at December 31, 2015 was determined on the basis of value in use calculations which was based on certain key assumptions. The value in use calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and a post-tax discount rate of 18.5%. Cash flows beyond the 5-year period are extrapolated using a 2% growth rate. The 2% growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance of the content production segment and management's expectations for the market development.

(b) Internet-based promotion and distribution

(i) Goodwill arising from the acquisition of Guangdong Yueke Software Engineering Company Limited ("Yueke")

As mentioned in Note 29(1), the goodwill arising from the acquisition of Yueke amounted to RMB649.3 million. Management considered that Yueke is a separate CGU within the internet-based promotion and distribution segment.

The recoverable amount of this CGU was determined based on value in use. The value in use calculation is based on certain key assumptions, which uses cash flow projections based on financial budgets approved by management covering a 5-year period and a post-tax discount rate of 19.0%. Cash flows beyond the 5-year period are extrapolated using a 3% growth rate. The 3% growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance of the CGU and management's expectations for the market development. If the post-tax discount rate had increased by 1.5% or the profit from operations had decreased by 8%, it would have decreased by 11% for the value in use of the CGU, which would approximate its carrying amount. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed its aggregate recoverable amount.

15 GOODWILL AND INTANGIBLE ASSETS *(Continued)*

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

(ii) Goodwill arising from the acquisition of the online movie ticketing business (the "Online Movie Ticketing Business") and Yulebao ("Yulebao")

As mentioned in Note 29(2), the goodwill arising from the acquisition of the Online Movie Ticketing Business and Yulebao amounted to RMB2,681.4 million, including a goodwill of RMB2,431.5 million attributable to a CGU within the internet-based promotion and distribution segment.

As the acquisition of Online Movie Ticketing Business and Yulebao was completed on December 31, 2015, the recoverable amount of this CGU was determined based on fair value less cost of disposal. The fair value of this CGU was assessed by management based on the business valuation performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang Lasalle"), an independent professionally qualified valuer. Jones Lang LaSalle has adopted the market approach as valuation technique in above business valuation. The market approach assumes that companies operating in the same industry will share similar characteristics and that company values will correlate to those characteristics. Therefore, a comparison of a CGU to similar companies whose financial information is publicly available may provide a reasonable basis to estimate fair value.

Under the market approach, the fair value of this CGU is calculated based on the weighted average valuation multiples of price to gross merchandise value of comparable companies, which is within level 3 of fair value hierarchy. Other key assumption for the valuation is the assignment of weighting among each of the comparable companies. Based on management's assessment, a higher weighting is assigned to one of the comparable companies which conducts the same business as this CGU while a lower weighting was assigned to the other comparable companies.

15 GOODWILL AND INTANGIBLE ASSETS *(Continued)*

(c) Entertainment e-commerce

As mentioned in above Note (b)(ii), the remaining goodwill arising from the acquisition of the Online Movie Ticketing Business and Yulebao amounting to RMB249.9 million was attributable to a CGU within the entertainment e-commerce segment.

As the acquisition of Online Movie Ticketing Business and Yulebao was completed on December 31, 2015, the recoverable amount of this CGU was determined based on fair value less cost of disposal. The fair value of this CGU was assessed by management based on the business valuation under the market approach, which was performed by Jones Lang LaSalle.

Under the market approach, the fair value of this CGU is calculated based on the valuation multiples of price to total assets ("P/TA ratio") of comparable transactions, which is within level 3 of fair value hierarchy. Other key assumption for the valuation is the determination of the effective P/TA ratio of this CGU. Based on management's assessment, the median of the P/TA ratios of the comparable transactions is adopted as the effective P/TA ratio of this CGU as it eliminates the impact of extreme values.

16 FILM AND TV COPYRIGHTS

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
Film and TV copyrights		
– Under production	**247,730**	33,015
– Completed production	**136,031**	131,505
	383,761	164,520

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Opening net book amount	**164,520**	285,346
Additions	**466,652**	134,667
Recognized as an expense included in cost of sales and services	**(173,490)**	(81,321)
Impairment loss recognized in the year (Note)	**(70,538)**	(102,172)
Refund of film and TV investment	**(3,000)**	(72,000)
Currency translation differences	**(383)**	–
Closing net book amount	**383,761**	164,520

Note:

In 2015, management of the Group considered the expected future income of certain film and TV copyrights could not recover the respective carrying amounts and an impairment charge of RMB70,538,000 (2014: RMB102,172,000) was recognized.

17 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables RMB'000	Available-for-sale RMB'000	Total RMB'000
December 31, 2015			
Assets as per consolidated balance sheet			
Trade and other receivables excluding prepayments and film deposits	764,729	–	764,729
Available-for-sale financial assets	–	1,102,006	1,102,006
Cash and cash equivalents	3,677,988	–	3,677,988
Bank deposits with the maturity over three months	7,089,781	–	7,089,781
Restricted cash	2,021,328	–	2,021,328
Total	13,553,826	1,102,006	14,655,832

	Liabilities at fair value through profit & loss RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000
Liabilities as per consolidated balance sheet			
Borrowings	–	1,980,000	1,980,000
Repurchase option	33,000	–	33,000
Trade and other payables excluding non-financial liabilities	–	560,296	560,296
Total	33,000	2,540,296	2,573,296

17 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

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

	Other financial liabilities at amortized cost RMB'000	Total RMB'000
Liabilities as per consolidated balance sheet		
Trade and other payables excluding non-financial liabilities	66,627	66,627

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
At January 1,	**240,000**	–
Additions, net	**849,200**	240,000
Unrealized gains transfer to equity	**12,806**	–
At December 31,	**1,102,006**	240,000

Available-for-sale financial assets are denominated in RMB.

The available-for-sale financial assets represent investments in wealth management products issued by listed banks in the PRC with expected return range from 1.91% to 5.1% per annum and redeemable on the demand of the Group. As at December 31, 2015, the carrying amount approximates the fair value. The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

The maximum exposure to credit risk at the reporting date is the carrying value of these available-for-sale financial assets.

