2017/18
ANNUAL REPORT

阿里巴巴 影业集团™
Alibaba Pictures

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

Stock Code:1060

This Annual Report is printed on environmentally friendly paper

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Li Lian Jie
Mr. Shao Xiaofeng

Independent Non-Executive Directors

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

EXECUTIVE COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. Fan Luyuan *(Committee Chairman)*
Mr. Tong Xiaomeng
Mr. Johnny Chen

COMPANY SECRETARY

Mr. Ng Lok Ming, William

AUDITOR

PricewaterhouseCoopers

WEBSITE

www.irasia.com/listco/hk/alibabapictures

PRINCIPAL BANKERS

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

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SINGAPORE SHARE TRANSFER AGENT

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Singapore 048623

STOCK CODE

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

Alibaba Pictures Group Limited (the "Company" or "Alibaba Pictures", together with its subsidiaries, the "Group") is about to celebrate the fourth anniversary since its establishment. The past year is marked by success of the Company in building new infrastructure, as well as its enduring focus on and refined operation in film content production. Our belief in our strategic vision is unwavering, and we remain confident in the prospect of our future.

China's film market delivered box office receipts of RMB55.8 billion in 2017, representing a year-on-year growth of 23%. Totalling RMB20.2 billion in the first quarter of 2018, not only did China's film box office increase by nearly 40% year-on-year, it also surpassed that of the North America for the first time, making China the world's biggest box office contributor. It is expected that China's box office will continue to deliver stable growth for years to come. Meanwhile, signified by a number of phenomenal films that won critical acclaim while delivering excellent box office in the past year or so, including, among others, *Wolf Warrior 2* (戰狼2) and *Operation Red Sea* (紅海行動), the Chinese film market as a whole is entering a new era where production is driven by content and demand.

It is an honour for Alibaba Pictures to be able to play its part in an era that brings with itself so much hope and possibilities. As an internet-based company engaged in TV and film operations, not only are we committed to bringing happiness to our customers, we have also been driving the entire sector towards informatisation and internetisation. Going forward, we aim to take the sector to achieve still higher levels of smartisation and innovation.

At the centre of our effort in developing new infrastructure, Tao Piao Piao (the Group's online ticketing platform) further strengthened its market-leading position and achieved the largest share of the domestic market during the 2018 Lunar New Year holiday. We firmly believe that Tao Piao Piao is not only one of the leading online ticketing platforms in China, but also an excellent platform that Chinese users access to make decisions when picking films. The Group will continue to leverage on advantages created by the ecosystem of Alibaba Group Holding Limited and its subsidiaries (collectively, "Alibaba Group"), with a view to creating scenarios and interactive experiences of greater diversity to its customers.

At the beginning of 2018, the Group decided to integrate the IP-related merchandising business owned by Alibaba Pictures with Alifish (a platform under Alibaba Group), with a view to concentrating available resources to accelerate the development of its merchandising business, combining contents with consumption scenarios to improve user experience, and creating competitive advantages through differentiation.

Targeting cinemas and studios end, the Group launched Beacon – its one-stop promotion and distribution platform – during the first half of 2018. Through this key project, the Group aims to provide customers with smart promotion and distribution solutions to the difficulties commonly encountered by the film industry such as a lack of information transparency and the inaccuracy in resource allocation, by integrating the most complete TV & film analytical data, relevant media resources and business information within the Alibaba Group network. Further, the Group also plans to create and launch online cinema products by combining Tao Piao Piao's business strengths with information-based operational capabilities.

Meanwhile, in an effort to improve sector-wide collaborative efficiency and resource allocation at the data-product end, Tao Piao Piao Pro features a database of production management software and film industry information. This is an indication that values associated with the wholesome development of young talents and quality contents are being realised, which will drive the sector to improve data transparency and efficiency.

CHAIRMAN'S STATEMENT

Additionally, the Group will continue to focus on developing operational capabilities for copyright integration, so as to provide industry practitioners with financial product solutions while strengthening the collaboration with partners along the industry chain.

Credit should be given to the investment in quality contents, for which Alibaba Pictures – a newcomer to the film industry – was enabled to gradually build up its confidence. Over the past year or so, the Group participated in the investment of some of the top 10 annual box office earners in China, such as *Wolf Warrior 2* (戰狼2), *Operation Red Sea* (紅海行動), *Detective Chinatown 2* (唐人街探案2) and *Youth* (芳華), just to name a few. At the same time, a number of its major investment projects were released in 2017, including, among others, *Once Upon a Time* (三生三世十里桃花) and *Mr. Pride vs Miss Prejudice* (傲嬌與偏見), which recorded satisfactory box office performance. The film and web drama of *Legend of the Ancient Sword 2* (古劍奇譚2) are expected to be released in succession within the coming year.

The Group also attaches great importance to supporting young directors and screenwriters. Alibaba Pictures therefore sponsors "Plan A", through which it seeks to identify and support film talents from younger generations around the world. It is expected that some of the films made by young directors participating in "Plan A" will be released successively in the following year.

The Group fully understands that in addition to in-house production, collaborating with top-tier domestic and overseas production houses known for quality contents is another key approach to high quality content products. Through strategic investments, Alibaba Pictures will maintain extensive strategic collaborations with exceptional production houses within the industry chain, so as to create complementary advantages.

Looking ahead, the Group will continue to invest considerable resources in quality contents, Tao Piao Piao, etc., while strictly adhering to its dual-drive strategy known as "new infrastructure + quality contents"; the Group plans to further access Alibaba Group's media and entertainment ecosystem, so as to achieve value maximisation through the effort of and the synergy brought about by all concerning segments. To honour its commitment towards enhancing commercial value of the TV & film industry through technology, the Group will create an internet-centred model that extends to various business procedures, such as talent development, content production, production management, promotion and distribution, and IP-based business development, with a view to guiding the entire sector through the reforms of industrialisation and smartisation.

Last but not least, on behalf of the Board of the Company, I would like to thank our staff for their diligent work and commitment over the past year. I would also like to take this opportunity to express our most sincere gratitude to our customers, business partners and shareholders for their unwavering support.

Fan Luyuan
Chairman & Chief Executive Officer

Hong Kong, May 7, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

For comparison purpose, major indicators of the financial results for the fifteen months ended March 31, 2018 and March 31, 2017 are summarised in the tables below:

	For the fifteen months ended March 31, 2018 *RMB'000*	For the fifteen months ended March 31, 2017 *RMB'000* (unaudited)
Revenue	**3,302,783**	1,431,924
Gross profit	**2,339,829**	599,029
Selling and marketing expenses	**(3,222,608)**	(1,773,914)
Administrative expenses	**(968,885)**	(894,103)
Operating loss	**(1,613,053)**	(1,957,412)
Finance (expenses)/income, net	**(183,873)**	514,516
Share of profit or loss of and gain on dilution of investments accounted for using the equity method	**37,279**	12,502
Loss for the period	**(1,794,960)**	(1,456,745)
Loss attributable to owners of the Company	**(1,658,647)**	(1,391,939)

	Segment revenue Fifteen months ended March 31,		**Segment results Fifteen months ended March 31,**	
	2018 *RMB'000*	2017 *RMB'000* (unaudited)	**2018** *RMB'000*	2017 *RMB'000* (unaudited)
Internet-based promotion and distribution	**2,658,579**	1,163,150	**(882,538)**	(891,634)
Content production	**585,444**	240,919	**7,958**	(241,289)
Integrated development	**58,760**	23,724	**32,690**	(14,341)
Other operations	**–**	4,131	**–**	4,131
Total	**3,302,783**	1,431,924	**(841,890)**	(1,143,133)

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

On February 27, 2018, the Group announced its 12-month results ended December 31, 2017, the period during which the Group recorded revenue of RMB2,366.1 million and net loss attributable to the owners of the Company of RMB950.3 million. Having changed its financial year end from December 31 to March 31, the Group is reporting its financial results for the 15 months ended on March 31, 2018 ("Reporting Period"). During this Reporting Period, the Group experienced material business growth, whereby its revenue amounted to RMB3,302.8 million, compared with RMB1,431.9 million for the 15 months ended March 31, 2017 ("Previous Period"). Each of its three business segments achieved strong revenue growth, led by the internet-based promotion and distribution business, which recorded RMB2,658.6 million in revenue in the Reporting Period, a 15-month growth of 128.6%. As an integral part of the new industry infrastructure, the Group's online movie ticketing platform Tao Piao Piao has continued to expand its footprints and gain industry recognition. As at March 31, 2018, Tao Piao Piao is connected to approximately 9,000 cinemas in Mainland China. Ticketing platforms have enhanced the convenience of cinema ticket purchase to consumers, now furthermore they are heavily involved in the online promotion of entertainment content. An increasing number of users are browsing them for information that revolves around movies, cinemas, and celebrities. Tao Piao Piao has become a powerful tool for digital promotion of films.

The Chinese New Year holiday period ("CNY Period") is usually a peak season for box office in the PRC. February 2018 saw the highest box office number ever recorded for the CNY period, which the Group used as a strategic time window to exert its effort to strengthen Tao Piao Piao's market-leading position. Significant resources were spent in the CNY Period of 2018 to provide pricing incentives to consumers to further promote the Tao Piao Piao brand. The Group recorded a net loss attributable to the owners of the Company of RMB1,658.6 million for the Reporting Period, compared with RMB1,391.9 million for the Previous Period. Although marketing expenses increased, the increase in net loss was materially impacted by foreign exchange movements. Foreign exchange loss during the Reporting Period was RMB278.7 million, compared with a gain of RMB367.4 million for the Previous Period. This fluctuation resulted from the appreciation of RMB against USD and HKD. Without this factor, the Group's operations showed noticeable improvement, as operating loss narrowed to RMB1,613.1 million in the Reporting Period from RMB1,957.4 million in the Previous Period. Substantial progress was made in each of its three major business segments: (i) internet-based promotion and distribution, (ii) content production, and (iii) integrated development. Details are elaborated in the section headed "Business Review" below.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

INTERNET-BASED PROMOTION AND DISTRIBUTION

Through the last several years, the online movie ticketing industry experienced continuous growth and consolidation. In the second half of 2017, two major ticketing platforms, namely Maoyan and Yu Piao Er, were merged. The consolidated entity of Maoyan was eventually acquired by Enlight Media, and together with Tao Piao Piao (the Group's online movie ticketing platform), formed a duopoly that commands a very large percentage of the entire market. In such competitive landscape, the Group utilized pricing promotion to stimulate user activity and further strengthen the Tao Piao Piao brand in February 2018 during the CNY Period. Such measure allowed Tao Piao Piao to accelerate its market share expansion in the first quarter of 2018. In the Reporting Period, Tao Piao Piao's gross merchandise volume ("GMV") recorded a growth of more than 80% from the Previous Period. The Group remains confident in the commercial potentials of Tao Piao Piao, therefore, continued to allocate substantial resources to improve its overall business profile. In addition, the Group increased its equity stake in Tao Piao Piao by 9.12% to 96.71% in July 2017.

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

The Group's ticket issuance system Yueke has been re-named Yunzhi, and it continued to deliver steady growth. At the end of March 2018, Yunzhi is connected to more than 3,000 cinemas in the PRC. For the Reporting Period, Yunzhi achieved a revenue growth of 25.4% over the Previous Period. The Group's internet-based promotion and distribution business segment generated RMB2,658.6 million of revenue in the Reporting Period, an increase of 128.6% from RMB1,163.2 million in the Previous Period. The surge is primarily attributable to the increase in online ticketing fees and online promotion and distribution fees. As Tao Piao Piao's market share expanded steadily, higher year-over-year marketing expenses were incurred, which contributed to the segment loss of RMB882.5 million for the Reporting Period, compared with the segment loss of RMB891.6 million for the Previous Period.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTENT PRODUCTION

The Group released several films in the Reporting Period. In April 2017, the Group released Mr. Pride vs Miss Prejudice (傲嬌與偏見), the domestic box office of which reached RMB124 million. In August, the much anticipated film Once Upon a Time (三生三世十里桃花), featuring highly popular actress Liu Yifei and actor Yang Yang, was released and its box office totaled RMB534 million. In addition to these projects, the Group also co-invested in films developed by other studios. Such films include domestic blockbusters such as Youth (芳華), Operation Red Sea (紅海行動), and The Ex-file: The Return of the Exes (前任3:再見前任), the box offices of which achieved RMB1.42 billion, RMB3.64 billion, and RMB1.94 billion, respectively. Other films that the Group co-invested include This is Not What I Expected (喜歡你), a film starring Takeshi Kaneshiro and Zhou Dongyu, and Paradox (殺破狼:貪狼), featuring Louis Koo. The Group continues to invest in the development of entertainment content selectively. Swords of Legend 2 (古劍奇譚2), which is based on a widely popular game in the PRC, has been developed into a film and drama series that will be shown in the near future.

The Group's content business spans both movies and drama series. In the Reporting Period, the Group sold the broadcasting rights of several drama series to Youku, a related company of the Group. These drama series include Who Is the Best (最强男神) and Ugly Girl Hai Ru Hua (囧女翻身之嗨如花). In terms of financial results, the content production business segment of the Group recorded revenue of RMB585.4 million in the Reporting Period, compared with RMB240.9 million in the Previous Period. The Group recorded a segment profit of RMB8.0 million in the Reporting Period, a significant improvement from a loss of RMB241.3 million in the Previous Period.

Given the current industry characteristics, the Group has strategically improved its domestic content team structure, which is now a combination of internal staff and external studios that the Group works closely with. Full-cycle content production involves significant upfront capital and time investment, therefore project selection is critical to the content business. Such a team structure will allow the Group to source a large number of projects and yet have the flexibility to engage them at various stages of development. The Group will not only continue to co-invest in films, but also drama series, which form a market size comparable to films, shown on either TV stations or online video streaming websites or both.

INTEGRATED DEVELOPMENT

In the Reporting Period, the Group completed numerous IP merchandising projects, the most successful of which was Once Upon a Time (三生三世十里桃花), the GMV of which exceeded RMB300 million on Alibaba's E-commerce platforms. In addition to license its own IPs for merchandising, the Group can sub-license IPs from third parties in order to develop more products. Recently, the Group completed the merger of its own IP merchandising business with Alifish of Alibaba Group. The concentration of resources will allow the Group to intensify the business development of the merchandising business (under the name of Alifish). Going forward, the Group will also work increasingly with Alibaba Group on furthering the entertainment content display and utilization on its e-commerce platforms. Doing so will boost overall user interest and be mutually beneficial for both parties.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's integrated development business segment also consists of Yulebao – a C2B TV and Film rights trading platform. The Group completed several C2B TV and Film rights trading projects in the Reporting Period. In addition, the Group has implemented measures to lower the overall costs of the C2B TV and Film rights trading service and enhance counter-party risk control. The growth and development of the Group's merchandising business contributed significantly to the improved financial performance of integrated development business segment. For the Reporting Period, the segment recorded revenue of RMB58.8 million and profit of RMB32.7 million, greatly improved from revenue of RMB23.7 million and loss of RMB14.3 million in the Previous Period. Most recently, Alifish has obtained the merchandising rights for Traveling Frog (旅行青蛙), a very popular mobile App game originating from Japan.

PROSPECTS

In February 2018, the PRC film industry saw the highest domestic box office numbers ever recorded for the CNY Period. Tao Piao Piao was deeply involved in the promotion of films, fully utilizing its resources and collaborating with Alibaba Group and ANT Financial Services Group. In April 2018, the Group rolled out a new product, which aims at film distribution and marketing companies. The product aggregates the digital advertising resources of the Group together with Alimama and Youku, with features that make the sourcing and tracking of digital advertising services more transparent and convenient. In addition to developing powerful tools for film promotion, the Group has also consistently upgraded its App Tao Piao Piao Pro, which provides relevant and useful industry information and is widely used by industry participants. Furthermore, the Group, through Yunzhi, continues to drive the adoption of its cloud-based ticket issuance systems which will enhance the operational efficiency of cinema operators. The Group's overall strategy continues to be the development of products and services that form the new infrastructure of the industry.

In terms of content development, the Group continues to lead and co-invest in projects selectively, support young production talents through its Plan A initiatives, and build extensive collaborative relationships with top-tier production houses both domestically and internationally. In addition to these endeavors, the Group will also accelerate the cross-development between content and merchandise, games, etc. Such initiative can extend the revenue stream of an original IP and allow for its sustainable development.

Going forward, the Group plans to further enrich Tao Piao Piao's information and media functions, providing content that are interesting and engaging to its users. There will also be more collaborations between the Group and Alibaba Group, not only with their media and digital entertainment units, but also their commerce platforms. Some of these platforms have established large user bases, who have an increasing demand for media and entertainment content. The Group expects to fund its business initiatives in the coming year with its own internal financial resources, but may seek external financing if the appropriate opportunities and conditions arise. Management is confident and excited about the growth prospects of the Group, which continues to develop its ecosystem that generates synergy with Alibaba Group, empowers industry participants, and satisfies the needs of mass end-users.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Profit for the period

During the Reporting Period, the Group recorded revenue of RMB3,302.8 million, representing an increase of 130.7% from the Previous Period. Gross profit during the Reporting Period was RMB2,339.8 million, compared with RMB599.0 million in the Previous Period. Comparing the two periods, all three business segments recorded substantial increases in revenue and improvement in results. The internet-based promotion and distribution segment accounted for the largest portion of the increase in the overall top line, while the content production segment showed the strongest segment result improvement.

Net loss attributable to the owners of the Company amounted to RMB1,658.6 million, compared with RMB1,391.9 million in the Previous Period. The improvement in the Group's business operations was offset in part by the increase in foreign exchange loss due to currency fluctuations.

For the Reporting Period, loss per share (basic and diluted) for the Group amounted to RMB6.56 cents, compared with RMB5.52 cents for the Previous Period.

Selling, Marketing and Administrative Expenses

Selling and marketing expenses in the Reporting Period were RMB3,222.6 million, compared with approximately RMB1,773.9 million in the Previous Period. The increase in selling and marketing expenses was primarily attributable to the marketing expenses incurred by Tao Piao Piao as it expanded its GMV and market share. Administrative expenses grew modestly from RMB894.1 million to RMB968.9 million primarily due to an increased number of employees.

Finance Income

For the Reporting Period, the Group recorded net finance expense of RMB183.9 million, which included foreign exchange loss of RMB278.7 million, compared with net finance income of RMB514.5 million, which included foreign exchange gain of RMB367.4 million in the Previous Period. The decrease in net interest income reflected lower interest income generated in the Reporting Period compared with the Previous Period, as a result of lower cash reserves. As the Group's cash reserves are held in multiple currencies, the foreign exchange loss resulted mainly from the appreciation of RMB against USD and HKD in the Reporting Period.

Material Investments/Dispositions

In July 2017, the Group increased its equity stake in Tao Piao Piao by 9.12% to 96.71%. As at March 31, 2018, the Group held more than 10 investments in associates, all of which were accounted for using the equity method, and combined for a total book value of approximately RMB2.39 billion. The three largest investments are in Bona Film Group Limited ("Bona Film"), Hehe (Shanghai) Pictures Co., Ltd. ("Hehe"), and Storyteller Holding Co., LLC ("Amblin"), which are all involved in film production or distribution. For the Reporting Period, the Group recorded a total gain of RMB37.3 million in its investments in associates.

In April 2018, the Group has agreed to dispose, and Paytm (an online payment solution provider based in India) has agreed to purchase, the Group's entire equity interests in TicketNew. TicketNew, an online movie ticketing platform in India, was a subsidiary of the Company. This transaction is not expected to result in any material gain or loss. As at March 31, 2018, TicketNew was classified as held-for-sale assets and liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Resources and Liquidity

In the first quarter of 2018, the Group repaid a short-term borrowing of RMB990.0 million, which was secured by restricted cash of approximately RMB1.0 billion. As at March 31, 2018, the Group had cash and cash equivalents and bank deposits of approximately RMB4.4 billion in multiple currencies. The Group had short-term available-for-sale financial assets of approximately RMB667.0 million. The short-term available-for-sale financial assets mainly consist of investments in wealth management products issued by major banks in the PRC with expected return ranged from 2.8% to 5.0% per annum and redeemable within one year. The Group recognized an investment income of approximately RMB99.9 million (as recorded as "other income" in the consolidated statement of profit or loss) from its available-for-sale financial assets in the Reporting Period. The investments in wealth management products under available-for-sale financial assets were made in line with the Group's treasury and investment policies, after taking into account, among others, the level of risk, return on investment, liquidity and the term to maturity. As at March 31, 2018, the Group had short-term and long-term borrowings of RMB3.0 million and RMB23.3 million respectively, which bear interest at 6.555% per annum, under a five-year RMB-denominated bank facility with credit limit at RMB48 million. As at March 31, 2018, the Group was in a net cash position and its gearing ratio (being net borrowings over total equity) was nil (March 31, 2017: nil).

Foreign Exchange Risks

As at March 31, 2018, the Company held its cash reserves mostly in RMB, USD and HKD. Although the majority of the Group's businesses are conducted in RMB, some investment opportunities and collaborations with studios outside Mainland China may require foreign currencies. Given the Group's substantial cash reserves in foreign currencies and volatilities in their exchange rates, it incurred a material foreign exchange loss in the Reporting Period, in which USD and HKD depreciated by approximately 10% against RMB. The Group continues to monitor its capital needs closely and manage foreign currency reserves according to both internal needs and external environment. The Group has not used any currency hedging instruments but continues to evaluate ways to manage its exposure to foreign currency fluctuations in a cost-effective manner.

Charge on Assets

As at March 31, 2018, the Group did not have any charge on assets (March 31, 2017: nil).

Contingent Liabilities

As at March 31, 2018, the Group did not have any material contingent liabilities (March 31, 2017: nil).

Employees and Remuneration Policies

As at March 31, 2018, the Group, including its subsidiaries but excluding its associates, had 1,442 employees. The total employee benefit expenses of the Group were RMB671.6 million in the Reporting Period. The remuneration policies of the Group are based on prevailing market levels and performance of the respective group companies and individual employees. These policies are reviewed on a regular basis.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. FAN Luyuan, aged 45 and appointed to the Board as executive director on January 1, 2016, is the chairman of the Board, the chief executive officer, the chairman of each of the executive committee and the nomination committee and a member of the remuneration committee of the Company. He is also a director of certain subsidiaries of the Company. Mr. Fan is a member of Alibaba Partnership and currently holds key management positions at certain business units of Alibaba Digital Media & Entertainment Group, including the chief executive officer of Damai, a ticketing and distribution platform for live entertainments of Alibaba Group. Mr. Fan joined Alipay in 2007, and served consecutively as senior director of Development Department, assistant president, vice president and senior vice president. He was also president of Alipay Business Unit and Wealth Management Business Unit at Ant Financial Services Group. In 2010, he and his team pioneered the first ever Quick Payment, which improved the success rate of online transactions and greatly enhanced user experiences. In 2013, Mr. Fan led his team to create Yu'e Bao, which is now one of the world's largest financial products on the internet with over 200 million users, allowing mass consumers to able to benefit from easy access to financial products. Meanwhile, he and his team have made the Alipay APP one of the most popular internet products in China in three years. He holds an executive master's degree in business administration from Cheung Kong Graduate School of Business.

Mr. YU Yongfu, aged 41 and appointed to the Board as non-executive director on August 27, 2016, has been re-designated as an executive director of the Company since November 21, 2016. He is a director of certain subsidiaries of the Company. Mr. Yu served as the chairman of the Board from November 21, 2016 to October 13, 2017 and the chief executive officer of the Company from December 5, 2016 to August 2, 2017. Mr. Yu is a member of Alibaba Partnership since December 2015 and has been appointed as the head of eWTP (electronic world trade platform) strategic investment working committee to be established by Alibaba Group and the chairman of Autonavi with effect from December 1, 2017. Prior to his current positions, Mr. Yu served as chairman and the chief executive officer of Alibaba Digital Media & Entertainment Group, president of Autonavi, president of Alibaba Mobile Internet Division, president of Alimama and president of UCWeb after he joined Alibaba Group in June 2014. From 2006 to June 2014, he was chairman and chief executive officer of UCWeb before it became a wholly-owned subsidiary of Alibaba Group. Prior to that, he was a vice president and associate with Legend Capital from 2001 to 2006. From June 23, 2014 to March 7, 2017, Mr. Yu served as an independent director and a member of the audit committee of Xunlei Limited, a NASDAQ-listed company. He received a bachelor's degree in business administration from Nankai University.

Ms. ZHANG Wei, aged 47 and appointed to the Board on January 1, 2016, is an executive director and the president and a member of the executive committee of the Company. She served as a senior vice president of Alibaba Group, where she led the Alibaba Group Investment team. Prior to joining Alibaba Group in July 2008, Ms. Zhang served as the chief operating officer of STAR (China) Ltd., where she was in charge of STAR Group Ltd.'s operation in the People's Republic of China. Previously, Ms. Zhang served as a managing director of CNBC China and prior to that, she worked as a consultant at Bain & Company and also served as a finance specialist of General Electric Company and GE Capital. Ms. Zhang holds a MBA degree from Harvard Business School and a bachelor's degree in international organizational management from Seton Hill College, Pennsylvania.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Directors

Mr. LI Lian Jie, aged 55 and appointed to the Board on June 24, 2014, is a non-executive director of the Company. Mr. Li served as independent non-executive director of the Company for the period from June 24, 2014 to December 21, 2014 and was re-designated as a non-executive director of the Company since December 22, 2014. He is a world-renowned martial artist, movie star and social entrepreneur. Mr. Li was a five-time consecutive All-Around National Martial Arts Champion of China from 1975 to 1979. He has more than 30 years of experience in the film industry and has starred in countless classic Chinese martial arts movies and international hits, including Shaolin Temple, Once Upon a Time in China, Fist of Legend, Hero and Fearless, Lethal Weapon 4, Romeo Must Die, The Mummy 3 and Expendables. In 2007, Mr. Li founded One Foundation, which advocates broad-based participation in philanthropy and volunteerism and established China's first philanthropy research institute in partnership with Beijing Normal University in 2010 to cultivate the next generation of social sector leaders in China through degree granting programmes and corporate training programmes.

