



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

Stock Code:1060

**INTERIM
REPORT**
2014 中期報告

CORPORATE INFORMATION**BOARD OF DIRECTORS****Executive Directors**

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

Non-Executive Director

Mr. Li Lian Jie

Independent Non-Executive Directors

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

EXECUTIVE COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Wong Lai Kin, Elsa

SOLICITOR

Freshfields Bruckhaus Deringer

AUDITOR

Deloitte Touche Tohmatsu

WEBSITE

www.irasia.com/listco/hk/alibabapictures

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

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

**HONG KONG BRANCH SHARE REGISTRAR
AND TRANSFER OFFICE**

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

SINGAPORE SHARE TRANSFER AGENT

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place, #32-01 Singapore Land Tower
Singapore 048623

STOCK CODE

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF ALIBABA PICTURES GROUP LIMITED
(FORMERLY KNOWN AS CHINAVISION MEDIA GROUP LIMITED)

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Alibaba Pictures Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 3 to 42, which comprise the condensed consolidated statement of financial position as of June 30, 2014 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
December 19, 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

	Notes	Six months ended	
		June 30,	
		2014	2013
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
			(restated)
Continuing operations			
Revenue	4	74,013	323,791
Cost of sales and services		(202,940)	(168,670)
Gross (loss) profit		(128,927)	155,121
Other income		2,161	11,559
Other gains and losses, net	5	(62,763)	89,191
Impairment loss on interest in an associate	11	(90,756)	–
Change in fair value of derivative financial instruments	16	(67,215)	(3,968)
Distribution and selling expenses		(7,469)	(18,185)
Administrative expenses		(78,951)	(62,558)
Effective interest expense on convertible notes		(1,503)	(20,437)
Share of loss of associates		(2,808)	–
Share of loss of joint ventures		–	(4,000)
(Loss) profit before taxation		(438,231)	146,723
Taxation charge	6	(7,700)	(39,475)
(Loss) profit for the period from continuing operations	7	(445,931)	107,248
Discontinued operation			
(Loss) profit the period from discontinued operation	18	(584)	31,553
(Loss) profit for the period		(446,515)	138,801

	Note	Six months ended	
		June 30,	
		2014	2013
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
			(restated)
(Loss) profit for the period attributable to owners of the Company			
– from continuing operations		(442,969)	110,082
– from discontinued operation		(569)	22,727
		(443,538)	132,809
(Loss) profit for the period attributable to non-controlling interests			
– from continuing operations		(2,962)	(2,834)
– from discontinued operation		(15)	8,826
		(2,977)	5,992
		(446,515)	138,801
		HK cents	HK cents
(Loss) earnings per share	9		
From continuing and discontinued operations			
– Basic		(5.05)	1.72
– Diluted		(5.05)	1.72
From continuing operations			
– Basic		(5.04)	1.42
– Diluted		(5.04)	1.42

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED JUNE 30, 2014

	Six months ended	
	June 30,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
(Loss) profit for the period	(446,515)	138,801
Other comprehensive (expense) income:		
Item that will not be reclassified subsequently to profit or loss:		
Exchange differences arising on translation to presentation currency	(28,870)	20,437
Total comprehensive (expense) income for the period	(475,385)	159,238
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	(472,043)	153,032
Non-controlling interests	(3,342)	6,206
	(475,385)	159,238

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2014

	Notes	At June 30, 2014 HK\$'000 (unaudited)	At December 31, 2013 HK\$'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	10	28,915	35,288
Goodwill		199,766	204,364
Intangible assets		11,635	11,550
Interests in associates	11	97,158	193,463
Club debenture		2,850	2,916
Art work	10	156,479	162,764
Deposits and prepayments	12	171,768	131,501
Deferred tax assets		67,507	69,060
		736,078	810,906
CURRENT ASSETS			
Film and TV copyrights		335,245	364,892
Investments held for trading	16	3,238	3,249
Trade receivables	12	249,350	464,153
Other receivables, deposits and prepayments	12	287,533	333,848
Amounts due from non-controlling shareholders		1,981	9,642
Bank balances and cash		6,493,678	199,001
		7,371,025	1,374,785
CURRENT LIABILITIES			
Trade and other payables and accrued charges	13	212,525	199,534
Amounts due to non-controlling shareholders		1,890	163
Derivative financial instruments	16	–	1,630
Tax liabilities		165,317	171,724
		379,732	373,051
NET CURRENT ASSETS		6,991,293	1,001,734
TOTAL ASSETS LESS CURRENT LIABILITIES		7,727,371	1,812,640

		At June 30, 2014 HK\$'000 (unaudited)	At December 31, 2013 HK\$'000 (restated)
CAPITAL AND RESERVES			
Issued share capital	14	5,249,470	2,081,343
Reserves		2,463,783	(312,916)
		<hr/>	<hr/>
Equity attributable to owners of the Company		7,713,253	1,768,427
Non-controlling interests		14,118	17,460
		<hr/>	<hr/>
TOTAL EQUITY		7,727,371	1,785,887
		<hr/>	<hr/>
NON-CURRENT LIABILITY			
Convertible notes	15	–	26,753
		<hr/>	<hr/>
		7,727,371	1,812,640
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2014

	Attributable to owners of the Company								Non-controlling interests	Total	
	Issued share capital	Share premium	Other reserve	Shareholder's contribution reserve	Translation reserve	Convertible notes equity reserve	Share option reserve	Retained profits (accumulated losses)			
	HK\$'000 (Note (a))	HK\$'000 (Note (a))	HK\$'000 (Note (b))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note (c))	HK\$'000	HK\$'000	
At January 1, 2013 (audited) (as originally stated)	1,935,686	741,369	(1,546,985)	60,267	14,070	3,971	24,884	83,478	1,316,740	34,037	1,350,777
Prior period adjustments (note 21)	-	6,319	(6,319)	-	(4,214)	(351)	-	(65,183)	(69,748)	-	(69,748)
At January 1, 2013 (restated)	1,935,686	747,688	(1,553,304)	60,267	9,856	3,620	24,884	18,295	1,246,992	34,037	1,281,029
Profit for the period	-	-	-	-	-	-	-	132,809	132,809	5,992	138,801
Other comprehensive income for the period	-	-	-	-	20,223	-	-	-	20,223	214	20,437
Total comprehensive income for the period	-	-	-	-	20,223	-	-	132,809	153,032	6,206	159,238
Reclassified to retained profits (accumulated losses) upon maturity of convertible note	-	-	-	-	-	(200)	-	200	-	-	-
Dividend paid by a subsidiary to a non-controlling interest	-	-	-	-	-	-	-	-	-	(25,026)	(25,026)
At June 30, 2013 (unaudited) (restated)	1,935,686	747,688	(1,553,304)	60,267	30,079	3,420	24,884	151,304	1,400,024	15,217	1,415,241
At January 1, 2014 (audited) (as originally stated)	2,081,343	855,616	(1,546,985)	60,267	37,554	3,570	24,884	309,741	1,825,990	17,460	1,843,450
Prior period adjustments (note 21)	-	6,319	(6,319)	-	(12,862)	(150)	-	(44,551)	(57,563)	-	(57,563)
At January 1, 2014 (restated)	2,081,343	861,935	(1,553,304)	60,267	24,692	3,420	24,884	265,190	1,768,427	17,460	1,785,887
Loss for the period	-	-	-	-	-	-	-	(443,538)	(443,538)	(2,977)	(446,515)
Other comprehensive expense for the period	-	-	-	-	(28,505)	-	-	-	(28,505)	(365)	(28,870)
Total comprehensive expense for the period	-	-	-	-	(28,505)	-	-	(443,538)	(472,043)	(3,342)	(475,385)
Issue of subscription shares	3,122,015	3,122,015	-	-	-	-	-	-	6,244,030	-	6,244,030
Transaction costs attributable to issue of shares	-	(6,188)	-	-	-	-	-	-	(6,188)	-	(6,188)
Issue of shares upon exercise of warrants	15,000	84,304	-	-	-	-	-	-	99,304	-	99,304
Issue of shares upon exercise of share options	23,612	49,105	(11,938)	-	-	-	(15,392)	-	45,387	-	45,387
Issue of shares upon conversion of convertible notes	7,500	29,501	(5,892)	-	(51)	(3,420)	-	-	27,638	-	27,638
Proceeds received upon exercise of share options	-	-	6,698	-	-	-	-	-	6,698	-	6,698
Transfer to retained profits (accumulated losses) upon disposal of a subsidiary	-	-	-	-	18	-	-	(18)	-	-	-
At June 30, 2014 (unaudited)	5,249,470	4,140,672	(1,564,436)	60,267	(3,846)	-	9,492	(178,366)	7,713,253	14,118	7,727,371

Notes:

- (a) Issued share capital and share premium represents the issued ordinary shares and share premium of Alibaba Pictures Group Limited (the "Company") respectively.
- (b) The amounts of HK\$11,938,000 and HK\$5,892,000 represented the release of the share option reserve and the convertible notes equity reserve to other reserve upon exercise of share options and conversion of convertible notes based on the proportionate share of carrying amount of the share option reserve and the convertible notes equity reserve which was initially measured at fair value at the date of the acquisition of the entire share capital of China Entertainment Media Group Limited (the "Acquisition") on January 31, 2012 disclosed in the Company's annual report for the year ended December 31, 2012. The amount of HK\$6,698,000 represented the proceeds received from share option holders for exercise of 14,100,000 share options during the interim period in which the respective shares were issued subsequently after the interim period and reclassified to issued share capital upon issuance.
- (c) Remittance outside the People's Republic of China (the "PRC") of retained profits of the subsidiaries established in the PRC is subject to approval of the local authorities and the availability of foreign currencies generated and retained by these subsidiaries.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

	Note	Six months ended	
		June 30,	
		2014	2013
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(223,617)	2,356
INVESTING ACTIVITIES			
Additions to intangible assets		(576)	(879)
Purchase of art work		(44,269)	(47,088)
Deposit paid for purchase of property, plant and equipment		(4,043)	–
Repayment from a former subsidiary		–	13,949
Proceeds from disposal of art work		56,544	47,344
Disposal of a subsidiary, net of cash and cash equivalents	17	(309)	–
Settlement of consideration receivable from disposal of subsidiaries and art work in prior periods		195,138	77,560
Other investing cash flows		(942)	(1,909)
NET CASH FROM INVESTING ACTIVITIES		201,543	88,977
FINANCING ACTIVITIES			
Proceeds from issue of subscription shares		6,244,030	–
Transaction costs attributable to issue of subscription shares		(6,188)	–
Proceeds from issue of warrants		–	500
Proceeds from issue of shares upon exercise of warrants		30,000	–
Proceeds from issue of shares upon exercise of share options		45,387	–
Proceeds received upon exercise of share options		6,698	–
Advance from related companies		27,461	40,923
Repayments to related companies		(28,002)	(41,004)
Dividend paid by a subsidiary to a non-controlling interest		–	(25,026)
Other financing cash flows		(149)	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		6,319,237	(24,607)

	Six months ended	
	June 30,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,297,163	66,726
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	199,001	107,753
Effect of foreign exchange rate changes	(2,486)	3,016
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	6,493,678	177,495

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. CHANGE IN ULTIMATE HOLDING COMPANY AND ULTIMATE CONTROLLING PARTY AND CHANGE OF COMPANY NAME

On June 24, 2014, the Company issued 12,488,058,846 new ordinary shares of HK\$0.25 each at a subscription price of HK\$0.50 per share to an independent third party, Ali CV Investment Holding Limited (“Ali CV”), for aggregate subscription price totalling HK\$6,244,030,000, which represented approximately 59.61% of the enlarged issued share capital of the Company as at the date of subscription. Ali CV becomes the immediate holding company of the Company after the subscription. Ali CV is a wholly-owned subsidiary of Alibaba Investment Limited which is in turn wholly-owned by Alibaba Group Holding Limited (“AGHL”), the ultimate holding company and ultimate controlling party.