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

19 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
Trade receivables	**280,513**	232,198
Less: allowance for impairment of trade receivables	**(51,948)**	(53,702)
Trade receivables – net	**228,565**	178,496
Prepaid film deposits (Note a)	**136,702**	134,400
Other prepayments	**10,795**	2,024
Other receivables arising from:		
– Receivables in respect of Yulebao's business (Note 29(2)(b)(i))	**382,895**	–
– Interest income receivable	**24,132**	14,060
– Refundable deposit in relation to acquisition of an investee (Note b)	**24,000**	24,000
– Disposal of art works	**20,000**	172,683
– Loan receivable	**15,000**	–
– Investment income receivable	**2,201**	–
– Refund of investment cost	**2,090**	52,000
– Disposal of a subsidiary and a joint venture	**538**	19,101
– Other receivables and deposits	**66,723**	55,570
Less: allowance for impairment of prepayment and other receivables	**(1,600)**	(2,187)
Other receivables and prepayments – net	**683,476**	471,651
Total trade and other receivables, and prepayments	**912,041**	650,147
Less: non-current portion	**(122,928)**	(124,400)
Current portion	**789,113**	525,747

As at December 31, 2015, non-current balances mainly represent prepayments for film deposits.

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

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

Notes:

(a) The balance of RMB136,702,000 mainly includes the following prepaid film deposits:

In November 2013, the Group entered into a film cooperation agreement with a company owned by Mr. Chan Ho Sun (also known as Peter Chan, "Mr. Chan"), pursuant to which Mr. Chan will provide proposals for 5 film projects, to be developed by Mr. Chan himself or jointly with others (the "Target Films with Chan"), in the coming 7 years for the Group, and the Group will contribute RMB10,000,000 towards the production costs of each film or each film investment opportunity. The Group paid an amount of RMB10,000,000 and RMB40,000,000 during 2013 and 2014 respectively for the investment opportunities of the Target Films with Chan. In 2014, as the first production of film had been completed and released successfully, a portion of the prepayment amounting to RMB10,000,000 was transferred to film and TV copyrights (and then recognize in cost of sales and service) in 2014 and the remaining RMB40,000,000 was classified as non-current asset as at December 31, 2015.

In March 2014, the Group entered into a film cooperation agreement with a company owned by Ms. Chai Zhi Ping (also known as Angie Chai, "Ms. Chai"), pursuant to which Ms. Chai will provide proposals for 5 film projects to be developed by Ms. Chai herself or jointly with others (the "Target Films with Chai"), in the coming 5 years for the Group, and the Group will contribute RMB10,000,000 towards the production costs of each film or each film investment opportunity. The Group paid a total amount of RMB50,000,000 in 2014 for the investment opportunities of the Target Films with Chai. In 2014, a proposal for a film project had been delivered to the Group. However, as at December 31, 2014, the Group considered there were uncertainties concerning the eventual successful completion of this film project and the production has postponed. Accordingly, an impairment loss of RMB10,000,000 was recognized as cost of sales and services in 2014 and the remaining prepayment of RMB40,000,000 was classified as non-current asset as at December 31, 2015.

In May 2014, the Group entered into a film cooperation agreement with a company owned by Mr. Wong Kar Wai ("Mr. Wong"), pursuant to which Mr. Wong will provide proposals for 5 films projects to be developed by Mr. Wong himself or jointly with others (the "Target Films with Wong"), in the coming 5 years for the Group, and the Group will contribute RMB10,000,000 towards the production costs of each film or each film investment opportunity. The Group paid a total amount of RMB50,000,000 in 2014 for the investment opportunities of the Target Films with Wong and production of the first film has been commenced in January 2015. Accordingly, a portion of the prepayment amounting to RMB10,000,000 was transferred to film and TV copyrights and the remaining RMB40,000,000 was classified as non-current asset as at December 31, 2015.

(b) In 2011, the Group signed an agreement with a third party, pursuant to which the Group entrusted this third party with and paid a deposit of RMB24,000,000. The third party then submitted an application and paid the deposit to Shanghai United Assets and Equity Exchange ("SUAEE") to express its intention to acquire for a 50% equity interest in another entity. The deposit is fully refundable after obtaining the approval of SUAEE and completion of the transaction. The demand for refund was submitted during the year ended December 31, 2012 and remained in progress as at December 31, 2015. In the opinion of the directors of the Company, the amount would be refunded within 2016. Accordingly, the balance was classified as current asset.

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

Trade receivables consist of receivables from debtors arising from content production, internet-based promotion and distribution, entertainment e-commerce, international operations and other operations segments, are analyzed as follows:

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
Content production	**114,972**	216,667
Internet-based promotion and distribution	**89,860**	–
Entertainment e-commerce	**259**	–
International operations	**69,125**	–
Other operations	**6,297**	15,531
	280,513	232,198

The normal credit period granted to the trade debtors of the Group is generally ranging from 30 days to 1 year. Before accepting any new debtor, the Group assesses the potential debtor's credit quality and defines credit limits by debtor. Credit limits granted to debtors are reviewed regularly.

The directors of the Company will assess whether allowance on these receivables is necessary on a regular basis after considering (i) the reputation and trading history of these debtors; (ii) the market situations that lead to delay of broadcasting; (iii) industry practice in settlement; and (iv) subsequent settlements.

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

The following is an aging analysis of trade receivables:

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
0 – 90 days	**99,276**	70,081
91 – 180 days	**99,699**	3,072
181 – 365 days	**16,773**	4,086
Over 365 days	**64,765**	154,959
	280,513	232,198

As of December 31, 2015, trade receivables of RMB87,048,000 (2014: RMB108,519,000) were past due but not impaired. These relate to a number of independent debtors for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

The aging analysis of these trade receivables is as follows:

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
0 – 90 days	**26,607**	85
91 – 180 days	**29,852**	3,072
181 – 365 days	**16,406**	4,086
Over 365 days	**14,183**	101,276
	87,048	108,519

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

As at December 31, 2015, trade receivables of RMB51,948,000 (2014: RMB53,702,000) were impaired and fully provided. The individually impaired receivables mainly relate to some film and TV copyrights distributers, which are in unexpectedly difficult economic situations. It was assessed that none of the receivables is expected to be recovered.