Mr. SHAO Xiaofeng, aged 52 and appointed to the Board on June 24, 2014, is a non-executive director of the Company. Mr. Shao served as the chairman and executive director, chairman of each of the executive committee and the nomination committee, and a member of the remuneration committee of the Company from June 27, 2014 to November 21, 2016. He joined Alibaba Group in March 2005 and was a vice president of Taobao from January 2007 to January 2008, responsible for Taobao's strategic development planning, overall marketing and business modeling. He served as Alipay's executive president and then president from January 2008 to March 2010. From August 2010 to June 2011, he was a general manager of Alibaba.com's China Business Unit. Mr. Shao was the chief risk officer from June 2012 to May 2015, responsible for the Group's risk management strategies and planning and the implementation of the risk management system. He has been the chief secretary of the Group since March 2010, responsible for the coordination and development of the strategic cooperation among the subsidiaries. Mr. Shao has extensive experience in network security, e-commerce, online transactions and payments. He holds an executive master's degree in business administration from China Europe International Business School.

Independent Non-Executive Directors

Ms. SONG Lixin, aged 50 and appointed to the Board on December 22, 2014, is an independent non-executive director and a member of each of the audit committee and the remuneration committee of the Company. She is the president of Talents Magazine and served as its editor-in-chief since 1997. Ms. Song has more than 20 years of experience in the cultural and business sector. Despite facing fierce competition in the print media industry, Ms. Song has built Talents Magazine into a well-known brand in China. Talents Magazine focuses on business leaders and major companies. With its unique reporting perspective, Talents Magazine has become a leading magazine in advanced management ideas. Talents Magazine is also recognized as one of the most influential business magazines in the finance and economics fields. Ms. Song also founded the China Annual Management Summit in 2001 which has continued to run for a consecutive 17 years to date. Ms. Song holds a bachelor's degree in law from Renmin University and received an MBA degree from Tsinghua University.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors *(Continued)*

Mr. TONG Xiaomeng, aged 44 and appointed to the Board on June 27, 2014, is an independent non-executive director, chairman of the remuneration committee and a member of each of the audit committee and nomination committee of the Company. He is a co-founder and managing partner at Boyu Capital. Prior to founding Boyu Capital, Mr. Tong was a managing director at General Atlantic and Providence Equity Partners, where he headed both firms' Greater China practice and served as a director at a number of publicly-listed and privately-held companies. Mr. Tong graduated from Harvard University where he was a member of Phi Beta Kappa.

Mr. Johnny CHEN, aged 58 and appointed to the Board as independent non-executive director on January 29, 2016, is the chairman of the audit committee and a member of the nomination committee of the Company. Mr. Chen is an Adjunct Associate Professor of Department of Finance and Department of Management, Hong Kong University of Science and Technology. Mr. Chen joined the management of Zurich Insurance Group ("Zurich") in 2005. He worked in Zurich from March 2005 to February 2015 in multiple senior managerial roles in Asia-Pacific region. His last position in Zurich was the chairman of China. Prior to joining Zurich, Mr. Chen was an executive member of the Greater-China Management Board and the Operating Committee of PricewaterhouseCoopers ("PwC"), as well as a managing partner of PwC's Beijing office. Mr. Chen holds a Master of Science Degree in Accounting from the University of Rhode Island and a Bachelor Degree of Accounting from the Johnson & Wales University. He is a U.S. certified public accountant.

Senior Management

Mr. MENG Jun, aged 38, is the chief financial officer of the Company and a director of certain subsidiaries of the Company. He joined the Company on April 9, 2018. Before joining the Company, Mr. Meng served at Alibaba Group, where he held key financial management positions at a number of business units, including among others, Tao Dian Dian, Taobao Movie (now known as Tao Piao Piao), Tmall Supermarket and Alibaba Digital Media & Entertainment Group; he still held office at some of the said positions after joining the Company. Prior to joining Alibaba Group, Mr. Meng served auditing and financial advisory positions at various companies, such as E&Y and IBM. Mr. Meng holds a bachelor's degree in economics from Beijing Technology and Business University.

Company Secretary

Mr. NG Lok Ming, William, aged 45, has been the company secretary of the Company since November 3, 2015. Mr. Ng is also the legal director – company secretarial and compliance of Alibaba Group Holding Limited. He has more than 9 years of experience working in senior legal positions and as Company Secretary of companies listed in Hong Kong. Mr. Ng graduated from the University of Hong Kong with a LL.B. and a P.C.LL. in 1995 and 1996, respectively. He later obtained a LL.M. in Comparative and PRC law from the City University of Hong Kong in 2002. Mr. Ng was admitted as a solicitor of the High Court of Hong Kong in 2001. He is also a member of the Law Society of Hong Kong.

DIRECTORS' REPORT

The directors (the "Director(s)") of Alibaba Pictures Group Limited (the "Company") present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the fifteen months ended March 31, 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the fifteen months ended March 31, 2018 are set out in the consolidated statement of profit or loss on page 92.

The Directors do not recommend the payment of a dividend for the fifteen months ended March 31, 2018 (2016: nil).

SHARE CAPITAL OF THE COMPANY

Details of shares capital of the Company are set out in note 23 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at March 31, 2018, the Company's distributable reserves calculated in accordance with the provisions of the Bermuda Companies Act amounted to approximately RMB16 million (December 31, 2016: RMB774 million).

BUSINESS REVIEW

The business review of the Group as at March 31, 2018 is set out under the section headed "Management Discussion and Analysis" of this report on pages 5 to 11.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks and uncertainties the Group faces are set out under the sections headed "Corporate Governance Report – Accountability and Audit – Risk Management and Internal Control – Disclosure of Material Risks" of this report on pages 68 to 71 and "Directors' Report – Contractual Arrangements – Risks associated with Structured Contracts and the actions taken to mitigate the risks" of this report on pages 46 to 47.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 202.

DIRECTORS' REPORT

DIRECTORS

The Directors during the fifteen months ended March 31, 2018 and up to the date of this report were:

Executive Directors
Mr. Fan Luyuan *(Chairman & Chief Executive Officer)*
Mr. Yu Yongfu
Ms. Zhang Wei *(President)*
Mr. Zhang Qiang *(Resigned on June 23, 2017)*

Non-Executive Directors
Mr. Li Lian Jie
Mr. Shao Xiaofeng

Independent Non-Executive Directors
Ms. Song Lixin
Mr. Tong Xiaomeng
Mr. Johnny Chen

In accordance with bye-law 87(2) of the Bye-laws, Mr. Fan Luyuan, Ms. Song Lixin and Mr. Tong Xiaomeng shall retire from office by rotation at the forthcoming annual general meeting ("AGM") and, being eligible, offer themselves for re-election.

The Directors' biographical details are set out on pages 12 to 14.

DIRECTORS' REPORT

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at March 31, 2018, 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 The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Interests in the shares and underlying shares of the Company

Name of Director	Long/Short Position	Nature of Interest	Number of Ordinary Shares held	Derivatives		Aggregate Interests	Percentage of Aggregate Interests to Total Issued Share Capital of the Company *(Note 1)*
				Share Options	Awarded Shares		
Zhang Wei	Long position	Beneficial Owner	826,696	10,000,000 *(Note 2)*	2,500,000 *(Note 3)*	13,326,696	0.05%
Shao Xiaofeng	Long position	Founder of a discretionary trust	10,000,000 *(Note 4)*	–	–	10,000,000	0.04%

Notes:

1. Based on a total of 25,469,703,910 ordinary shares of the Company in issue as at March 31, 2018.

2. 10,000,000 share options were granted to Ms. Zhang Wei on April 13, 2016, of which 5,000,000 share options were cancelled upon the grant of 2,000,000 awarded shares on July 28, 2017. Subsequently 5,000,000 share options were granted to Ms. Zhang Wei on October 24, 2017. There were 10,000,000 share options held by Ms. Zhang Wei, but not exercised, as at March 31, 2018.

3. 2,000,000 awarded shares were granted to Ms. Zhang Wei on July 28, 2017 in replacement of the 5,000,000 share options (out of 10,000,000 share options) granted to her on April 13, 2016. Subsequently, 2,000,000 awarded shares were granted to Ms. Zhang Wei on October 27, 2017. There were 2,500,000 awarded shares held by Ms. Zhang Wei, but not vested to her, as at March 31, 2018.

4. Such 10,000,000 ordinary shares are directly held by a discretionary trust of which Mr. Shao Xiaofeng is a founder who can influence how the trustee exercises his discretion. Mr. Shao Xiaofeng is taken to be interested in all such 10,000,000 ordinary shares of the Company.

Save as disclosed above, as at March 31, 2018, none of the Directors, chief executive of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

SHARE INCENTIVE SCHEMES

2012 Share Option Scheme

The shareholders of the Company approved the adoption of the share option schemes on May 23, 2002 (the "2002 Share Option Scheme") and June 11, 2012 (the "2012 Share Option Scheme") respectively. The 2002 Share Option Scheme expired on May 22, 2012 and no further share options of the Company (the "Share Options") shall be granted under the 2002 Share Option Scheme. All outstanding Share Options granted under the 2002 Share Option Scheme were lapsed during the year ended December 31, 2015.

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

Purpose

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

Participants

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

(i) any Employee;

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

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

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

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

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

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

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

DIRECTORS' REPORT

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Duration and Administration

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

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

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

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

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

Grant of Share Options

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

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

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

DIRECTORS' REPORT

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Grant of Share Options *(Continued)*

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

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

Exercise Price

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

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

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

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

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

Exercise of Share Options

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

DIRECTORS' REPORT

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Exercise of Share Options *(Continued)*

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

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

Maximum Limit

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

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

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

Individual Limit

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

DIRECTORS' REPORT

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Movements of Share Options

As at March 31, 2018, a total of 57,933,500 Share Options have been granted and remained outstanding under the 2012 Share Option Scheme, representing approximately 0.23% of the shares of the Company in issue as at the date of this report. No participant was granted with Share Options in excess of the individual limit as set out in the 2012 Share Option Scheme. As at the date of this report, the remaining life of the 2012 Share Option Scheme is approximately 4 years. Further details of the 2012 Share Option Scheme are set out in note 24 to the consolidated financial statements.

Movements of the Share Options granted by the Company pursuant to the 2012 Share Option Scheme during the fifteen months ended March 31, 2018 were as follows:

Category	Date of grant	Exercise price per share (HK$)	Closing price of shares immediately before the dates on which the Share Options were granted (HK$)	Outstanding as at January 1, 2017	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding as at March 31, 2018	Vesting period *(Notes)*
Director										
Zhang Qiang (Resigned as director on June 23, 2017)	28/01/2015	1.670	1.650	210,119,800	–	–	210,119,800	–	–	1(i)
Zhang Wei	13/04/2016	1.880	1.890	10,000,000	–	–	–	5,000,000	5,000,000	1(iii)
	24/10/2017	1.276	1.270	–	5,000,000	–	–	–	5,000,000	1(iii)
Employees	28/01/2015	1.670	1.650	59,900,000	–	–	23,400,000	28,900,000	7,600,000	1(ii)
	15/04/2015	4.090	3.720	19,200,000	–	–	6,000,000	13,200,000	–	1(ii)
	02/07/2015	3.156	3.010	13,200,000	–	–	3,000,000	10,200,000	–	1(ii)
	28/04/2015	4.004	3.950	30,000,000	–	–	30,000,000	–	–	1(ii)
	24/09/2015	1.860	1.800	16,200,000	–	–	3,000,000	13,200,000	–	1(ii)
	05/11/2015	2.170	2.110	7,800,000	–	–	3,000,000	4,800,000	–	1(ii)
	16/12/2015	1.900	1.800	16,416,000	–	–	11,790,000	4,626,000	–	1(ii)
	25/01/2016	1.660	1.630	5,400,000	–	–	–	5,400,000	–	1(ii)
	13/04/2016	1.880	1.890	80,400,000	–	–	37,080,000	42,395,000	925,000	1(iii)
	15/04/2016	1.842	1.860	12,000,000	–	–	12,000,000	–	–	1(ii)
	03/06/2016	1.860	1.860	9,000,000	–	–	4,200,000	4,800,000	–	1(ii)
	03/06/2016	1.860	1.860	110,760,000	–	–	15,250,000	86,980,000	8,530,000	1(iii)
	05/12/2016	1.494	1.470	85,400,000	–	–	34,600,000	44,500,000	6,300,000	1(ii)
	05/12/2016	1.494	1.470	39,470,000	–	–	5,420,000	33,000,000	1,050,000	1(iii)
	13/01/2017	1.270	1.290	–	14,400,000	–	10,200,000	4,200,000	–	1(ii)
	17/07/2017	1.310	1.310	–	26,700,000	–	17,221,500	–	9,478,500	1(ii)
	24/10/2017	1.276	1.270	–	10,600,000	–	2,750,000	–	7,850,000	1(iii)
	18/01/2018	1.060	1.070	–	6,200,000	–	–	–	6,200,000	1(ii)
Total:				725,265,800	62,900,000	–	429,031,300	301,201,000	57,933,500	

DIRECTORS' REPORT

SHARE INCENTIVE SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

Notes:

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

   (i) Category A

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

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

   (ii) Category B

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

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

   (iii) Category C

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

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

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

3. During the fifteen months ended March 31, 2018, no share options were exercised under the 2012 Share Option Scheme.

DIRECTORS' REPORT

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme

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

Purposes and Objectives

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

Administration

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

Duration

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

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

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

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

As at March 31, 2018, the remaining life of the Share Award Scheme is approximately 14 years.

Maximum Limit

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

DIRECTORS' REPORT

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme *(Continued)*

Restrictions

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

Operation

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

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

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

Vesting and Lapse

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

DIRECTORS' REPORT

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme *(Continued)*

Vesting and Lapse *(Continued)*

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

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

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

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

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

Voting Rights

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

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

DIRECTORS' REPORT

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme *(Continued)*

Termination

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

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

Movements of Awarded Shares

During the fifteen months ended March 31, 2018, the movements of Awarded Shares granted under the Share Award Scheme were as follows:

Date of Grant	Closing price of shares immediately before the dates on which the Awarded Shares were granted (HK$)	Number of Awarded Shares outstanding as at January 1, 2017	Number of Awarded Shares granted	Number of Awarded Shares vested as at March 31, 2018	Number of Awarded Shares lapsed as at March 31, 2018	Number of Awarded Shares outstanding as at March 31, 2018
28/07/2017	1.310	–	183,060,000 *(Notes 1 & 4)*	77,134,500	38,131,000	67,794,500
27/10/2017	1.250	–	79,449,000 *(Notes 2 & 4)*	13,032,500	3,225,250	63,191,250
18/01/2018	1.070	–	18,320,000 *(Notes 3 & 4)*	–	480,000	17,840,000
Total:			280,829,000	90,167,000	41,836,250	148,825,750

DIRECTORS' REPORT

SHARE INCENTIVE SCHEMES *(Continued)*

Share Award Scheme *(Continued)*

Movements of Awarded Shares *(Continued)*

Notes:

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

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

Note 3: All these 18,320,000 Awarded Shares were granted to 23 Selected Employees who are not connected persons of the Company.

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Options" above, at no time during the fifteen months ended March 31, 2018 was the Company, any of its holding companies, its subsidiaries or its fellow subsidiaries, a party to any arrangements to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" below and the related party transactions as disclosed in note 34 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company, any of its holding companies, its subsidiaries or its fellow subsidiaries was a party and in which a Director and/or any of its connected entity had a material interest, whether directly or indirectly, and no transaction, arrangement or contract of significance between the Company, any of its holding companies, its subsidiaries and the Company's controlling shareholder or any of its subsidiaries, subsisted at the end of the fifteen months ended March 31, 2018 or at any time during the fifteen months ended March 31, 2018.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the fifteen months ended March 31, 2018.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

For details of relationship with the employees, please refer to the paragraph headed "Employees and Remuneration Policies" in the "Management Discussion and Analysis" section as set out on page 11 of this report.

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

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the fifteen months ended March 31, 2018. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against the Directors and officers.

COMPLIANCE WITH LAWS AND REGULATIONS

For the fifteen months ended March 31, 2018 and up to the date of this report, to the best knowledge of the Directors, the Group complied with applicable laws, rules and regulations in all material aspects.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

An Environmental, Social and Governance Report has been incorporated in this report on pages 75 to 83.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the fifteen months ended March 31, 2018, the percentage of the Group's revenue attributable to the Group's five largest customers combined was less than 30%; the percentage of the Group's purchases attributable to the Group's five largest suppliers combined was less than 30%.

CONNECTED TRANSACTIONS

Since November 2015 and during the fifteen months ended March 31, 2018, the Company has entered into a number of transactions with entities which are connected persons (as defined in Chapter 14A of the Listing Rules) of the Company, and such transactions constituted connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules. These relevant entities include:

(1) Alibaba Group Holding Limited ("AGH"), which indirectly wholly owns Ali CV Investment Holding Limited ("Ali CV"), the controlling shareholder of the Company holding approximately 49% of the issued share capital in the Company, and hence a connected person of the Company;

(2) 浙江天貓技術有限公司 (Zhejiang Tmall Technology Co., Ltd.*) ("Tmall Technology"), which is an indirect wholly-owned subsidiary of AGH. Accordingly, Tmall Technology is an associate of Ali CV and hence a connected person of the Company;

(3) 優酷信息技術(北京)有限公司 (Youku Information Technology (Beijing) Co., Ltd.*), (formerly known as 合一信息技術(北京)有限公司 (1 Verge Information Technology (Beijing) Co., Ltd.*)) ("Youku Information"), which is a consolidated entity of AGH. Accordingly, Youku Information is an associate of Ali CV and hence a connected person of the Company;

(4) Alipay Singapore Holding Pte. Ltd. ("Alipay SG"), which is an indirect wholly-owned subsidiary of 浙江螞蟻小微金融服務集團股份有限公司 (Ant Small and Micro Financial Services Group Co., Ltd.*) ("Ant Financial"), and Ant Financial together with its subsidiaries have been deemed as connected persons of the Company by the Stock Exchange under Rule 14A.19 of the Listing Rules since July 2017;

(5) UCWeb Singapore Pte. Ltd. ("UCWeb SG"), which is an indirect wholly-owned subsidiary of AGH. Accordingly, UCWeb SG is an associate of Ali CV and hence a connected person of the Company;

(6) UCWeb Mobile Private Limited ("UCWeb Mobile"), which is an indirect wholly-owned subsidiary of AGH. Accordingly, UCWeb Mobile is an associate of Ali CV and hence a connected person of the Company;

DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

(7) 淘寶天下傳媒有限公司 (Taobao Tianxia Media Co., Ltd.*) ("Taobao Tianxia Media"), which is a 30%-controlled company of AGH. Accordingly, Taobao Tianxia Media is an associate of Ali CV and hence a connected person of the Company;

(8) 廣州愛九遊信息技術有限公司 (Guangzhou Aijiuyou Information Technology Co., Ltd.*) ("Aijiuyou"), which is a consolidated entity of AGH. Accordingly, Aijiuyou is an associate of Ali CV and hence a connected person of the Company;

(9) 支付寶（中國）網絡技術有限公司 (Alipay.com Co., Ltd.*) ("Alipay"), which is a wholly-owned subsidiary of Ant Financial, and Ant Financial together with its subsidiaries have been deemed as connected persons of the Company by the Stock Exchange under Rule 14A.19 of the Listing Rules since July 2017;

(10) 杭州易宏廣告有限公司 (Hangzhou Yihong Advertising Co., Ltd.) ("Hangzhou Yihong"), which is an indirect wholly-owned subsidiary of AGH. Accordingly, Hangzhou Yihong is an associate of Ali CV and hence a connected person of the Company;

(11) 杭州阿里媽媽軟件服務有限公司 (Hangzhou Alimama Software Services Co., Ltd.*) ("Alimama"), which is an indirect wholly-owned subsidiary of AGH. Accordingly, Alimama is an associate of Ali CV and hence a connected person of the Company; and

(12) 廣州聚耀信息科技有限公司 (Guangzhou Juyao Information Technology Co., Ltd.*) ("Guangzhou Juyao"), which is an indirect wholly-owned subsidiary of AGH. Accordingly, Guangzhou Juyao is an associate of Ali CV and hence a connected person of the Company.

Connected Transactions

(1) Transactions in relation to acquisition of the online movie ticketing business and Yulebao from AGH

On November 4, 2015, the Company and AGH entered into the framework agreement (the "Framework Agreement"), pursuant to which the Company shall acquire from AGH the online movie ticketing business and Yulebao (the "Target Business") (the "Proposed Acquisition") by (a) acquiring the entire issued share capital of Aurora Media (BVI) Limited pursuant to the share purchase agreement (the "2015 Share Purchase Agreement") entered into between the Company and AGH at the completion of the Proposed Acquisition (the "Completion", which took place on December 31, 2015); (b) accepting the assignment of the certain intellectual property rights by AGH pursuant to the assignment (the "Assignment") entered into between the Company (as assignee) and AGH (as assignor) at Completion; (c) making arrangements with AGH in relation to the transfer of certain employees (the "Transferred Employees") of AGH or its affiliates to support the Target Business pursuant to the reimbursement agreement (the "Reimbursement Agreement") entered into between the Company and AGH at Completion; and (d) accepting the contracts of AGH or its affiliates relating to the Target Business entered into prior to, and which remain in force at, Completion. The total consideration for the Proposed Acquisition under the Framework Agreement was approximately US$519,858,562. The Framework Agreement and the ancillary agreements and assignments relating thereto (including, without limitation, the 2015 Share Purchase Agreement, the Assignment and the Reimbursement Agreement) and the transactions contemplated thereunder have been confirmed, approved and ratified by the independent shareholders of the Company at the special general meeting held on December 29, 2015 (the "SGM").

DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

Connected Transactions *(Continued)*

(2) Transactions in relation to sale of the broadcasting rights/online dissemination rights of four drama series

On May 23, 2017, 浙江東陽小宇宙影視傳媒有限公司 (Zhejiang Dongyang Xiaoyuzhou Movie & Media Co., Ltd.*) ("Zhejiang Dongyang"), a consolidated subsidiary of the Company, and Tmall Technology entered into an agreement in relation to the transfer of the worldwide online dissemination and broadcasting rights ("Broadcasting Rights") of the web drama series titled as "最強男神", pursuant to which Zhejiang Dongyang agreed to sell the Broadcasting Rights of "最強男神" to Tmall Technology. The actual consideration payable by Tmall Technology to Zhejiang Dongyang for the transfer of the Broadcasting Rights of "最強男神" is approximately RMB64,528,000.

On May 23, 2017, 華盟（天津）文化傳媒有限公司(Huameng (Tianjin) Culture Media Co., Ltd.*) (formerly known as 華盟（天津）文化投資有限公司 (Huameng (Tianjin) Culture Investment Co., Ltd.*)) ("Huameng (Tianjin)"), a consolidated subsidiary of the Company, and Tmall Technology entered into an agreement in relation to the transfer of the Broadcasting Rights of the web drama series titled as "SCI謎案集" (in which Huameng (Tianjin) holds 40% of the total interests and rights), pursuant to which Huameng (Tianjin) (for itself and on behalf of all other independent third party investors of "SCI謎案集") agreed to sell the Broadcasting Rights of "SCI謎案集" to Tmall Technology. The maximum consideration for the sale of the Broadcasting Rights of "SCI謎案集" is RMB45,600,000, which shall be payable by Tmall Technology in cash in accordance with the terms of the agreement to transfer the Broadcasting Rights of"SCI謎案集". As Huameng (Tianjin) holds 40% interests in "SCI謎案集", RMB18,240,000, representing the amount of the aforementioned consideration payable by Tmall Technology that corresponds to the 40% interests in "SCI謎案集", is attributable to Huameng (Tianjin). As at March 31, 2018, "SCI謎案集" has not yet been delivered to Tmall Technology.

Apart from the sale of the Broadcasting Rights of "最強男神"and "SCI謎案集", on May 12, 2017, Zhejiang Dongyang, a consolidated subsidiary of the Company, and Tmall Technology entered into an agreement in relation to the transfer of the Broadcasting Rights of the drama series titled as "囧女翻身之嗨如花" (in which Zhejiang Dongyang holds 30% of the total interests and rights), pursuant to which Zhejiang Dongyang (for itself and on behalf of all other independent third party investors of "囧女翻身之嗨如花") agreed to sell the Broadcasting Rights of "囧女翻身之嗨如花" to Tmall Technology. The actual consideration for the sale of the Broadcasting Rights of "囧女翻身之嗨如花" payable by Tmall Technology and attributable to Zhejiang Dongyang by virtue of its 30% interests in "囧女翻身之嗨如花" is approximately RMB9,028,000.

On August 17, 2017, Huameng (Tianjin), a consolidated subsidiary of the Company, and Youku Information entered into an agreement in relation to the transfer of the online dissemination rights of the internet drama series titled as "Rich House, Poor House" (王子富愁記), pursuant to which Huameng (Tianjin) agreed to sell the online dissemination rights of "Rich House, Poor House" to Youku Information. The actual consideration payable by Youku Information to Huameng (Tianjin) for the transfer of the online dissemination rights of "Rich House, Poor House"is approximately RMB21,792,000.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

Connected Transactions *(Continued)*

(3) Transactions in relation to the formation of two joint ventures

On June 14, 2017, Zhejiang Dongyang, a consolidated subsidiary of the Company, entered into an agreement relating to the formation of a talent agency joint venture (the "Talent Agency JV") (the "Talent Agency JV Agreement") with Youku Information. Pursuant to the Talent Agency JV Agreement, Zhejiang Dongyang and Youku Information agreed to invest RMB15,000,000 and RMB35,000,000, respectively, to form the Talent Agency JV. The principal business activity of the Talent Agency JV is talent agency. Zhejiang Dongyang and Youku Information shall hold 30% and 70% equity interest in the Talent Agency JV, respectively. The Talent Agency JV was established on August 15, 2017 and is now known as 酷漾文化傳播有限公司 (Cool Young Culture Communication Co., Ltd.*) ("Cool Young").