Pursuant to a special general meeting of the Company held on June 16, 2014, the English name of the Company registered in the Registrar of Companies in Bermuda was changed from ChinaVision Media Group Limited to Alibaba Pictures Group Limited and 阿里巴巴影业集团有限公司 has been adopted by the Company as its new Chinese name. The change of name became effective on June 30, 2014. On July 29, 2014, the new English and Chinese names of the Company in Hong Kong were registered by the Registrar of Companies in Hong Kong.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below and in note 21, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2014 are the same as those followed in the preparation of the Company’s consolidated financial statements for the year ended December 31, 2013.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new interpretation and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current interim period, the Company and its subsidiaries (the “Group” or “Alibaba Pictures Group”) has applied, for the first time, the following new interpretation and amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC) – INT 21	Levies

The application of the above new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

AGHL became the ultimate holding company of the Company after the completion of share subscription on June 24, 2014. The new management and the new board of directors of the Company were formed on or after that date. The Group’s operating and reportable segments in its continuing operations, determined based on information reported to the chief operating decision maker, being the newly appointed executive and non-executive directors of the Company (“New CODM”), for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided, are as follows:

- | | | | |
|------|--|---|---|
| (i) | Production and distribution of film and television (“TV”) copyrights | – | production and distribution of copyrights over films and TV drama series |
| (ii) | Magazine advertising and magazine distribution | – | distribution of fashion magazine, FIGARO, and sale of advertisement spaces in FIGARO in the PRC |

Information relating to the revenue and results of mobile value-added services, which was previously identified as a reportable segment, is not presented separately and included in “all other segments” as described below. Accordingly, the comparative information in the segment reporting is restated.

An operating segment regarding the sales of TV advertising air-times was discontinued in May 2014. The segment information reported below does not include any amounts for the discontinued operation, which is described in more details in note 18.

4. REVENUE AND SEGMENT INFORMATION (Continued)

The Group has other operating segments which currently include securities trading and investments in Hong Kong, mobile value-added services, mobile game subscription, provision of other agency services, TV programme packaging services and others in the PRC. None of these segments meet any of the quantitative thresholds for determining reportable segments. Accordingly, all of the above operating segments are grouped as “all other segments”.

The following is an analysis of the Group’s revenue and results by reportable segment for the six months ended June 30, 2014 and 2013:

Continuing operations

	Production and distribution of film and TV copyrights HK\$'000	Magazine advertising and magazine distribution HK\$'000	Reportable segments' total HK\$'000	All other segments HK\$'000	Consolidated HK\$'000
For the six months ended					
June 30, 2014 (unaudited)					
Segment revenue	49,677	11,928	61,605	12,408	74,013
Segment results	(228,903)	(9,875)	(238,778)	(6,192)	(244,970)
Unallocated interest income, other income and other gains and losses, net					(69,387)
Gain on disposal of a subsidiary					11,202
Corporate administrative expenses					(40,009)
Share of loss of associates					(2,808)
Impairment loss on interest in an associate					(90,756)
Effective interest expense on convertible notes					(1,503)
Loss before taxation					(438,231)

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

	Production and distribution of film and TV copyrights HK\$'000	Magazine advertising and magazine distribution HK\$'000	Reportable segments' total HK\$'000	All other segments HK\$'000	Consolidated HK\$'000
For the six months ended					
June 30, 2013 (unaudited)					
(restated)					
Segment revenue	295,368	17,944	313,312	10,479	323,791
Segment results	119,230	(5,569)	113,661	1,766	115,427
Unallocated interest income, other income and other gains and losses, net					83,998
Corporate administrative expenses					(28,265)
Share of loss of joint ventures					(4,000)
Effective interest expense on convertible notes					(20,437)
Profit before taxation					146,723

All of the segment revenue reported above is from external customers and there was no inter-segment sales for both periods.

Segment results represent the profit generated or loss incurred by each segment without allocation of other income, gain on disposal of a subsidiary, gain on disposal of art work, net foreign exchange gain (loss), change in fair value of derivative financial instruments, corporate administrative expenses, impairment loss on interest in an associate, tax surcharge, effective interest expense on convertible notes, share of loss of associates and share of loss of joint ventures. This is the measure reported to the New CODM for the purpose of resource allocation and performance assessment which is consistent with prior year.

4. REVENUE AND SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's assets and liabilities by reportable segments.

	Production and distribution of film and TV copyrights HK\$'000	Magazine advertising and magazine distribution HK\$'000	Reportable segments' total HK\$'000	All other segments HK\$'000	Consolidated HK\$'000
At June 30, 2014 (unaudited)					
Continuing operations					
Segment assets	1,138,866	24,620	1,163,486	16,931	1,180,417
Property, plant and equipment					4,460
– corporate					156,479
Art work					97,158
Interests in associates					102,984
Other receivables, deposits and prepayments					1,981
Amounts due from non-controlling shareholders					6,493,678
Bank balances and cash					67,507
Deferred tax assets					2,439
Discontinued operation					
Consolidated assets					8,107,103
Continuing operations					
Segment liabilities	149,940	9,153	159,093	15,574	174,667
Other payables and accrued charges					34,026
Amounts due to non-controlling shareholders					1,890
Tax liabilities					165,317
Discontinued operation					3,832
Consolidated liabilities					379,732

4. REVENUE AND SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's assets and liabilities by reportable segments.

	Production and distribution of film and TV copyrights HK\$'000	Magazine advertising and magazine distribution HK\$'000	Reportable segments' total HK\$'000	All other segments HK\$'000	Consolidated HK\$'000
At December 31, 2013 (restated)					
Continuing operations					
Segment assets	1,194,338	28,722	1,223,060	22,177	1,245,237
Property, plant and equipment					
– corporate					5,361
Art work					162,764
Interests in associates					193,463
Other receivables, deposits and prepayments					288,567
Amounts due from non-controlling shareholders					9,642
Bank balances and cash					199,001
Deferred tax assets					69,060
Discontinued operation					12,596
Consolidated assets					<u>2,185,691</u>
Continuing operations					
Segment liabilities	121,580	7,355	128,935	17,274	146,209
Other payables and accrued charges					43,442
Amounts due to non-controlling shareholders					163
Tax liabilities					171,724
Convertible notes					26,753
Derivative financial instruments					1,630
Discontinued operation					9,883
Consolidated liabilities					<u>399,804</u>

5. OTHER GAINS AND LOSSES, NET

	Six months ended	
	June 30,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
Continuing operations		
Gain on disposal of a subsidiary (note 17)	11,202	–
Gain on disposal of art work (note 10)	527	89,499
Allowance for bad and doubtful debts (Note (a))	(70,788)	–
Net foreign exchange gain (loss)	866	(1,966)
Reversal of allowance for bad and doubtful debts	–	79
Change in fair value of held for trading investments (Note (b))	(8)	2,925
Tax surcharge	(2,562)	(1,346)
Others	(2,000)	–
	(62,763)	89,191

Notes:

- (a) During the current interim period, the management actively chased the debtors for outstanding balances but the settlement was slow. The management considered that it is not probable to recover the balance of approximately HK\$70,788,000 and therefore, impairment loss was recognized on trade and other receivables.
- (b) The amount includes nil net realized gain (six months ended June 30, 2013: HK\$4,459,000) on disposal of investments held for trading during the current period and unrealized loss of approximately HK\$8,000 (six months ended June 30, 2013: HK\$1,534,000) on change in fair value of investments held for trading held by the Group as at June 30, 2014.

6. TAXATION CHARGE

	Six months ended	
	June 30,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
		(restated)
Continuing operations		
Current tax:		
PRC Enterprise Income Tax	(7,700)	(50,438)
Deferred tax:		
Current period	—	10,963
Income tax expense	(7,700)	(39,475)

No provision for Hong Kong Profits Tax has been made as the group companies operating in Hong Kong do not have any assessable profit for both periods.

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

PRC EIT charged to other PRC subsidiaries is calculated at 25% of estimated assessable profit for both periods.

7. (LOSS) PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS

	Six months ended June 30,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
(Loss) profit for the period from continuing operations has been arrived at after charging (crediting) the following items:		
Staff cost (including directors' remuneration)	26,852	22,830
Contributions to retirement benefit schemes	5,692	5,296
	32,544	28,126
Amortization of intangible assets (included in cost of sales and services)	228	418
Depreciation of property, plant and equipment	3,777	3,259
Film and TV copyrights recognized as an expense (included in cost of sales and services) (Note)	117,920	132,905
Prepayment for film production recognized as cost of sales directly (note 12(e))	74,689	–
Rental payments for premises under operating leases	20,943	11,292
Interest income	(151)	(42)

Note: Amount included impairment loss on film and TV copyrights of HK\$74,967,000 (six months ended June 30, 2013: nil) included in production and distribution of film and TV copyrights segment. Impairment loss was made as the carrying amount of certain film and TV copyrights was higher than their recoverable amount. In the current interim period, the management adjusted downward the estimated future cash flows expected to be generated from certain film and TV copyrights mainly taking into account (i) restriction imposed by the PRC authority on the broadcasting of a film in the PRC; (ii) dispute between a film distributor and a film producer on profit sharing of a film in which the Group has invested; and (iii) sales contracts entered with TV stations by the Group subsequent to the end of the reporting period.

8. DIVIDENDS

No dividends were paid, declared or proposed during the reported period. The directors have determined that no dividend will be paid in respect of the interim period.

9. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended June 30,	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited) (restated)
(Loss) earnings		
(Loss) profit for the period attributable to the owners of the Company for the purposes of basic and diluted (loss) earnings per share	(443,538)	132,809
	Number of shares	Number of shares
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	8,775,449,749	7,742,742,564

The computation of diluted loss per share for the period ended June 30, 2014 did not assume the conversion of the Company's outstanding convertible notes, the exercise of share options and warrants as their assumed conversion and exercise would decrease the loss per share in the period. All outstanding convertible notes and warrants were converted and exercised during the period ended June 30, 2014.

The computation of diluted earnings per share for the period ended June 30, 2013 did not assume the conversion of the Company's outstanding convertible notes as their assumed conversion would increase the earnings per share in that period. In addition, the computation of diluted earnings per share did not assume the exercise of share options and warrants because the exercise price of these share options and warrants was higher than the average market price for shares in that period.

9. (LOSS) EARNINGS PER SHARE (Continued)

From continuing operations

The calculation of basic and diluted (loss) earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

	Six months ended June 30,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
(Loss) earnings figures are calculated as follow:		
(Loss) profit for the period attributable to the owners of the Company	(443,538)	132,809
Less: Loss (profit) for the period from discontinued operation (note 18)	569	(22,727)
	(442,969)	110,082
(Loss) earnings for the purposes of calculating basic and diluted (loss) earnings per share from continuing operations	(442,969)	110,082

The denominators used are the same as those detailed above for both basic and diluted (loss) earnings per share from continuing and discontinued operations.