The aging of these receivables is as follows:

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
0 – 90 days	**507**	19
91 – 180 days	**462**	–
181 – 365 days	**396**	–
Over 365 days	**50,583**	53,683
	51,948	53,702

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
RMB	**206,212**	232,198
US dollar	**69,125**	–
HK dollar	**5,176**	–
	280,513	232,198

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

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

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
At January 1,	**53,702**	–
(Reversal of impairment provision)/impairment provision for trade receivables	**(3,529)**	53,702
Acquisition of a subsidiary (Note 29(1)(b)(i))	**1,792**	–
Receivables written off during the year as uncollectible	**(17)**	–
At December 31,	**51,948**	53,702

The creation and release of provision for impaired trade receivables have been included in 'Administrative expenses' in the consolidated income statement.

There is no significant impairment made to trade and other receivables, and prepayments during the year ended December 31, 2015.

20 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
Cash at banks and cash in hand (Note)	**3,677,988**	30,097
Other cash equivalent	**–**	61
Cash and cash equivalents	**3,677,988**	30,158

Note:

The interest rates on bank deposits as at December 31, 2015 are in the range of 0.01% to 6.5% per annum and such deposits have maturities of less than three months. The deposits earn interests at floating rates based on prevailing market rates.

20 CASH AND BANK BALANCES *(Continued)*

(b) Bank deposits with the maturity over three months

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
Bank deposits with the maturity over three months (Note)	**7,089,781**	5,018,137

Note:

The interest rates on bank deposits with the maturity over three months as at December 31, 2015 are in the range of 0.80% to 1.40% per annum. The deposits earn interests at floating rates based on prevailing market rates.

(c) Restricted cash

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
Restricted cash (Note)	**2,021,328**	–

Note:

As at 31 December 2015, restriced cash of RMB2,001,938,000 and RMB19,390,000 are pledged as securities for bank borrowings and issuance of letter of credit, respectively.

21 SHARE CAPITAL

	Number of shares	Share capital	
		HK$'000	RMB'000
Ordinary shares of HK$0.25 each, issued and fully paid:			
At January 1, 2014	8,325,372,564	2,081,343	1,731,568
Issue of shares upon exercise of warrants	60,000,000	15,000	11,865
Issue of shares upon exercise of share options	131,560,000	32,890	26,238
Issue of shares upon conversion of convertible notes	30,000,000	7,500	6,000
Issue of subscription shares	12,488,058,846	3,122,015	2,478,100
At December 31, 2014	21,034,991,410	5,258,748	4,253,771

	Number of shares	**Share capital**	
		HK$'000	**RMB'000**
At January 1, 2015	**21,034,991,410**	**5,258,748**	**4,253,771**
Issue of placing shares (Note)	**4,199,570,000**	**1,049,892**	**828,113**
At December 31, 2015	**25,234,561,410**	**6,308,640**	**5,081,884**

Note:

On June 3, 2015, the Company entered into a placing agreement with the placing agents in relation to the placing for an aggregate of 4,199,570,000 ordinary shares of the Company at the placing price of HK$2.90 per share (the "Placing Shares").

On June 11, 2015, the Placing Shares with par value of HK$0.25 each were issued at a placing price of HK$2.90 per share to certain investors for aggregate placing proceeds totalling HK$12,178,753,000 (equivalent to approximately RMB9,606,113,000), of which HK$1,049,892,000 (equivalent to approximately RMB828,113,000) were credited to share capital and HK$11,128,861,000 (equivalent to approximately RMB8,778,000,000) were credited to share premium. Transaction costs in relation to the placing of RMB49,694,000 were also credited to share premium.

These shares represented approximately 16.64% of the enlarged issued share capital of the Company as at the date of placing.

22 SHARE-BASED PAYMENT

Pursuant to the 2002 share option scheme (the "2002 Share Option Scheme") which was adopted by the Company on May 23, 2002, the Board of Directors of the Company may grant to any director or employee of the Company or any of its subsidiaries options to subscribe for shares in the Company, in accordance with the terms of the 2002 Share Option Scheme. The 2002 Share Option Scheme expired on May 23, 2012. The share options granted under the 2002 Share Option Scheme prior to its expiry shall continue to be valid and exercisable in accordance with the provisions of the 2002 Share Option Scheme. A summary of the terms applicable to the outstanding share options of the 2002 Share Option Scheme has been disclosed in the Company's 2011 annual report. As at December 31, 2015, no ordinary share of the Company is available for issue under the 2002 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 directors of the Company considered that the 2012 Share Option Scheme, which will be valid for 10 years from the date of its adoption, will provide the Company with more flexibility in long term planning of granting of the share options to eligible persons in a longer period in the future after the expiry of the 2002 Share Option Scheme. The 2012 Share Option Scheme will expire on June 12, 2022.

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.

22 SHARE-BASED PAYMENT *(Continued)*

The fair values of the options granted pursuant to the 2012 Share Option Scheme in 2015 are as below:

Grant date	**Fair value**	
	HK$'000	**RMB'000**
January 28, 2015	220,223	174,088
April 15, 2015	40,604	32,133
April 28, 2015	47,292	37,349
July 2, 2015	18,490	14,590
September 24, 2015	13,073	10,760
November 5, 2015	15,972	13,061
November 6, 2015	8,811	7,214
December 16, 2015	13,542	11,292
	378,007	300,487

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognized in the consolidated income statement, with a corresponding adjustment to the share option reserve.

22 SHARE-BASED PAYMENT *(Continued)*

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

	2015		2014	
	Weighted average exercise price in HK$ per share option	**Number of share options**	Weighted average exercise price in HK$ per share option	Number of share options
At January 1,	**0.475**	**4,050,000**	0.496	147,910,000
Exercised	**–**	**–**	0.494	(131,560,000)
Lapsed	**0.475**	**(4,050,000)**	0.525	(12,300,000)
At December 31,	**–**	**–**	0.475	4,050,000

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

	2015		2014	
	Weighted average exercise price in HK$ per share option	**Number of share options**	Weighted average exercise price in HK$ per share option	Number of share options
At January 1,	**–**	**–**	–	–
Granted	**2.094**	**420,597,800**	–	–
Lapsed	**(3.252)**	**(4,800,000)**	–	–
At December 31,	**2.081**	**415,797,800**	–	–

Out of the 415,797,800 outstanding share options, 42,023,960 shares were exercisable as at December 31, 2015.