On August 9, 2017, Zhejiang Dongyang, a consolidated subsidiary of the Company, entered into an agreement relating to the formation of a variety show joint venture (the "Variety Show JV") (the "Variety Show JV Agreement") with Youku Information. Pursuant to the Variety Show JV Agreement, Zhejiang Dongyang and Youku Information agreed to invest RMB19,890,000 and RMB19,110,000, respectively, to form the Variety Show JV for the purpose of variety show production and distribution and to regulate their respective rights and obligations in the Variety Show JV. Zhejiang Dongyang and Youku Information shall hold 51% and 49% equity interest in the Variety Show JV, respectively. The Variety Show JV was established on November 24, 2017 and is now known as 北京淘娛酷影文化傳媒有限責任公司(Beijing Taoyukuying Culture Media Co., Ltd.*).

(4) Transaction in relation to the disposal of equity interest in a subsidiary

On September 20, 2017, SAC Finance Company Limited ("SAC Finance"), an indirect wholly-owned subsidiary of the Company, entered into the share purchase agreement (the "2017 Share Purchase Agreement") with UCWeb SG and Alipay SG. Pursuant to the 2017 Share Purchase Agreement, SAC Finance agreed to sell part of its shares in its wholly-owned subsidiary, Wormhole Technology (Singapore) Private Limited ("Wormhole SG") (representing 35% of the total issued share capital of Wormhole SG in aggregate) to UCWeb SG and Alipay SG, respectively. The total consideration receivable by SAC Finance for the sale of such shares amounts to US$6,545,000. Upon completion of the said transaction, the Company, through SAC Finance, will indirectly hold 65% equity interest in Wormhole SG, and Wormhole SG will continue to be a subsidiary of the Company. As at March 31, 2018, the said transaction has not yet been fully completed.

(5) Transaction in relation to the acquisition of equity interest in a joint venture

On October 26, 2017, Zhejiang Dongyang, a consolidated subsidiary of the Company, entered into the equity transfer agreement (the "Equity Transfer Agreement") with Youku Information. Pursuant to the Equity Transfer Agreement, Zhejiang Dongyang agreed to purchase Youku Information's 21% equity interest in Cool Young at nil consideration. Zhejiang Dongyang entered into the supplemental agreement (the "Supplemental Agreement") with Youku Information on October 26, 2017 mainly to re-regulate their respective rights and obligations in Cool Young, to change the amounts and schedule of capital contribution and to reorganize the governance structure of Cool Young in view of the change in equity interest in Cool Young upon completion of the said equity transfer. Upon completion of the equity transfer, Zhejiang Dongyang and Youku Information shall hold 51% and 49% equity interest in Cool Young, respectively, and Cool Young shall be accounted for as a non-wholly-owned subsidiary of the Company. The total capital commitment of Zhejiang Dongyang under the Talent Agency JV Agreement and the Supplemental Agreement thereto has been increased to RMB25,500,000.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

Continuing Connected Transactions

(1) *Shared Services Agreement*

On November 4, 2015, the Company and AGH entered into an agreement (the "Shared Services Agreement") in relation to office space and support services, customer service support, business intelligence services, maintenance service for the Yulebao database, office system and support services, procurement function support services and SMS platform services to be provided by AGH and its affiliates or otherwise designated by AGH to the Company to support the Target Business for an initial term of three years commencing from the date of Completion, unless otherwise terminated in accordance with the terms thereunder.

The annual caps in respect of the service fees payable by the Group (inclusive of any applicable tax) for the first, second and third 12-month periods during the initial term of three years under the Shared Services Agreement are RMB32 million, RMB37 million and RMB46 million, respectively. The Shared Services Agreement and the transactions contemplated thereunder have been confirmed, approved and ratified by the independent shareholders of the Company at the SGM. The actual fees paid/payable by the Group under the Shared Services Agreement (i) for the first 12-month period ended December 30, 2016 amounted to approximately RMB16,856,000, (ii) for the second 12-month period ended December 30, 2017 amounted to approximately RMB31,552,000, and (iii) for the period from December 31, 2017 to March 31, 2018 amounted to approximately RMB13,449,000.

(2) *Agreements entered into pursuant to the Framework Agreement*

Pursuant to the Framework Agreement, the Company and AGH also entered into certain other continuing connected transactions on December 31, 2015 (being the date of Completion) comprising:

(i) the Cooperation Agreement;

(ii) the Data Platform Participation Agreement;

(iii) the IP Licence Agreement;

(iv) the Technology Services Agreement; and

(v) the Transitional Arrangement Agreement.

Each of the Cooperation Agreement and the Data Platform Participation Agreement constitutes a de minimis continuing connected transaction under Chapter 14A of the Listing Rules and therefore is fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

The IP Licence Agreement constitutes a de minimis continuing connected transaction under Chapter 14A of the Listing Rules. Under the IP License Agreement, (a) the Company grants AGH a royalty-free, non-exclusive and perpetual license to use certain trademarks and patents comprised in the Target Business as at Completion for any purpose in connection with AGH's business, and (b) AGH grants the Company a royalty-free, non-exclusive and perpetual license to continue to use certain trademarks and patents currently used in the Target Business. The IP Licence Agreement is for a perpetual term commencing from the date of Completion, and the independent financial adviser has advised that it is reasonable for the IP Licence Agreement to have a term longer than three years and that it is a normal business practice for agreements in the type of the IP License Agreement to be of such duration.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

Continuing Connected Transactions *(Continued)*

(2) Agreements entered into pursuant to the Framework Agreement *(Continued)*

Each of the Technology Services Agreement and the Transitional Arrangement Agreement is subject to the announcement, annual reporting and annual review requirements but is exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the Technology Services Agreement, AGH agreed to procure the service providers (being AGH and affiliates set out under the Technology Services Agreement or otherwise designated by AGH) to provide technology services to support the Target Business (including the provision of servers, co-location and bandwidth and with respect to the online movie ticketing business, access to certain systems) for a term of two years commencing from the date of Completion. The annual cap in respect of the fees payable by the Group (inclusive of any applicable tax) for each 12-month period during the two-year term under the Technology Services Agreement is RMB6 million. The actual fees paid/payable by the Group under the Technology Services Agreement (i) for the first 12-month period ended December 30, 2016 amounted to approximately RMB1,458,000, compared to (ii) that of approximately RMB2,102,000 paid/payable by the Group thereunder for the second 12-month period ended December 30, 2017.

Pursuant to the Transitional Arrangement Agreement, AGH agreed to transfer certain Transferred Employees to the Company, and the Company agreed to reimburse AGH for salaries and benefits paid by AGH (or its affiliates) to such Transferred Employees, within a maximum term of three years commencing from the date of Completion, unless otherwise terminated in accordance with the terms thereunder. The annual caps in respect of the fees payable by the Group (inclusive of any applicable tax) for the first, second and third 12-month periods during the maximum term of three years under the Transitional Arrangement Agreement are RMB5 million, RMB2.5 million and RMB1.5 million, respectively. The actual fees paid/payable by the Group under the Transitional Arrangement Agreement (i) for the first 12-month period ended December 30, 2016 amounted to approximately RMB4,894,000, (ii) for the second 12-month period ended December 30, 2017 amounted to approximately RMB2,187,000 and (iii) for the period from December 31, 2017 to March 31, 2018 amounted to approximately RMB245,000.

(3) Insertion Orders

On March 6, 2017, Orbgen Technologies Private Limited ("Orbgen Technologies") (as service user), an indirect non-wholly-owned subsidiary of the Company, and UCWeb Mobile (as service provider) entered into the Insertion Order (the "Original Insertion Order") for a two-month trial run period from March 1, 2017 to April 30, 2017. Prior to the expiry of the Original Insertion Order, the parties entered into a new Insertion Order (the "Renewed Insertion Order", together with the Original Insertion Order, the "Insertion Orders") on April 28, 2017 for a term commencing from May 1, 2017 to April 30, 2018. Pursuant to the Insertion Orders, UCWeb Mobile agreed to provide Orbgen Technologies with UC Service Platforms for the promotion of Orbgen Technologies' products (including but not limited to mobile APP and website) in India. The actual transaction amount for the services under the Original Insertion Order amounted to approximately RMB9,000. The annual caps for the services under the Renewed Insertion Order for the year ended December 31, 2017 and the year ending December 31, 2018 are RMB30,000,000 and RMB20,000,000, respectively, and the actual transaction amount for the services under the Renewed Insertion Order for the year ended December 31, 2017 amounted to approximately RMB280,000. There was no actual transaction incurred under the Renewed Insertion Order during the three months ended March 31, 2018.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

Continuing Connected Transactions *(Continued)*

(4) *Marketing Services Agreement*

On August 11, 2017,中聯盛世文化（北京）有限公司 (Zhonglian Shengshi Culture (Beijing) Co., Ltd.*) ("Zhonglian Shengshi") (as service user), an indirect wholly-owned subsidiary of the Company, and Taobao Tianxia Media (as service provider) entered into the Marketing Services Agreement (the "Marketing Services Agreement") for a term commencing from July 5, 2017 and ending on December 31, 2019. Pursuant to the Marketing Services Agreement, Taobao Tianxia Media agreed to provide Zhonglian Shengshi with services such as the creation of marketing campaigns, design and production of marketing materials, as well as event planning. The annual caps for the marketing services under the Marketing Services Agreement for the years ended December 31, 2017, December 31, 2018 and December 31, 2019 are RMB10,000,000, RMB15,000,000 and RMB15,000,000, respectively, and the actual transaction amounts for the marketing services under the Marketing Services Agreement for the year ended December 31, 2017 and the three months ended March 31, 2018 amounted to approximately RMB1,994,000 and RMB3,028,000, respectively.

(5) *Mobile Game Placement Agreement*

On August 11, 2017, Zhejiang Dongyang, a consolidated subsidiary of the Company (as investor of the web drama series "最強男神"), and Aijiuyou (as operator and distributor of the mobile game titled as "自由之戰2" (the "Mobile Game")) entered into an agreement (the "Mobile Game Placement Agreement"), pursuant to which Aijiuyou is entitled to place the Mobile Game in "最強男神" and to use relevant scenes, pictures, posters, stills and characters' names for the promotion of the said drama series and the Mobile Game. The license under the Mobile Game Placement Agreement shall expire no later than three years from the date of the Mobile Game Placement Agreement. The total shared income receivable by Zhejiang Dongyang under the Mobile Game Placement Agreement will not exceed RMB12,000,000 (the "Maximum Total Shared Income"). Since all or a portion of the total shared income (including the fixed fee of RMB5,000,000) may be received by Zhejiang Dongyang in the year ended December 31, 2017, the annual cap for transactions contemplated under the Mobile Game Placement Agreement for the two years ended December 31, 2017 and 2018 are RMB12,000,000 and RMB7,000,000, respectively, and the actual transaction amounts for transactions under the Mobile Game Placement Agreement for the year ended December 31, 2017 and the three months ended March 31, 2018 amounted to nil and approximately RMB4,717,000, respectively.

(6) *Payment Services Framework Agreement*

On September 18, 2017, the Company (for itself and on behalf of its subsidiaries) (as service user) and Alipay (as service provider) entered into the Payment Services Framework Agreement (the "Payment Services Framework Agreement") for a term commencing from July 10, 2017 and ending on July 9, 2018. Pursuant to the Payment Services Framework Agreement, any member of the Group may request payment services from Alipay from time to time and in its absolute discretion according to its business needs. The annual caps for all payment services under the Payment Services Framework Agreement for the years ended December 31, 2017 and 2018 are RMB40,000,000 and RMB44,000,000, respectively, and the actual transaction amounts for all payment services under the Payment Services Framework Agreement for the year ended December 31, 2017 and the three months ended March 31, 2018 amounted to approximately RMB30,500,000 and RMB25,500,000, respectively.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

Continuing Connected Transactions *(Continued)*

(7) Information Dissemination Cooperation Agreement and its Supplemental Agreement

On November 17, 2017, Shanghai Tao Piao Piao Movie & TV Culture Co., Ltd. ("Shanghai TPP") (as service provider), a consolidated subsidiary of the Company, and Hangzhou Yihong (as service user) entered into the Information Dissemination Cooperation Agreement (the "Information Dissemination Cooperation Agreement") for a term commencing from November 1, 2017 and ending on March 31, 2018. Pursuant to the Information Dissemination Cooperation Agreement, Shanghai TPP agreed to provide the Information Dissemination Services to Hangzhou Yihong. In order to further agree to outstanding details of the cooperation under the Information Dissemination Cooperation Agreement, Shanghai TPP entered into the Supplemental Agreement with Hangzhou Yihong on December 19, 2017. The annual cap for all transactions under the Information Dissemination Cooperation Agreement for the financial year ended March 31, 2018 is RMB12,000,000, and the actual transaction amount for all transactions under the Information Dissemination Cooperation Agreement for the financial year ended March 31, 2018 amounted to approximately RMB6,688,000.

(8) Advertising Services Framework Agreement I

On January 19, 2018, Shanghai TPP (as advertising service provider), a consolidated subsidiary of the Company, and Hangzhou Yihong and Alimama (as advertising service agents) entered into the Advertising Services Framework Agreement (the "Advertising Services Framework Agreement I") for a term commencing from the effective date of the Advertising Services Framework Agreement I and ending on March 31, 2019. Pursuant to the Advertising Services Framework Agreement I, Hangzhou Yihong and Alimama agreed to procure their clients to use the advertising services provided by Shanghai TPP to promote the products or services of the clients of Hangzhou Yihong and Alimama on the online platforms and channels of Shanghai TPP. The annual caps for all transactions under the Advertising Services Framework Agreement I for the financial year ended March 31, 2018 and the financial year ending March 31, 2019 are RMB5,000,000 and RMB25,000,000, respectively, and the actual transaction amount for all transactions under the Advertising Services Framework Agreement I for the financial year ended March 31, 2018 amounted to approximately RMB1,104,000.

(9) Advertising Services Framework Agreement II

On January 19, 2018, Shanghai TPP (as advertising service provider), a consolidated subsidiary of the Company, and Guangzhou Juyao (as advertising service agent) entered into the Advertising Services Framework Agreement (the "Advertising Services Framework Agreement II") for a term commencing from the effective date of the Advertising Services Framework Agreement II and ending on March 31, 2019. Pursuant to the Advertising Services Framework Agreement II, Guangzhou Juyao agreed to procure its clients to use the advertising services provided by Shanghai TPP to promote the products or services of the clients of Guangzhou Juyao on the online platforms and channels of Shanghai TPP. The annual caps for all transactions under the Advertising Services Framework Agreement II for the financial year ended March 31, 2018 and the financial year ending March 31, 2019 are RMB1,000,000 and RMB10,000,000, respectively, and the actual transaction amount for all transactions under the Advertising Services Framework Agreement II for the financial year ended March 31, 2018 amounted to approximately RMB142,000.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS *(Continued)*

Continuing Connected Transactions *(Continued)*

The independent non-executive directors of the Company have reviewed all of the above non-exempt continuing connected transactions, and confirmed that the above non-exempt continuing connected transactions have been entered into:

- in the ordinary and usual course of the Group's business;
- on normal or better commercial terms; and
- according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PricewaterhouseCoopers, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the non-exempt continuing connected transactions in accordance with the Rule 14A.56 of the Listing Rules.

Save as disclosed above, all other related party transactions entered into by the Group which also constitute connected transactions (including continuing connected transactions), but are exempt from annual review and disclosure requirements under Chapter 14A of the Listing Rules, are set out in note 34 to the consolidated financial statements. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

* *For identification purposes only*

Note: *All actual transaction amounts as stated in the section headed "Connected Transactions" are exclusive of 6% value-added tax.*

CONTRACTUAL ARRANGEMENTS

Overview

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

DIRECTORS' REPORT

CONTRACTUAL ARRANGEMENTS *(Continued)*

Overview *(Continued)*

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

By virtue of the Structured Contracts, the financial position and results of operations of Zhonglian Jinghua, Beijing Ali Tao and Shanghai Tao Piao Piao were consolidated into our financial position and results of operations as they are regarded as indirect subsidiaries of the Group under HKFRS 10 during the Reporting Period. As the OPCOs and their subsidiaries hold some key requisite PRC permits, licenses and approvals including the Permit to Produce and Distribute Radio or Television Programs (廣播電視節目製作經營許可證), Permit to Distribute Movies (電影發行經營許可證) and the Permit to Operate the Projection of Movies (電影放映經營許可證), as well as some of our intellectual property rights, the OPCOs and their subsidiaries are significant to our Group. For the fifteen months ended March 31, 2018, the OPCOs and their subsidiaries contributed approximately 23.5% of the Group's total revenue. Please refer to "Revenue and assets involved in Structured Contracts" below for more details.

During the fifteen months ended March 31, 2018, there was no material change in the Structured Contracts and/or the circumstances under which they were adopted, and none of the Structured Contracts has been unwound as the regulatory restrictions that led to their adoptions were not removed. In the view of the Company's PRC legal advisers, the arrangement of the Structured Contracts does not violate applicable PRC laws and regulations. The Company is also advised that there are uncertainties regarding the interpretation and application of the currently applicable PRC laws, rules, and regulations.

Particulars of the OPCOs and their Registered Owners

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

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

DIRECTORS' REPORT

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

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

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

DIRECTORS' REPORT

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

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

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

DIRECTORS' REPORT

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

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

The following table sets forth the subsidiary of Shanghai Tao Piao Piao as at the date of this report:

Tianjin Tao Piao Piao Weimeng New Media Technology Co., Ltd. (天津淘票票微夢新媒體科技有限公司)	Shanghai Tao Piao Piao	55%	Internet information service & advertising and marketing

DIRECTORS' REPORT

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place

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

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

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

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

These Structured Contracts enable the Group to:

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

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

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

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

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

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

DIRECTORS' REPORT

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place *(Continued)*

(2) Loan Agreements (借款協議)

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

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

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

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

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

DIRECTORS' REPORT

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place *(Continued)*

(4) Powers of Attorney (授權委託書)

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

(a) attending the shareholders' meeting of the relevant OPCO as representative of the relevant registered owners;

(b) exercising shareholders' voting right on issues in respect of appointment of directors and senior management, disposal of assets and liquidation etc;

(c) signing meeting minutes and resolutions;

(d) signing relevant documents when the relevant registered owners sell or transfer all or part of his/her equity interest pursuant to the Exclusive Option Agreements;

(e) signing all necessary documents when the relevant Subsidiary exercises its rights under the relevant Equity Interest Pledge Agreement;

(f) approving filing documents with the relevant competent authorities; and

(g) other matters decided or executed by the shareholders pursuant to the relevant constitutional documents.

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

DIRECTORS' REPORT

CONTRACTUAL ARRANGEMENTS *(Continued)*

Structured Contracts in place *(Continued)*

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

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

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

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

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

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

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

DIRECTORS' REPORT

CONTRACTUAL ARRANGEMENTS *(Continued)*

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

- Any failure by the OPCOs or their respective ultimate shareholders to perform their obligations under our Structured Contracts would potentially lead to our having to incur additional costs and expend material resources to enforce such arrangements, temporary or permanent loss of control over our domestic content production, distribution, cinema operation and investment businesses or loss of access to the revenue from these businesses;

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

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

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

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

In terms of the Group's overall business profile, a material expansion has been achieved over the fifteen months ended March 31, 2018. With the addition of Yunzhi Software Systems, online movie ticketing and international operations, the Group has diversified its business segments beyond domestic content production, distribution and investment.

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

Revenue and assets involved in Structured Contracts

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

	Revenue (RMB'000) (proportionate % to the Group) For the fifteen months ended March 31, 2018	Assets (RMB'000) (proportionate % to the Group) As at March 31, 2018
Zhonglian Jinghua (Consolidated)	371,615 (11.3%)	1,020,168 (6.8%)
Beijing Ali Tao (Consolidated)	334,638 (10.1%)	294,395 (2.0%)
Shanghai Tao Piao Piao (Consolidated)	68,580 (2.1%)	65,097 (0.4%)

DIRECTORS' REPORT

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at March 31, 2018, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

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

Name of Shareholder	Capacity in which interests are held	Number of Shares/ underlying Shares held	Long position/ Short position	Approximate percentage of issued share capital[2]
Ali CV Investment Holding Limited ("Ali CV")	Beneficial owner[1]	12,488,058,846	Long position	49.03%
Alibaba Investment Limited ("AIL")	Held by controlled corporation[1]	12,488,058,846	Long position	49.03%
Alibaba Group Holding Limited ("AGH")	Held by controlled corporation[1]	12,488,058,846	Long position	49.03%

Notes:

1. This represents the interest in 12,488,058,846 shares of the Company held by Ali CV as beneficial owner. As of March 31, 2018, Ali CV was wholly owned by AGH, through its controlled corporation, AIL. Accordingly, AGH and AIL were deemed to have the same interest held by Ali CV.

2. As of March 31, 2018, the Company had a total of 25,469,703,910 shares in issue.

Save as disclosed above, as at March 31, 2018, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' INTEREST IN COMPETING BUSINESSES

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

PRE-EMPTIVE RIGHTS

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

USE OF PROCEEDS FROM ISSUE OF EQUITY SECURITIES

On June 11, 2015, the Company placed and issued an aggregate of 4,199,570,000 new shares of the Company to no less than six placees at the placing price of HK$2.90 per placing share of the Company (the "Placing"). Net proceeds from the Placing (after deduction of commissions and expenses related to the Placing) amounted to HK$12.1 billion. Net proceeds from the Placing will be used as general working capital and finance potential acquisitions for future media-related investment opportunities.

For the fifteen months ended March 31, 2018, approximately RMB1.3 billion was used to acquire minority interests in a subsidiary, RMB200 million was used for other equity investments, and RMB3.6 billion was used to fund working capital. The remaining unutilized proceeds are intended for further funding of business operation and potential investment opportunities. The use or intended use of proceeds is in line with the plan previously disclosed. As at March 31, 2018, the remaining balance amounted to RMB4 billion, which is expected to be fully utilised within five years.

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENTS

Save for the 2012 Share Option Scheme and the Share Award Scheme as disclosed in the section headed "Share Incentive Schemes" of this report on pages 18 to 28, the Company has not entered into any equity-linked agreement for the fifteen months ended March 31, 2018.

PURCHASE, SALE OR REDEMPTION OF SHARES

Except that the trustee of the share award scheme of the Company adopted by the Board on December 30, 2016 purchased a total of 18,070,000 shares of the Company from the market to satisfy the awarded shares granted to connected employees of the Company upon vesting, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the fifteen months ended March 31, 2018.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance code. Information on the corporate governance code adopted by the Company is set out in the Corporate Governance Report on pages 50 to 74.

DONATIONS

Donations made by the Group during the fifteen months ended March 31, 2018 amounted to RMB136,000 (2016: RMB498,000).

TAXATION RELIEF

The Company is not aware of any relief on taxation available to the shareholders of the Company by reason of their holdings of the shares of the Company. If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the shares of the Company, they are advised to consult their professional advisers.

PUBLIC FLOAT

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

AUDITOR

There has been no change of the Company's auditor in the past three years. The consolidated financial statements for the fifteen months ended March 31, 2018 were audited by PwC. A resolution to re-appoint PwC as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board
Fan Luyuan
Chairman & Chief Executive Officer

Hong Kong, May 7, 2018

CORPORATE GOVERNANCE REPORT

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

Throughout the fifteen months ended March 31, 2018, the Company has applied and complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), except for certain deviations with considered reasons as explained below.

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

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Tong Xiaomeng and Ms. Song Lixin, being independent non-executive Directors, and Mr. Li Lian Jie and Mr. Shao Xiaofeng, being non-executive Directors, were not able to attend the 2017 annual general meeting of the Company held on June 23, 2017 due to their personal engagements during the meeting time.

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

CORPORATE GOVERNANCE REPORT

THE BOARD

The Board currently comprises eight Directors in total, with three executive Directors ("ED(s)"), two non-executive Directors ("NED(s)") and three independent non-executive directors ("INED(s)"). The composition of the Board during the fifteen months ended March 31, 2018 and up to the date of this report is set out as follows:

Executive Directors

Mr. Fan Luyuan *(Chairman & Chief Executive Officer)*
Mr. Yu Yongfu
Ms. Zhang Wei *(President)*
Mr. Zhang Qiang *(resigned on June 23, 2017)*

Non-Executive Directors

Mr. Li Lian Jie
Mr. Shao Xiaofeng

Independent Non-Executive Directors

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

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

An updated list of Board members identifying their roles and functions is maintained on the websites of the Company and the Stock Exchange. The brief biographical details of the Directors are set out in the "Biographical Information of Directors and Senior Management" section on pages 12 to 14. There is no financial, business, family or other material relationships among members of the Board.

During the fifteen months ended March 31, 2018, the NEDs and INEDs provided the Group with a wide range of qualification, expertise and experience through regular attendance and active participation. Their positive contribution brings independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders of the Company (the "Shareholders").

CORPORATE GOVERNANCE REPORT

THE BOARD *(Continued)*

The Company confirms that each INED has given an annual confirmation of his/her independence to the Company, and the Company considers each of them is independent under the guidelines set out in Rule 3.13 of the Listing Rules. The Board believes that there is sufficient independent element in the Board to safeguard the interest of Shareholders.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group and to review and approve the Group's annual and interim results. Directors may participate either in person or through electronic means of communications. During the fifteen months ended March 31, 2018, ten (10) Board meetings and one general meeting of the Company were held. The attendance of each Director at Board meetings and general meeting of the Company are set out as follows:

	Number of meetings attended/eligible to attend	
Directors	**Board Meetings**	**General Meeting**
Executive Directors		
Mr. Fan Luyuan *(Chairman & Chief Executive Officer)*	10/10	0/1
Mr. Yu Yongfu	7/10	1/1
Ms. Zhang Wei *(President)*	10/10	0/1
Mr. Zhang Qiang[1]	3/3	0/1
Non-Executive Directors		
Mr. Li Lian Jie	7/10	0/1
Mr. Shao Xiaofeng	0/10	0/1
Independent Non-Executive Directors		
Ms. Song Lixin	10/10	0/1
Mr. Tong Xiaomeng	5/10	0/1
Mr. Johnny Chen	9/10	1/1

Note:

1. Mr. Zhang Qiang resigned as ED on June 23, 2017. Prior to his resignation, three Board meetings and one general meeting of the Company were held.