From discontinued operation

Basic loss per share from discontinued operation for current interim period is 0.01 HK cents per share (six months ended June 30, 2013: earnings per share from discontinued operation is 0.30 HK cents per share), based on the loss for the period from discontinued operation of HK\$569,000 (six months ended June 30, 2013: profit for the period from discontinued operation of HK\$22,727,000) and the denominators detailed above for both basic and diluted (loss) earnings per share from continuing and discontinued operations.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND OTHER NON-CURRENT ASSETS

During the current interim period, the Group disposed of certain art work with an aggregate carrying amount approximately of HK\$48,890,000 (six months ended June 30, 2013: HK\$63,930,000) at aggregate consideration of approximately HK\$49,417,000 (six months ended June 30, 2013: HK\$153,429,000) (exclusive of tax) resulting in a gain on disposal of approximately HK\$527,000 (six months ended June 30, 2013: HK\$89,499,000).

During the current interim period, the Group acquired property, plant and equipment and art work at a cost of approximately HK\$1,094,000 and HK\$44,269,000 respectively (six months ended June 30, 2013: HK\$3,729,000 and HK\$65,909,000 respectively).

11. INTERESTS IN ASSOCIATES

During the current interim period, an impairment loss of HK\$90,756,000 (six months ended June 30, 2013: nil) was recognized in respect of the Group's interest in an associate, which is engaged in newspaper advertising and newspaper distribution business. The impairment loss was recognized as the carrying amount exceeded the recoverable amount which is determined based on the fair value less cost of disposal of the Group's interest in the associate. The fair value is estimated by reference to the preliminary offer received from a potential buyer of the Group's interest in the associate.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At June 30, 2014 HK\$'000 (unaudited)	At December 31, 2013 HK\$'000 (restated)
Trade receivables	249,350	464,153
Refundable deposit in relation to acquisition of an investee (Note (a))	30,000	30,691
Amount receivable for disposal of art work (Note (b))	31,571	108,372
Deferred consideration for disposal of subsidiaries (Note (c))	71,213	172,923
Amount receivable for refund of film investment cost (Note (d))	82,812	–
Other receivables and deposits	68,306	35,843
	283,902	347,829
Deposits paid for acquisition of property, plant and equipment	4,043	–
Prepayment for film production (Note (e))	168,840	114,042
Other prepayments	2,516	3,478
Total other receivables, deposits and prepayments	459,301	465,349
Analyzed as		
Current	287,533	333,848
Non-current	171,768	131,501
	459,301	465,349

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(Continued)

Notes:

- (a) In previous year, the Group signed an agreement with a third party, pursuant to which the Group entrusted a 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 prior to 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 June 30, 2014. In the opinion of the directors of the Company, the amount will be refunded within twelve months after the end of the reporting period. Accordingly, the balance is classified as a current asset.
- (b) The amount is unsecured and non-interest bearing. An amount of approximately HK\$132,618,000 was settled during the current interim period. The remaining balance of HK\$31,571,000 as at June 30, 2014 represents the PRC EIT and Value-added Tax (“VAT”) arising from the disposal of the Group’s art work which is agreed to be refunded by the acquirer and in the opinion of the directors of the Company, would be settled by the acquirer upon the payment of the PRC EIT and VAT by the Group.
- (c) During the year ended December 31, 2013, the Group disposed of its entire equity interest in Main City Limited (“Main City”) and 49% equity interest in a joint venture, 人民視訊文化有限公司 for a consideration of US\$18,800,000 (approximately HK\$145,888,000), of which an amount of US\$15,000,000 (approximately HK\$116,400,000) and US\$6,100,000 (approximately HK\$47,336,000) remained unsettled as at December 31, 2013 and June 30, 2014, respectively. The remaining balance was settled subsequent to June 30, 2014.

As disclosed in note 17, the Group disposed of its entire equity interest in 北京永聯信通科技有限責任公司 (“Youline Technology”) for a consideration of RMB14,000,000 (approximately HK\$17,500,000) during the current interim period. The sale consideration has not been settled at June 30, 2014.

An amount of approximately HK\$6,377,000 (December 31, 2013: HK\$6,523,000) as at June 30, 2014, represents the PRC EIT arising from the Group’s disposal of a subsidiary, 北京中聯華視影視文化有限公司 (formerly known as 北京中盛千里傳媒文化有限公司) in previous year which is agreed to be refunded by the acquirer and in the opinion of the directors of the Company, would be settled by the acquirer upon payment of the PRC EIT by the Group.

In 2013, the Group disposed 70% of its equity interest in 北京北大文化發展有限公司 (“Beida Culture”) at a consideration of HK\$400,000,000, of which deferred cash consideration of HK\$50,000,000 remained unsettled as at December 31, 2013. The amount was fully settled during the current interim period.

- (d) In 2011, the Group signed a cooperation agreement with an independent film production company (“Film Workshop A”) pursuant to which the Group paid start-up costs to Film Workshop A, which in return agreed to produce at least one film each year for the agreed period as stated in the agreement. During the current interim period, Film Workshop A agreed with the Group to terminate the cooperation agreement and refund the paid start-up costs of RMB26,250,000 (approximately HK\$32,812,000) to the Group on or before June 30, 2014. Accordingly, the balance is classified as current asset. The cooperation agreement with Film Workshop A was subsequently taken over by an independent third party (the “New Investor”) and the start-up costs paid by the Group were settled by the New Investor subsequent to June 30, 2014.

During the current interim period, the Group entered into a cooperation agreement with an independent film production company (the “Production Team”), pursuant to which the Group invested RMB40,000,000 and Production Team agreed to commence film production on or before June 30, 2014. Since the production was not started during the current interim period, Production Team agreed with the Group to terminate the cooperation agreement and refund the investment cost of RMB40,000,000 (approximately HK\$50,000,000) to the Group on or before July 3, 2014. Such balance was refunded to the Group subsequent to June 30, 2014.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Notes: (Continued)

- (e) In 2011, the Group signed another cooperation agreement with other independent film production company ("Film Workshop B") pursuant to which the Group paid start-up costs to Film Workshop B, which in return agreed to produce three films within the agreed period as stated in the agreement. The start-up costs amounting to RMB4,400,000 or approximately HK\$5,500,000 (December 31, 2013: RMB4,400,000, or approximately HK\$5,627,000) are classified as non-current asset.

As at December 31, 2013, the Group paid Film Workshop A start-up costs of RMB26,250,000 (approximately HK\$33,567,000), which were classified as non-current asset. The amount was fully refunded subsequent to June 30, 2014 as set out in Note (d).

In September 2012, the Group entered into a film cooperation agreement with Mr. Chiau Sing Chi (also known as Stephen Chow, "Mr. Chiau"), pursuant to which Mr. Chiau will provide proposals for 5 film projects to be developed by Mr. Chiau himself or jointly with others (the "Target Films with Chiau"), in the coming 7 years for the Group, and the Group will contribute RMB10,000,000 towards the production costs for each film or each film investment opportunity. The Group paid a total amount of RMB50,000,000 (approximately HK\$62,189,000) during the year ended December 31, 2013 for the investment opportunities of the Target Films with Chiau. In the first half year of 2014, the proposals for 5 film projects were delivered to the Group and none of which the Group has considered to make any investments in. Accordingly, full amount of the prepayment was recognized as expense (and included in cost of sales).

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 (approximately HK\$12,659,000) and RMB40,000,000 (approximately HK\$51,151,000) during the year ended December 31, 2013 and six months ended June 30, 2014 respectively for the investment opportunities of the Target Films with Chan. Production of the first film commenced during the current interim period. Accordingly, a portion of the prepayment amounting to RMB10,000,000 (approximately HK\$12,659,000) was transferred to film and TV copyrights and the remaining RMB40,000,000 (approximately HK\$51,151,000) is classified as non-current asset.

In March 2014, the Group entered into a film cooperation agreement with a company owned by Ms. Chai Zhi Ping (also known as Angie Chai, "Ms. Chai"), pursuant to which Ms. Chai will provide proposals for 5 film projects to be developed by Ms. Chai herself or jointly with others (the "Target Films with Chai"), in the coming 5 years for the Group, and the Group will contribute RMB10,000,000 towards the production costs of each film or each film investment opportunity. The Group paid a total amount of RMB50,000,000 (approximately HK\$62,500,000) in current interim period for the investment opportunities of the Target Films with Chai. In the first half year of 2014, a proposal for a film project had been delivered to the Group. However, as at June 30, 2014, the Group considered there are uncertainties concerning the eventual successful completion of this film project as the production has postponed. Accordingly, an impairment loss of RMB10,000,000 (approximately HK\$12,500,000) was recognized as cost of sales and the remaining prepayment of RMB40,000,000 (approximately HK\$50,000,000) is classified as non-current asset.

In May 2014, the Group entered into a film cooperation agreement with a company owned by Mr. Wong Kar Wai ("Mr. Wong"), pursuant to which Mr. Wong will provide proposals for 5 films projects to be developed by Mr. Wong himself or jointly with others (the "Target Films with Wong"), in the coming 5 years for the Group, and the Group will contribute RMB10,000,000 towards the production costs of each film or each film investment opportunity. The Group paid a total amount of RMB50,000,000 (approximately HK\$62,189,000) in current interim period for the investment opportunities of the Target Films with Wong and production of first film is expected to be commenced before June 30, 2015. Accordingly, a portion of the prepayment amounting to RMB10,000,000 (approximately HK\$12,438,000) is classified as current asset and the remaining RMB40,000,000 (approximately HK\$49,751,000) is classified as non-current asset.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(Continued)

Trade receivables

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

	At June 30, 2014 HK\$'000 (unaudited)	At December 31, 2013 HK\$'000 (audited)
Production and distribution of film and TV copyrights segment	218,582	415,569
Other business segments	30,768	48,584
	249,350	464,153

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

For the production and distribution of film and TV copyrights segment, according to certain sales contracts signed with customers, approximately 25% to 50% of the total contract value is billed with credit period of 90 days upon signing of the contracts and the remaining contract value is to be billed within one year after the 90-day credit period granted in first billing. For the remaining sales contracts, 50% of the total contract value is billed upon signing of the contracts and delivery of the master copies of TV drama series, with credit periods ranging from 60 days to 90 days. Remaining 50% of the contract value is billed with credit period ranging from 60 days to 90 days after the relevant TV drama series are broadcasted, which normally happens within six months from the date of delivery of the relevant master copies of TV drama series. For the revenue from box office income of films broadcasted, the payment term is normally within one year of the film release.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(Continued)

Trade receivables *(Continued)*

The following is an aging analysis of trade receivables for production and distribution of film and TV copyrights segment, presented based on (i) the date of delivery of the master copies of TV drama series for sales of film and TV copyrights; and (ii) the date of films rendered to the cinema audience for revenue from box office takings, which approximated the respective dates on which revenue was recognized:

	At June 30, 2014 HK\$'000 (unaudited)	At December 31, 2013 HK\$'000 (audited)
0 – 90 days	50,002	100,058
91 – 180 days	1,342	5,493
181 – 365 days	70,255	210,028
Over 365 days	96,983	99,990
	218,582	415,569

The following is aging analysis of trade receivables for other business segments presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	At June 30, 2014 HK\$'000 (unaudited)	At December 31, 2013 HK\$'000 (audited)
0 – 90 days	12,465	25,150
91 – 180 days	8,376	7,027
181 – 365 days	5,371	16,407
Over 365 days	4,556	–
	30,768	48,584

The Group has a policy of allowing its trade customers from all business segments other than production and distribution of film and TV copyrights segment credit periods ranging from 120 days to 180 days in normal situations. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits granted to customers are reviewed regularly.

13. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

Trade and other payables and accrued charges comprise amounts outstanding for trade purchases and ongoing costs. The following is an aging analysis of trade payables presented based on the invoice date.

	At June 30, 2014 HK\$'000 (unaudited)	At December 31, 2013 HK\$'000 (restated)
0 – 90 days	19,253	22,054
91 – 180 days	88	–
181 – 365 days	694	16,453
Over 365 days	15,563	293
	<hr/>	<hr/>
Total trade payables	35,598	38,800
Other tax payable	131,299	105,762
Accrued staff costs	2,644	9,880
Other payables and accrued charges	42,984	45,092
	<hr/>	<hr/>
	212,525	199,534
	<hr/>	<hr/>

The average credit period on purchase of goods normally ranges from 120 days to 210 days.

14. ISSUED SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.25 each		
Authorized:		
At January 1, 2013, June 30, 2013 and January 1, 2014	10,000,000,000	2,500,000
Increase in authorized ordinary shares (Note (a))	20,000,000,000	5,000,000
	<u>30,000,000,000</u>	<u>7,500,000</u>
At June 30, 2014	<u>30,000,000,000</u>	<u>7,500,000</u>
Issued and fully paid:		
At January 1, 2013 and June 30, 2013	7,742,742,564	1,935,686
Issue of subscription shares (Note (b))	582,630,000	145,657
	<u>8,325,372,564</u>	<u>2,081,343</u>
At January 1, 2014	8,325,372,564	2,081,343
Issue of shares upon exercise of warrants (Note (c))	60,000,000	15,000
Issue of shares upon exercise of share options (Note (d))	94,450,000	23,612
Issue of shares upon conversion of convertible notes (Note (e))	30,000,000	7,500
Issue of subscription shares (Note (f))	12,488,058,846	3,122,015
	<u>20,997,881,410</u>	<u>5,249,470</u>
At June 30, 2014	<u>20,997,881,410</u>	<u>5,249,470</u>

Notes:

- (a) On June 16, 2014, the Company amended its Memorandum of Association and Bye-Laws to increase its authorized ordinary shares from 10,000,000,000 of HK\$0.25 each to 30,000,000,000 of HK\$0.25 each.
- (b) On July 25, 2013, the Company issued 582,630,000 ordinary shares of HK\$0.25 each at the subscription price of HK\$0.46 per share to certain independent third parties totalling HK\$268,010,000.
- (c) A total of 60,000,000 new ordinary shares of HK\$0.25 each were issued on March 18, 2014 and May 15, 2014 with market price of HK\$1.61 per share and HK\$1.70 per share respectively upon exercise of warrants at a subscription price of HK\$0.50 per share.
- (d) During the six months ended June 30, 2014, 88,300,000 and 6,150,000 new ordinary shares of HK\$0.25 each were issued upon exercise of share options granted under the old share option scheme at a subscription price of HK\$0.475 per share and HK\$0.56 per share respectively.
- (e) On June 13, 2014, 30,000,000 new ordinary shares of HK\$0.25 each were issued upon the conversion of Additional CB (as defined in note 15). Additional CB with aggregate principal amount of HK\$30,000,000 was converted into 30,000,000 ordinary shares of the Company at a conversion price of HK\$1 per share.
- (f) On June 24, 2014, the Company issued 12,488,058,846 new ordinary shares of HK\$0.25 each at a subscription price of HK\$0.50 per share to Ali CV for aggregate subscription price totalling HK\$6,244,030,000. These shares represented approximately 59.61% of the enlarged issued share capital of the Company as at the date of subscription.

All the shares issued ranked pari passu with the existing shares of the Company in all respects.

15. CONVERTIBLE NOTES

Pursuant to the equity transfer agreements for acquisition of the entire issued share capital of Prefect Strategy International Limited (“Prefect Strategy”) and Main City which have indirect control and an effective interest in Beida Culture, the Company issued two zero coupon convertible notes which have an aggregate principal amount of HK\$470,000,000 on June 3, 2010. The first convertible note (“CB1”) amounting to HK\$350,000,000 issued to the vendor of Prefect Strategy will be matured in 3 years after the date of issuance. The second convertible note (“CB2”) amounting to HK\$120,000,000 issued to the vendor of Main City will be matured on the fifth anniversary after the date of issuance. On August 6, 2010, CB2 was fully converted into shares of the Company. CB1 was matured on June 3, 2013 and settled upon the disposal of 70% equity interest in Beida Culture during the year ended December 31, 2013.

In addition, based on the relevant agreements, the Group is required to issue an additional amount of convertible note of the Company amounting to a principal amount of HK\$30,000,000 (the “Additional CB”) to the vendor of Main City if profit after taxation of Beida Culture in the year 2010 exceeds HK\$50,000,000 (the “Condition”). Since the Condition was fulfilled as at December 31, 2010, the obligation of the issuance of the Additional CB was established. The Additional CB, a zero coupon convertible note with principal amount of HK\$30,000,000 was issued on March 30, 2011 and will be matured on the fifth anniversary after the date of issuance. On June 13, 2014, Additional CB with carrying amount of HK\$27,638,000 in the condensed consolidated financial statements was fully converted into shares of the Company.

16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group’s financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group’s financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)
Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	June 30, 2014	December 31, 2013				
Held for trading non- derivative financial assets classified as "investments held for trading" in the condensed consolidated statement of financial position	Listed equity securities in Hong Kong – HK\$3,238,000	Listed equity securities in Hong Kong – HK\$3,249,000	Level 1	Quoted bid prices in an active market	N/A	N/A
Unlisted warrants classified as "derivative financial instruments" in the condensed consolidated statement of financial position	N/A	Liabilities: 60,000,000 warrants issued by the Company – HK\$1,630,000	Level 3	Binominal model The fair value is estimated based on risk free rate and share price (from observable market data), volatility of the share price of the Company and dividend yield and exercise price	Volatility of the share price of the Company of 56%, for the year ended December 31, 2013 determined by reference to the historical share price of the Company	The higher the volatility of the share price of the Company, the higher the fair value

There is no transfer between different levels of the fair value hierarchy for the period ended June 30, 2014 and 2013.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the condensed consolidated financial statements approximate their fair values.

16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements of derivative financial instruments

	Derivative financial instruments HK\$'000
On January 1, 2013	–
Total loss in profit or loss	3,968
	<hr/>
At June 30, 2013	3,968
	<hr/>
At January 1, 2014	1,630
Total loss in profit or loss	67,215
Exercise of warrants	(69,304)
Exchange realignment	459
	<hr/>
At June 30, 2014	–
	<hr/>

During the six months ended June 30, 2014, fair value loss on derivative financial instruments of HK\$67,215,000 (six months ended June 30, 2013: HK\$3,968,000) was recognized in the condensed consolidated statement of profit or loss on page 3.

Fair value measurements and valuation processes

The executive directors of the Company, who are supported by the Chief Financial Officer of the Company, is the party (“Valuation Team”) responsible for determination of the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Valuation Team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the Valuation Team’s findings to the board of directors of the Company (the “Board”) every half year to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

17. DISPOSAL OF A SUBSIDIARY

On June 2, 2014, a wholly-owned subsidiary of the Group has entered into a conditional sale and purchase agreement with an independent third party pursuant to which the Group will dispose of 100% equity interests in Youline Technology, which is engaged in provision of mobile value-added services, for a consideration of RMB14,000,000 (equivalent to approximately HK\$17,500,000) (the "Disposal"). The Disposal was completed on June 9, 2014, where upon the control of Youline Technology was passed to the acquirer.

Consideration received

	HK\$'000
Deferred cash consideration (note 12(c))	17,500
<u>Analysis of assets and liabilities over which control was lost</u>	
Property, plant and equipment	466
Trade receivables	7,023
Other receivables and prepayment	1,549
Bank balances and cash	309
Trade and other payables and accrued charges	(2,923)
Net assets disposed of	6,424
<u>Gain on disposal of a subsidiary</u>	
Consideration receivable	17,500
Net assets disposed of	(6,424)
Exchange realignment	126
Gain on disposal	11,202
<u>Cash outflow arising on disposal</u>	
	HK\$'000
Bank balances and cash disposed of	(309)

18. DISCONTINUED OPERATION

During the current interim period, the directors of the Company decided to concentrate the resources of the Group on the business of sales and distribution of film and TV copyrights. From May 2014 onwards, the Group ceased its TV advertising operation and did not renew the TV advertising air-times supply contract with the Shenzhen Media Group. The Group's TV advertising operation is treated as discontinued operation in the condensed consolidated financial statements.

The (loss) profit from the discontinued operation for current and preceding interim periods is analyzed as follows:

	Six months ended	
	June 30,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
(Loss) profit from operation of TV advertising for the period	(584)	31,553

The results of the discontinued operation for the current and preceding interim periods are as follows:

	Six months ended	
	June 30,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (restated)
Revenue	39,296	150,456
Cost of services	(39,827)	(102,910)
Other income	1	1,460
Distribution and selling expenses	–	(5,659)
Administrative expenses	(42)	(5,784)
(Loss) profit before taxation	(572)	37,563
Taxation charge	(12)	(6,010)
(Loss) profit for the period	(584)	31,553
(Loss) profit for the period attributable to:		
Owners of the Company	(569)	22,727
Non-controlling interests	(15)	8,826
	(584)	31,553

19. RELATED PARTY TRANSACTIONS

Apart from amounts due from/to non-controlling shareholders as disclosed in the condensed consolidated statement of financial position, the Group has entered into the following related party transactions:

	Six months ended	
	June 30,	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(a) TV advertising air time fees paid and payable to a non-controlling shareholder of a subsidiary (Note)	–	102,910
(b) Advertising service fee received from a joint venture	–	3,654
(c) Key management compensation		
Short-term employee benefits	2,738	2,327
Post-employment benefit	30	15
	2,768	2,342

Note: Such transaction constituted as connected transaction under the Listing Rules.

20. CAPITAL COMMITMENT

The Group has entered into the following transaction, which have not been completed at the date these condensed consolidated financial statements were authorized for issuance:

On October 12, 2012, a wholly-owned subsidiary of the Company entered into a film art centre framework agreement (the "Framework Agreement") with Mr. Chiau pursuant to which a company will be established in the PRC and the Group will indirectly hold 75% equity interest whereas Mr. Chiau will indirectly hold the remaining 25% equity interest for the investment in a tourism project in the PRC at a place to be agreed by the parties. According to the Framework Agreement, the Group is required to contribute capital of US\$15,000,000 by way of cash. The PRC company was established during the year ended December 31, 2013 but the Group has not contribute any capital as at June 30, 2014.

21. PRIOR PERIOD ADJUSTMENTS

The Company has carried out a reassessment on the Group's consolidated financial statements for the prior periods and identified the following misstatements. The directors of the Company decided that the most appropriate treatment for these misstatements is to restate the comparative figures in the Group's condensed consolidated financial statements for the current period for the following:

- (a) There were misstatements on certain tax areas in prior years, including PRC EIT, Business Tax and VAT, arising, in particular, from (i) not yet obtaining and/or issuing official tax invoices, and/or delay in doing so, for the purchase and/or sale of certain artwork and film and TV copyrights as well as for certain TV drama production costs; and (ii) the application of lower VAT tax rates and/or adjustments in certain PRC tax computations.