22 SHARE-BASED PAYMENT *(Continued)*

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price in HK$ per share option	Number of share options 2015	2014
January 27, 2025	**1.670**	**283,819,800**	–
April 14, 2025	**4.090**	**23,400,000**	–
April 27, 2025	**4.004**	**30,000,000**	–
July 1, 2025	**3.156**	**15,600,000**	–
September 23, 2025	**1.860**	**17,400,000**	–
November 4, 2025	**2.170**	**17,800,000**	–
November 5, 2025	**2.130**	**10,000,000**	–
December 15, 2025	**1.900**	**17,778,000**	–
		415,797,800	–

The period within which the share options must be exercised shall not be more than 10 years from the date of grant. The options outstanding as at December 31, 2015 had a weighted average remaining contractual life of 9 years (2014: 6 years).

The weighted average fair value of options granted during the year determined using the Binomial Model was HK$2.094 per option. The significant inputs into the model were weighted average share price of HK$2.058 at the grant date, exercise price shown above, volatility of 40%, expected dividend yield of 0.00%, a contractual option life of ten years, and an annual risk-free interest rate of 1.34%~1.87%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 10 years. See Note 9 for the total expenses recognized in the consolidated income statement for share options granted to directors and employees.

23 OTHER RESERVES

As at December 31, 2015, the Group's retained earnings included PRC subsidiaries' statutory surplus reserve of RMB39,478,000 (December 31, 2014: RMB28,215,000).

In accordance with the relevant laws and regulations of the PRC, certain Group's PRC subsidiaries shall set aside 10% of its profit after income tax (based on the PRC statutory financial statements and after offsetting accumulated losses from prior years) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the registered capital).

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments, appropriation from net profits (based on the PRC statutory financial statements after offsetting accumulated losses from prior years) should be made by the Group's wholly owned foreign subsidiaries in the PRC to their respective reserve funds. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not to be made.

The statutory surplus reserve and the reserve fund can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities and are not distributable as cash dividends.

24 TRADE AND OTHER PAYABLES, AND ACCRUED CHARGES

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
Trade payables	**27,534**	29,104
Amounts due to related parties (Note 31(b))	**466,147**	596
Other tax payable	**63,987**	110,737
Payroll and welfare payable	**45,316**	4,202
Payable in relation to distribution of films	**14,305**	–
Professional fees payable	**9,789**	10,710
Other payables, accrued charges and advance from customers	**43,588**	20,333
	670,666	175,682

As at December 31, 2015, the aging analysis of the trade payables based on invoice date is as follows:

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
0 – 90 days	**15,146**	8,662
91 – 180 days	**–**	8,092
181 – 365 days	**58**	–
Over 365 days	**12,330**	12,350
	27,534	29,104

25 BORROWINGS

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
Current, secured and denominated in RMB		
Bank borrowings	**1,980,000**	–

Bank borrowings are secured by restricted cash of RMB2,001,938,000 (Note 20), 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.

26 DEFERRED INCOME TAX

The analysis of deferred income tax assets/(liabilities) is as follows:

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**593**	–
– Deferred income tax assets to be recovered within 12 months	**17,717**	1,188
	18,310	1,188
Deferred income tax liabilities:		
– Deferred income tax liabilities to be recovered after more than 12 months	**(45,422)**	–
– Deferred income tax liasbilities to be recovered within 12 months	**(3,543)**	–
	(48,965)	–

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

	Accrual	Provision	Other	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2014	53,052	283	670	54,005
Charged to the consolidated income statements	(51,864)	(283)	(670)	(52,817)
At December 31, 2014	1,188	–	–	1,188
At January 1, 2015	**1,188**	**–**	**–**	**1,188**
Acquisition of a subsidiary (Note 29)	**458**	**459**	**–**	**917**
Credited to the consolidated income statements	**11,423**	**4,782**	**–**	**16,205**
At December 31, 2015	**13,069**	**5,241**	**–**	**18,310**

26 DEFERRED INCOME TAX *(Continued)*

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

	Fair value gains RMB'000
At December 31, 2014 and January 1, 2015	–
Acquisition of a subsidiary (Note 29(1)(b)(ii))	**(47,425)**
Credited to the consolidated income statements	**1,661**
Charged to other comprehensive income	**(3,201)**
At December 31, 2015	**(48,965)**

Starting from January 1, 2008, the tax law of the PRC requires payment of withholding tax upon the distribution of profits earned by the PRC subsidiaries to the foreign shareholders. Deferred income tax has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to such profits generated by subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for tax losses carry forward to the extent that realization of the related tax benefit through the future taxable profits is probable. As at December 31, 2015, the Group had tax losses of RMB550,589,000(2014: RMB682,807,000) to carry forward, which were not recognized as deferred tax assets as the directors of the Company considered that the utilization of these tax losses in the foreseeable future is not probable, of which an amount of RMB284,016,000 will expire through year 2016 to 2020 (2014: RMB64,130,000 will expire through year 2015 to 2019), the amount of RMB266,573,000(2014: RMB618,677,000) with no expiry date.

27 DIVIDENDS

The Board has resolved not to declare a dividend for the year ended December 31, 2015 (2014: nil).

28 CASH USED IN OPERATIONS

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Profit/(loss) before income tax including discontinued operations	**480,093**	(389,971)
Adjustments for:		
– Share-based payment expenses	**122,832**	–
– Depreciation and amortization	**31,554**	9,826
– Provision for impairment of film and TV copyrights	**70,538**	102,172
– (Reversal of impairment provision)/impairment provision of trade and other receivables	**(2,341)**	55,889
– Loss on disposal of property, plant and equipment	**918**	2,871
– Finance (income)/expenses, net	**(884,951)**	10,894
– Investment income on available-for-sale financial assets	**(5,063)**	–
– Investment income on loan receivable	**(2,201)**	–
– Share of loss from investments accounted for using equity method	**862**	4,190
– Impairment loss on interest in an associate	**–**	111,216
– Change in fair value of assets held-for-sale	**5,152**	–
– Provision for club debenture	**2,280**	–
– Gain on disposal of art works	**–**	(17,586)
– Gain on disposal of subsidiaries	**(200)**	(8,861)
– Change in fair value of derivative financial instruments	**(2,749)**	53,207
– Gain on disposal of financial assets at fair value through profit or loss	**(851)**	(125)
Changes in working capital:		
– Film and TV copyrights	**(290,162)**	18,654
– Trade and other receivables, and prepayments	**67,003**	(3,615)
– Restricted cash in relation to operating activities	**(19,390)**	–
– Trade and other payables, and accrued charges	**(1,192)**	16,734
Cash used in operations	**(427,868)**	(34,505)

29 BUSINESS COMBINATIONS

(1) Yueke

On June 1, 2015, an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement (the "SPA") with Guangdong Technology Venture Investment Corporation Limited ("GTVICL") and Guangdong Computation Technology Application Research Institute to acquire 100% of the equity interests of Yueke (the "Acquisition of Yueke"). Yueke is one of the largest suppliers of cinema ticketing systems in the PRC. The Acquisition of Yueke was completed on June 10, 2015 (the "Completion Date of the Acquisition of Yueke"). Upon completion of the Acquisition of Yueke, Yueke became an indirect wholly-owned subsidiary of the Company.