CORPORATE GOVERNANCE REPORT

THE BOARD *(Continued)*

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

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

The Board should meet regularly at least four times a year at approximately quarterly intervals. During the fifteen months ended March 31, 2018, the Board held five regular meetings and five ad hoc meetings. The Company's daily business operations are under the management of its executive Directors. In addition to regular meetings, the Board will hold ad hoc meetings from time to time as necessitated by business needs in order to consider and resolve all material business or management issues of the Company. At least 14 days' notice of a regular Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comments. All minutes are kept in the Company Secretarial Department of the Company and are open for inspection at any reasonable time on reasonable notice by any Director.

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

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

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

CORPORATE GOVERNANCE REPORT

THE BOARD *(Continued)*

Training and Support for Directors

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

During the fifteen months ended March 31, 2018 and up to the date of this annual report, the Directors participated in the following trainings:

	Attending seminars and/or conferences and/or forums relating to directors' duties or other relevant topics	Reading newspaper, journals and updates relating to the economy, general business or directors' duties etc
Executive Directors		
Mr. Fan Luyuan	✔	✔
Mr. Yu Yongfu	✔	✔
Mr. Zhang Qiang *(Resigned on June 23, 2017)*	✔	✔
Ms. Zhang Wei	✔	✔
Non-Executive Directors		
Mr. Li Lian Jie	✔	✔
Mr. Shao Xiaofeng	✔	✔
Independent Non-Executive Directors		
Ms. Song Lixin	✔	✔
Mr. Tong Xiaomeng	✔	✔
Mr. Johnny Chen	✔	✔

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

During the fifteen months ended March 31, 2018, and up to the date of this report, the Board (i) reviewed the Company's policies on corporate governance and compliance with legal and regulatory requirements; (ii) reviewed and monitored the training and continuous professional development of Directors and the code of conduct of the Company; and (iii) reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

ROLES OF CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yu Yongfu, appointed as the chairman of the Board on November 21, 2016, had also been the chief executive officer of the Company during the period from December 5, 2016 to August 2, 2017, the date on which Mr. Fan Luyuan was appointed as the chief executive officer of the Company in place of Mr. Yu. Following the appointment of Mr. Fan Luyuan as the chief executive officer of the Company, the Company has been fully in compliance with the code provision A.2.1 of the CG Code with effect from August 2, 2017. Subsequently, in view of the Group's continuous business growth in line with its clear strategic direction, and the fact that Mr. Fan has demonstrated outstanding management and leadership capabilities along with his thorough understanding of the Group's strategy of building new infrastructure for the domestic movie industry since his appointment as the chief executive officer of the Company, Mr. Yu resigned as chairman of the Board, and Mr. Fan was appointed as chairman of the Board, with effect from October 13, 2017.

The Board believes that the balance of power and authority under such arrangement would not be impaired and would continue to be adequately ensured by the current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive directors.

CORPORATE GOVERNANCE REPORT

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee, an Audit Committee, a Nomination Committee and an Executive Committee, to perform their distinct roles in accordance with their respective terms of reference.

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

Remuneration Committee

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

The major roles and functions of the Remuneration Committee are:

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company. The Remuneration Committee has adopted the model described in code provision B.1.2(c)(ii) of the CG Code in its terms of reference.

The Remuneration Committee shall meet at least once a year. Three Remuneration Committee meetings were held in the fifteen months ended March 31, 2018 and the attendance of each member of the Remuneration Committee is set out as follows:

Committee members	Number of Committee meetings attended/eligible to attend
Mr. Tong Xiaomeng *(Chairman)*	2/3
Mr. Fan Luyuan[1]	0/0
Mr. Yu Yongfu[2]	3/3
Ms. Song Lixin	3/3

Note:

1. Mr. Fan Luyuan was appointed as member of the Remuneration Committee on October 13, 2017. During the fifteen months ended March 31, 2018, there was no meeting of the Remuneration Committee held after Mr. Fan's appointment as member of the Remuneration Committee.

2. Mr. Yu Yongfu ceased to be member of the Remuneration Committee on October 13, 2017.

During the fifteen months ended March 31, 2018, the Remuneration Committee reviewed and recommended for the Board's approval (i) the existing policy and structure for the remuneration of Directors and senior management; (ii) the remuneration packages (including share-based award) of the Directors and senior management; and (iii) the proposed remuneration packages of the chairman of the Board and the chief executive officer of the Company.

Except Mr. Yu Yongfu, Mr. Fan Luyuan and Mr. Shao Xiaofeng who will not receive remuneration from the Company, each Director will be entitled to remuneration which is to be proposed for the Shareholders' approval at the AGM each year. Remuneration payable to the individual Director will be determined with reference to his experience and the prevailing market rate of director's fees. Further remuneration payable to Directors including any other fees to the INEDs for their additional responsibilities and services will be approved by the Board on the recommendation of the Remuneration Committee.

Details of the Directors' remuneration are set out in note 37 to the consolidated financial statements. Details of the remuneration policy of the Group are also set out in the "Employees and Remuneration Policies" section in the Management Discussion and Analysis on page 11.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The Company's share option scheme (which was adopted by the Company pursuant to a resolution passed by the Shareholders on May 23, 2002) expired on May 22, 2012. At the AGM held on June 11, 2012, the Shareholders approved the adoption of a new share option scheme. Details of the share option scheme of the Company and the outstanding share options as at March 31, 2018 are set out in the Directors' Report on pages 18 to 23 and note 24 to the consolidated financial statements.

The Company's share award scheme was adopted by the Board on December 30, 2016. Details of the share award scheme of the Company are set out in the Directors' Report on pages 24 to 28.

Audit Committee

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

The major roles and functions of the Audit Committee are:

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

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

The Audit Committee shall meet at least twice a year. Four Audit Committee meetings were held in the fifteen months ended March 31, 2018 and the attendance of each member of the Audit Committee is set out as follows:

Committee members	**Number of Committee meetings attended/eligible to attend**
Mr. Johnny Chen *(Chairman)*	4/4
Ms. Song Lixin	4/4
Mr. Tong Xiaomeng	4/4

During the fifteen months ended March 31, 2018, the Audit Committee had performed the work summarised as below:

(i) reviewed and recommended for the Board's approval the scope and fees proposed by the external auditor in respect of the final audit for the year ended December 31, 2016 (the "2016 Final Audit"), the interim results review for the six months ended June 30, 2017 (the "2017 Interim Review"), the second interim results review for the twelve months ended December 31, 2017 (the "2017 Second Interim Review") and the final audit for the fifteen months ended March 31, 2018;

(ii) reviewed the external auditor's report of findings, independent review report and audit completion report in relation to the 2016 Final Audit, the 2017 Interim Review and the 2017 Second Interim Review;

(iii) reviewed and recommended for the Board's approval the Company's consolidated financial statements for the year ended December 31, 2016, for the six months ended June 30, 2017, and for the twelve months ended December 31, 2017 together with the relevant management representation letters;

(iv) reviewed the effectiveness of the internal control and risk management systems; and

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Nomination Committee

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

The major roles and function of the Nomination Committee are:

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

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

(iii) to assess the independence of INEDs;

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

The Nomination Committee shall meet at least once a year. Three Nomination Committee meetings were held during the fifteen months ended March 31, 2018 and the attendance of each member of the Nomination Committee is set out as follows:

Committee members	**Number of Committee meetings attended/eligible to attend**
Mr. Fan Luyuan[1] *(Chairman)*	0/0
Mr. Yu Yongfu[2] *(Ex-Chairman)*	3/3
Mr. Tong Xiaomeng	2/3
Mr. Johnny Chen	2/3

Notes:

1. Mr. Fan Luyuan was appointed as chairman of the Nomination Committee on October 13, 2017. During the fifteen months ended March 31, 2018, there was no meeting of the Nomination Committee held after Mr. Fan's appointment as chairman of the Nomination Committee.

2. Mr. Yu Yongfu ceased to be chairman of the Nomination Committee on October 13, 2017.

For the fifteen months ended March 31, 2018 and up to the date of this report, the Nomination Committee (i) reviewed the Board Diversity Policy and its implementation; (ii) reviewed the structure, size and composition of the Board; (iii) assessed the candidates on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities and put the nomination of such candidates to the Board for decision; (iv) assessed the independence of all the INEDs; and (v) reviewed and recommended for the Board's approval on the change of the chief executive officer of the Company and the chairman of the Board as well as re-election of the retiring Directors at the AGM.

Executive Committee

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

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

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

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

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibilities for preparing, with the support from the finance department, the consolidated financial statements of the Group. The Directors also acknowledge their responsibilities to ensure that the financial statements of the Group are published in a timely manner. In preparing the consolidated financial statements for the fifteen months ended March 31, 2018, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance were complied with. Appropriate accounting policies have also been applied consistently.

The Audit Committee has recommended the Board to re-appoint PricewaterhouseCoopers ("PwC") as auditor of the Company. The reporting responsibilities of the Company's external auditor, PwC, are set out in the Independent Auditor's Report on pages 84 to 91.

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

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

Risk Management and Internal Control

The Company takes risk management and internal control as an integral part of its operating and management activities and business activities. The Company takes steady steps to build a comprehensive risk management system that is aligned with the strategy and business characteristics of the Group. The Company keeps optimizing its risk management framework and standardizing its risk management procedures, adopts both qualitative and quantitative risk management methodologies to identify, evaluate and address risks, so as to strike a balance between risk and return, and to facilitate sustainable and sound development of each business of the Company while keeping risks under control.

CORPORATE GOVERNANCE REPORT

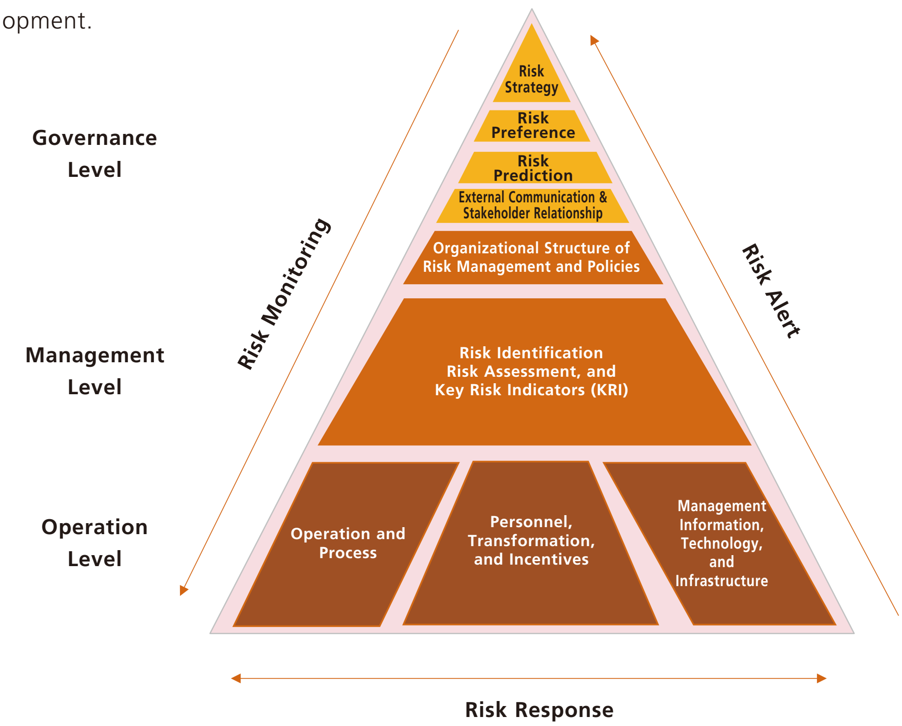
ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Objectives of Risk Management and Internal Control

The purposes of the risk management and internal control mechanisms are to evaluate and determine the nature and extent of the risks the Board is willing to take in achieving the Company's strategic objectives, and keep the Group on course towards achieving its performance and profitability goals and its overall mission. The immediate aim of internal control is to help provide a reasonable level of assurance that the Group will meet the agreed objectives and goals. It has a key role in achieving business objectives and controlling significant risks. The management provides the Board with confirmation as to the effectiveness of the risk management and internal control systems, while the Board is responsible for supervising the Company's risk management and internal control systems, and reviewing the effectiveness of its risk management and internal control systems, with an aim to safeguard the Shareholders' investment and the Company's assets at all times.

Given the rapid changes in the economic environment of the domestic and overseas internet-based film and television industry, the promulgation of regulatory laws and rules and the integration and innovation of the Group's businesses, the Company makes active efforts to adapt to the changes in the internal and external environment. Centered on its development strategy and upholding prudent risk preferences, the Company adheres to compliant operation and adopts rational risk management approaches. The Company has established robust and reliable risk management mechanisms and internal control systems at levels including governance, management and operation in a top-down manner, while promoting the awareness of risk management and internal control among all employees and integrating the risk management mechanisms into its daily operation effectively. Step by step, the Company has established a dynamic and ongoing risk monitoring, warning and response mechanism, thereby striking a balance between risk control and business development.



CORPORATE GOVERNANCE REPORT

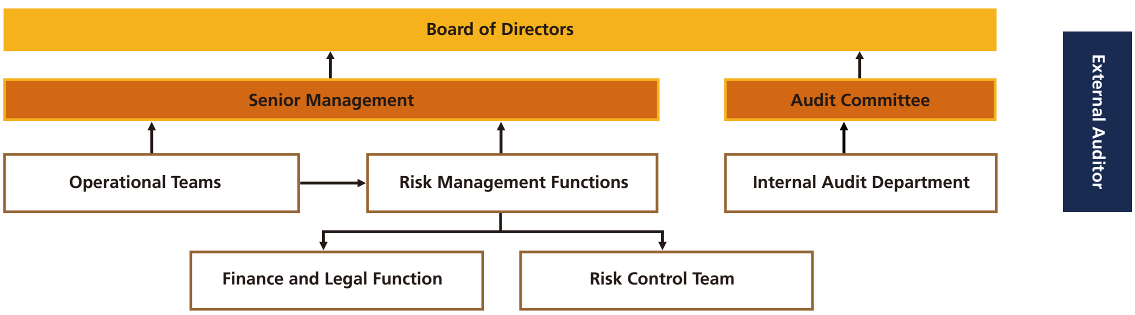
ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Risk Preference System

The Group's risk preferences set the keynote for its risk management. The Company follows a prudent principle in the determination of its risk preferences. In view of the overall strategic deployment of the Group and the development need of each business line, the Company integrates its development strategy with risk preferences organically, thereby facilitating the sound operation and sustainable development of the Group as a whole and each business line.

Organizational Structure of Risk Management and Illustration



As the highest decision-making body for risk management of the Company, the Board is responsible for the effectiveness of the overall risk management efforts. The Board will take the responsibility to establish and maintain appropriate and effective risk management system, and will oversee the management in the design, implementation and monitoring of the risk management system and assess the effectiveness of the risk management system annually. An Audit Committee has been established under the Board to perform the duties of risk management and internal control on behalf of the Board to oversee the management in design, implementation and monitoring of the risk management and internal control systems. The Audit Committee reviews the Company's financial control, risk management and internal control systems every half year, discusses the risk management and internal control systems with the management, monitors and reviews the efficacy of the Company's risk management and internal control systems, reviews annual audit plans and reports, and, out of its own initiative or upon the appointment by the Board, studies important findings of investigations on risk management and internal control issues and the management's response to the findings.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

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

Operational Teams

Operational teams perform functions including daily operation and internal control. It is responsible for risk identification, risk alert and control self-assessment of all relevant departments, and reports risk events and risk data according to the requirements of the Company.

Risk Management Functions *(a virtual organization consisting of the Finance and Legal Function and the Risk Control Team)*

Under the leadership of the Board and the management, these functions perform overall management and coordination in relation to risks of the Company. They are responsible for making the overall risk management plan, collecting, identifying, assessing, addressing and supervising risk information in daily operation, and leading various types of risk management work in the respective areas of specialization.

Internal Audit Department

The Internal Audit Department is responsible for performing internal audit and independent risk oversight. The team plays an important role in the evaluation of the effectiveness of the Group's risk management and internal control systems, and it is responsible for reporting to the Audit Committee regularly. The Internal Audit Department submits regular audit plans and related reports on risk management and internal audit to the Audit Committee for review. The Audit Committee is responsible for auditing the annual audit plans and reviewing the reports on risk management and internal audit.

Going forward, the Company will make efforts to improve its risk management framework and ability, integrate risk management into the business operation more systematically, and strengthen the development of a routine risk evaluation mechanism. Meanwhile, the Company will keep improving the information-based development of risk control, with a view to integrating management processes of risk evaluation, risk control and risk oversight into the systems by using information-based approaches.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Main Work of Risk Management and Internal Audit in the Reporting Period

The Company highly values the development of risk management systems, and it has been exploring to gradually identify and improve the overall risk management mechanism through its operating and management practices. During the Reporting Period, the Company adopted both qualitative and quantitative risk management methodologies to regularly identify, evaluate and address the risks which the Company faced during the course of fulfillment of its operating targets and enhancement of its management ability. These measures enabled the risk management systems to adapt to the characteristics of internal and external environment which the Company faced as it moved into a new stage of development. Thereby, the risk management mechanism was able to timely identify potential risks, provide effective countermeasures to prevent and control such exposure, reduce losses resulted from risks, and capitalize on opportunities amid risk to ensure sustainable, steady and sound development of the Company.

In addition, the Company values the establishment and improvement of internal systems related to corporate governance. During the reporting period, the Internal Audit Department conducted risk-based internal audit and reviews on the important business fields of the Company and the execution at the company level, and worked with operating units to discuss and remediate deficiencies, with a view to gradually improving the internal control mechanism.

Management will monitor previous internal control remediation plan and status, regularly discuss all internal control matters, as well as design and take corresponding remediation actions as appropriate.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Disclosure of Material Risks

During the year, the Company sorted, screened and prioritized the risks which its existing businesses and new businesses faced, and identified the following material risks:

Major Risks	Description of Risks	Risk Responses
Regulatory risks	As there are strict regulations on the Internet, film and television industries, the established entry barriers and the content censorship system have, to a certain degree, restricted the development of the Group's operations.	• The Company stays up-to-date on rules, regulations and regulatory requirements issued by the government and regulators via announcements and notices from the authorities, as well as news media and the Internet; it closely monitors and stays updated on regulatory development by actively engaging in collaborative projects with governing and regulatory bodies; and the Company adopts a stringent approach when selecting project directions, with a view to creating productions with distinct themes that promote positive energy; • The Company establishes channels for information dissemination to provide business teams with timely access to the latest regulatory requirements; it also organizes regular internal seminars to study and implement applicable rules, regulations and regulatory requirements issued by the government and regulators, with a view to ensuring that relevant business teams understand these policies and regulations accurately; • By paying close attention to policies and requirements targeting internet-based companies, the Company examines relevant operational qualifications in a timely manner while strengthening internal assessment and inspection for high-risk areas, so as to ensure operational standardization.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Disclosure of Material Risks *(Continued)*

Major Risks	Description of Risks	Risk Responses
Industry risks	Given the increasing competition in areas such as content production, promotion and distribution in China's film and television industry, investing in film projects involves many uncertainties, including projects selection, release dates, market receptions and rates of return, etc.	• The Company promotes collaborations featuring complementary resources and the exchange of top industry talents, while fully enhancing its capacity in content production as well as internet-based promotion and distribution through the continuous formation of an ecosystem that covers upstream and downstream activities in the industry value chain; meanwhile, building on its advantages in terms of ecosystem, data and resources, the Company provides differentiated services to increase market competitiveness through improved customer attraction and loyalty; • By optimizing relevant procedures and adopting a "censorship committee" and "greenlight committee" policy, the Company fully evaluates and makes investment decisions on potential projects in a scientific manner; • Through the full utilization of big data technologies, the Company reinforces its collection of basic data and estimates industry trends on the one hand, which serves to guide the direction of content production, the investment in relevant content products, as well as the formulation of plans for smart promotion and distribution; on the other hand, with its data products, it develops a comprehensive understanding about its users, thereby serving their needs with pinpoint accuracy.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Disclosure of Material Risks *(Continued)*

Major Risks	Description of Risks	Risk Responses
Foreign Exchange risks	As the Group holds certain funds denominated in foreign currencies, as well as international entertainment projects and other equity investments offshore, fluctuation in currency exchange rates could result in exchange losses, affecting the Company's balance sheet and financial performance.	• The Company maintains effective communications with its key domestic and overseas banking partners, it stays up-to-date on foreign exchange policies and analyzes exchange rate fluctuations; • By regularly analyzing its exposure to exchange risks in relation to assets denominated in foreign currencies, the Company develops capital management objectives and measures; for projects involving material exchange risks, it develops customized solutions; • The Company maintains a portfolio comprising internal funds denominated in multiple currencies to mitigate overall foreign exchange risks.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control *(Continued)*

Disclosure of Material Risks *(Continued)*

Major Risks	Description of Risks	Risk Responses
Talent management risks	As the Internet, film and television industries rely heavily on talents, the loss of key staff might disrupt the continuity in a certain business area and affect the operating efficiency of the Company.	• The Company keeps an open mind and flexible structure on talent recruitment; maintains good business contacts with recruitment media and headhunters to ensure its talent recruitment channels remain unobstructed; • The Company provides a comprehensive system that covers employee training, performance evaluation and promotion, it also offers long-term incentive plans to employees; • By accelerating platform development and reinforcing the education of its organizational culture and corporate values, the Company inspires to create a good working environment and atmosphere.

Statement of the Board regarding the Internal Control Responsibility

The objectives for the internal control of the Company are to reasonably ensure the operation in compliance with laws and regulations, the security of assets and the truthfulness and completeness of financial reports and relevant information, to enhance the efficiency and effectiveness of operation and to facilitate the implementation of development strategies. Internal control procedures have been designed for safeguarding assets against unauthorized use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance of applicable law, rules and regulations. A comprehensive internal control self-review has been conducted and reported to both Audit Committee and the Board during the Reporting Period, and there were no significant deficiencies identified. The Board believes that, in the fifteen months ended March 31, 2018 (the current financial year), the existing internal control system of the Group is sufficient and effective, to assure the interests of the Company and its shareholders.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(Continued)*

External Auditor's Remuneration

During the fifteen months ended March 31, 2018, the remuneration paid/payable to the Company's external auditor, PwC, is set out as follows:

Services rendered for the Group	Fee paid/payable
Audit services (including annual audit and interim reviews)	RMB3,686,000
Non-audit services (including internal control and finance advisory)	RMB570,000
Total	RMB4,256,000

COMPANY SECRETARY

The Company has appointed Mr. Ng Lok Ming, William, as its company secretary. Mr. Ng is not an employee of the Company and Mr. Fan Luyuan, the chairman and chief executive officer of the Company, is the contact person at the Company whom Mr. Ng can contact. The company secretary reports to the chairman of the Company and is responsible for advising the Board on governance matters, new director's induction and professional development of Directors as well as ensuring good information flow between the Board members and the compliance of the policy and procedure of the Board.

During the fifteen months ended March 31, 2018, Mr. Ng confirmed having received relevant professional trainings of not less than 15 hours to update their skills and knowledge.

SHAREHOLDERS' RIGHTS

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

The Company's general meetings are valuable forum for the Board to communicate directly with the Shareholders. The Company encourages the participation of the Shareholders through AGMs and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their rights to vote at meetings. The chairman of any independent board committee formed as necessary or pursuant to the Listing Rules (or if no such chairman is appointed, at least a member of the independent board committee) will also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to the independent Shareholders' approval. In 2017, the AGM ("2017 AGM") was held on June 23, 2017. At the 2017 AGM, the chairman of the Audit Committee was present thereat and answered any questions raised by the Shareholders. A separate resolution is proposed by the chairman of the Board on each substantial issue, including the election of individual Directors, to be considered at the general meetings.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS *(Continued)*

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

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

The Company adopted in August 2014 a new set of Bye-laws which is available on the websites of the Stock Exchange and the Company. During the fifteen months ended March 31, 2018, there were no changes in the constitutional documents of the Company.

CORPORATE GOVERNANCE ENHANCEMENT

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Overview

This report provides information on the Group's efforts and performance in the environmental, social, and governance ("ESG") related aspects for the fifteen months ended March 31, 2018 (the "Reporting Period"). This report is prepared in accordance with the provisions of the Environmental, Social and Governance Reporting Guide (the "ESG Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and covers all business operations of the Group. In the Reporting Period, we continued to pursue various initiatives to enhance the sustainable development of the Group. These efforts cover regulatory and environmental aspects, employee welfare, user and key stakeholder engagements. We also take an active part in volunteering work and charitable activities, with an aim to improve the social well-being of the local communities in which we operate.

Stakeholder Engagement

We view stakeholder engagement as a critical part of the sustainable development of the Group. The concerns and opinions of our stakeholders are valued highly by the Group, and we look for ways to regularly communicate with them through different channels. The following table sets forth the details of our stakeholders:

Stakeholder	Requirements and expectations	Communications and actions
Government/Regulatory Authorities	– compliance with laws and regulations – payment for taxes according to law – business ethics – support for economic development	– compliance management – routine communication and reporting – payment for taxes according to law
Investors	– financial results – business developments – information disclosure – channels of communications	– regular disclosure of financial and operational information – general meetings – company website, Investor relations mailbox
Clients	– provision of quality products and services – meeting customers' diversified needs – feedback channels	– innovative products; constant product upgrades – protection of customer information and privacy – dedicated customer service
Employees	– protection of employee interests – career development – protection of occupational health – work and life balance	– provision of good remuneration and welfare – regular performance reviews and feedback – employee training – team building activities and budgets

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholder Engagement *(Continued)*

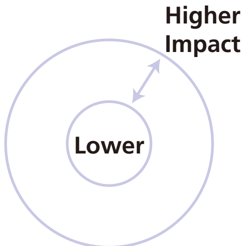
Stakeholder	Requirements and expectations	Communications and actions
Suppliers and Business Partners	– open and fair purchases – compliance with contracts – business ethics	– open tenders – performance of contracts according to law – dedicated internal control and risk management
Community and Environment	– engagement in community development – support for charity – eco-friendly business practices	– charity participation – volunteer services – increasing the efficiency of the use of resources and energy

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Materiality Assessment

In line with the Corporate Governance Code, the Board is responsible for evaluating and determining the issuer's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. Management is responsible for ensuring the effectiveness of these systems to the Board.