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

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

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

- (b) There was a misstatement on the financial impact of convertible notes (the "CB") in the 2012 and 2013 financial statements. Due to (i) the incorrect assessment of fair value of the CB based on the valuation report, and (ii) inaccurate exchange realignment process, the Group had continued to translate the CB based on period end exchange rate even though the CB was fixed at Renminbi, which is the functional currency of the issuer of the CB, there were inaccurate amounts applied in the accounting for the CB issued by the Company in 2010 and 2011 which affected the initial recognition, exchange realignment of the CB on each period end, and settlement of the CB in subsequent periods.

21. PRIOR PERIOD ADJUSTMENTS *(Continued)*

- (c) As a result of (a) above, deferred tax assets are recognized for those expenses of which the invoices had not been received by the Group at the end of the relevant reporting periods but were expected to be received subsequently, instead of treating them as deductible expenses in calculation of current tax liabilities in the years/period they incurred.

In addition, following its acquisition by the ultimate holding company, AGHL in June 2014, the Group has changed its accounting policy, as described below:

- (i) In prior years, according to the local government policies, certain of the Group's PRC subsidiaries were entitled to subsidies as determined according to the amounts of taxes (i.e. EIT and VAT) paid. The Group had recognized such government grant income when the taxes were accrued in the consolidated financial statements, instead of paid, as it was believed that there was reasonable assurance that the Group would comply with the conditions attaching to the local government policies and that the grants would be received.

After the acquisition of a majority stake by AGHL in the Company in June 2014, the current management of the Group has reassessed the application of the Group's accounting policy in respect of these government grants. In view of the potential uncertainties adherent to such government grants until the grants are received, the directors of the Company consider it appropriate to align the relevant accounting policy to that adopted by AGHL effective from January 1, 2014, such that the Group would only recognize government grants when all the conditions are met and when such grants are received. This change will be applied to the Group's financial statements on a retrospective basis.

21. PRIOR PERIOD ADJUSTMENTS (Continued)

Summary of the effects of prior period adjustments

The cumulative effects of the prior period adjustments described above on the Group's results for the six months ended June 30, 2013 by line items are as follows:

	January 1, 2013 to June 30, 2013		Adjustments		January 1, 2013 to June 30, 2013	
	HK\$'000 (unaudited) (as originally stated)	HK\$'000 (a)	HK\$'000 (b)	HK\$'000 (c)	HK\$'000 (i)	HK\$'000 (unaudited) (restated)
Continuing operations						
Revenue	330,469	(6,678)	-	-	-	323,791
Cost of sales and services	(168,670)	-	-	-	-	(168,670)
Gross profit	161,799	(6,678)	-	-	-	155,121
Other income	14,050	-	-	-	(2,491)	11,559
Other gains and losses, net	51,507	14,095	23,589	-	-	89,191
Change in fair value of derivative financial instruments	(3,968)	-	-	-	-	(3,968)
Distribution and selling expenses	(18,185)	-	-	-	-	(18,185)
Administrative expenses	(62,558)	-	-	-	-	(62,558)
Effective interest expenses on convertible notes	(17,966)	-	(2,471)	-	-	(20,437)
Share of losses of joint ventures	(4,000)	-	-	-	-	(4,000)
Profit before taxation	120,679	7,417	21,118	-	(2,491)	146,723
Taxation charge	(14,231)	(25,244)	-	-	-	(39,475)
Profit for the period from continuing operations	106,448	(17,827)	21,118	-	(2,491)	107,248
Discontinued operation						
Profit for the period from discontinued operation	32,614	(1,061)	-	-	-	31,553
Profit for the period	139,062	(18,888)	21,118	-	(2,491)	138,801
Other comprehensive income for the period:						
Exchange difference arising on translation to presentation currency	28,390	(638)	(6,851)	-	(462)	20,439
Total comprehensive income for the period	167,452	(19,526)	14,267	-	(2,953)	159,240
	HK cents	HK cents	HK cents	HK cents	HK cents	HK cents
Earnings per share						
From continuing and discontinued operations						
Basic	1.72	(0.24)	0.27	-	(0.03)	1.72
Diluted	1.72	(0.24)	0.27	-	(0.03)	1.72
From continuing operations						
Basic	1.41	(0.23)	0.27	-	(0.03)	1.42
Diluted	1.41	(0.23)	0.27	-	(0.03)	1.42

21. PRIOR PERIOD ADJUSTMENTS (Continued)

The cumulative effects of the prior period adjustments described above on the Group's results for the year ended December 31, 2013 by line items are as follows:

	January 1, 2013 to December 31, 2013		Adjustments		January 1, 2013 to December 31, 2013	
	HK\$'000 (audited) (as originally stated)	HK\$'000 (a)	HK\$'000 (b)	HK\$'000 (c)	HK\$'000 (i)	HK\$'000 (restated)
Continuing operations						
Revenue	486,539	(11,301)	-	-	-	475,238
Cost of sales and services	(248,650)	4,505	-	-	-	(244,145)
Gross profit	237,889	(6,796)	-	-	-	231,093
Other income	18,255	-	-	-	(4,991)	13,264
Other gains and losses, net	78,323	10,412	-	-	-	88,735
Change in fair value of derivative financial instruments	(1,130)	-	-	-	-	(1,130)
Gain on disposal of subsidiaries	64,953	-	53,030	-	-	117,983
Distribution and selling expenses	(48,602)	-	-	-	-	(48,602)
Administrative expenses	(141,551)	-	-	-	-	(141,551)
Effective interest expenses on convertible notes	(19,627)	-	(2,512)	-	-	(22,139)
Share of losses of associates	(4,936)	-	-	-	-	(4,936)
Share of profits of joint ventures	2,322	-	-	-	-	2,322
Profit before taxation	185,896	3,616	50,518	-	(4,991)	235,039
Taxation charge	(13,722)	(27,778)	-	-	-	(41,500)
Profit for the year from continuing operations	172,174	(24,162)	50,518	-	(4,991)	193,539
Discontinued operation						
Profit for the year from discontinued operation	41,941	(532)	-	-	-	41,409
Profit for the year	214,115	(24,694)	50,518	-	(4,991)	234,948
Other comprehensive income for the year:						
Exchange difference arising on translation to presentation currency	41,985	(1,063)	(6,693)	-	(892)	33,337
Share of exchange differences of associates and joint ventures	1,695	-	-	-	-	1,695
Other comprehensive income for the year	43,680	(1,063)	(6,693)	-	(892)	35,032
Total comprehensive income for the year	257,795	(25,757)	43,825	-	(5,883)	269,980
	HK cents	HK cents	HK cents	HK cents	HK cents	HK cents
Earnings per share						
From continuing and discontinued operations						
Basic	2.58	(0.31)	0.63	-	(0.06)	2.84
Diluted	2.58	(0.31)	0.63	-	(0.06)	2.84
From continuing operations						
Basic	2.22	(0.30)	0.63	-	(0.06)	2.49
Diluted	2.22	(0.30)	0.63	-	(0.06)	2.49

21. PRIOR PERIOD ADJUSTMENTS (Continued)

The cumulative effects of the prior period adjustments described above on the consolidated financial position of the Group as at January 1, 2013 are as follows:

	As at January 1, 2013		Adjustments		As at January 1, 2013	
	HK\$'000 (audited) (as originally stated)	HK\$'000 (a)	HK\$'000 (b)	HK\$'000 (c)	HK\$'000 (i)	HK\$'000 (restated)
Property, plant and equipment	15,514	-	-	-	-	15,514
Goodwill	171,160	-	27,601	-	-	198,761
Intangible assets	12,003	-	-	-	-	12,003
Interests in joint ventures	636,248	-	-	-	-	636,248
Club debenture	2,836	-	-	-	-	2,836
Art work	164,307	-	-	-	-	164,307
Deposits and prepayments	67,468	-	-	-	-	67,468
Deferred tax assets	1,319	-	-	53,293	-	54,612
Film and TV copyrights	169,296	-	-	-	-	169,296
Investments held for trading	21,569	-	-	-	-	21,569
Trade receivables	345,796	-	-	-	-	345,796
Other receivables, deposits and prepayments	222,731	17,566	-	-	(24,766)	215,531
Amounts due from non-controlling shareholders	4,538	-	-	-	-	4,538
Bank balances and cash	107,753	-	-	-	-	107,753
Trade and other payables and accrued charges	(203,181)	(13,738)	-	-	-	(216,919)
Amounts due to non-controlling shareholders	(760)	-	-	-	-	(760)
Amounts due to related companies	(1,105)	-	-	-	-	(1,105)
Tax liabilities	(32,402)	(30,368)	-	(53,293)	-	(116,063)
Convertible notes						
– current	(333,069)	-	(44,274)	-	-	(377,343)
– non-current	(21,244)	-	(1,769)	-	-	(23,013)
Total effects on net assets	1,350,777	(26,540)	(18,442)	-	(24,766)	1,281,029
Issued share capital	(1,935,686)	-	-	-	-	(1,935,686)
Share premium	(741,369)	-	(6,319)	-	-	(747,688)
Other reserve	1,546,985	-	6,319	-	-	1,553,304
Shareholder's contribution reserve	(60,267)	-	-	-	-	(60,267)
Translation reserve	(14,070)	251	3,728	-	235	(9,856)
Convertible notes equity reserve	(3,971)	-	351	-	-	(3,620)
Share option reserve	(24,884)	-	-	-	-	(24,884)
Retained profits	(83,478)	26,289	14,363	-	24,531	(18,295)
Non-controlling interests	(34,037)	-	-	-	-	(34,037)
Total effects on equity	(1,350,777)	26,540	18,442	-	24,766	(1,281,029)

21. PRIOR PERIOD ADJUSTMENTS (Continued)

The cumulative effects of the prior period adjustments described above on the consolidated financial position of the Group as at December 31, 2013 are as follows:

	As at December 31, 2013		Adjustments		As at December 31, 2013	
	HK\$'000 (audited) (as originally stated)	HK\$'000 (a)	HK\$'000 (b)	HK\$'000 (c)	HK\$'000 (i)	HK\$'000 (restated)
Property, plant and equipment	35,288	-	-	-	-	35,288
Goodwill	175,986	-	28,378	-	-	204,364
Intangible assets	11,550	-	-	-	-	11,550
Interests in associates	193,463	-	-	-	-	193,463
Club debenture	2,916	-	-	-	-	2,916
Art work	162,764	-	-	-	-	162,764
Deposits and prepayments	131,501	-	-	-	-	131,501
Deferred tax assets	1,219	-	-	67,841	-	69,060
Film and TV copyrights	364,892	-	-	-	-	364,892
Investment held for trading	3,249	-	-	-	-	3,249
Trade receivables	464,153	-	-	-	-	464,153
Other receivables, deposits and prepayments	305,987	58,510	-	-	(30,649)	333,848
Amounts due from non-controlling shareholders	9,642	-	-	-	-	9,642
Bank balances and cash	199,001	-	-	-	-	199,001
Trade and other payables and accrued charges	(148,082)	(51,452)	-	-	-	(199,534)
Amounts due to non-controlling shareholders	(163)	-	-	-	-	(163)
Derivative financial instruments	(1,630)	-	-	-	-	(1,630)
Tax liabilities	(44,528)	(59,355)	-	(67,841)	-	(171,724)
Convertible notes - non-current	(23,758)	-	(2,995)	-	-	(26,753)
Total effects on net assets	1,843,450	(52,297)	25,383	-	(30,649)	1,785,887
Issued share capital	(2,081,343)	-	-	-	-	(2,081,343)
Share premium	(855,616)	-	(6,319)	-	-	(861,935)
Other reserve	1,546,985	-	6,319	-	-	1,553,304
Shareholder's contribution reserve	(60,267)	-	-	-	-	(60,267)
Translation reserve	(37,554)	1,314	10,421	-	1,127	(24,692)
Convertible notes equity reserve	(3,570)	-	150	-	-	(3,420)
Share option reserve	(24,884)	-	-	-	-	(24,884)
Retained profits	(309,741)	50,983	(35,954)	-	29,522	(265,190)
Non-controlling interests	(17,460)	-	-	-	-	(17,460)
Total effects on equity	(1,843,450)	52,297	(25,383)	-	30,649	(1,785,887)

22. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group has entered into agreements with three independent third parties to dispose all the art work at an aggregate consideration of RMB140,070,000 (approximately HK\$175,088,000).