(a) Consideration

The consideration for the Acquisition of Yueke was RMB830,000,000, paid in cash.

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

The fair value of net assets of Yueke acquired as at the Completion Date of the Acquisition of Yueke are as follows:

	Note	**Fair value RMB'000**
Current assets		
Inventories		**3,139**
Trade and other receivables, and prepayments	(i)	**39,920**
Available-for-sale financial assets		**32,300**
Cash and cash equivalents		**18,116**
Non-current assets		
Property, plant and equipment		**3,434**
Intangible assets	(ii)	**191,113**
Deferred income tax assets		**917**
Current liabilities		
Trade and other payables, and accrued charges		**(9,815)**
Current income tax liabilities		**(15,254)**
Non-current liabilities		
Deferred income		**(42)**
Deferred income tax liabilities	(ii)	**(47,425)**
Total identifiable net assets		**216,403**

29 BUSINESS COMBINATIONS *(Continued)*

(1) Yueke *(Continued)*

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

Notes:

(i) Acquired trade and other receivables, and prepayments

The fair value of trade and other receivables, and prepayments was RMB39,920,000, including trade receivables with a fair value of RMB39,176,000. The gross contractual amount for trade receivables was RMB40,968,000, of which RMB1,792,000 was expected to be uncollectible.

(ii) Intangible assets and deferred income tax liabilities

The acquired identifiable intangible assets of RMB191,113,000 include the operating license of the ticketing system, customer relationship, technology, in process research and development and trademark, amounted to a total fair value of RMB189,700,000. Deferred income tax liabilities of RMB47,425,000 had been provided in relation to these fair value adjustments.

(c) Repurchase option

Pursuant to the SPA, GTVICL shall have a repurchase right, exercisable within nine months commencing from the Completion Date of the Acquisition of Yueke, to repurchase 20% to 30% of the equity interests of Yueke with the consideration to be determined based on the percentage to be acquired and the cash consideration of RMB830,000,000 paid by the Group as set out in the SPA. The repurchase option is classified as a derivative financial liability and measured at fair value with the fair value change to be charged to profit or loss subsequently. As at the Completion Date of the Acquisition of Yueke and December 31, 2015, the Company estimated that the fair value of the derivative financial liability is RMB35,749,000 and RMB33,000,000, respectively.

The repurchase option was expired on March 10, 2016.

29 BUSINESS COMBINATIONS *(Continued)*

(1) Yueke *(Continued)*

(d) Goodwill arising from the Acquisition of Yueke

The goodwill of RMB649,346,000 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 plus the fair value of the repurchase option over the fair value of the net identifiable assets of Yueke is recognized as goodwill. None of the goodwill recognized is expected to be deductible for income tax purposes.

	June 10, 2015
	RMB'000
Total cash consideration	**830,000**
Add: derivative financial liability recognized for the repurchase option	**35,749**
Less: fair value of net assets acquired by the Group	**(216,403)**
Goodwill	**649,346**

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

(e) Related costs for the Acquisition of Yueke

	For the year ended December 31, 2015
	RMB'000
Acquisition-related costs (included in administrative expenses in the consolidated income statement)	**12,464**

29 BUSINESS COMBINATIONS *(Continued)*

(1) Yueke *(Continued)*

(f) Cash outflow for the Acquisition of Yueke

	For the year ended December 31, 2015 RMB'000
Outflow of cash for the Acquisition of Yueke, net of cash acquired	
– Bank balances and cash acquired	**18,116**
– Cash consideration	**(830,000)**
Cash outflow for the acquisition	**(811,884)**

(g) Revenue and profit contribution impact

Yueke contributed revenue of RMB129,582,000 and net profit of RMB53,409,000 to the Group for the period from June 10, 2015 to December 31, 2015. Had Yueke been consolidated from January 1, 2015, the consolidated income statement would show pro-forma revenue of RMB328,083,000 and profit of RMB504,045,000, respectively.

(2) The Online Movie Ticketing Business and Yulebao

On November 4, 2015, the Company entered into a framework agreement (the "Framework Agreement") with AGHL, pursuant to which the Company agreed to acquire the entire interests in the Online Movie Ticketing Business and Yulebao from AGHL (the "Acquisition").

On December 31, 2015 (the "Completion Date"), the Group completed the acquisition from AGHL 100% of the equity interests of Aurora Media (BVI) Limited who owns the Online Movie Ticketing Business which is an online entertainment platform that enables consumers to purchase movie tickets online from third party movie theatres; and acquired the business of Yulebao. The total consideration for the Acquisition is RMB3,088,615,000. In relation to the Acquisition, the Group also paid RMB41,178,000 to AGHL for the reimbursement of share-based payments to those employees that transferred from the Online Movie Ticketing Business and Yulebao to the Group since these employees participated in the share option schemes of AGHL.

29 BUSINESS COMBINATIONS *(Continued)*

(2) The Online Movie Ticketing Business and Yulebao *(Continued)*

(a) Consideration

	RMB'000
Cash paid	**3,044,218**
Consideration payable in cash and recorded as trade and other payables, and accrued charges (Note i)	**85,575**
	3,129,793
Less: cash paid for employee benefits in relation to employees' future service (Note ii)	**(41,178)**
Total cash consideration	**3,088,615**

Notes:

(i) Such consideration was paid in January 2016.

(ii) Pursuant to the agreement entered into by the Company and AGHL, the Company agrees to pay RMB41,178,000 to AGHL as the reimbursement of the share options granted to the employees of the Online Movie Ticketing Business and Yulebao which are outstanding as at the Completion Date. The reimbursement is treated as share-based payment transactions among group entities and recorded as a debit to equity as at the Completion Date.