With reference to the requirements of the ESG Guide of the Stock Exchange, the Group determines the scope of content for ESG disclosures. Material issues are identified and evaluated by management, taking into account the Group's business operations and the standards of our peers. The impact of these material issues are rated according to their importance to the sustainable development of the Group and its stakeholders. Such ratings pertain to the current developmental stage of the Group and may change in the future. Details are set forth in the below figure.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG Strategy

As an internet-driven company which is constantly upgrading its products and services in the fast growing media and entertainment industry, the Company considers the following areas to be important for its sustainable development and will further elaborate each item in the ESG Report: (i) Supply Chain Management and Product Responsibility; (ii) Customer Protection, Privacy and Information Security: as the Group services a large number of clients through its internet platform, the protection of customer information remains a continuing commitment; (iii) Employee Benefits and Development: attracting, retaining, and motivating outstanding talents are considered very important for the Group's business model, which require both technological capable personnel and artistic talents; (iv) Health and Safety of Employees; (v) Anti-corruption: education on business ethics and strengthening of internal control systems serve to minimize fraudulent activities, which harm all stakeholders of the Company; (vi) Energy, Resource and Emission Management: encourage a paperless working environment, empowered by technology; (vii) Volunteering and Charitable Work: we encourage our employees to take part in volunteering work. Employees are able to choose various charitable causes that interest them from different charitable organizations or join a company sponsored volunteering event; (viii) Plan A: development of new talents in film and television.

Supply Chain Management and Product Responsibility

The Group adheres to fair operating practices through structured supplier selection processes, which lay down screening criteria, and identify potential risks along the Group's supply chain. We encourage our suppliers to maintain high standards of business ethics and behavior and satisfactory environmental and social performance. When selecting and evaluating suppliers, we take into account factors such as quality system, environmental system, and social responsibility management.

In addition to standard regulatory compliance with respect to conducting business activities in Mainland China, entertainment content in the form of films or drama series, need to be reviewed and approved by relevant regulatory authorities before release. The main executive branch of the PRC Government responsible for examining such content is the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China (SAPPRFT). As part of the Group's businesses involve the production, investment, and distribution of films and drama series, the Group pays close attention to the general guidelines set forth by the relevant authorities. Such guidelines cover not only films to be publicly released but also those submitted for film festivals and exhibition purposes. If any of the Group's project were not in compliance due to the inappropriateness of the content deemed by the authorities, it could potentially bring negative impact to the Group's operating results. Therefore, the Group chooses its projects carefully and keeps updated and informed with regards to the latest developments in relevant laws and regulations in order to maintain the Group's compliance level with such laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Customer Protection, Privacy and Information Security

As our online movie ticketing platform Tao Piao Piao continued to expand, serving an increasing number of consumers and handling more transactions, the protection of customer information and data safety continue to be a priority for the Group. Meanwhile, with the publication and implementation of the Cyber Security Law and the Personal Information Security Specification in the PRC, regulatory bodies and the public are also increasingly aware of privacy issues and the protection of personal data. In order better protect customer information, the Group has made the following efforts:

(i) Implementation of privacy policy for Tao Piao Piao and Yulebao: making clear to our customers that some data would be obtained in the normal course of providing service to them, making available to the customer the option to edit or remove their information in the system.

(ii) Strengthening the approval process for data collection and disclosure: the Group has in place policies that control the viewing and disclosure rights for certain sensitive data. Obtaining the rights for an employee requires approval by his/her supervisor and in many cases, the disclosure of certain information also require the approval by data security staff. If such information may concern privacy issues, the legal team and senior management team are also involved in the evaluation and approval process.

(iii) Increasing awareness on data importance and safety: utilizing various means to enhance the awareness and understanding of information privacy and data safety, including sending informative updates in our employees through the Group's internal system, putting up posters in our office areas, and providing workshops, etc.

Employee Benefits and Development

Attracting and developing talents is a cornerstone for the sustainable development of the Group. It is our responsibility to safeguard the basic rights and interests of our employees, nurture their development, create career paths for employees with potentials, and provide a good working environment. The Group strictly complies with relevant laws and regulations including the Labour Law and the Labour Contract Law, and enters into employment contracts with all employees, ensuring appropriate working hours with equal career opportunities for employment and promotion, and prohibiting child and forced labour. The basic compensation system was built and is maintained in accordance with relevant laws, regulations, and market practice. Certain bonuses are available to motivate high performing employees and advance our business initiatives. In addition, we provide annual medical checkups for our employees based in Mainland China and their parents free of charge.

As at March 31, 2018, the Group had 1,442 employees. The Group implements a company-wide level system and its hiring standards take into account the candidate's experience and track record. Compensation is determined according to both the level and specific functions of the position and also benchmarked against market rates. A well-established performance management system has been implemented. Performance targets are discussed with and set for each employee and assessment is done regularly. Supervisors are encouraged to provide impartial and helpful feedback to the employee in order to guide them to achieve their performance targets and develop personal growth. Employees with good performance may apply for promotion and such application will be reviewed and evaluated by a committee.

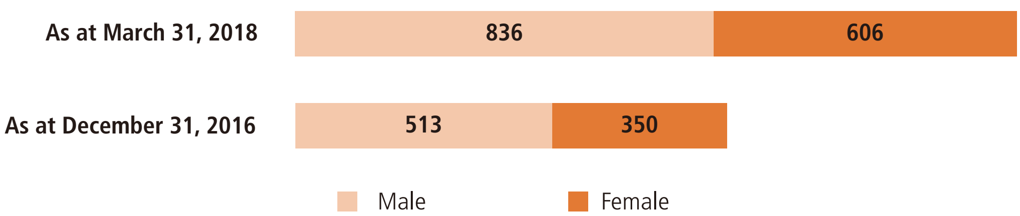
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group makes available regular training seminars for our employees. The seminars may be presented by representatives from regulatory authorities, industry experts, or internal management team. We encourage our employees to cultivate continuous learning, which will not only help with their job related tasks but also overall personal development. In the Reporting Period, the Group recorded at least 1,699 attendances and 13,041 hours of training for our employees.

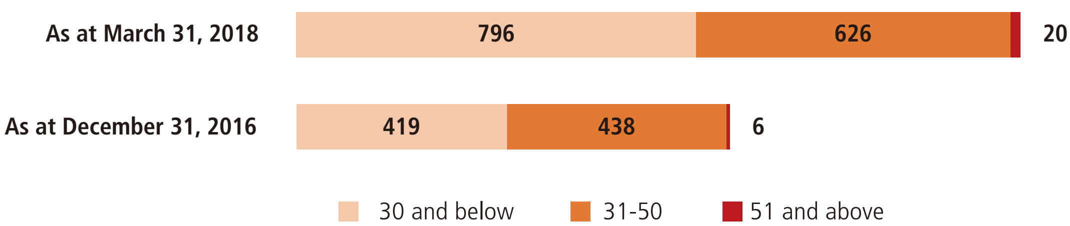
The following tables present data as at March 31, 2018:

Total number of employees

Employees by gender



Employees by age group



Health and Safety of Employees

The Group cares for the health and safety of employees, and provides employees with benefits, including physical examination and psychological counseling, free of charge. The contracts between the Group and film and television contractors require contractors to comply with relevant laws and regulations in relation to occupational safety, obtain medical insurance covering accidental injuries for the crew and cast members during the course of shooting, take responsibilities for all safety matters during the entire filmmaking process, implement a sound accountability system for safe production, have in place fire-fighting equipment and fire escapes, and enter into relevant fire security agreements with the shooting sites.

With a view to creating a comfortable and pleasant work environment for employees, the Group organizes various entertainment activities and workshops organized to share and celebrate the achievements of the Company. In addition, the Group organizes birthday parties for employees and provides yoga courses to ease their work stress.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Anti-Corruption

Any fraudulent activity, big or small, is detrimental to the Group and its stakeholders. In order to protect and safeguard the Group against such activities, the Group has established an anti-corruption group, which consists of dedicated risk management personnel and senior management such as CEO, CFO, and CPO. This Group is responsible for investigating and evaluating any fraudulent activities that have come to their attention, and installing necessary protocols to prevent and identify such activities.

It is important to have efficient channels for any employee or external business partners of the Group to report such any suspicion of fraudulent activities. One channel is a dedicated mailbox set up for this purpose and it is available on the Group's website. The mailbox is monitored and maintained by our risk management staff. All employees and business partners are encouraged to report any genuine concerns about fraudulent activities. The whistle-blowers' identities are protected as part of our standard protocol. If any employee were found to have committed corruption or fraud, the appropriate disciplinary actions would follow, which can include different types of warnings/penalties and outright dismissal. In cases where the offense violates any relevant laws or regulations, such cases will be reported to the authorities.

We provide informative materials and company policies on ethical business standards at a designated page in our intranet, where our employees can access easily. From time to time, there are also real-life cases of inappropriate actions shared on this page, serving to educate all our employees and demonstrate the Group's continuous efforts on fighting fraudulent and corruptive activities. Our employees are required to pass an examination on the subject of anti-corruption annually.

During the Reporting Period, the Group has strictly complied with all relevant laws and regulations relating to bribery, extortion, fraud and money laundering.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy, Resource and Emission Management

The Group encourages energy saving measures and the practice of green office. To minimize paper usage, the Group's printers are set to double-sided printing as default setting, and one-sided printouts are often re-used when possible. During internal and external meetings, mugs are used instead of paper cups. Induction faucets are used in washrooms of the Group's offices to prevent waste of water. The Group has 24-hour security guard service and when the guards go on patrol from time to time they would turn off any lights that are accidentally left on in empty areas. The general wastes generated by the Group, mainly including paper for office use and domestic wastes, are treated by the property management companies of the office buildings where the Group is located in compliance with applicable laws and regulations.

	Jan 2017 – Mar 2018
Use of electricity (KWh)	186,750
Use of gas (liter)	6,250
Use of water (ton)	127
Use of paper (ton)	2.25
Domestic wastes generated (ton)	2.25
Purchase of recycled paper (ton)	0.00725

An environmentally friendly operation that is resource-efficient aligns with the Group's long-term development. For many of our employees, no desk phone is assigned as they are able to make calls on their computers through a software system that is developed by Alibaba. The Group also has a battery recycling practice; batteries that are to be disposed would be sent to charitable organizations for recycling. Other hazardous wastes generated by the Group, mainly including disused ink cartridges, disused toner cartridges, disused computers and disused light tubes, are delivered to qualified third-parties for innocuous treatment.

	Jan 2017 – Mar 2018
Disused ink cartridges	98
Disused computers	72
Disused light tubes	95

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Volunteering and Charitable Work

The Group has adopted Alibaba Group's "three hours per person per year" public welfare initiative. Each employee is encouraged to complete at least three hours of volunteering each year. Employees can choose to volunteer in public welfare events organized either by the Company or third-party charitable foundations. The number of hours of volunteering can be filed easily in our internal system and the number is displayed prominently on employees' profiles. In the Reporting Period, the Group organized charitable events ten times. These included auctions for charities and various activities for under-privileged children such as museum visit and film viewing. In the Reporting Period, our employees have contributed 1,665 man-hours of volunteering in charitable events.

Plan A: Development of New Talents in Film and Television

The Group continues its efforts to nurture and develop new talents with its Plan A initiatives. Working with several prominent film schools in China, our team discovers young directors with good potentials and provides funding for them to kick-start their projects. On an annual basis, Plan A supports the development of numerous short films and five to ten full-length feature films. Some of these films are documentaries. Their themes are wide-ranging: education, environmental causes, economic development in under-developed areas, etc. For these projects, the Group will also utilize its promotion and distribution capabilities to help them gain exposure. We believe that a healthy industry ecosystem in which young talents have ample opportunities to gain project experiences and recognitions would be important not only for the sustainable development of the Group, but the entire industry as well.

Selected feature films under Plan A:

- **Sunshine That Can Move Mountains (被陽光移動的山脈).** A film that centers on religion and romance, nominated for best scripts at the 20th Shanghai Film Festival Asian newcomer category. To be released on Youku in May 2018.

- **Ash** (**追 • 蹤**). A crime drama directed by Li Xiaofeng. Nominated for the Windows of Asia category at the 22nd Busan International Film Festival. To be released in summer 2018.

- **One Night on the Wharf (在碼頭).** A comedy produced by director Jia Zhangke and directed by writer and poet Han Dong. Nominated for the New Wave Category at the 22nd Busan International Film Festival. To be released in summer 2018.

- **Kongfu Orphan (武林孤兒).** A drama written and directed by Huang Huang. To be released in 2018.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Alibaba Pictures Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 92 to 201, which comprise:

- the consolidated balance sheet as at March 31, 2018;
- the consolidated statement of profit or loss for the fifteen months period then ended;
- the consolidated statement of comprehensive income for the fifteen months period then ended;
- the consolidated statement of changes in equity for the fifteen months period then ended;
- the consolidated statement of cash flows for the fifteen months period then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at March 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the fifteen months period then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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INDEPENDENT AUDITOR'S REPORT

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- Fair value determination for financial asset classified as "fair value through profit and loss"
- Film and TV copyrights impairment assessment

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment	
Refer to Note 4 – Critical accounting estimates and judgments and Note 15 – Goodwill and intangible assets. For purposes of the annual impairment assessment of goodwill, management determined the recoverable amounts of all the Group's goodwill based on value in use ("VIU"), which is the present value of the future cash flows expected to be derived from the Group's cash generating units ("CGUs"). We focused on this area due to the size of the goodwill balance (RMB3,547 million as at March 31, 2018), and because management's assessment of the recoverable amount of the Group's CGUs that include the respective goodwill involved significant judgment on the use of estimates.	Our procedures on management's goodwill impairment assessment mainly included: • We tested the consistency and reasonableness of the data used and challenged management's key assumptions adopted in the future cash flow forecasts, mainly in relation to: – the budgeted sales and respective gross margin, by comparing them with actual historical financial data of these CGUs. For the budgeted sales, we also compared to future market growth rate as forecasted and sourced from external parties; – the long term revenue growth rates, by comparing them with the relevant economic and industry forecasts, including certain forecasts sourced from external parties; and – the discount rates, by comparing them with costs of capital of comparable companies. • We also evaluated management's sensitivity calculation over the recoverable amounts of these CGUs. Focusing on those few key assumptions to which the calculation was most sensitive, we calculated the degree to which each of these key assumptions would need to change before an impairment conclusion was triggered and discussed the likelihood of such a movement with management. Based on the above, we found the key assumptions adopted in management's estimates of the recoverable amounts to be supported by the evidence we obtained.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value determination for financial asset classified as "fair value through profit or loss"	
Refer to Note 4 – Critical accounting estimates and judgments and Note 16 – Financial assets at fair value through profit or loss.	The Company has engaged an independent valuer to determine the fair value of the convertible bonds. Our procedures on the valuation of the convertible bonds included:
As at March 31, 2018, the Group had investment in convertible bonds (issued by a private entity) amounted to RMB1,123 million and such investment was designated as financial assets at fair value through profit or loss ("FVTPL") and was stated at fair value.	• Evaluated the competence, capabilities and objectivity of the independent valuer. • Worked with our in-house valuation specialist to assess the appropriateness of the valuation method adopted by the independent valuer;
The fair value determination of such convertible bonds required management to make a number of judgments, including the appropriateness of valuation methodology used and adoption of various unobservable input data. Given the significance of the related balance, there is a risk that any small changes in key assumptions could have a significant impact on its fair value and therefore the reported results. As such, this matter is considered an area of focus in the audit.	• Tested the consistency and reasonableness of the data used and challenged management's key assumptions adopted in the valuation model, mainly in relation to: – the volatility rate, by comparing it with the standard deviation of historical stock return of comparable companies of the issuer; – the bond discount rate, by comparing it with the cost of debt of comparable bonds; and – the future cash flows of the issuer, by comparing them with actual historical financial data of the issuer. For the budgeted sales, we also compared to future market growth rate as forecasted and sourced from external parties. Based on the above, we found the assumptions adopted by management in the fair value assessment to be supported by the evidence we obtained.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Film and TV copyrights impairment assessment	
Refer to Note 4 – Critical accounting estimates and judgments and Note 17 – Film and TV copyrights. As at March 31, 2018, the net book value of the Group's film and TV copyrights amounted to RMB990 million, including film and TV copyrights under production of RMB934 million, and those for which production has been completed amounted to RMB56 million. An impairment loss of RMB42 million in respect of the film and TV copyrights was recognized during the fifteen months period ended March 31, 2018. Management exercised significant judgment in assessing the impairment of these film and TV copyrights. In making such assessment, management considered all factors that may affect the future production plans and distribution plans, and exercised judgment in developing its expectation for the future cash flows from these film and TV copyrights. The impairment assessment of film and TV copyrights under production was an area of focus for us given the inherent uncertainties of the future production plans, marketability of the films and TV dramas, and the significant amount of the related balance.	Regarding management's recoverability assessment of the film and TV copyrights for which production has yet to complete, we performed the following procedures, based on the risk profile and significance of the individual balances: • Examined the purchase contracts and related production contracts to check the validity of the purchased copyrights, and discussed with the management to understand their future production plans and distribution plans, which are the basis of future cash flow projections. • Performed specific inquiries with management about the major crew members and their background, experience and profile, and performed relevant search through external sources on media coverage on the related popularity of the original creators of the copyrights and the contents and topics of the in production film/TV dramas to corroborate with management's production plans. • Evaluated the future cash flow projections about the reasonableness of key estimates on future revenue, distribution costs and other cost information by comparing to historical data of comparable films/TV dramas. We found the assumptions adopted and judgment applied by management were supported by the evidence we obtained.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Brian Ming Yan Choi.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, May 7, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Revenue	5	**3,302,783**	904,582
Cost of sales and services	8	**(962,954)**	(718,530)
Gross profit		**2,339,829**	186,052
Selling and marketing expenses	8	**(3,222,608)**	(1,079,562)
Administrative expenses	8	**(968,885)**	(719,758)
Other income	6	**122,037**	63,414
Other gains, net	7	**116,574**	45,911
Operating loss		**(1,613,053)**	(1,503,943)
Finance income	10	**107,691**	545,921
Finance expenses	10	**(291,564)**	(11,975)
Finance (expenses)/income, net		**(183,873)**	533,946
Share of profit or loss of and gain on dilution of investments accounted for using the equity method	13	**37,279**	12,502
Loss before income tax		**(1,759,647)**	(957,495)
Income tax expense	11	**(35,313)**	(18,649)
Loss for the period/year		**(1,794,960)**	(976,144)
Loss attributable to:			
Owners of the Company		**(1,658,647)**	(958,576)
Non-controlling interests		**(136,313)**	(17,568)
Loss per share attributable to owners of the Company for the period/year *(expressed in RMB cents per share)*	12		
– Basic		**(6.56)**	(3.80)
– Diluted		**(6.56)**	(3.80)

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Loss for the period/year	**(1,794,960)**	(976,144)
Other comprehensive loss:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(136,355)**	(3,402)
Change in the fair value of available-for-sale financial assets, net of tax	**(8,936)**	301
Other comprehensive loss for the period/year, net of tax	**(145,291)**	(3,101)
Total comprehensive loss for the period/year	**(1,940,251)**	(979,245)
Attributable to:		
– Owners of the Company	**(1,803,634)**	(962,036)
– Non-controlling interests	**(136,617)**	(17,209)
Total comprehensive loss for the period/year	**(1,940,251)**	(979,245)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

	Note	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	14	**232,378**	99,265
Goodwill	15	**3,546,504**	3,532,107
Intangible assets	15	**158,400**	176,901
Deferred income tax assets	28	**419**	1,012
Investments accounted for using the equity method	13	**2,387,742**	2,280,839
Available-for-sale financial assets	19	**52,000**	20,000
Financial assets at fair value through profit or loss	16	**1,122,587**	1,025,170
Trade and other receivables, and prepayments	20	**111,250**	93,391
		7,611,280	7,228,685
Current assets			
Inventories		**756**	890
Film and TV copyrights	17	**990,145**	809,004
Trade and other receivables, and prepayments	20	**1,156,370**	1,322,353
Current income tax recoverable		**575**	–
Available-for-sale financial assets	19	**666,992**	1,954,107
Cash and cash equivalents	21	**1,685,719**	6,220,966
Bank deposits with the maturity over three months	21	**2,740,707**	–
Restricted cash	21	**17,719**	2,027,057
		7,258,983	12,334,377
Assets classified as held-for-sale	22	**112,320**	–
		7,371,303	12,334,377
Total assets		**14,982,583**	19,563,062
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	23	**5,131,405**	5,081,884
Reserves		**8,845,292**	11,836,139
		13,976,697	16,918,023
Non-controlling interests		**120,202**	213,909
Total equity		**14,096,899**	17,131,932

CONSOLIDATED BALANCE SHEET

	Note	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	27	**23,311**	–
Deferred income tax liabilities	28	**37,426**	42,922
Finance lease liabilities		**11,986**	–
		72,723	42,922
Current liabilities			
Trade and other payables, and accrued charges	26	**794,247**	405,542
Current income tax liabilities		**–**	2,666
Borrowings	27	**3,000**	1,980,000
Finance lease liabilities		**7,979**	–
		805,226	2,388,208
Liabilities directly associated with assets classified as held-for-sale	22	**7,735**	–
		812,961	2,388,208
Total liabilities		**885,684**	2,431,130
Total equity and liabilities		**14,982,583**	19,563,062

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 92 to 201 were approved by the Board of Directors on May 7, 2018 and were signed on its behalf.

Fan Luyuan
Executive Director & Chairman

Zhang Wei
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to owners of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Shareholder's contribution reserve RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Share-based compensation reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
For the year ended December 31, 2016												
At January 1, 2016		5,081,884	12,063,133	(1,346,285)	48,527	14,751	9,605	81,654	242,542	16,195,811	(2,231)	16,193,580
Loss for the year		–	–	–	–	–	–	–	(958,576)	(958,576)	(17,568)	(976,144)
Other comprehensive (loss)/ income for the year:												
Change in fair value of available-for-sale financial assets, net of tax		–	–	–	–	–	(58)	–	–	(58)	359	301
Currency translation differences		–	–	–	–	(3,402)	–	–	–	(3,402)	–	(3,402)
Total comprehensive loss for the year		–	–	–	–	(3,402)	(58)	–	(958,576)	(962,036)	(17,209)	(979,245)
Value of employee services provided under share option scheme	24	–	–	–	–	–	–	143,476	–	143,476	–	143,476
Value of employee services provided in relation to share-based payment transactions with Alibaba Group Holding Limited ("AGHL")	9(b), 24	–	–	–	–	–	–	26,304	–	26,304	–	26,304
Value of equity-settled share awards granted to employees of a subsidiary	24	–	–	31,700	–	–	–	–	–	31,700	–	31,700
Dilution gain on capital injection into a subsidiary		–	–	1,490,113	–	–	–	–	–	1,490,113	209,887	1,700,000
Disposal of certain equity interest in a subsidiary without loss of control		–	–	(7,345)	–	–	–	–	–	(7,345)	8,845	1,500
Non-controlling interests arising on business combination		–	–	–	–	–	–	–	–	–	14,617	14,617
At December 31, 2016		5,081,884	12,063,133	168,183	48,527	11,349	9,547	251,434	(716,034)	16,918,023	213,909	17,131,932

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to owners of the Company											
	Note	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Other reserve RMB'000	Shareholder's contribution reserve RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Share-based compensation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
For the fifteen months ended March 31, 2018													
At January 1, 2017		5,081,884	12,063,133	-	168,183	48,527	11,349	9,547	251,434	(716,034)	16,918,023	213,909	17,131,932
Loss for the period		-	-	-	-	-	-	-	-	(1,658,647)	(1,658,647)	(136,313)	(1,794,960)
Other comprehensive loss for the period:													
Change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	-	-	(8,632)	-	-	(8,632)	(304)	(8,936)
Currency translation differences		-	-	-	-	-	(136,355)	-	-	-	(136,355)	-	(136,355)
Total comprehensive loss for the period		-	-	-	-	-	(136,355)	(8,632)	-	(1,658,647)	(1,803,634)	(136,617)	(1,940,251)
Issuance of shares under share award scheme		49,521	214,360	(263,881)	-	-	-	-	-	-	-	-	-
Shares purchased for share award scheme		-	-	(19,526)	-	-	-	-	-	-	(19,526)	-	(19,526)
Shares vested under share award scheme		-	-	134,971	-	-	-	-	(134,971)	-	-	-	-
Value of employee services provided under share option scheme and share award scheme	24	-	-	-	-	-	-	-	108,921	-	108,921	-	108,921
Value of employee services provided in relation to share-based payment transactions with AGHL	9(b), 24	-	-	-	-	-	-	-	12,469	-	12,469	-	12,469
Acquisition of non-controlling interests in subsidiaries	31(1)	-	-	-	(1,242,359)	-	-	-	-	-	(1,242,359)	(91,892)	(1,334,251)
Non-controlling interests arising on business combinations	32	-	-	-	-	-	-	-	-	-	-	65,631	65,631
Non-controlling interests arising on newly established subsidiaries		-	-	-	-	-	-	-	-	-	-	28,910	28,910
Disposal of certain equity interest in a subsidiary without loss of control	31(2)	-	-	-	2,803	-	-	-	-	-	2,803	38,724	41,527
Others		-	-	-	-	-	-	-	-	-	-	1,537	1,537
As at March 31, 2018		5,131,405	12,277,493	(148,436)	(1,071,373)	48,527	(125,006)	915	237,853	(2,374,681)	13,976,697	120,202	14,096,899

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Cash flows from operating activities			
Cash used in operations	30	**(1,736,738)**	(1,956,021)
Income tax paid		**(25,333)**	(54,478)
Net cash outflow from operating activities		**(1,762,071)**	(2,010,499)
Cash flows from investing activities			
Change in available-for-sale financial assets, net		**1,243,200**	(871,700)
Amount received/(paid) in relation to the restructuring of an associate		**405,809**	(506,179)
Investment income received	6	**99,931**	50,214
Interest received		**98,495**	134,455
Refund of investment in an associate	13	**50,000**	–
Disposal of investment in an associate	13	**38,403**	–
Interest received on convertible bonds	16	**19,500**	–
Proceeds from disposal of property, plant and equipment ("PPE")		**1,908**	–
Change in bank deposits with the maturity over three months, net		**(2,862,070)**	7,379,636
Investment in associates	13	**(201,828)**	(2,248,893)
Purchases of PPE		**(145,896)**	(56,590)
Acquisition of subsidiaries, net of cash acquired	32	**(29,894)**	(116,771)
Cash and cash equivalents included in a disposal group classified as held-for-sale		**(821)**	–
Purchase of intangible assets	15	**(32)**	(492)
Loan repayment received from a third party		**–**	15,000
Proceeds from disposal of art works		**–**	8,000
Investment in convertible bonds		**–**	(1,000,000)
Prepayment of investment		**–**	(45,000)
Net cash (outflow)/inflow from investing activities		**(1,283,295)**	2,741,680

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Cash flows from financing activities			
Change in restricted cash in relation to financing activities	21(c)	**2,007,439**	(5,509)
Proceeds from disposal of interest in a subsidiary	31(2)	**41,527**	1,500
Capital injection from non-controlling interests		**28,910**	–
Proceeds from borrowings	27	**26,311**	–
Repayment of borrowings	27	**(1,980,000)**	–
Acquisition of non-controlling interests in subsidiaries	31(1)	**(1,334,251)**	–
Shares purchased for share award scheme		**(19,526)**	–
Interest paid		**(17,332)**	(9,500)
Repayment of finance lease liabilities		**(4,089)**	–
Proceeds from capital inject of a subsidiary		**–**	1,700,000
Net cash (outflow)/inflow from financing activities		**(1,251,011)**	1,686,491
Net (decrease)/increase in cash and cash equivalents		**(4,296,377)**	2,417,672
Cash and cash equivalents at beginning of the financial year		**6,220,966**	3,677,988
Exchange (loss)/gain on cash and cash equivalents		**(238,870)**	125,306
Cash and cash equivalents at end of the financial period/year		**1,685,719**	6,220,966

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange") and secondary listing on the Singapore Exchange Securities Trading Limited. As at March 31, 2018, the Company is 49.03% owned by Ali CV Investment Holding Limited ("Ali CV"). Ali CV is a wholly-owned subsidiary of Alibaba Investment Limited ("AIL") which is in turn wholly-owned by AGHL.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

On December 12, 2017, the Company announced to change the financial year end date from December 31 to March 31 to coincide with the natural business cycle of certain business lines of the Company, including its online movie ticketing services and entertainment content promotion and distribution business. Accordingly, the current financial year covers a fifteen months period from January 1, 2017 to March 31, 2018 with the comparative financial year covers a twelve months period from January 1, 2016 to December 31, 2016.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(a) New amendments to standards adopted by the Group

The Group has adopted the following amendments to standards which are mandatory for the financial year beginning on January 1, 2017:

Amendments to standards		**Effective for accounting periods beginning on or after**
Amendments to HKAS 12	Income taxes	January 1, 2017
Amendments to HKAS 7	Statement of cash flows	January 1, 2017
Amendments to HKFRS 12	Disclosure of interest in other entities	January 1, 2017

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 30(c).