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2014 (2013 interim: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended June 30, 2014, the Group recorded revenue of HK\$113,309,000 (2013 interim: HK\$474,247,000) and net loss attributable to the owners of the Company of HK\$443,538,000 (2013 interim: net profit of HK\$132,809,000). Non-cash losses, which included impairment of film and TV copyrights and prepayments of film production and other prepayments, attributable impairment of an associate, provision of bad and doubtful debts of trade and other receivables and changes in fair value of derivative financial instruments, amounted to HK\$378,704,000. Excluding the aforesaid non-cash losses, net loss attributable to the owners of the Company amounted to HK\$64,834,000. The loss was mainly attributable to (i) the reduction of the Group's revenue in the first half year due to delays in certain film and television projects, and (ii) the former management's decision to delay implementation of certain strategic decisions with the anticipated change in controlling interests of the Company.

For the six months ended June 30, 2014, the Group's basic loss per share amounted to 5.05 HK cents (2013 interim: basic earnings per share of 1.72 HK cents). Net asset value attributable to the owners of the Company per share amounted to HK\$0.37 (December 31, 2013: HK\$0.21).

Review of Operations

For the six month ended June 30, 2014, the Group was principally engaged in media related businesses, including investment in and planning, production, publication and distribution of television drama series and films, as well as magazine advertising and distribution of magazines. The majority of these businesses were conducted in the PRC. With a focus on the fast-growing film and television drama series market in China, the Group has been enhancing its production capacity and reinforcing its core competitiveness through continuous integration and development.

On June 24, 2014, AGHL (together with its subsidiaries, "Alibaba Group"), the world's leading online and mobile commerce company, through its subsidiary Alibaba Investment Limited ("AIL"), became the controlling shareholder of the Group through new share subscription, holding approximately 60% of the Company's enlarged issued share capital. With its strengthened financial position and capital strength, along with the combination of competitive advantages in the media resources and channels from Alibaba Group, the Group has been able to invest in and expand its existing businesses and potential investment opportunities.

Alibaba Group has commenced coordination of the resources with the Group's cultural, film and television entertainment-related businesses, and has made the Group the flagship unit of Alibaba Group's entertainment business.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Film and TV Drama Series Production and Distribution Business

For the six months ended June 30, 2014, the film and TV drama series production and distribution business contributed revenue of HK\$49,677,000 (2013 interim: HK\$295,368,000), accounting for approximately 44% of the Group's revenue. Segment loss before tax amounted to HK\$228,903,000 (2013 interim: segment profit before tax of HK\$119,230,000). The reduction in income was mainly attributable to a number of the Group's films and TV drama series still being at the production stage in the first half of 2014. These films and television drama series are scheduled for release in the second half year of 2014 and year 2015. Apart from the reduction in income, segment loss before tax was also attributable to the one-off impairment of film and TV copyrights and prepayments for film production, and the provision of bad and doubtful debts of trade receivables.

During the period, the Group successfully sold and distributed a number of its TV drama series to the market, including the successful sale of the television drama series "Bayonet Hero" (刺刀英雄). The Group was also engaged in a number of TV drama series and collaboration projects in the first half year, including the production of a 42-episode TV drama series entitled "Billion Dollar Inheritors" (繼承人) directed by Li Shao Hong, the purchase of online and mainland China broadcast rights for "Rise of the Legend" (黃飛鴻之英雄有夢) and "Temporary Family" (臨時同居), for which distribution and sale will commence in the future.

As for films, the Group pays close attention to industry trends so as to seize potential business opportunities. The Group has acquired adaptation rights for "My Fair Princess" (還珠格格) and the overseas distribution rights for the film "Wolf Totem" (狼圖騰). The Group also plans to produce a TV drama series based on the popular mainland hypertext fiction "Ghost Blows out the Light" (鬼吹燈), for which it has purchased copyrights.

After entering into motion pictures development co-operation agreements with Mr. Stephen Chow in 2012 and with Mr. Peter Chan in 2013, the Group entered into a motion pictures development co-operation agreement with Ms. Chai in March 2014 and plans to invest in the production of five motion pictures within the next five years. The Group signed a motion pictures development co-operation agreement and supplementary agreement in May this year with Block 2 Films Limited ("Block 2 Films"), authorized by internationally renowned director Mr. Wong Kar Wai. The Group has acquired the priority rights to negotiate and sign contracts with Block 2 Films to invest in up to five films directed, produced or written by Mr. Wong Kar Wai in the next five years.

Magazine Advertising and Magazine Distribution Business

For the six months ended June 30, 2014, the distribution and advertising business of high-end women's magazine FIGARO generated revenue of HK\$11,928,000 (2013 interim: HK\$17,944,000), accounting for approximately 11% of the Group's revenue. Segment loss before tax amounted to HK\$9,875,000 (2013 interim: segment loss before tax of HK\$5,569,000). Since the magazine industry is experiencing a downturn and with personnel changes at FIGARO in the first half of the year, the business recorded a decline in advertising sales. The Group has implemented a series of measures to strengthen integration of content and advertising, and has committed to lower the cost in order to enhance the earnings of FIGARO.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Discontinued Business – TV Advertising Business

For the six months ended June 30, 2014, the TV advertising business recorded revenue of HK\$39,296,000 (2013 interim: HK\$150,456,000), accounting for approximately 35% of the Group's revenue. Segment loss before tax amounted to HK\$573,000 (2013 interim: segment profit before tax of HK\$37,444,000).

On January 1, 2014, the State Administration of Radio Film and Television implemented a new policy which limits the airtime, content and frequency of advertising on satellite television channels. Taking this stricter policy into consideration, the Group has been gradually winding down its TV advertising business, and terminated its long-term exclusive cooperation agreement involving advertising with the Gansu Provincial Film and TV Broadcast Group at the end of 2013 and also ceased cooperation involving advertising with Shenzhen Media Group in May 2014. Through the reallocation of resources on television advertising, the Group is able to optimize its resource allocation internally and to therefore focus on developing high value-added businesses such as film and television drama series production.

Other Businesses

For the six month ended June 30, 2014, revenue from other segments (including securities trading and investments in Hong Kong, the mobile value-added business, mobile games subscription, provision of other agency services, TV programme package services and other businesses in the PRC) amounted to HK\$12,408,000 (2013 interim: HK\$10,479,000). Segment loss before tax was HK\$6,192,000 (2013 interim: segment profit before tax of HK\$1,766,000).

To streamline the Group's business operations and to deploy more resources to core businesses which can bring stable returns, the Group entered into an agreement with an individual third party on June 2, 2014 to sell off its 100% shareholdings in Youline Technology, a wholly owned subsidiary which operates mobile value-added services, at a total consideration of RMB14,000,000. The transaction was completed on June 9, 2014. According to the consolidated income statement for the six months ended June 30, 2014, gain on the disposal amounted to HK\$11,202,000.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group's capital expenditure, daily operations and investments are mainly funded by cash generated from its operations and equity financing. As at June 30, 2014, the Group maintained cash reserves of HK\$6,493,678,000 (December 31, 2013: HK\$199,001,000). As at June 30, 2014, the equity attributable to owners of the Company amounting to HK\$7,713,253,000 (December 31, 2013: HK\$1,768,427,000) with total borrowings of nil (December 31, 2013: HK\$26,753,000). As at June 30, 2014, the Group's gearing ratio (net borrowings including convertible notes deducting the cash reserves over total equity) was nil (December 31, 2013: nil).

FINANCIAL REVIEW (Continued)

Liquidity, Financial Resources and Capital Structure (Continued)

On March 18, 2014 and May 15, 2014, the Company issued a total of 60,000,000 new ordinary shares of the Company of HK\$0.25 each at an exercise price of HK\$0.50 per share upon exercise of the subscription rights attaching to the warrants which were issued by the Company on June 7, 2013. The net proceeds of approximately HK\$29.25 million raised from issued of new ordinary shares of the Company upon exercise of the subscription rights attaching to the warrants has been used for investments in the Group's films and TV series.

On March 8, 2014 and May 20, 2014, the Company entered into a subscription agreement and a deed of novation with an independent third party, AIL, a wholly-owned subsidiary of AGHL and Ali CV, a wholly-owned subsidiary of AIL, pursuant to which Ali CV conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue a total of 12,488,058,846 new ordinary shares of the Company of HK\$0.25 each at an issue price of HK\$0.50 per share with aggregate subscription price of HK\$6,244,030,000. The newly allotted shares represent approximately 150% of the issued share capital of the Company as at March 8, 2014 and approximately 59.61% of the enlarged issued share capital of the Company as at the date of the subscription. The subscription represents a valuable opportunity for the Company to significantly bolster its funding capacity, better position itself strategically and financially to capitalize on new content creation opportunities and potential monetization platforms in online entertainment and media-related areas, and expedite the development of the Group's businesses. The market closing price per share of the Company was HK\$0.64 per share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on February 25, 2014, being the last trading day immediately prior to the entering of the subscription agreement (the "Last Trading Day") and HK\$0.63 per share as quoted on the Stock Exchange on February 24, 2014, being the full trading day immediately prior to the Last Trading Day. The net proceeds of approximately HK\$6,238,603,000 from the subscription, which were expected to use as the Group's general working capital and/or for investments when opportunities arise, have not yet been utilized as at June 30, 2014. The subscription has been completed on June 24, 2014. Ali CV becomes the immediate holding company and controlling shareholder of the Company after the subscription.

Foreign Exchange Fluctuation

The Group's operations are mainly located in the PRC and its transactions, related working capital and borrowings are primarily denominated in Renminbi and Hong Kong Dollars. The Group monitors its foreign exchange exposure and will consider hedging significant currency exposure should the need arise.

Charges on Assets

As at June 30, 2014, the Group did not have any charge of assets (December 31, 2013: nil).

Contingent Liabilities

As at June 30, 2014, the Group had no material contingent liabilities (December 31, 2013: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at June 30, 2014, the Group, including its subsidiaries but excluding its joint ventures and associates, employed 205 employees (June 30, 2013: 289). The remuneration policies of the Group are based on the prevailing market levels and the performance of the respective group companies and individual employees. These policies are reviewed on a regular basis.

RISK MANAGEMENT

During the period under review, the Group constantly reviewed the risk and credit control systems of its profit centers to improve the overall control system and mitigate the credit risk.