29 BUSINESS COMBINATIONS *(Continued)*

(2) The Online Movie Ticketing Business and Yulebao *(Continued)*

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

The fair value of net assets of the Online Movie Ticketing Business and Yulebao acquired as at the Completion Date are as follows:

	Note	Fair value RMB'000
Current assets		
Other receivables and prepayments	(i)	**437,161**
Cash and cash equivalents		**340,540**
Non-current assets		
Property, plant and equipment		**35,362**
Intangible assets	(ii)	**200**
Current liabilities		
Trade and other payables, and accrued charges	(iii)	**(406,063)**
Total identifiable net assets		**407,200**

Notes:

(i) Acquired other receivables and prepayments

Balance of RMB437,161,000 represented the fair value of other receivables and prepayments, including other receivables of RMB382,895,000 arising from Yulebao business.

(ii) Intangible assets

The acquired identifiable intangible assets of RMB200,000 represented the fair value of the acquired design patent and trademark. No deferred income tax liabilities have been provided.

(iii) The balance included other payable of RMB365,201,000 due to a subsidiary of AGHL, which is in relation to Yulebao business.

29 BUSINESS COMBINATIONS *(Continued)*

(2) The Online Movie Ticketing Business and Yulebao *(Continued)*

(c) Goodwill arising from the Acquisition

The goodwill of RMB2,681,415,000 mainly 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 the Online Movie Ticketing Business and Yulebao is recognized as goodwill. None of the goodwill recognized is expected to be deductible for income tax purposes.

	December 31, 2015 RMB'000
Total cash consideration	**3,088,615**
Less: fair value of net assets acquired by the Group	**(407,200)**
Goodwill	**2,681,415**

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

(d) Related costs for the Acquisition

	For the year ended December 31, 2015 RMB'000
Acquisition-related costs (included in administrative expenses in the consolidated income statement)	**6,812**

(e) Cash outflow for the Acquisition

	For the year ended December 31, 2015 RMB'000
Outflow of cash for the Acquisition, net of cash acquired	
– Bank balances and cash acquired	**340,540**
– Cash paid	**(3,044,218)**
Cash outflow for the acquisition during the year	**(2,703,678)**

29 BUSINESS COMBINATIONS *(Continued)*

(2) The Online Movie Ticketing Business and Yulebao *(Continued)*

(f) Revenue and profit contribution impact

The Online Movie Ticketing Business and Yulebao had no contribution to the Group's revenue and profit for the year ended December 31, 2015 as the Completion Date was December 31, 2015. Had the Online Movie Ticketing Business and Yulebao been consolidated from January 1, 2015, the consolidated income statement would show proforma revenue of RMB263,717,000 and proforma net loss of RMB258,730,000 as the new businesses incurred significant marketing and operation expenses in 2015 in order to increase market position and expand business scale.

30 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2015	2014
	RMB'000	RMB'000
Property, plant and equipment	**16,222**	–

As at December 31, 2015, the Group had committed the proposed investment of approximately US$86 million in relation to the privatization of BONA Film Group Limited, a company with its shares listed on NASDAQ.

(b) Operating lease commitments – Group as lessee

The Group leases office buildings under non-cancellable operating lease agreements. The lease terms are between 3 and 10 years, and the lease agreement is renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2015	2014
	RMB'000	RMB'000
No later than 1 year	**28,096**	22,014
Later than 1 year and no later than 5 years	**103,226**	68,377
Later than 5 years	**33,060**	45,713
	164,382	136,104

31 RELATED PARTY TRANSACTIONS

As at December 31, 2015, the Company is 49.49% owned by Ali CV. The remaining 50.51% of the Company's shares are widely held. The ultimate parent of the Company is AGHL, a company whose shares are listed on New York Stock Exchange.

The following transactions were carried out with related parties:

(a) Transactions with related parties

Except as disclosed elsewhere in this consolidated financial statements, transactions with related parties in 2015 and 2014 are as follows:

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Entrusted loan provided by AGHL's subsidiary	**900,000**	–
Settlement of the entrusted loan provided by AGHL's subsidiary	**(900,000)**	–
Interest expenses related to Entrusted loan provided by AGHL's subsidiary (Note 10)	**7,101**	–

Note:

The above transactions constituted connected transactions under the Rules Governing the Listing of Securities on the HK Stock Exchange.

(b) Balances with related parties

As at December 31, 2015, balances with related parties comprise:

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
Amounts due to AGHL and its subsidiaries (Note 24)	**466,147**	596

(c) Key management compensation

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

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Salaries, allowances and other benefits	**99,176**	4,547

For the year ended December 31, 2015, such compensation mainly represented the costs charged for the share options granted to key management under the 2012 share option scheme.

32 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at December 31,	
	2015	2014
	RMB'000	RMB'000
Assets		
Non-current assets		
Intangible assets	**200**	–
Investments in subsidiaries	**4,738,503**	1,667,782
Amounts due from subsidiaries	**1,002,513**	673,620
	5,741,216	2,341,402
Current assets		
Film and TV copyrights	**314**	–
Trade and other receivables, and prepayments	**25,575**	15,134
Financial assets at fair value through profit or loss	**–**	2,685
Cash and cash equivalents	**3,255,358**	13,777
Bank deposits with the maturity over three months	**6,914,781**	5,018,137
Restricted cash	**2,001,938**	–
	12,197,966	5,049,733
Total assets	**17,939,182**	7,391,135
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	**5,081,884**	4,253,771
Reserves	**12,597,260**	2,972,545
Total equity	**17,679,144**	7,226,316
Current liabilities		
Trade and other payables, and accrued charges	**96,670**	11,059
Amounts due to subsidiaries	**163,368**	153,760
	260,038	164,819
Total liabilities	**260,038**	164,819
Total equity and liabilities	**17,939,182**	7,391,135

The balance sheet of the Company was approved by the Board of Directors on March 29, 2016 and was signed on its behalf.