Other amendments to standards which are effective for the financial year beginning on January 1, 2017 are not material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New standards and amendments not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

(i) HKFRS 9, 'Financial instruments'

Nature of change

HKFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

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

- The Group's debt instruments currently classified as available-for-sale ("AFS") will have to be reclassified to financial assets at fair value through profit or loss ("FVPL") and the impact to retained earnings is not material.
- The Group's equity instruments that are currently classified as AFS will have to be reclassified to financial assets at FVPL and the impact to retained earnings is not material.
- Debt investments currently measured at fair value through profit or loss will likely continue to be measured on the same basis under HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

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

Impact (Continued)

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group did not have any such liabilities as at March 31, 2018.

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

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

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

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

Date of adoption by the Group

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

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

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers revenue arising from the sale of goods and the rendering of services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management is in the process of assessing the effects of applying the new standard on the Group's financial statements and expects there will be no significant areas that will be affected.

Date of adoption by the Group

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(iii) HKFRS 16, 'Leases'

Nature of change

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

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has certain non-cancellable operating lease commitments, see Note 33.

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

Date of adoption by the Group

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

There are no other standards that are not yet effective that would be expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Subsidiaries arising from contractual arrangements

The Group's wholly-owned subsidiaries have entered into certain contractual arrangements (the "Contractual Arrangements") with 中聯京華文化傳播(北京)有限公司 ("Zhonglian Jinghua"), 北京阿里淘影視文化有限公司 ("Beijing Ali Tao") and 上海淘票票影視文化有限公司 ("Shanghai Tao Piao Piao"), (together, Zhonglian Jinghua, Beijing Ali Tao and Shanghai Tao Piao Piao are referred to as the "OPCOs") respectively, and their equity holders, which enable the Group to:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(b) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

(b) Business combinations (Continued)

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

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

(c) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(d) Disposal of subsidiaries

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

2.2.2 Separate financial statements

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

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

2.3 Associates

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates *(Continued)*

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

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

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

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

Gains or losses on dilution of equity interest in associates are recognized in the consolidated statement of profit or loss.

2.4 Segment reporting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other gains/(losses), net' in the statement of profit or loss.

2.7 Intangible assets

(a) Goodwill

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Intangible assets *(Continued)*

(a) ***Goodwill*** *(Continued)*

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

(b) ***Licences***

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

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

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

(c) ***Contractual customer relationships***

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

(d) ***Other intangible assets***

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Impairment of non-financial assets

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

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

Non-current assets (or disposal groups) are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset (or disposal group) is recognized at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held-for-sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale continue to be recognized.

Non-current assets classified as held-for-sale and the assets of a disposal group classified as held-for-sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held-for-sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held-for-sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets

2.10.1 Classification

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

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

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

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

– the financial assets are managed, evaluated and reported internally on a fair value basis; and

– the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets.

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

– the embedded derivatives does not significantly modify the cash flows that would otherwise be required under the contract; or

– it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivatives is prohibited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.1 Classification (Continued)

(b) *Loans and receivables*

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

(c) *Available-for-sale financial assets*

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

2.10.2 Recognition and measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.2 Recognition and measurement (Continued)

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated statement of profit or loss within 'other gains/(losses), net'.

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

At March 31, 2018, the Group's available-for-sale financial assets include certain interests in an unlisted fund which do not have quoted market prices in an active market and for which the range of other methods of reasonably estimating fair value is significant and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, this investment is carried at cost less accumulated impairment losses.

2.11 Offsetting financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets

(a) Assets carried at amortized cost

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets *(Continued)*

(b) Assets classified as available-for-sale

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

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

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from equity and recognized in profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

2.13 Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Film and TV copyrights

(a) Film and TV copyrights

Film and TV copyrights represent proportional distribution rights and legal copyrights of films, television programmes and television drama series acquired by the Group. Film and TV copyrights are stated at cost less accumulated amortization and identified impairment loss. Costs of film and TV copyrights comprise fees paid and payable under agreements, direct costs/expenses incurred during the production of films and TVs, fees for the reproduction and/or distribution of films and TVs. Amortization is calculated using the straight-line method to allocate the cost of film and TV copyrights over their estimated useful lives which are determined based on individual title basis and ranged from within one year to three years after the showing of the respective films, or the delivery of master tapes of the respective TVs.

(b) Impairment

Impairment assessment of the film and TV copyrights is assessed on an annual basis or whenever events or changes in circumstances indicate that the carrying amount is below the recoverable amount, where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment loss is recognized in the consolidated statement of profit or loss. The recoverable amounts of the film and TV copyrights are determined and reviewed on a title-by-title basis and are based on their fair value that include unobservable inputs and assumptions derived from the Group.

2.15 Film deposits

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Trade and other receivables

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

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

2.17 Cash and cash equivalents

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

2.18 Share capital and shares held for share award scheme

Share capital is classified as equity.

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

Where the Company's shares are issued to or acquired from the market by the Company's share award trust ("Share Award Trust") under the share award scheme ("Share Award Scheme"), the total fair value of shares issued or total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as shares held for share award scheme and deducted from total equity. Upon vesting, the related costs of the vested shares for Share Award Scheme issued or purchased from the market are credited to shares held for share award scheme, with a corresponding decrease in share-based compensation reserve for the Share Award Scheme.

2.19 Trade payables

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Borrowings

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

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

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

2.21 Borrowing costs

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.23 Employee benefits

(a) Pension obligations

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

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

(b) Termination benefits

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

(c) Bonus plans

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Share-based payments

Equity-settled share-based payment transactions

(a) Share options

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Share-based payments *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

(b) Share Award Scheme

The fair value of deferred shares granted to employees for nil consideration under the Share Award Scheme is recognized as an expense over the relevant service period. The fair value is measured at the grant date of the shares and is recognized in equity in the share-based compensation reserve. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognized in profit or loss and the share-based compensation reserve.

Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognized in relation to such shares are reversed effective the date of the forfeiture.

The deferred shares are issued to or acquired by the Company's Share Award Trust on market and are held for the Share Award Scheme until such time as they are vested (see Note 2.18).

2.25 Provisions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Revenue recognition

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

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

(b) Revenue from investment and production of film is recognized when the film is shown and the right to receive payment is established.

(c) Revenue from sales of goods (including merchandise, software and hardware) and provision of services (including online movie ticketing related services, distribution and promotion services) is recognized when goods and services are received by customers and the right to receive payment is established.

(d) Revenue from sales of digital vouchers for movie tickets to customers is recognized based on the proportion of vouchers redeemed by customers during the validity period of the respective vouchers. Revenue from unredeemed vouchers is recognized when the validity period of these vouchers expire as the Group has no obligation to provide cash refund to its customers.

(e) Revenue from cinema admission tickets sold is recognized when tickets are accepted and consumed by the customer. Revenue from tickets sold for use at a future date is deferred until the tickets are consumed or have expired.

2.27 Interest income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Dividend income

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

2.29 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

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

2.30 Government grants

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

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

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

2.31 Dividend distribution

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB and US dollar, which is exposed to foreign currency risk with respect to transactions denominated in currencies other than RMB or US dollar. Foreign exchange risk arises from recognized assets and liabilities and net investments in foreign operations. The Group did not enter into any forward contract to hedge its exposure to foreign currency risk for the fifteen months ended March 31, 2018 and for the year ended December 31, 2016.

As at March 31, 2018, the carrying amounts of the Group's monetary assets and liabilities that are denominated in currency other than functional currencies of the respective group entities are as follows:

	March 31, 2018		December 31, 2016	
	HK dollar	**US dollar**	HK dollar	US dollar
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and bank balances	**235**	**2,548,140**	1,067,836	4,176,078
Trade and other receivables	**6,036**	**12,137**	6,243	611
Trade and other payables	**396**	**604**	33	12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

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

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

For the fifteen months ended March 31, 2018, if RMB had weakened/strengthened by 5% (Year ended December 31, 2016: 5%) with all other variables held constant, pre-tax loss would have been RMB128,277,000 lower/higher (Year ended December 31, 2016: pre-tax loss for the year would have been RMB262,536,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of HK dollar and US dollar-denominated cash and bank balances and trade and other receivables.

(ii) ***Cash flow and fair value interest rate risk***

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

For the fifteen months ended March 31, 2018, if interest rates on borrowings had been 100 basis point higher/lower with all other variables held constant, pre-tax loss for the would have been RMB125,000 higher/lower (Year ended December 31, 2016: pre-tax loss for the year would have been RMB19,800,000 higher/lower), mainly as a result of higher/lower interest expense on floating rate borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from deposits with banks and financial institutions, available-for-sale financial assets, financial assets at fair value through profit or loss, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only parties with good credit rating are accepted. For receivables due from customers, the Group assesses the credit quality of the customers, taking into account of their financial positions, past experience and other factors.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group in the event of the counterparties' failure to perform their obligations as at March 31, 2018 is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet.

As at March 31 2018, the Group has no significant concentrations of credit risk as none of the individual debtor accounted for 10% or more of the Group's total trade receivables. The Group's concentration of credit risk by geographical location is in the PRC, which accounts for 94% of the total trade receivables as at March 31, 2018.

The Group's bank balances are deposited in banks and financial institutions with good reputation in the PRC, Macau, Hong Kong and the United States of America (the "USA"). Accordingly, the credit risk on these bank balances is limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) *Liquidity risk*

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

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at March 31, 2018				
Trade and other payables	**620,257**	**–**	**–**	**620,257**
Borrowings	**4,577**	**6,290**	**19,073**	**29,940**
Finance lease liabilities	**8,609**	**7,985**	**3,826**	**20,420**
	633,443	**14,275**	**22,899**	**670,617**
As at December 31, 2016				
Trade and other payables	255,951	–	–	255,951
Borrowings	1,991,880	–	–	1,991,880
	2,247,831	–	–	2,247,831

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

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

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

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

As at March 31, 2018 and December 31, 2016, the Group's gearing ratio is nil as its cash and cash equivalents exceeded its total borrowings.

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at March 31, 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

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

See Note 19 for disclosures of available-for-sale financial assets and Note 16 for disclosures of financial assets at fair value through profit or loss that are measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's assets that are measured at fair value at March 31, 2018.

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Available-for-sale financial assets				
Investments in wealth management products	**–**	**–**	**666,992**	**666,992**
Investments in unlisted fund	**–**	**–**	**32,000**	**32,000**
Financial assets at fair value through profit or loss				
Convertible bonds	**–**	**–**	**1,122,587**	**1,122,587**
Total assets	**–**	**–**	**1,821,579**	**1,821,579**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

Financial instruments in level 3

The following table presents the changes in level 3 instruments for the fifteen months ended March 31, 2018 and for the year ended December 31, 2016.

	Available-for-sale financial assets	
	For the fifteen months ended March 31 2018 RMB'000	For the year ended December 31 2016 RMB'000
Opening balance	**1,954,107**	1,102,006
Change in fair value	**88,016**	401
Net (disposals)/additions	**(1,343,131)**	851,700
Closing balance	**698,992**	1,954,107

	Financial assets at fair value through profit or loss	
	For the fifteen months ended March 31 2018 RMB'000	For the year ended December 31 2016 RMB'000
Opening balance	**1,025,170**	–
Addition	**–**	1,000,000
Interest received	**(19,500)**	–
Change in fair value	**116,917**	25,170
Closing balance	**1,122,587**	1,025,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

Financial instruments in level 3 *(Continued)*

	Financial liabilities at fair value through profit or loss	
	For the fifteen months ended March 31 2018 RMB'000	For the year ended December 31 2016 RMB'000
Opening balance	**–**	33,000
Derecognition upon expiry	**–**	(33,000)
Closing balance	**–**	–

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of CGUs have been determined based on the higher of FVLCD and VIU, which require the use of estimates and valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

According to the management's assessment (Note 15), there is no impairment in goodwill as at March 31, 2018 (December 31, 2016: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(b) Fair value of financial assets at fair value through profit or loss

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques. The inputs to the valuation models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values (Note 16).

(c) Estimated impairment of film and TV copyrights

At the end of the reporting period, the management of the Group assesses the impairment on film and TV copyrights with reference to its recoverable amount. The assessment was made on a film-by-film basis. The recoverable amount of the film and TV copyrights was determined based on the higher of FVLCD and VIU.

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

Based on the management assessment's on the recoverability of film and TV copyrights (Note 17), the directors of the Company determined that an impairment provision of RMB42,176,000 (Year ended December 31, 2016: RMB28,269,000) was charged to cost of sales and services during the fifteen months ended March 31, 2018.

(d) Estimated impairment of investments accounted for using the equity method

The Group assesses whether there are any indicators of impairment for interests in associates at the end of each reporting period in accordance with the accounting policies stated in Note 2.8. Investments accounted for using the equity method are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investments accounted for using the equity method exceeds its recoverable amount, which is determined based on VIU calculations. These calculations require the use of estimates.

According to the management's assessment, there is no impairment in investments accounted for using the equity method as at March 31, 2018 (December 31, 2016: nil).

(e) Allowances for bad and doubtful debts

The policy of allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor. Based on the assessment on the collectability and aging analysis of accounts, the directors of the Company determined an impairment provision for trade and other receivables, and prepayments of RMB28,591,000 (Year ended December 31, 2016: an impairment provision of RMB43,693,000) for the fifteen months ended March 31, 2018. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUES AND SEGMENT INFORMATION

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

The Board of Directors of the Company considers the business from perspective of types of goods or services delivered or provided. During the fifteen months period ended March 31, 2018, the Group's operating and reportable segments for continuing operations are as follows:

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

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

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

Segment revenue and results

	For the fifteen months ended March 31 2018 RMB'000	For the year ended December 31 2016 RMB'000
Internet-based promotion and distribution	**2,658,579**	682,607
Content production	**585,444**	211,834
Integrated development	**58,760**	6,010
Other operations	**–**	4,131
Total revenues	**3,302,783**	904,582

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUES AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

	For the fifteen months ended March 31, 2018			
	Internet-based promotion and distribution RMB'000	Content production RMB'000	Integrated development RMB'000	Total RMB'000
Segment revenue	2,658,579	585,444	58,760	3,302,783
Segment results	(882,538)	7,958	32,690	(841,890)
Unallocated selling and marketing expenses				(40,889)
Administrative expenses				(968,885)
Other income				122,037
Other gains, net				116,574
Finance income				107,691
Finance expenses				(291,564)
Share of profit or loss of and gain on dilution of investments accounted for using the equity method				37,279
Loss before income tax				**(1,759,647)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUES AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUES AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

During the fifteen months ended March 31, 2018 and the year ended December 31, 2016, all of the segment revenue reported above is from external customers and there were no inter-segment sales.

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

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

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

As at March 31, 2018, the Group's non-current assets, other than financial instruments and deferred income tax assets, are located in the Mainland of the PRC, the USA, Hong Kong, Taiwan and Ireland amounting to RMB5,960,389,000, RMB365,192,000, RMB90,132,000, RMB13,979,000 and RMB6,582,000 (December 31, 2016: RMB5,631,050,000, RMB433,978,000, RMB90,256,000, RMB17,683,000 and RMB9,536,000) respectively.

During the fifteen months ended March 31, 2018 and the year ended December 31, 2016, none of the Group's customers accounted for 10% or more of the Group's total revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 OTHER INCOME

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Investment income on available-for-sale financial assets	**99,931**	43,434
Local government subsidies	**11,736**	5,665
Investment income on loan receivable	**–**	4,579
Sundry income	**10,370**	9,736
	122,037	63,414

7 OTHER GAINS, NET

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Change in fair value of financial assets at fair value through profit or loss (Note 16)	**116,917**	25,170
Net gain/(loss) on disposal of property, plant and equipment	**346**	(253)
Gain on derecognition of repurchase option upon expiry	**–**	33,000
Change in fair value of assets held-for-sale	**–**	(12,218)
Others	**(689)**	212
	116,574	45,911

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 EXPENSES BY NATURE

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Film and TV copyrights recognized as cost of sales and services (Note)	**686,875**	622,038
Cost of inventories, digital vouchers, cinema ticketing and intellectual property licenses recognized as cost of sales and services	**134,243**	32,198
Marketing and promotion expenses	**3,208,022**	1,076,624
Employee benefit expense (Note 9)	**671,559**	540,900
Depreciation and amortization	**82,199**	44,330
Payment processing fees	**81,806**	22,863
Operating lease payments	**76,216**	36,119
Travel and entertainment fees	**39,505**	29,940
Technology service fees	**29,145**	7,707
Impairment provision for trade and other receivables, and prepayments	**28,591**	43,693
SMS platform service and customer services support fees	**21,344**	11,348
Auditor's remunerations		
– Audit services	**3,686**	3,000
– Non-Audit services	**570**	750
Others	**90,686**	46,340
Total cost of sales and services, selling and marketing expenses and administrative expenses	**5,154,447**	2,517,850

Note:

Amount included an impairment loss on film and TV copyrights of RMB42,176,000 for the fifteen months period ended March 31, 2018 (Year ended December 31, 2016: RMB28,269,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 EMPLOYEE BENEFIT EXPENSE

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Wages and salaries	**393,569**	227,747
Share-based payment under share option scheme and share award scheme (Note 24)	**108,921**	143,476
Social security costs and housing fund (Note a)	**78,891**	50,260
Reimbursement on share-based compensation (Note c)	**69,511**	59,943
Share-based payment transactions with ultimate parent (Note b)	**12,469**	26,304
Termination benefits	**8,198**	1,470
Share-based payment to certain employees of a subsidiary	**–**	31,700
Total employee benefit expense	**671,559**	540,900

Notes:

(a) All of the Group's full-time employees in the PRC participate in a state-sponsored defined contribution pension plan. The Group is required to make monthly defined contributions to this plan at a rate of 19% (Year ended December 31, 2016: 19%~20%) of the employees' basic salaries subject to a cap determined by the state on an annual basis.

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Contributions to the MPF Scheme are in accordance with the statutory limits.

There were no forfeited contributions utilised to offset employers' contributions for the fifteen months ended March 31, 2018. As at March 31, 2018 and December 31, 2016, there was no forfeited contribution available to reduce the contributions payable in the future years.

During the fifteen months period ended March 31, 2018, the Group made total contributions to the retirement benefits schemes of RMB33,674,000 (Year ended December 31, 2016: RMB19,529,000).

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

During the fifteen months ended March 31, 2018, share-based payment expenses recognized in relation to above reimbursement amounted to RMB12,469,000 (Year ended December 31, 2016: RMB26,304,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 EMPLOYEE BENEFIT EXPENSE *(Continued)*

Notes: *(Continued)*

(c) In addition to above reimbursement arrangement with AGHL, the Group also entered into agreements with Hangzhou Junhan Equity Investment Partnership ("Junhan", a PRC limited partnership in which a key management personnel of AGHL is the general partner) in 2016, pursuant to which the Company agreed to reimburse the share-based compensation provided by Junhan to the employees of Tao Piao Piao and Yulebao. The reimbursement was treated as employee benefits and the related expenses were to be recognized in profit or loss, on a straight-line basis, over the remaining vesting periods of the share-based compensation.

During the fifteen months ended March 31, 2018, share-based payment expenses recognized in relation to above reimbursement amounted to RMB69,511,000 (Year ended December 31, 2016: RMB59,943,000).

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the fifteen months ended March 31, 2018 included two (Year ended December 31, 2016: three) directors whose emoluments are reflected in Note 37. The emoluments payable to the remaining three (Year ended December 31, 2016: two) individuals during the period/year are as follows:

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Salaries, share options, other allowances and benefits in kind	**26,697**	9,285
Bonuses	**140**	572
Contributions to the retirement scheme	**101**	70
	26,938	9,927

The emoluments fell within the following bands:

	Number of individuals	
	For the fifteen months ended March 31, 2018	For the year ended December 31, 2016
Emolument bands (in HK dollar)		
HK$5,000,001 to HK$5,500,000	**–**	1
HK$5,500,001 to HK$6,000,000	**1**	–
HK$6,000,001 to HK$6,500,000	**1**	1
HK$20,000,001 to HK$20,500,000	**1**	–
	3	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 FINANCE INCOME AND EXPENSES

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Finance income		
– Interest income on bank deposits	**107,691**	118,386
– Exchange gain, net	**–**	427,535
	107,691	545,921
Finance expenses		
– Exchange loss, net	**(278,687)**	–
– Interest expenses on bank borrowings and finance lease liabilities	**(12,877)**	(11,975)
	(291,564)	(11,975)
Finance (expenses)/income, net	**(183,873)**	533,946

11 INCOME TAX EXPENSE

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Current income tax	**37,237**	7,494
Deferred income tax (Note 28)	**(1,924)**	11,155
	35,313	18,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 INCOME TAX EXPENSE *(Continued)*

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

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Loss before income tax	**(1,759,647)**	(957,495)
Tax calculated at a tax rate of 25% (Year ended December 31, 2016: 25%)	**(439,912)**	(239,374)
Tax effects of:		
– Associates' results reported net of tax	**(9,320)**	(3,125)
– Effect of different tax rates of subsidiaries	**(33,044)**	(16,991)
– Income not subject to tax	**(62,821)**	(111,452)
– Additional deduction in relation to research and development costs	**(3,362)**	(1,469)
– Expenses not deductible for tax purposes	**5,184**	4,361
– Utilization of previously unrecognized tax losses	**(23,819)**	(4,692)
– Temporary differences and tax losses for which no deferred income tax asset was recognized	**601,814**	387,873
– Reversal of previously recognized deferred income tax assets	**593**	3,518
Tax charge	**35,313**	18,649

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Law of Bermuda and accordingly, is exempted from Bermuda income tax.

Some of the subsidiaries are incorporated in BVI as an exempted company with limited liability under the Companies Law of BVI and accordingly, is exempted from BVI income tax.

Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (Year ended December 31, 2016: 25%) on the assessable income of each of the group companies, except that: (1) one subsidiary of the Company is taxed at preferential tax rates of 15% (Year ended December 31, 2016: 15%) under the relevant PRC tax rules and regulations; and (2) one subsidiary of the Company which is incorporated in Horgos is exempted from income taxes from its date of incorporation to December 31, 2020 according to the relevant PRC tax rules and regulations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 LOSS PER SHARE

	For the fifteen months ended March 31, 2018	For the year ended December 31, 2016
Basic/diluted loss per share (RMB cents)	**(6.56)**	(3.80)

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue less shares held for share award scheme during the period/year.

	For the fifteen months ended March 31, 2018	For the year ended December 31, 2016
Loss attributable to owners of the Company (RMB'000)	**(1,658,647)**	(958,576)
Weighted average number of ordinary shares in issue less shares held for share award scheme (thousands)	**25,267,538**	25,234,561

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 LOSS PER SHARE *(Continued)*

(b) Diluted

Diluted earnings or loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares during the fifteen months ended March 31, 2018, which are share options and unvested awarded shares; while the Company has only one category of dilutive potential ordinary shares for the year ended December 31, 2016, which was share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the closing market price per share for the period/year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted loss per share.