PROSPECTS

2014 has been a year filled with changes and opportunities for the Group. With AGHL becoming the controlling shareholder of the Group, the new Board was formed in the end of June 2014 to bring onboard experts in film and television entertainment, risk management and other industry areas, injecting new momentum for future corporate development.

On the other hand, the Group was officially renamed Alibaba Pictures Group Limited in August 2014, and appointed Mr. Zhang Qiang as the Company's Chief Executive Officer and Executive Director to lead the Group into a brand-new phase of development.

In the future, the Group will strive to become the flagship unit of Alibaba Group's entertainment arm, fully leveraging Alibaba Group's online expertise and resources, further expanding its media business.

With its positioning as the up-and-coming flagship unit of Alibaba Group's cultural, film and television entertainment business, the Group has secured Alibaba Group's plentiful resources in related business areas, and will be able to tap on the ongoing business synergy and resources sharing in the future.

In view of this, the Group will fully leverage Alibaba Group's internet expertise and resources, further expanding the media business in the online space. This will let it transform and upgrade the traditional cultural, film and television entertainment business, and build a cultural operating industry chain using big data as a technological edge.

With its stronger capital strength, Alibaba Group's superior brand positioning and the close relationship between the Group and Alibaba Group, the Group now has a more well-developed strategy, and will continue to optimize resources allocation in the future by focusing on the most promising business areas – films, TV programmes and drama series production, distribution and copyright business.

The Group will expand the scope of production in films and TV drama series. To maximize synergies with Alibaba, the Group will tap Alibaba Group's eco-system and seize opportunities arising from the online entertainment and other media related fields, boosting its competitiveness while reinforcing Alibaba Group's strength in film production and distribution.

PROSPECTS (Continued)

With the onset of business synergies and resources sharing with Alibaba Group, the Group is closer than ever to becoming a cultural, film and television entertainment business with a global vision. The Group's business strategy is looking up with the completion of subscription by Ali CV, and with new Board members and a new CEO coming onboard.

Film Production and Distribution Business

The rapidly booming Chinese film market has evolved into the world's second largest film market and the third largest film production country. According to data from the State Administration of Radio Film and Television, the number of cinema screens in mainland China increased from over 6,200 at the end of 2010 to 18,195 at the end of 2013. Total box office rose from RMB10.172 billion in 2010 to RMB21.769 billion in 2013. The box office stood at RMB13.743 billion in the first half of 2014, up 25% over the same period last year.

To cope with fast-evolving market needs and the development of a progressive film industry in China, relevant regulatory authorities are ramping up support for the movie industry in all aspects. On June 19, 2014, seven ministries, including the Ministry of Finance, Ministry of Land and Resources, the People's Bank of China, jointly issued "The Notice of Economic Policies Supporting the Development of Film Industry". This served to support the film industry development in eight aspects ranging from financial subsidies, tax incentives, financial support to land policies. This brings a new round of growth momentum to the development of China film industry.

In the second half of 2014, the Group released a number of films and TV drama series. The first collaboration with Mr. Peter Chan named "Dearest" (親愛的), was released on September 26 in the PRC, garnering a total box office of RMB330 million. The romantic comedy "Breakup Buddies" (心花路放), in which the Group and China Film Group Corporation was co-investors, was released on September 30, chalking up a total box office of RMB1.16 billion. This made it the box office champion in the domestic films categories for the year to date.

At the same time, the Group is actively exploring strategic cooperation opportunities with the leading corporations in the cultural, film and television industry and has made considerable progress in its collaborations with industry-renowned film producers and directors. The Group is currently liaising with Mr. Stephen Chow and Mr. Wong Kar Wai on details for the next project.

As for international collaborations, the Group plans to develop film projects with major film and television studios in the United States, including adaptations of best-selling screenplays, participation and investment in shooting etc. Through close collaboration, sharing of global earnings, expanding the international market, and learning from the scientific management experience of Hollywood, the Group will enhance its competitiveness.

The Group will bring to fruition China's adaptation of global cultural, film and television entertainment production, as well as the global expansion of related industries in China.

PROSPECTS (Continued)

Television Drama Series Production and Distribution Business

As one of the most popular entertainment content providers among the Chinese audience, Alibaba Picture's mainstay is the production and distribution of television drama series. In addition to traditional TV channels, the rise of online video channels has contributed to a new market. According to a report by China's leading entertainment industry consulting agency, the broadcast frequency and audience ratings of television channels fell compared with the first half year of 2014. However, the broadcast frequency for websites rose from 12.5 billion in January 2012 to 23.6 billion in June 2014, attesting to a bright future for the market. According to the "Television drama series industry research report – 1" by a securities firm well-known in China, the total market for television drama series will reach 16.5 billion in transaction value in 2015.

In April 2014, the State Administration of Press Publication, Radio, Film and Television announced that all integrated channels in the PRC will be adopting the "One drama series, two satellite TV channels" policy – no more than two satellite TV channels playing the same drama series during evening primetime hours, and no more than two episodes of the same drama series playing during primetime hours. The industry believes that the new policy will intensify market competition, raising purchasing costs of drama series for television channels, and further enhancing the assessment of the drama series' quality; while film and television companies will focus their resources on producing more high-quality drama series. To the Group which has production resources, capital and branding advantages, the new policy provides a favorable environment for development.

In 2014, the Group released "The Power of Faith" (信者無敵) of the "Heroic" television drama series (英雄無敵). In addition, it invested in the teen romance drama series "Dying to fall in love with you" (好想好想愛上你) and the modern idol drama series "Billion Dollar inheritors" (繼承人), and plans to distribute them at the end of year 2014. In addition to consolidating the traditional distribution channel through television channels, the Group will actively grow its strengths in online broadcasting through planned collaborations with Youku Tudou, Wasu and other platform. It will launch a new profit-driven business model, including product placements, divided product sales, operation of channel advertising and sales of copyrights from television channels etc. In the future, the Group will continue to expand its market share and competitive advantage, with the creative team focusing on content enhancement, product diversification and creation of series genres which address major market trends.

With the strong support and resources sharing by controlling shareholder AGHL, the Group will embrace clear strategic thinking, a customer-oriented production model and advanced management philosophy, to continue honing the Company's edge in creative content, investments, production and distribution. The Group aims to become an influential film and television entertainment Group at home and abroad, focusing on creating films and TV drama series which meet audience needs and enhance their satisfaction, and to deliver long-term and high-value returns for shareholders.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at June 30, 2014, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the “SFO”)) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) were as follows:

Long positions in the shares and underlying shares of associated corporation

Associated corporation	Name of Director	Number of shares/underlying shares held			Approximate percentage of associated corporation’s issued share capital	Note
		Personal interests	Other interests	Total interests		
AGHL	Shao Xiaofeng	50,000	1,674,031	1,724,031	0.08%	1 & 3
AGHL	Liu Chunning	300,000	–	300,000	0.01%	2 & 3

Notes:

- These securities represent (a) 20,000 issued ordinary shares of AGHL directly held by Mr. Shao Xiaofeng; (b) 574,031 issued ordinary shares of AGHL held by The MM & BB Limited (a company ultimately owned by a trust established by Mr. Shao for the benefit of certain his family members); (c) restricted share units in respect of 30,000 underlying ordinary shares of AGHL granted to Mr. Shao by AGHL; (d) relevant interests in respect of 600,000 underlying ordinary shares of AGHL held by Alternate Solutions Management Limited which were owned by The MM & BB Limited pursuant to certain senior management equity incentive scheme of AGHL; and (e) relevant interests in respect of 500,000 underlying ordinary shares of AGHL held by PCIP I Limited which were owned by BMN Limited (a company ultimately owned by a trust established by Mr. Shao for his benefit) pursuant to another senior management equity incentive scheme of AGHL.
- These securities represent restricted share units in respect of 300,000 underlying ordinary shares of AGHL granted to Mr. Liu Chunning by AGHL.
- As of June 30, 2014, AGHL had a total of 2,250,073,061 ordinary shares in issue.

Save as disclosed above, as at June 30, 2014, none of the Directors, the chief executive of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

At the annual general meeting of the Company held on June 11, 2012, the shareholders of the Company approved the adoption of a new share option scheme (the “2012 Share Option Scheme”). No share options of the Company (the “Share Options”) has been granted under the 2012 Share Option Scheme since its adoption.

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

Category	Date of grant	Exercise price per share HK\$	Number of Share Options				
			Outstanding as at January 1, 2014	Transfer from other category during the period	Transfer to other category during the period	Exercised during the period	Outstanding as at June 30, 2014
1. Ex-Directors (Note 5)							
Dong Ping	04/05/2010	0.560	14,100,000	-	(14,100,000)	-	-
Zhao Chao	04/05/2010	0.560	8,910,000	-	(8,910,000)	-	-
Kong Muk Yin	04/05/2010	0.560	3,000,000	-	-	(3,000,000)	-
Chen Ching	04/05/2010	0.560	1,050,000	-	-	(1,050,000)	-
Jin Hui Zhi	04/05/2010	0.560	1,050,000	-	-	(1,050,000)	-
Li Chak Hung	04/05/2010	0.560	1,050,000	-	-	(1,050,000)	-
2. Employees	18/03/2010	0.475	82,250,000	-	(6,150,000)	(76,100,000)	-
	04/05/2010	0.560	7,200,000	-	(7,200,000)	-	-
3. Consultants	18/03/2010	0.475	29,300,000	-	(3,000,000)	(26,300,000)	-
4. Others	18/03/2010	0.475	-	9,150,000	-	-	9,150,000
	04/05/2010	0.560	-	30,210,000	-	-	30,210,000
Total:			<u>147,910,000</u>	<u>39,360,000</u>	<u>(39,360,000)</u>	<u>(108,550,000)</u>	<u>39,360,000</u>

SHARE OPTIONS (Continued)

Notes:

1. The Share Options are exercisable as follows:

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

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

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

4. During the period, no Share Options were granted, cancelled or lapsed.

5. All Ex-Directors resigned or ceased to act as directors before the period ended June 30, 2014.

6. The weighted average closing price of the shares of the Company immediately before the dates on which the Share Options were exercised was HK\$1.71.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at June 30, 2014, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of HK\$0.25 each in the capital of the Company ("Shares")

Name	Capacity in which interests are held	Number of Shares/underlying Shares held	Approximate percentage of issued share capital¹
Ali CV	Beneficial owner and party acting in concert ¹	14,758,539,366	70.29%
AIL	Held by controlled corporation ²	14,758,539,366	70.29%
AGHL	Held by controlled corporation ²	14,758,539,366	70.29%
SoftBank Corp. (" <u>SoftBank</u> ")	Held by controlled corporation ²	14,758,539,366	70.29%
Dong Ping	Party acting in concert ³	14,758,539,366	70.29%
Zhao Chao	Party acting in concert ⁴	14,758,539,366	70.29%