Director *Director*

32 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note: Reserve movement of the Company

	Note	Share premium RMB'000	Share redemption reserve RMB'000	Contributed surplus RMB'000	Convertible notes equity reserve RMB'000	Share option reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
At January 1, 2014		713,279	863	61,486	6,394	37,841	(346,470)	473,393
Issue of subscription shares		2,478,100	–	–	–	–	–	2,478,100
Transaction costs attributable to issue of subscription shares		(5,125)	–	–	–	–	–	(5,125)
Issue of shares upon exercise of warrants		66,347	–	–	–	–	–	66,347
Transaction costs attributable to issuance shares through exercise of warrants		(610)	–	–	–	–	–	(610)
Issue of shares upon exercise of share options		59,235	–	–	–	(33,497)	–	25,738
Lapse of share option		–	–	–	–	(3,448)	3,448	–
Issue of shares upon conversion of convertible notes		23,601	–	–	(6,394)	–	–	17,207
Loss for the year		–	–	–	–	–	(82,505)	(82,505)
At December 31, 2014		3,334,827	863	61,486	–	896	(425,527)	2,972,545
At January 1, 2015		**3,334,827**	**863**	**61,486**	**–**	**896**	**(425,527)**	**2,972,545**
Issue of placing shares	21	**8,778,000**	**–**	**–**	**–**	**–**	**–**	**8,778,000**
Transaction costs attributable to issue of placing shares	21	**(49,694)**	**–**	**–**	**–**	**–**	**–**	**(49,694)**
Lapse of share option		**–**	**–**	**–**	**–**	**(896)**	**–**	**(896)**
Value of services provided under share option scheme		**–**	**–**	**–**	**–**	**122,832**	**–**	**122,832**
Share-based payment transactions among group entities	29(2)(a)	**–**	**–**	**–**	**–**	**(41,178)**	**–**	**(41,178)**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**815,651**	**815,651**
At December 31, 2015		**12,063,133**	**863**	**61,486**	**–**	**81,654**	**390,124**	**12,597,260**

33 SUBSIDIARIES

The following is a list of the principal subsidiaries at December 31, 2015:

Name	Place of Incorporation/ registration	Place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares indirectly held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities
Banford Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	–	Investment holding
Best Venue Limited	British Virgin Islands ("BVI")	Hong Kong	Ordinary US$1	–	100	–	Investment holding
C8M Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	–	Advertising services
Century First Limited	Hong Kong	Hong Kong	Ordinary HK$1	–	100	–	Investment holding
China Allied Culture Limited	Hong Kong	Hong Kong	Ordinary HK$1	–	100	–	Investment holding
China Allied Culture Media Group Limited	BVI	Hong Kong	Ordinary US$1	–	100	–	Investment holding
China Entertainment Media Group Limited	Cayman Islands	Hong Kong	Ordinary US$10,000 Preferred US$2,500	100	–	–	Investment holding
Gain Favour Limited	BVI	Hong Kong	Ordinary US$1	–	100	–	Production and distribution of film copyrights
Huge Grand Investments Limited	BVI	Hong Kong	Ordinary US$1	–	100	–	Production and distribution of film copyrights
Orient Ventures Limited	BVI	Hong Kong	Ordinary US$1	–	100	–	Investment holding
SAC Enterprises Limited	Hong Kong	Hong Kong	Ordinary HK$1,000	100	–	–	Provision of management services to group companies

33 SUBSIDIARIES *(Continued)*

The following is a list of the principal subsidiaries at December 31, 2015: *(Continued)*

Name	Place of Incorporation/ registration	Place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares indirectly held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities
SAC Nominees Limited	Hong Kong	Hong Kong	Ordinary HK$100	100	–	–	Provision of nominee services
SAC Secretarials Limited	Hong Kong	Hong Kong	Ordinary HK$100	100	–	–	Provision of secretarial services
Worthwide Limited	BVI	Hong Kong	Ordinary US$1	100	–	–	Investment holding
Year Wealth Limited	BVI	Hong Kong	Ordinary US$50,000	–	100	–	Investment holding
Alibaba Pictures Entertainment Media Limited (formerly known as ChinaVision Media Group Limited)	Hong Kong	Hong Kong	Ordinary HK$1	–	100	–	Investment in and production and distribution of film & TV copyrights
中聯京華文化傳播(北京)限公司 ("Zhonglian Jinghua") (Note i)	PRC	PRC	Registered Capital RMB10,000,000	–	–	–	Investment holding
中聯華盟(上海)文化傳媒有限公司 ("Huameng Shanghai") (Note ii)	PRC	PRC	Registered Capital RMB3,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights
北京中聯華盟文化傳媒投資有限公司 (Note ii)	PRC	PRC	Registered Capital RMB10,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights
華盟（天津）文化投資有限公司 (Note ii)	PRC	PRC	Registered Capital RMB15,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights

33 SUBSIDIARIES *(Continued)*

The following is a list of the principal subsidiaries at December 31, 2015: *(Continued)*

Name	Place of Incorporation/ registration	Place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares indirectly held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities
沂大商業管理諮詢(上海)有限公司	PRC	PRC	Registered Capital US$100,000	–	100	–	Investment holding
北京世通寰亞廣告有限公司 ("Beijing Shitong") (Note i)	PRC	PRC	Registered Capital RMB200,000	–	–	–	Investment holding
西安金鼎影視文化有限公司 (Note ii)	PRC	PRC	Registered Capital RMB3,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights
中聯盛世文化(北京)有限公司	PRC	PRC	Registered Capital RMB100,000,000	–	100	–	Investment holding
中聯華盟(天津)廣告有限公司 (Note ii)	PRC	PRC	Registered Capital RMB7,500,000	–	–	–	Advertising and sale of entertainment related merchandise and derivatives
廣東粵科軟件工程有限公司 ("Yueke")	PRC	PRC	Registered Capital RMB10,000,000	–	100	–	Supply of cinema ticketing and connecting software systems
北京阿里淘影視文化有限公司 ("Ali Tao") (Note i)	PRC	PRC	Registered Capital RMB99,000,000	–	–	–	Investment holding
浙江東陽阿里巴巴影業有限公司 (Note ii)	PRC	PRC	Registered Capital RMB50,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights

33 SUBSIDIARIES *(Continued)*

The following is a list of the principal subsidiaries at December 31, 2015: *(Continued)*