The computation of diluted loss per share for the fifteen months ended March 31, 2018 did not assume the issuance of any dilutive potential ordinary share since they are antidilutive, which would decrease the loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investment in associates

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
At beginning of the period/year	**2,280,839**	19,081
Additions	**201,828**	2,248,893
Disposal of investment in an associate	**(38,403)**	–
Refund of investments in an associate	**(50,000)**	–
Share of (loss)/profit of investments	**(41,689)**	12,502
Gain on dilution of interest in an associate (Note)	**78,968**	–
Currency translation differences	**(43,801)**	363
At ending of the period/year	**2,387,742**	2,280,839

Note:

The amount represented the dilution gain on the Group's investment in BONA Film Group Co., Ltd. ("BONA"). As at December 31, 2016, the Group's interests in Bona Film was 8.24%. During the fifteen months ended March 31, 2018, Bona Film issued new shares to certain investors. Consequently, the Group's interests in Bona Film was diluted from 8.24% to 7.72%. The difference between (1) the decrease in the carrying value of the Group's interest in Bona Film resulting from the decrease in shareholding; and (2) the Group's share of the proceeds received for the new shares issued resulted in a dilution gain of RMB78,968,000 and was recognized in the consolidated statement of profit or loss for the fifteen months ended March 31, 2018.

The Board of Directors of the Company is of the view that none of the Group's associates is individually material to the Group as at March 31, 2018 and December 31, 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Nature of investment in associates as at March 31, 2018 and December 31, 2016:

Name of entity	Place of business/ region of incorporation	% of ownership interest As at March 31, 2018	% of ownership interest As at December 31, 2016	Measurement method as at March 31, 2018
Mandarin Vision Inc.華文創股份有限公司	Taiwan	**37.308%**	37.308%	Equity
Hainan Alibaba Pictures Investment Management Limited 海南阿里巴巴影業投資管理有限公司	PRC	**40%**	40%	Equity
Shanghai Movie & Media Co., Ltd. (Formerly: ShenCheng Film Limited Company) 上海影視傳媒股份有限公司（「前稱申城影業有限公司」）	PRC	**10%***	20%	Equity
Hainan Alibaba Pictures Entertainment Industry Investment Fund (LLP) 海南阿里巴巴影業文化產業基金合夥企業(有限合夥)	PRC	**25.017%**	25.017%	Equity
Shanghai Xiying Culture Communication Limited Company 上海希映文化傳播有限公司	PRC	**11.18%***	11.18%*	Equity
Bona Film 博納影业集团股份有限公司	PRC	**7.72%***	8.24%*	Equity
Shanghai Zhuying Investment Management Consulting Limited Company 上海築影投資管理諮詢有限公司	PRC	**7.53%***	7.53%*	Equity
Beijing Yue Kai Film & Television Media Limited Company 北京悦凱影視傳媒有限公司	PRC	**14.82%***	14.82%*	Equity
Shanghai Mingjian Limited Company 上海鳴澗影業有限公司	PRC	**6.49%***	6.49%*	Equity
Showtime Analytics Limited	Ireland	**20%**	20%	Equity
Storyteller Holding Co., LLC	USA	**5%***	5%*	Equity
HeHe (Shanghai) Film Limited Company 和和（上海）影業有限公司 ("Hehe Film") (Note)	PRC	**30%**	30%	Equity
Wuhan Two Ten Culture Communication Limited Company 武漢兩點十分文化傳播有限公司	PRC	**20%**	–	Equity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

* *Although the Group holds less than 20% of the equity shares of these investees, the Group can exercise significant influence over the investees by virtue of its contractual right to appoint director to the board of directors of the investees and has the power to participate in the key financial and operating decisions of the investees. As such, the investment in these investees were accounted for using the equity method.*

Note:

Investment in Hehe Film

In November 2016, the Group entered into an investment agreement and agreed to subscribe for 30% equity interests in Hehe Film (an unlisted company incorporated in the PRC and primarily engaged in content production and film distribution).

The above transaction was completed in December 2016 and as at March 31, 2018 and December 31, 2016, the Group's investment commitment relating to this transaction amounted to RMB150,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2016					
Cost	9,883	48,072	2,714	1,018	61,687
Accumulated depreciation	(337)	(2,191)	(2,023)	–	(4,551)
Net book amount	9,546	45,881	691	1,018	57,136
For the year ended December 31, 2016					
Opening net book amount	9,546	45,881	691	1,018	57,136
Additions	13,646	44,715	471	233	59,065
Acquisition of subsidiaries	1,483	11,242	–	–	12,725
Disposals	(77)	(176)	–	–	(253)
Depreciation charge	(2,303)	(27,036)	(69)	–	(29,408)
Closing net book amount	22,295	74,626	1,093	1,251	99,265
At December 31, 2016					
Cost	24,935	103,853	3,185	1,251	133,224
Accumulated depreciation	(2,640)	(29,227)	(2,092)	–	(33,959)
Net book amount	22,295	74,626	1,093	1,251	99,265

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold improvement RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
For the fifteen months ended March 31, 2018					
Opening net book amount	22,295	74,626	1,093	1,251	99,265
Additions	55,064	64,682	–	58,028	177,774
Transfers	15,882	6,806	–	(22,688)	–
Acquisition of subsidiaries (Note 32)	–	985	–	22,808	23,793
Assets included in a disposal group classified as held-for-sale and other disposals	–	(4,788)	–	–	(4,788)
Depreciation charge	(11,943)	(51,661)	(62)	–	(63,666)
Closing net book amount	81,298	90,650	1,031	59,399	232,378
At March 31, 2018					
Cost	95,881	171,538	3,185	59,399	330,003
Accumulated depreciation	(14,583)	(80,888)	(2,154)	–	(97,625)
Net book amount	81,298	90,650	1,031	59,399	232,378

Notes:

(a) Leased assets

Furniture, fittings and equipment includes the following amounts where the Group is a lessee under a finance lease:

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Leased equipment		
Cost	**24,054**	–
Less: accumulated depreciation	**(2,249)**	–
Net book amount	**21,805**	–

(b) Depreciation expenses

During the fifteen months ended March 31, 2018, depreciation expense of RMB63,212,000 (Year ended December 31, 2016: RMB28,210,000) has been charged to 'Administrative expenses', RMB454,000 (Year ended December 31, 2016: RMB721,000) has been charged to 'selling and marketing expense' and RMB nil (Year ended December 31, 2016: RMB477,000) has been charged to 'cost of sales and services'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 GOODWILL AND INTANGIBLE ASSETS

	Goodwill RMB'000	Film and television programme production and distribution license RMB'000	Operating license of the ticketing system RMB'000	Customer relationship RMB'000	Others RMB'000	Total RMB'000
At January 1, 2016						
Cost	3,490,574	7,808	163,000	21,300	7,837	3,690,519
Accumulated amortization and impairment	–	–	(6,339)	(1,035)	(1,240)	(8,614)
Net book amount	3,490,574	7,808	156,661	20,265	6,597	3,681,905
For the year ended December 31, 2016						
Opening net book amount	3,490,574	7,808	156,661	20,265	6,597	3,681,905
Additions	–	–	–	–	492	492
Acquisition of subsidiaries	41,533	–	–	–	–	41,533
Amortization charge	–	–	(10,867)	(1,775)	(2,280)	(14,922)
Closing net book amount	3,532,107	7,808	145,794	18,490	4,809	3,709,008
At December 31, 2016						
Cost	3,532,107	7,808	163,000	21,300	8,329	3,732,544
Accumulated amortization and impairment	–	–	(17,206)	(2,810)	(3,520)	(23,536)
Net book amount	3,532,107	7,808	145,794	18,490	4,809	3,709,008
For the fifteen months ended March 31, 2018						
Opening net book amount	**3,532,107**	**7,808**	**145,794**	**18,490**	**4,809**	**3,709,008**
Additions	**–**	**–**	**–**	**–**	**32**	**32**
Acquisition of subsidiaries (Note 32)	**63,951**	**–**	**–**	**–**	**–**	**63,951**
Amortization charge	**–**	**–**	**(13,583)**	**(2,219)**	**(2,731)**	**(18,533)**
Goodwill included in a disposal group classified as held-for-sale	**(49,554)**	**–**	**–**	**–**	**–**	**(49,554)**
Closing net book amount	**3,546,504**	**7,808**	**132,211**	**16,271**	**2,110**	**3,704,904**
At March 31, 2018						
Cost	**3,546,504**	**7,808**	**163,000**	**21,300**	**8,361**	**3,746,973**
Accumulated amortization and impairment	**–**	**–**	**(30,789)**	**(5,029)**	**(6,251)**	**(42,069)**
Net book amount	**3,546,504**	**7,808**	**132,211**	**16,271**	**2,110**	**3,704,904**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 GOODWILL AND INTANGIBLE ASSETS *(Continued)*

During the fifteen months ended March 31, 2018, amortization expense of RMB18,039,000 (Year ended December 31, 2016: RMB14,331,000) has been charged to 'Administrative expenses' and RMB494,000 (Year ended December 31, 2016: RMB591,000) charged to 'Cost of sales and services'.

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

As at March 31, 2018	**Opening RMB'000**	**Addition RMB'000**	**Classified as held-for-sale RMB'000**	**Closing RMB'000**
Goodwill				
– Internet-based promotion and distribution	**3,122,387**	**63,951**	**(49,554)**	**3,136,784**
– Content production	**159,813**	**–**	**–**	**159,813**
– Integrated development	**249,907**	**–**	**–**	**249,907**
Intangible assets with indefinite useful life				
– Content production	**7,808**	**–**	**–**	**7,808**
	3,539,915	**63,951**	**(49,554)**	**3,554,312**
As at December 31, 2016				
Goodwill				
– Internet-based promotion and distribution	3,080,854	41,533	–	3,122,387
– Content production	159,813	–	–	159,813
– Integrated development	249,907	–	–	249,907
Intangible assets with indefinite useful life				
– Content production	7,808	–	–	7,808
	3,498,382	41,533	–	3,539,915

Impairment review on the goodwill of the Group has been conducted by the management as at March 31, 2018 according to HKAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on VIU of the CGUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 GOODWILL AND INTANGIBLE ASSETS *(Continued)*

The VIU calculations use cash flows projections based on financial budget prepared by management covering a five-year period. Major underlying assumptions adopted as at March 31, 2018 are summarized below:

	Content production	**Internet-based promotion and distribution**	**Integrated development**
Post-tax discount rate	18.5%	19%	18%
Long-term growth rate	N/A	3%	3%

Other key assumptions for the VIU calculations relate to the estimation of cash inflows/outflows which include gross merchandise value ("GMV"), budgeted sales, gross margin and the ratio of market promotion expenses to GMV, such estimation is based on the past performance of the CGUs and management's expectations for the market development.

Based on above assessment, the Board of Directors of the Company are of the view that there is no impairment of goodwill and intangible assets with indefinite useful life as at March 31, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Opening balance	**1,025,170**	–
Addition	**–**	1,000,000
Interest received	**(19,500)**	–
Change in fair value	**116,917**	25,170
Closing balance	**1,122,587**	1,025,170

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

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

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

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

As at December 31, 2016 and March 31, 2018, the fair value of the convertible bonds is determined by an independent qualified valuer engaged by the Group.

For the debt component of the convertible bonds, the fair value is derived as the present value of contractual determined stream of future cash flows discounted at the discount rate of 12.3% (as at December 31, 2016) and 12.0% (as at March 31, 2018), respectively.

For the conversion right of the convertible bonds, the fair value was determined using the binomial model, and the inputs adopted in the model as at December 31, 2016 and March 31, 2018 include risk free rate of 1.48% and 1.506%, remaining life of 2.45 years and 1.2 years, and volatility of 43.4% and 35% respectively. Risk free rate is based on the yield of Hong Kong government bond with a similar maturity of the convertible bonds, plus country risk differential and converted into continuously compounded. Volatility is calculated with reference to comparable companies' historical share price movement matching the period of the contractual life of the convertible bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 FILM AND TV COPYRIGHTS

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Film and TV copyrights		
– Under production/production yet to commence	**933,793**	679,488
– Completed production	**56,352**	129,516
	990,145	809,004

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Opening net book amount	**809,004**	383,761
Additions	**916,020**	1,112,037
Recognized as an expense included in cost of sales and services	**(644,699)**	(593,769)
Impairment loss recognized in the period/year (Note)	**(42,176)**	(28,269)
Refund of investment	**(38,895)**	(72,000)
Currency translation differences	**(9,109)**	7,244
Closing net book amount	**990,145**	809,004

Note:

During the fifteen months ended March 31, 2018, management of the Group considered the expected future income of certain film and TV copyrights could not recover the respective carrying amounts and an impairment charge of RMB42,176,000 (Year ended December 31, 2016: RMB28,269,000) is recognized as cost of sales and services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 FINANCIAL INSTRUMENTS BY CATEGORY

As at March 31, 2018

	Loans and receivables RMB'000	Available-for-sale RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Assets as per consolidated balance sheet				
Trade and other receivables excluding non-financial assets	1,045,022	–	–	1,045,022
Available-for-sale financial assets	–	718,992	–	718,992
Financial assets at fair value through profit or loss	–	–	1,122,587	1,122,587
Cash and cash equivalents	1,685,719	–	–	1,685,719
Bank deposits with the maturity over three months	2,740,707	–	–	2,740,707
Restricted cash	17,719	–	–	17,719
Total	5,489,167	718,992	1,122,587	7,330,746

	Financial liabilities at amortized cost RMB'000
Liabilities as per consolidated balance sheet	
Borrowings	26,311
Trade and other payables excluding non-financial liabilities	620,257
Finance lease liabilities	19,965
Total	666,533

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

As at December 31, 2016

	Loans and receivables RMB'000	Available-for-sale RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Assets as per consolidated balance sheet				
Trade and other receivables excluding non-financial assets	1,127,231	–	–	1,127,231
Available-for-sale financial assets	–	1,974,107	–	1,974,107
Financial assets at fair value through profit or loss	–	–	1,025,170	1,025,170
Cash and cash equivalents	6,220,966	–	–	6,220,966
Restricted cash	2,027,057	–	–	2,027,057
Total	9,375,254	1,974,107	1,025,170	12,374,531

	Financial liabilities at amortized cost RMB'000
Liabilities as per consolidated balance sheet	
Borrowings	1,980,000
Trade and other payables excluding non-financial liabilities	255,951
Total	2,235,951

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following:

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Investment in wealth management products (Note a)	**666,992**	1,954,107
Unlisted investments, at cost (Note b)	**20,000**	20,000
Unlisted investments, at fair value (Note c)	**32,000**	–
	718,992	1,974,107

Notes:

(a) Investment in wealth management products

Movements in investment in wealth management products are as follows:

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
At beginning of the period/year	**1,954,107**	1,102,006
Change in fair value	**88,016**	401
Net (disposals)/additions	**(1,375,131)**	851,700
At ending of the period/year	**666,992**	1,954,107

The available-for-sale financial assets mainly represent investment in wealth management products issued by listed banks in the PRC with expected return range from 2.80% to 5.00% per annum and redeemable within one year.

As at March 31, 2018, the carrying amount approximates the fair value. The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

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

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

(b) The balance represents investment in an unlisted fund.

(c) The balance represents investment in an unlisted fund. The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

	As at March 31, 2018			As at December 31, 2016		
	Current	Non-current	Total	Current	Non-current	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables (Note a)						
– Related parties (Note 34(b))	106,134	–	106,134	100,801	–	100,801
– Third parties	513,142	–	513,142	211,368	–	211,368
Less: allowance for impairment of trade receivables	(26,522)	–	(26,522)	(31,028)	–	(31,028)
Trade receivables – net	592,754	–	592,754	281,141	–	281,141
Prepaid film deposits (Note b)	–	90,000	90,000	–	90,000	90,000
Prepayment to related parties (Note 34(b))	29,627	–	29,627	97,952	–	97,952
Prepayment for investment in film and TV copyrights	11,560	–	11,560	32,421	–	32,421
Prepayment for investment	–	–	–	45,000	–	45,000
Other prepayments	16,930	4,397	21,327	23,140	–	23,140
Other receivables arising from:						
– Receivables from related parties (Note 34(b))	24,217	–	24,217	63,043	–	63,043
– Receivables in respect of Yulebao's business	243,587	–	243,587	201,813	–	201,813
– Refund receivable in relation to the restructuring of Bona Film	100,370	–	100,370	506,179	–	506,179
– Deductible VAT input	70,084	–	70,084	34,031	–	34,031
– Receivables in respect of reimbursement of distribution expenses	41,797	–	41,797	31,669	–	31,669
– Deposits receivables	26,651	–	26,651	15,056	–	15,056
– Interest income receivables	17,259	–	17,259	8,063	–	8,063
– Refundable film copyrights investment cost	4,900	–	4,900	12,000	–	12,000
– Other receivables	46,083	16,853	62,936	4,936	3,391	8,327
Less: allowance for impairment of prepayment and other receivables	(69,449)	–	(69,449)	(34,091)	–	(34,091)
Other receivables and prepayments – net	563,616	111,250	674,866	1,041,212	93,391	1,134,603
Total trade and other receivables, and prepayments	1,156,370	111,250	1,267,620	1,322,353	93,391	1,415,744

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Notes:

(a) Trade receivables

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

The directors of the Company will assess whether allowance on these receivables is necessary on a regular basis after considering (i) the reputation and trading history of these debtors; (ii) industry practice in settlement; and (iii) subsequent settlement amounts.

The following is an aging analysis of trade receivables based on recognition date:

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
0 – 90 days	**327,501**	192,433
91 – 180 days	**183,997**	45,498
181 – 365 days	**28,707**	40,830
Over 365 days	**79,071**	33,408
	619,276	312,169

As of March 31, 2018, trade receivables of RMB55,049,000 (December 31, 2016: RMB8,745,000) are past due but not impaired. These relate to a number of independent debtors for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

The aging analysis of these trade receivables is as follows:

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
91 – 180 days	**1,772**	391
181 – 365 days	**423**	453
Over 365 days	**52,854**	7,901
	55,049	8,745

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Notes: *(Continued)*

(a) Trade receivables *(Continued)*

As at March 31, 2018, trade receivables of RMB26,522,000 (December 31, 2016: RMB31,028,000) are impaired and fully provided. The individually impaired receivables mainly relate to some film and TV copyrights distributors, which are in unexpectedly difficult economic situations. It is assessed that none of the receivables is expected to be recovered.

The aging of these receivables based on recognition date is as follows:

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
0 – 90 days	**40**	–
91 – 180 days	**–**	15
181 – 365 days	**264**	5,506
Over 365 days	**26,218**	25,507
	26,522	31,028

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

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
At beginning of the period/year	**31,028**	51,948
(Reversal of impairment provision)/provision for trade receivables	**(4,506)**	11,202
Receivables written off during the period/year as uncollectible	**–**	(32,122)
At ending of the period/year	**26,522**	31,028

(b) These prepaid film deposits represented the prepayments made by the Group to Mr. Chan Ho Sun, Ms. Chai Zhi Ping and Mr. Wong Kar Wai pursuant to their respective film cooperation agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 CASH AND BANK BALANCES

(a) Cash and cash equivalents

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Cash at banks and on hand	**1,685,719**	6,220,966

As at March 31, 2018, the Group had placed deposits amounted to RMB105,423,000 (December 31, 2016: RMB218,699,000) in online payment platform accounts managed by Alipay.com Co., Ltd. ("Alipay"a related company of AGHL) in connection with the provision of online and mobile commerce and related services, which have been recorded as 'cash and cash equivalents' in the consolidated balance sheets.

The deposits at banks earn interests at floating rates based on prevailing market rates.

(b) Bank deposits with the maturity over three months

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Bank deposits with the maturity over three months	**2,740,707**	–

(c) Restricted cash

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Restricted cash	**17,719**	2,027,057

As at March 31, 2018, restricted cash of RMB17,719,000 are pledged as securities for issuance of letter of credit. As at December 31, 2016, restricted cash of RMB2,007,439,000 and RMB19,618,000 were pledged as securities for borrowings and issuance of letter of credit respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 ASSETS AND LIABILITIES HELD-FOR-SALE

As at March 31, 2018, the Group decided to recover the carrying amount of the investment in Orbgen Technologies Private Limited ("Orbgen") principally through a sale transaction in the future. Accordingly, the assets and liabilities of Orbgen are considered as held-for-sale as at March 31, 2018. In April 2018, the Group has signed an agreement to dispose of all its interest in Orbgen (Note 32(1)(g)). The directors of the Company expect to complete the disposal during the year ending March 31, 2019 and this transaction is not expected to result in any material gain or loss.

23 SHARE CAPITAL

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

	Number of shares	Share capital	
		HK$'000	RMB'000
At January 1, 2016 and December 31, 2016	25,234,561,410	6,308,640	5,081,884
At January 1, 2017	**25,234,561,410**	**6,308,640**	**5,081,884**
Issuance of shares under share award scheme	**235,142,500**	**58,786**	**49,521**
At March 31, 2018	**25,469,703,910**	**6,367,426**	**5,131,405**

24 SHARE-BASED PAYMENT

During the fifteen months ended March 31, 2018 and the year ended December 31, 2016, share-based payment expenses recognized in the consolidated statement of profit or loss included:

	For the fifteen months period ended March 31, 2018 RMB'000	For the twelve months year ended December 31, 2016 RMB'000
Share-based payment under the 2012 Share Option Scheme and Share Award Scheme	**108,921**	143,476
Share-based payment transactions with AGHL (Note 9(b))	**12,469**	26,304
Share-based payment to certain employees of a subsidiary	**–**	31,700
	121,390	201,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 SHARE-BASED PAYMENT *(Continued)*

(a) The 2012 share option scheme

The 2012 share option scheme (the "2012 Share Option Scheme") was adopted by the Company pursuant to a resolution passed by the Company's shareholders on June 11, 2012 for the primary purpose of providing incentives or rewards to any director, employee and other eligible participants who may make contribution to the Group. The 2012 Share Option Scheme will be valid for 10 years from the date of its adoption. The 2012 Share Option Scheme will expire on June 10, 2022.

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

The fair values of the options granted pursuant to the 2012 Share Option Scheme in the fifteen months ended March 31, 2018 are as below:

Grant date	**Fair value RMB'000**
January 13, 2017	**6,860**
July 17, 2017	**11,191**
October 24, 2017	**6,645**
January 18, 2018	**2,694**
	27,390

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

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

	For the fifteen months ended March 31, 2018		For the year ended December 31, 2016	
	Weighted average exercise price in HK$ per share option	**Number of share options**	Weighted average exercise price in HK$ per share option	Number of share options
At beginning of the period/year	**1.902**	**725,265,800**	2.081	415,797,800
Granted	**1.268**	**62,900,000**	1.734	383,560,000
Lapsed	**1.877**	**(429,031,300)**	2.029	(74,092,000)
Cancelled (Note)	**1.886**	**(301,201,000)**	–	–
At ending of the period/year	**1.486**	**57,933,500**	1.902	725,265,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 SHARE-BASED PAYMENT *(Continued)*

(a) The 2012 share option scheme *(Continued)*

Note:

During the fifteen months ended March 31, 2018, an aggregate of 301,201,000 share options were cancelled and replaced by 118,630,000 awarded shares which are granted to the relevant grantees in accordance with the terms of the Share Award Scheme (Note 24(b)).

Out of the 57,933,500 outstanding share options, 22,701,750 shares are exercisable as at March 31, 2018.

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

			Number of share options	
Grant date	**Expiry date**	**Exercise price in HK$ per share option**	**As at March 31, 2018**	As at December 31, 2016
January 28, 2015	January 27, 2025	**1.670**	**7,600,000**	270,019,800
April 15, 2015	April 14, 2025	**4.090**	**–**	19,200,000
April 28, 2015	April 27, 2025	**4.004**	**–**	30,000,000
July 2, 2015	July 1, 2025	**3.156**	**–**	13,200,000
September 24, 2015	September 23, 2025	**1.860**	**–**	16,200,000
November 5, 2015	November 4, 2025	**2.170**	**–**	7,800,000
December 16, 2015	December 15, 2025	**1.900**	**–**	16,416,000
January 25, 2016	January 24, 2026	**1.660**	**–**	5,400,000
April 13, 2016	April 12, 2026	**1.880**	**5,925,000**	90,400,000
April 15, 2016	April 14, 2026	**1.842**	**–**	12,000,000
June 3, 2016	June 2, 2026	**1.860**	**8,530,000**	119,760,000
December 5, 2016	December 4, 2026	**1.494**	**7,350,000**	124,870,000
July 17, 2017	July 16, 2027	**1.310**	**9,478,500**	–
October 24, 2017	October 23, 2027	**1.276**	**12,850,000**	–
January 18, 2018	January 17, 2028	**1.060**	**6,200,000**	–
			57,933,500	725,265,800

The period within which the share options must be exercised shall not be more than 10 years from the date of grant. The options outstanding as at March 31, 2018 had a weighted average remaining contractual life of 9 years (December 31, 2016: 9 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 SHARE-BASED PAYMENT *(Continued)*

(a) The 2012 share option scheme *(Continued)*

The weighted average fair value of options granted during the period determined using the Binomial Model was HK$0.495 per option. The significant inputs into the model were weighted average share price of HK$1.268 at the grant date, exercise price shown above, volatility of 40%, zero expected dividend yield, a contractual option life of ten years, and an annual risk-free interest rate of 1.49%~1.95%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 10 years. During the fifteen months ended March 31, 2018, value of employee services provided under share option scheme recognized in the consolidated statement of profit or loss is a credit to expenses of RMB5,570,000 (Year ended December 31, 2016: expenses of RMB143,476,000)

(b) Share Award Scheme

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

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

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

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

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

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

As at March 31, 2018, the remaining life of the Share Award Scheme is approximate 14 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 SHARE-BASED PAYMENT *(Continued)*

(b) Share Award Scheme *(Continued)*

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

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

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

	For the fifteen months ended March 31, 2018		For the year ended December 31, 2016	
	Weighted average fair value in HK$ (per share)	**Number of awarded shares granted**	Weighted average fair value in HK$ (per share)	Number of awarded shares granted
At beginning of the period/year	**–**	**–**	–	–
Granted (Note)	**1.292**	**280,829,000**	–	–
Vested	**1.314**	**(90,167,000)**	–	–
Lapsed	**1.314**	**(41,836,250)**	–	–
At ending of the period/year	**1.272**	**148,825,750**	–	–

Note:

Among the above awarded shares granted, 118,630,000 awarded shares are granted to the relevant grantees in replacement of share options previously granted to them under the 2012 Share Option Scheme (the "Replacement Awarded Shares"). Upon the grant of the 118,630,000 Replacement Awarded Shares and the acceptance of the relevant grantees, 301,201,000 share options under the 2012 Share Option Scheme have been cancelled (Note 24(a)).