INTERESTS OF SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

1. This represents (i) the interests in 1,916,182,500 Shares and 14,100,000 underlying Shares held by Mr. Dong Ping as beneficial owner; (ii) the interests in 331,288,020 Shares held by Mr. Zhao Chao through his controlled corporation, Basic Charm Investment Limited which was wholly owned by Rainstone International Limited in which Mr. Zhao Chao maintained 100% beneficial interest; (iii) the interests in 8,910,000 underlying Shares held by Mr. Zhao Chao as beneficial owner; and (iv) the interests in 12,488,058,846 Shares held by Ali CV as beneficial owner. As of June 30, 2014, both Mr. Dong Ping and Mr. Zhao Chao were parties acting in concert with Ali CV and thus, Ali CV was deemed to be interested in 1,916,182,500 Shares and 14,100,000 underlying Shares held by Mr. Dong Ping and 331,288,020 Shares and 8,910,000 underlying Shares held by Mr. Zhao Chao.
2. This represents (i) the interests in 1,916,182,500 Shares and 14,100,000 underlying Shares held by Mr. Dong Ping as beneficial owner; (ii) the interests in 331,288,020 Shares held by Mr. Zhao Chao through his controlled corporation, Basic Charm Investment Limited which was wholly owned by Rainstone International Limited in which Mr. Zhao Chao maintained 100% beneficial interest; (iii) the interests in 8,910,000 underlying Shares held by Mr. Zhao Chao as beneficial owner; and (iv) the interests in 12,488,058,846 Shares held by Ali CV as beneficial owner. As of June 30, 2014, Ali CV was wholly owned by AGHL, through its controlled corporation, AIL. As SoftBank, directly or indirectly through its wholly-owned subsidiaries, owned more than one-third of the shares in AGHL, accordingly, SoftBank, AGHL and AIL were deemed to have the same interest held by Ali CV.
3. This represents (i) the interests in 1,916,182,500 Shares and 14,100,000 underlying Shares held by Mr. Dong Ping as beneficial owner; (ii) the interests in 331,288,020 Shares held by Mr. Zhao Chao through his controlled corporation, Basic Charm Investment Limited which was wholly owned by Rainstone International Limited in which Mr. Zhao Chao maintained 100% beneficial interest; (iii) the interests in 8,910,000 underlying Shares held by Mr. Zhao Chao as beneficial owner; and (iv) the interests in 12,488,058,846 Shares held by Ali CV as beneficial owner. As of June 30, 2014, both Mr. Dong Ping and Mr. Zhao Chao were parties acting in concert with Ali CV and thus, Mr. Dong Ping was deemed to be interested in 331,288,020 Shares and 8,910,000 underlying Shares held by Mr. Zhao Chao and 12,488,058,846 Shares held by Ali CV.
4. This represents (i) the interests in 1,916,182,500 Shares and 14,100,000 underlying Shares held by Mr. Dong Ping as beneficial owner; (ii) the interests in 331,288,020 Shares held by Mr. Zhao Chao through his controlled corporation, Basic Charm Investment Limited which was wholly owned by Rainstone International Limited in which Mr. Zhao Chao maintained 100% beneficial interest; (iii) the interests in 8,910,000 underlying Shares held by Mr. Zhao Chao as beneficial owner; and (iv) the interests in 12,488,058,846 Shares held by Ali CV as beneficial owner. As of June 30, 2014, both Mr. Dong Ping and Mr. Zhao Chao were parties acting in concert with Ali CV and thus, Mr. Zhao Chao was deemed to be interested in 1,916,182,500 Shares and 14,100,000 underlying Shares held by Mr. Dong Ping and 12,488,058,846 Shares held by Ali CV.
5. As of June 30, 2014, the Company had a total of 20,997,881,410 Shares in issue.

Save as disclosed above, as at June 30, 2014, there were no other parties who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

During the six months ended June 30, 2014, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Listing Rules, except for certain deviations which are summarized below:

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. There has been no separation of the roles of the chairman and the chief executive since the appointment of Mr. Dong Ping (who was also the chairman of the Board until June 24, 2014) as the acting chief executive officer of the Company with effect from January 9, 2012. In view of Mr. Dong Ping’s extensive experience in the industry and in-depth knowledge of the Group’s operation and business, there was no imminent need to separate the roles into two individuals. Following the appointment of Mr. Shao Xiaofeng as chairman of the Board and Mr. Liu Chunming as acting chief executive officer of the Company with effect from June 27, 2014, the Company has fully complied with the code provision A.2.1 of the CG Code. Subsequent to the reporting period, Mr. Zhang Qiang was appointed as chief executive officer of the Company with effect from August 5, 2014.

Code provision A.5.1 stipulates that a nomination committee should be chaired by the chairman of the Board or an independent non-executive director. Following the resignation of Mr. Dong Ping as chairman of the Board with effect from June 24, 2014, the nomination committee of the Company (the “Nomination Committee”) was no longer chaired by either the chairman of the Board or an independent non-executive Director of the Company (“INED”). In order to comply with the requirement under this code provision, Mr. Shao Xiaofeng (being chairman of the Board) was appointed as chairman of the Nomination Committee with effect from June 27, 2014.

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings. Mr. Chen Ching (who resigned as INED with effect from June 24, 2014) was unable to attend the special general meeting of the Company held on June 16, 2014 due to other commitment while Mr. Jin Hui Zhi (who resigned as INED with effect from June 27, 2014) due to other overseas commitment, Mr. Li Lian Jie (who was appointed as INED with effect from June 24, 2014), Mr. Tong Xiaomeng and Ms. Zhang Yu (both were appointed as INEDs with effect from June 27, 2014) were unable to attend the annual general meeting of the Company held on June 27, 2014 (the “2014 AGM”) due to their other respective pre-arranged commitments prior to their appointment.

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. The terms of reference of the remuneration committee (the “Remuneration Committee”) adopted by the Company are in compliance with the code provision B.1.2 except that the Remuneration Committee should review (as opposed to determine under the code provision) and make recommendations to the Board on the remuneration packages of executive Directors only and not senior management (as opposed to both Directors and senior management under the code provision).

CORPORATE GOVERNANCE AND OTHER INFORMATION *(Continued)*

CORPORATE GOVERNANCE *(Continued)*

The reasons for the above deviation are set out in the section “Corporate Governance Report” contained in the Company’s annual report for the financial year ended December 31, 2013 (the “2013 Annual Report”). The Board considers that the Remuneration Committee should for the time being continue to operate according to the terms of reference adopted by the Company. The Board will review the terms at least annually and consider making any appropriate changes if necessary.

Code Provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. Mr. Shao Xiaofeng (who was appointed as chairman of the Board with effect from June 27, 2014) was unable to attend the 2014 AGM due to other pre-arranged business engagement prior to his appointment.

Following the resignation of Mr. Chen Ching as INED with effect from June 24, 2014, (i) the number of members of the audit committee of the Company (the “Audit Committee”) fell below the minimum number required under Rule 3.21 of the Listing Rules; and (ii) there was a vacancy for the position of the chairman of the Remuneration Committee which was required under Rule 3.25 of the Listing Rules.

In order to comply with the requirement under Rules 3.21 and 3.25 of the Listing Rules, the Audit Committee and the Remuneration Committee were reconstituted both with effect from June 27, 2014, including (i) the appointment of Mr. Li Lian Jie, Mr. Tong Xiaomeng and Ms. Zhang Yu (all being INEDs) as members of the Audit Committee and the appointment of Ms. Zhang Yu as the chairman of the Audit Committee; and (ii) the appointment of Mr. Shao Xiaofeng, Mr. Li Lian Jie and Ms. Zhang Yu as members of the Remuneration Committee and the appointment of Ms. Zhang Yu as the chairman of the Remuneration Committee. Subsequent to the reporting period, Mr. Tong Xiaomeng was appointed as the chairman and a member of the Remuneration Committee with effect from October 3, 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the Company’s code of conduct regarding Director’s securities transactions. Having made specific enquiry with all Directors, they have confirmed their compliance with the required standard as set out in the Model Code throughout the six months ended June 30, 2014.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the changes to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the publication of the Company's 2013 Annual Report up to December 19, 2014 (being the date of approval of the Company's 2014 Interim Report) are set out below:

Positions held with the Company and other members of the Group

Mr. Shao Xiaofeng was appointed as (i) executive Director with effect from June 24, 2014; and (ii) chairman of the Board, chairman and/or member of each of the executive committee of the Company (the "Executive Committee"), Remuneration Committee and Nomination Committee all with effect from June 27, 2014.

Mr. Liu Chunning was appointed as (i) non-executive Director with effect from June 24, 2014 but subsequently was re-designated as executive Director with effect from June 27, 2014; (ii) acting chief executive officer of the Company with effect from June 27, 2014 but subsequently resigned on August 5, 2014; and (iii) member of each of the Executive Committee and Nomination Committee with effect from June 27, 2014.

Mr. Zhang Qiang was appointed as executive Director, chief executive officer of the Company and member of the Executive Committee all with effect from August 5, 2014.

Mr. Li Lian Jie was appointed as (i) INED with effect from June 24, 2014; and (ii) member of each of the Audit Committee, Remuneration Committee and Nomination Committee with effect from June 27, 2014.

Mr. Tong Xiaomeng was appointed as (i) INED and member of each of the Audit Committee and Nomination Committee all with effect from June 27, 2014; and (ii) chairman and member of Remuneration Committee with effect from October 3, 2014.

Ms. Zhang Yu was appointed as INED, member of Nomination Committee, chairman and member of each of the Audit Committee and Remuneration Committee all with effect from June 27, 2014 but subsequently ceased to be chairman of Remuneration Committee with effect from October 3, 2014.

With effect from June 24, 2014, (i) Messrs. Ng Qing Hai, Zhao Chao, Kong Muk Yin and Chen Ching resigned as Directors; (ii) Mr. Dong Ping resigned as chairman of the Board and acting chief executive officer of the Company; (iii) Mr. Ng Qing Hai resigned as president of the Company and ceased to be member of the Executive Committee; (iv) Mr. Zhao Chao ceased to be member of the Executive Committee and Nomination Committee; and (v) Mr. Chen Ching ceased to be chairman and/or member of each of the Audit Committee, Remuneration Committee and Nomination Committee.

Mr. Dong Ping, Mr. Jin Hui Zhi and Mr. Li Chak Hung resigned as Directors all with effect from the conclusion of the 2014 AGM. With effect from June 27, 2014, (i) Mr. Dong Ping ceased to be chairman and member of each of the Executive Committee and Nomination Committee; and (ii) Mr. Jin Hui Zhi and Mr. Li Chak Hung ceased to be chairman and/or member of each of the Audit Committee, Remuneration Committee and Nomination Committee.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS *(Continued)*

Directors' Emoluments

Mr. Zhang Qiang is entitled to receive a base salary of RMB1,430,000 per annum with effect from August 5, 2014.

Mr. Li Lian Jie is entitled to receive (i) a director's fee of HK\$200,000 per annum with effect from June 24, 2014; and (ii) a fee of HK\$40,000 per annum for acting as a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from June 27, 2014.

Mr. Tong Xiaomeng is entitled to receive (i) a director's fee of HK\$200,000 per annum with effect from June 27, 2014; (ii) a fee of HK\$40,000 per annum for acting as a member of each of the Audit Committee and the Nomination Committee with effect from June 27, 2014; and (iii) a fee of HK\$60,000 per annum for acting as a chairman and a member of the Remuneration Committee with effect from October 3, 2014.

Ms. Zhang Yu is entitled to receive (i) a director's fee of HK\$200,000 per annum, a fee of HK\$60,000 per annum for acting as a chairman and a member of the Audit Committee and a fee of HK\$40,000 per annum for acting as a member of each of the Remuneration Committee and the Nomination Committee all with effect from June 27, 2014; and (ii) a fee of HK\$20,000 per annum for acting as a chairman of the Remuneration Committee with effect from June 27, 2014 and up to October 2, 2014.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the six months ended June 30, 2014.

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

Hong Kong, December 19, 2014