Name	Place of Incorporation/ registration	Place of operation	Particulars of issued share capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares indirectly held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities
浙江東陽小宇宙影視傳媒有限公司 (Note ii)	PRC	PRC	Registered Capital RMB10,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights
北京聚迷互動影視傳媒有限公司 (Note ii)	PRC	PRC	Registered Capital RMB30,000,000	–	–	–	Investment in and production and distribution of film & TV copyrights
上海淘影信息科技有限公司	PRC	PRC	Registered Capital US$10,000,000	–	100	–	Online movie ticketing & software development
Alibaba Pictures LLC	USA	USA	N/A	–	100	–	Investment holding
Alibaba Pictures International LLC	USA	USA	N/A	–	100	–	Provision of management services to group companies
Alibaba Pictures Media LLC	USA	USA	N/A	–	100	–	Investment in and production of film rights
Aurora Media (BVI) Limited	BVI	Hong Kong	Registered Capital US$99,900,000	–	100	–	Investment holding
Aurora Media (HK) Limited	Hong Kong	Hong Kong	Registered Capital US$99,900,000	–	100	–	Investment holding
杭州晨熹多媒體科技有限公司	PRC	PRC	Registered Capital US$99,900,000	–	100	–	Online movie ticketing

33 SUBSIDIARIES *(Continued)*

Notes:

(i) Zhonglian Jinghua, Beijing Shitong and Ali Tao are the subsidiaries arising from the Contractual Arrangements (Note 2.2.1 (a)).

(ii) These are non wholly-owned subsidiaries and wholly-owned subsidiaries of Zhonglian Jingha and Ali Tao. Pursuant to the respective Memorandum and Articles of Association of these subsidiaries, Zhonglian Jinghua and Ali Tao have power to control the operating and financial affairs of these subsidiaries. Accordingly, they are treated as the subsidiaries of the Company under HKFRS 10 and their results, assets and liabilities are consolidated with those of the Group.

The above list includes the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affect the results of the Group for the year or form a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

34 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives' emoluments

The remuneration of directors and chief executive of the Company for the year ended December 31, 2015 is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:							
Name	Fees RMB'000	Salary RMB'000	Share options (Note i) RMB'000	Housing allowance RMB'000	Estimated money value of other benefits RMB'000	Employer's contributions to the retirement benefit scheme RMB'000	Social Security costs excludings retirement cost RMB'000	Total RMB'000
Shao Xiaofeng (Note ii)	–	–	–	–	–	–	–	–
Zhang Qiang (Note ii)	–	1,324	74,825	26	15	44	27	76,261
Li Lian Jie (Note ii)	167	–	–	–	–	–	–	167
Song Lixin (Note ii)	233	–	–	–	–	–	–	233
Tong Xiaomeng (Note ii)	283	–	–	–	–	–	–	283
Zhang Yu (Note ii)	209	–	–	–	–	–	–	209
Liu Chunning (Note ii)	–	–	–	–	–	–	–	–
	892	1,324	74,825	26	15	44	27	77,153

34 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

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

Name	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking: Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Estimated money value of other benefits RMB'000	Employer's contributions to the retirement benefit scheme RMB'000	Social Security costs excludings retirement cost RMB'000	Total RMB'000
Shao Xiaofeng	–	–	–	–	–	–	–	–
Liu Chunning	–	–	–	–	–	–	–	–
Zhang Qiang	–	571	426	8	–	17	9	1,031
Li Lian Jie	129	–	–	–	–	–	–	129
Tong Xiaomeng	126	–	–	–	–	–	–	126
Zhang Yu	142	–	–	–	–	–	–	142
Song Lixin	6	–	–	–	–	–	–	6
Dong Ping	237	665	–	–	–	6	–	908
Ng Qing Hai	–	–	790	–	–	–	–	790
Zhao Chao	228	–	–	–	–	6	–	234
Kong Muk Yin	91	–	–	–	–	–	–	91
Chen Ching	4	42	–	–	–	–	–	46
Jin Hui Zhi	4	43	–	–	–	–	–	47
Li Chak Hung	4	55	–	–	–	–	–	59
	971	1,376	1,216	8	–	29	9	3,609

34 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

Note:

(i) The values of share options are based on the annual charge of the share-based payment.

(ii) Ms. Zhang Yu resigned as director of the Company on November 3, 2015. Mr. Liu Chunning was removed as director of the Company on January 1, 2016.

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

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

No directors of the Company waived any emoluments and no emoluments were paid by Group to any of the directors of the Company as an inducement to join or upon joining the Group or as a compensation for loss of office as director.

Mr. Zhang Qiang was appointed as chief executive officer of the Company on August 5, 2014.

(b) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their services as directors of the Company or its subsidiary (2014: nil).

(c) Directors' termination benefits

No payment was made to directors as compensation for early termination of the appointment during the year (2014: nil).

(d) Consideration provided to third parties for making available directors' service

No payment was made to the former employer of directors for making available the services as a director of the Company (2014: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entitles with such directors

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2014: nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transaction, arrangements and contracts in relation to the Group's business to which the group companies were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time of the year (2014: nil).

FINANCIAL SUMMARY

FOR THE YEAR ENDED DECEMBER 31, 2015

RESULTS

	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015 RMB'000**
Continuing operations					
Revenue	239,333	643,504	349,378	126,631	**263,717**
(Loss)/profit before income tax	(61,925)	148,558	199,033	(362,873)	**486,782**
Income tax expenses	(1,662)	(2,252)	(33,126)	(17,381)	**(14,079)**
(Loss)/profit for the year from continuing operations	(63,587)	146,306	165,907	(380,254)	**472,703**
Discontinued operations					
Profit/(loss) for the year from discontinued operations	–	–	20,172	(35,037)	**(6,689)**
(Loss)/profit attributable to:					
Owners of the Company	(62,533)	143,795	179,671	(417,276)	**466,040**
Non-controlling interests	(1,054)	2,511	6,408	1,985	**(26)**
	(63,587)	146,306	186,079	(415,291)	**466,014**

ASSETS AND LIABILITIES

	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015 RMB'000**
Total assets	269,599	1,621,057	1,709,211	6,337,432	**18,975,861**
Total liabilities	(134,220)	(591,103)	(312,649)	(270,364)	**(2,782,281)**
Total equity	135,379	1,029,954	1,396,562	6,067,068	**16,193,580**
Non-controlling interest	(3,826)	(27,364)	(13,651)	588	**2,231**
Equity attributable to owners of the Company	131,553	1,002,590	1,382,911	6,067,656	**16,195,811**