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

The fair value of restricted shares charged to the consolidated income statement is RMB114,491,000 during the fifteen months ended March 31, 2018 (Year ended December 31, 2016: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 OTHER RESERVES

As at March 31, 2018, the Group's retained earnings included PRC subsidiaries' statutory surplus reserve of RMB39,478,000 (December 31, 2016: RMB39,478,000).

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 TRADE AND OTHER PAYABLES, AND ACCRUED CHARGES

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Trade payables		
– Related parties (Note 34(c))	**63,236**	5,964
– Third parties	**52,353**	31,172
	115,589	37,136
Other payable and accrued charges		
Amounts due to related parties (Note 34(c))	**81,532**	52,105
Payable in respect of Yulebao's business	**205,987**	41,187
Payroll and welfare payable	**69,269**	55,616
Advance from customers	**52,604**	34,711
Amount received on behalf of cinema ticketing system providers	**50,510**	10,040
Accrued marketing expense	**48,461**	29,312
Amount received on behalf of cinemas	**34,120**	2,006
Other tax payable	**32,574**	59,264
Payable in relation to distribution of films	**22,279**	29,489
Professional fees payable	**12,336**	9,288
Payable for PPE	**961**	6,863
Interest payable	**132**	4,587
Consideration payable for business combination	**–**	3,900
Other payables and accrued charges	**67,893**	30,038
	678,658	368,406
Total trade and other payables, and accrued charges	**794,247**	405,542

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

As at March 31, 2018, the aging analysis of the trade payables based on invoice date is as follows:

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
0 – 90 days	**93,967**	21,914
91 – 180 days	**13,286**	286
181 – 365 days	**243**	404
Over 365 days	**8,093**	14,532
	115,589	37,136

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 BORROWINGS

	As at March 31, 2018			As at December 31, 2016		
	Current RMB'000	Non-current RMB'000	Total RMB'000	Current RMB'000	Non-current RMB'000	Total RMB'000
Secured bank loans	–	–	–	1,980,000	–	1,980,000
Unsecured bank loans	3,000	23,311	26,311	–	–	–
	3,000	23,311	26,311	1,980,000	–	1,980,000

(a) Bank borrowings mature until 2021 and bear floating interest rates with reference to published loan interest rate issued by People's Bank of China as at March 31, 2018 (December 31, 2016: 0.3% annually).

As at March 31, 2018 and December 31, 2016, the Group's bank borrowings are repayable as follows:

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Within 1 year	3,000	1,980,000
Between 1 and 2 years	5,000	–
Between 2 and 5 years	18,311	–
	26,311	1,980,000

(b) Movements in borrowings are analyzed as follows:

	For the fifteen months ended March 31, 2018			For the year ended December 31, 2016		
	Current RMB'000	Non-current RMB'000	Total RMB'000	Current RMB'000	Non-current RMB'000	Total RMB'000
Opening balance	1,980,000	–	1,980,000	1,980,000	–	1,980,000
Repayments of bank borrowings	(1,980,000)	–	(1,980,000)	–	–	–
Proceeds from bank borrowings	3,000	23,311	26,311	–	–	–
Closing balance	3,000	23,311	26,311	1,980,000	–	1,980,000

Note:

As at March 31, 2018, the Group has no secured borrowings. As at December 31, 2016, short-term borrowings of RMB1,980,000,000 were secured by restricted cash of RMB2,007,439,000.

As at March 31, 2018, the fair value of the borrowings approximates their carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 DEFERRED INCOME TAX

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

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Deferred income tax assets	**419**	1,012
Deferred income tax liabilities	**(37,426)**	(42,922)

The movements in deferred income tax assets during the fifteen months ended March 31, 2018 and the year ended December 31, 2016 are as follows:

	Accrual RMB'000	**Provision RMB'000**	**Total RMB'000**
At January 1, 2016	13,069	5,241	18,310
Charged to the consolidated statement of profit or loss	(12,476)	(4,822)	(17,298)
At December 31, 2016	593	419	1,012
At January 1, 2017	**593**	**419**	**1,012**
Charged to the consolidated statement of profit or loss	**(593)**	**–**	**(593)**
At March 31, 2018	**–**	**419**	**419**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 DEFERRED INCOME TAX *(Continued)*

The movements in deferred income tax liabilities during the fifteen months ended March 31, 2018 and the year ended December 31, 2016 are as follows:

	Fair value gain RMB'000
At January 1, 2016	(48,965)
Credited to the consolidated statement of profit or loss	6,143
Charged to other comprehensive income	(100)
At December 31, 2016	(42,922)
At January 1, 2017	**(42,922)**
Credited to the consolidated statement of profit or loss	**2,517**
Credited to other comprehensive income	**2,979**
At March 31, 2018	**(37,426)**

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

Deferred income tax assets are recognized for tax losses carry forward to the extent that realization of the related tax benefit through the future taxable profits is probable. As at 31 March, 2018, the Group had tax losses of RMB3,176,621,000 (December 31, 2016: RMB1,073,856,000) to carry forward, which were not recognized as deferred tax assets as the directors of the Company considered that the utilization of these tax losses in the foreseeable future is not probable, of which an amount of RMB2,666,191,000 will expire through year 2018 to 2022 (December 31, 2016: RMB536,746,000 will expire through year 2017 to 2021), the amount of RMB510,430,000 (December 31, 2016: RMB537,110,000) with no expiry date.

29 DIVIDENDS

The Board of the Directors of the Company has resolved not to recommend the payment of a dividend for the fifteen months ended March 31, 2018 (Year ended December 31, 2016: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CASH USED IN OPERATIONS

(a) Cash used in operations

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Loss before income tax	**(1,759,647)**	(957,495)
Adjustments for:		
– Finance income, net	**183,873**	(533,946)
– Share-based payment expenses	**121,390**	201,480
– Depreciation and amortization	**82,199**	44,330
– Provision for impairment of film and TV copyrights	**42,176**	28,269
– Impairment provision of trade and other receivables	**28,591**	43,693
– Loss on disposal of subsidiaries	**1,537**	–
– Change in fair value of financial assets at fair value through profit or loss	**(116,917)**	(25,170)
– Investment income on available-for-sale financial assets	**(99,931)**	(43,434)
– Share of profit or loss of and gain on dilution of investments accounted for using equity method	**(37,279)**	(12,502)
– (Gain)/loss on disposal of property, plant and equipment	**(346)**	253
– Investment income on loan receivable	**–**	(4,579)
– Gain on derecognition of repurchase option	**–**	(33,000)
– Change in fair value of assets held-for-sale	**–**	12,218
Changes in working capital:		
– Trade and other payables, and accrued charges	**367,436**	(196,835)
– Change in inventories	**134**	–
– Trade and other receivables, and prepayments	**(317,528)**	(34,180)
– Film and TV copyrights	**(232,426)**	(446,268)
– Restricted cash in relation to operating activities	**–**	1,145
Cash used in operations	**(1,736,738)**	(1,956,021)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CASH USED IN OPERATIONS *(Continued)*

(b) Non-cash investing and financing activities

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Consideration paid for acquisition of subsidiaries in the form of capital injection	**144,741**	61,000
Acquisition of PPE by means of finance leases	**24,054**	–
	168,795	61,000

(c) Net debt reconciliation

An analysis of net debt as at March 31, 2018 and December 31, 2016 is as follows:

Net debt	**As at March 31, 2018 RMB'000**	As at December 31, 2016 RMB'000
Cash and cash equivalents	**1,685,719**	6,220,966
Bank deposits with the maturity over three months	**2,740,707**	–
Available-for-sale financial assets	**666,992**	1,954,107
Finance leases – repayable within one year	**(7,979)**	–
Finance leases – repayable after one year	**(11,986)**	–
Borrowings – repayable within one year	**(3,000)**	(1,980,000)
Borrowings – repayable after one year	**(23,311)**	–
Net debt	**5,047,142**	6,195,073
Cash and liquid investments	**5,093,418**	8,175,073
Gross debt – fixed interest rates	**(19,965)**	(1,980,000)
Gross debt – variable interest rates	**(26,311)**	–
Net debt	**5,047,142**	6,195,073

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CASH USED IN OPERATIONS *(Continued)*

(c) Net debt reconciliation *(Continued)*

Movement in net debt for the fifteen months ended March 31, 2018 is as follows:

	For the fifteen months ended March 31, 2018							
		Other assets		Liabilities from financing activities				
	Cash and cash equivalents RMB'000	Available-for-sale financial assets RMB'000	Bank deposits with the maturity over three months RMB'000	Finance leases due within 1 year RMB'000	Finance leases due after 1 year RMB'000	Borrowing due within 1 year RMB'000	Borrowing due after 1 year RMB'000	Total RMB'000
Net debt as at January 1, 2017	6,220,966	1,954,107	-	-	-	(1,980,000)	-	6,195,073
Cash flows	(4,296,377)	(1,375,131)	2,862,070	4,089	-	1,977,000	(23,311)	(851,660)
Foreign exchange adjustments	(238,870)	-	(121,363)	-	-	-	-	(360,233)
Other non-cash movements	-	88,016	-	(12,068)	(11,986)	-	-	63,962
Net debt as at March 31, 2018	1,685,719	666,992	2,740,707	(7,979)	(11,986)	(3,000)	(23,311)	5,047,142

31 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

(1) Acquisition of additional interest in subsidiaries

(a) Tao Piao Piao

In July 2017, the Group acquired an additional 9.12% equity interest in the Group's subsidiary that operates Tao Piao Piao from certain non-controlling shareholders, for a purchase consideration of approximately RMB1,332,751,000. Among the 9.12% equity interest acquired, 2.26% were acquired from the Group's assocates, for a purchase consideration of approximately RMB331,447,000. The carrying amount of the non-controlling interests in Tao Piao Piao on the date of acquisition was RMB104,308,000. The Group recognized a decrease in non-controlling interests of RMB76,697,000 and a decrease in equity attributable to owners of the Company of RMB1,256,054,000. The effect of the above transaction on the equity attributable to owners of the Company during the fifteen months ended March 31, 2018 is summarized as follows:

	For the fifteen months ended March 31, 2018 RMB'000
Consideration paid to non-controlling interests	**1,332,751**
Less: carrying amount of non-controlling interests acquired	**(76,697)**
Amount recognized within equity	**1,256,054**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

(b) Guangdong Alibaba Pictures Yunzhi Software Company Limited ("Yunzhi", formerly known as Guangdong Yueke Software Engineering Company Limited ("Yueke"))

In September 2017, the Group acquired an additional 4% equity interest in Yunzhi from certain non-controlling shareholders, for a purchase consideration of RMB1,500,000. The carrying amount of the non-controlling interests in Yunzhi on the date of acquisition was RMB15,195,000. The Group recognized a decrease in non-controlling interests of RMB15,195,000 and an increase in equity attributable to owners of the Company of RMB13,695,000. The effect of the above transaction on the equity attributable to owners of the Company during the fifteen months ended March 31, 2018 is summarized as follows:

	For the fifteen months ended March 31, 2018 RMB'000
Consideration paid to non-controlling interests	**1,500**
Less: carrying amount of non-controlling interests acquired	**(15,195)**
Amount recognized within equity	**(13,695)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

In September 2017, the Group disposed of 18.4% and 13.8% interest in Wormhole Technology (Singapore) Private Limited ("Wormhole SG", an indirect wholly-owned subsidiary of the Company) to UCWeb Singapore Pte. Ltd. ("UCWeb SG", an indirect wholly-owned subsidiary of AGHL) and Alipay Singapore Holding Pte. Ltd. ("Alipay SG", a related party of the Group) respectively. The total consideration for the 32.2% interest disposed of was USD6,020,000 (equivalent to approximately RMB41,527,000), including USD3,440,000 (equivalent to approximately RMB23,730,000) paid by UCWeb SG and USD2,580,000 (equivalent to approximately RMB17,797,000) paid by Alipay SG. The Group recognized non-controlling interests of RMB38,724,000 and an increase in equity attributable to owners of the Company of RMB2,803,000. The effect of the above transaction on the equity attributable to owners of the Company during the fifteen months ended March 31, 2018 is summarized as follows:

	For the fifteen months ended March 31, 2018 RMB'000
Consideration received from non-controlling interests	**41,527**
Less: Carrying amount of non-controlling interests disposed of	**(38,724)**
Amount recognized within equity	**2,803**

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

	For the fifteen months ended March 31 2018 RMB'000
Changes in equity attributable to owners of the Company arising from:	
Acquisition of additional interests in subsidiaries (Note 1 above)	**(1,242,359)**
Disposal of interests in a subsidiary without loss of control (Note 2 above)	**2,803**
Net effect for changes in ownership interests in subsidiaries without change of control on equity attributable to owners of the Company	**(1,239,556)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 BUSINESS COMBINATIONS

(1) Orbgen

On January 25, 2017, the Company, through Wormhole SG acquired 75% of the equity interests of Orbgen, a company that principally operates an online movie ticketing platform namely "TicketNew" in India. Upon completion of the above acquisition, Orbgen became an indirect non-wholly-owned subsidiary of the Company.

(a) Consideration

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

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

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

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

Note:

Acquired trade and other receivables, and prepayments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 BUSINESS COMBINATIONS *(Continued)*

(1) Orbgen *(Continued)*

(c) Goodwill arising from the acquisition

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

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

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

(d) Related costs for the acquisition

	For the fifteen months ended March 31, 2018 RMB'000
Acquisition-related costs (included in administrative expenses in the consolidated statement of profit or loss for the fifteen months ended March 31, 2018)	**1,776**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 BUSINESS COMBINATIONS *(Continued)*

(1) Orbgen *(Continued)*

(e) Cash outflow for the acquisition

	For the fifteen months ended March 31, 2018 RMB'000
Outflow of cash for the acquisition, net of cash acquired	
– Bank balances and cash acquired	79,670
– Cash consideration	(109,969)
Cash outflow for the acquisition	(30,299)

(f) Revenue and profit contribution impact

The acquired business contributed revenue of RMB15,046,000 and net loss of RMB23,477,000 to the Group for the period from January 25, 2017 to March 31, 2018. Had Orbgen been consolidated from January 1, 2017, the consolidated statement of profit or loss would show pro-forma revenue of RMB3,304,606,000 and net loss of RMB1,795,322,000 respectively, which are calculated by aggregating the financial information of Orbgen and the Group.

(g) In April 2018, the Group has signed an agreement to dispose of all its 75% interest in Orbgen to One97 Communications Limited ("One97", a related party of AGHL). As at March 31, 2018, the assets and liabilities of Orbgen are classified as held-for-sale as stated in Note 22.

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

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

(a) Consideration

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 BUSINESS COMBINATIONS *(Continued)*

(2) Nanjing Pairui *(Continued)*

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

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

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

Note:

Acquired other receivables, and prepayments

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

(c) Goodwill arising from the acquisition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 BUSINESS COMBINATION *(Continued)*

(2) Nanjing Pairui *(Continued)*

(d) Related costs for the acquisition of Nanjing Pairui

	For the fifteen months ended March 31, 2018 RMB'000
Acquisition-related costs (included in administrative expenses in the consolidated statement of profit or loss for the fifteen months ended March 31, 2018)	**150**

(e) Cash inflow for the acquisition

	For the fifteen months ended March 31, 2018 RMB'000
Cash inflow for the acquisition, – Bank balances and cash acquired	**405**

(f) Revenue and profit contribution impact

The acquired business contributed revenue of RMB45,649,000 and net loss of RMB31,631,000 to the Group for the fifteen months ended March 31, 2018.

33 COMMITMENTS

Other than the investments commitments mentioned in Note 13, the Group has the following commitments:

(a) Capital commitments

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

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Property, plant and equipment	**10,596**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 COMMITMENTS *(Continued)*

(b) Operating lease commitments – Group as lease

The Group leases office buildings under non-cancellable operating lease agreements. The lease terms are between 3 and 20 years, and the lease agreement is renewable at the end of the lease period at market rate.

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

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
No later than 1 year	**69,555**	40,396
Later than 1 year and no later than 5 years	**258,360**	132,376
Later than 5 years	**482,448**	48,608
	810,363	221,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 RELATED PARTY TRANSACTIONS

As at March 31, 2018, the Company is 49.03% owned by Ali CV, a company incorporated in Cayman. The remaining 50.97% of the Company's shares are widely held. The ultimate parent of the Company is AGHL, a company whose shares are listed on New York Stock Exchange and incorporated in Cayman.

The following transactions were carried out with related parties:

(a) Transactions with related parties

Except as disclosed elsewhere in this consolidated financial statements, transactions with related parties in the fifteen months ended March 31, 2018 and in the year ended December 31, 2016 were as follows:

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Sales of film and TV copyrights to associates	**6,304**	47,111
Sales of film and TV copyrights to AGHL's subsidiaries	**95,349**	–
Purchase of services from AGHL's subsidiaries (Note i)	**54,837**	29,050
Purchase of services from an associate of AGHL	**18,042**	–
Provision of services to AGHL's subsidiaries (Note i)	**12,651**	–
Provision of services to associates	**31,101**	10,048
Purchase of services from related companies of AGHL (Note ii)	**87,228**	28,670

Note:

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

(ii) The amount of RMB87,228,000 represents the Group's purchase of services from Ant Small and Micro Financial Services Group Co., Ltd. ("Ant Financial") and Alipay, a wholly-owned subsidiary of Ant Financial, and for the fifteen months ended March 31, 2018.

According to the announcement published by the Company on September 18, 2017, Ant Financial together with its subsidiaries have been deemed as connected persons of the Company since July 10, 2017. As a result, the transaction with Ant Financial and Alipay from July 10, 2017 to March 31, 2018 constituted connected transactions under the Rules Governing the Listing of Securities on the HK Stock Exchange.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances due from related parties

As at March 31, 2018, balances due from related parties comprised:

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Trade receivables		
Amounts due from associates	**44,378**	95,905
Amounts due from AGHL's subsidiaries	**61,756**	4,896
Other receivables		
Amounts due from associates	**7,436**	29,882
Amounts due from AGHL's subsidiaries	**15,820**	33,161
Amounts due from a related company of AGHL	**961**	–
Prepayment		
Prepayment to AGHL's subsidiaries	**1,079**	86
Prepayment to related companies of AGHL	**28,548**	97,866

Other receivable from an associate of RMB6,956,000 bears an interest of 6% per annum and is repayable within one year. Other balances due from related parties are unsecured, non-interest bearing and due in accordance with the terms of the underlying agreements.

As at March 31, 2018, the Group had a total amount of RMB105,423,000 (December 31, 2016: RMB218,699,000) in the Group's settlement accounts maintained with Alipay, which have been recorded as 'cash and cash equivalents' in the consolidated balance sheet and are the settlement amounts derived from the transactions between the Group and third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances due to related parties

As at March 31, 2018, balances due to related parties comprised:

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Trade payable		
Amounts due to AGHL's subsidiaries	**26,948**	1,363
Amounts due to a related company of AGHL	**36,288**	4,601
Other payable		
Amounts due to associates	**47,960**	22,460
Amounts due to AGHL's subsidiaries	**33,270**	29,645
Amounts due to related companies of AGHL	**302**	–

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

(d) Key management compensation

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

	For the fifteen months ended March 31, 2018 RMB'000	For the year ended December 31, 2016 RMB'000
Salaries, allowances and other benefits	**14,321**	10,995
Share-based payments	**3,399**	55,508
Reversal of share-based payments upon lapse of share options granted to key management	**(24,116)**	–
	(6,396)	66,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balanced sheet of the Company

	As at March 31, 2018 RMB'000	As at December 31, 2016 RMB'000
Assets		
Non-current assets		
Intangible assets	**200**	200
Investments in subsidiaries	**4,738,503**	4,738,503
Amounts due from subsidiaries	**9,176,778**	6,795,162
	13,915,481	11,533,865
Current assets		
Film and TV copyrights	**1,712**	1,282
Trade and other receivables, and prepayments	**20,565**	9,190
Cash and cash equivalents	**1,310,211**	5,381,379
Bank deposits with the maturity over three months	**2,740,707**	–
Restricted cash	**–**	2,007,439
	4,073,195	7,399,290
Total assets	**17,988,676**	18,933,155
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	**5,131,405**	5,081,884
Reserves	**12,384,062**	13,089,825
Total equity	**17,515,467**	18,171,709
Current liabilities		
Trade and other payables, and accrued charges	**4,338**	3,959
Amounts due to subsidiaries	**468,871**	757,487
	473,209	761,446
Total liabilities	**473,209**	761,446
Total equity and liabilities	**17,988,676**	18,933,155

The balance sheet of the Company was approved by the Board of Directors on May 7, 2018 and was signed on its behalf.

Fan Luyuan
Executive Director & Chairman

Zhang Wei
Executive Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Reserve movement of the Company

	Share premium RMB'000	Share redemption reserve RMB'000	Shares held for share award scheme RMB'000	Contributed surplus RMB'000	Share-based compensation reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
At January 1, 2016	12,063,133	863	–	61,486	81,654	390,124	12,597,260
Value of employee services provided under share option scheme	–	–	–	–	143,476	–	143,476
Value of employee services provided in relation to share-based payment transactions with AGHL	–	–	–	–	26,304	–	26,304
Profit for the year	–	–	–	–	–	322,785	322,785
At December 31, 2016	12,063,133	863	–	61,486	251,434	712,909	13,089,825
At January 1, 2017	**12,063,133**	**863**	**–**	**61,486**	**251,434**	**712,909**	**13,089,825**
Issuance of shares under share award scheme	**214,360**	**–**	**(263,881)**	**–**	**–**	**–**	**(49,521)**
Shares purchased for share award scheme	**–**	**–**	**(19,526)**	**–**	**–**	**–**	**(19,526)**
Shares vested under share award scheme	**–**	**–**	**134,971**	**–**	**(134,971)**	**–**	**–**
Value of employee services provided under share option scheme and share award scheme	**–**	**–**	**–**	**–**	**108,921**	**–**	**108,921**
Value of employee services provided in relation to share-based payment transactions with AGHL	**–**	**–**	**–**	**–**	**12,469**	**–**	**12,469**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(758,106)**	**(758,106)**
At March 31, 2018	**12,277,493**	**863**	**(148,436)**	**61,486**	**237,853**	**(45,197)**	**12,384,062**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 SUBSIDIARIES

The following is a list of the principal subsidiaries at March 31, 2018:

Name	Place of incorporation/ registration and kind of legal entity	Place of operation	Particulars of issued share capital	Proportion of equity interests held by the Company		Proportion of equity interests held by non-controlling interests		Principal activities
				2018 (%)	2016 (%)	**2018 (%)**	2016 (%)	
Banford Limited	Hong Kong/Limited liability company	Hong Kong	Ordinary HK$10,000	**100**	100	**–**	–	Investment holding
Best Venue Limited	British Virgin Islands ("BVI")/Limited liability company	Hong Kong	Ordinary US$1	**100**	100	**–**	–	Investment holding
C8M Limited	Hong Kong/Limited liability company	Hong Kong	Ordinary HK$10,000	**100**	100	**–**	–	Advertising services
Century First Limited	Hong Kong/Limited liability company	Hong Kong	Ordinary HK$1	**100**	100	**–**	–	Investment holding
China Allied Culture Limited	Hong Kong/Limited liability company	Hong Kong	Ordinary HK$1	**100**	100	**–**	–	Investment holding
China Allied Culture Media Group Limited	BVI/Limited liability company	Hong Kong	Ordinary US$1	**100**	100	**–**	–	Investment holding
China Entertainment Media Group Limited	Cayman Islands/ Limited liability company	Hong Kong	Ordinary US$10,000 Preferred US$2,500	**100**	100	**–**	–	Investment holding
Gain Favour Limited	BVI/Limited liability company	Hong Kong	Ordinary US$1	**100**	100	**–**	–	Production and distribution of film copyrights
Huge Grand Investments Limited	BVI/Limited liability company	Hong Kong	Ordinary US$1	**100**	100	**–**	–	Production and distribution of film copyrights
Orient Ventures Limited	BVI/Limited liability company	Hong Kong	Ordinary US$1	**100**	100	**–**	–	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and kind of legal entity	Place of operation	Particulars of issued share capital	Proportion of equity interests held by the Company		Proportion of equity interests held by non-controlling interests		Principal activities
				2018 (%)	2016 (%)	**2018 (%)**	2016 (%)	
SAC Enterprises Limited	Hong Kong/Limited liability company	Hong Kong	Ordinary HK$1,000	**100**	100	**–**	–	Provision of management services to group companies
SAC Nominees Limited	Hong Kong/Limited liability company	Hong Kong	Ordinary HK$100	**100**	100	**–**	–	Provision of nominee services
SAC Secretarials Limited	Hong Kong/Limited liability company	Hong Kong	Ordinary HK$100	**100**	100	**–**	–	Provision of secretarial services
Worthwide Limited	BVI/Limited liability company	Hong Kong	Ordinary US$1	**100**	100	**–**	–	Investment holding
Year Wealth Limited	BVI/Limited liability company	Hong Kong	Ordinary US$50,000	**100**	100	**–**	–	Investment holding
Alibaba Pictures Entertainment Media Limited	Hong Kong/Limited liability company	Hong Kong	Ordinary HK$1	**100**	100	**–**	–	Investment in and production and distribution of film & TV copyrights
Zhonglian Jinghua (Note i)	PRC/Limited liability company	PRC	Registered Capital RMB10,000,000	**–**	–	**–**	–	Investment holding
Zhonglian Huameng (Shanghai) Culture Media Co., Ltd. 中聯華盟(上海)文化傳媒有限公司 (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB3,000,000	**–**	–	**–**	–	Investment in and production and distribution of film & TV copyrights
Beijing Asian Union Culture Media Investment Co., Ltd. 北京中聯華盟文化傳媒投資有限公司 (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB10,000,000	**–**	–	**–**	–	Investment in and production and distribution of film & TV copyrights
Huameng (Tianjin) Culture Media Co., Ltd. (formerly known as Huameng (Tianjin) Culture Investment Co., Ltd.) 華盟(天津)文化傳媒有限公司 (前稱「華盟(天津) 文化投資有限公司」) (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB15,000,000	**–**	–	**–**	–	Investment in and production and distribution of film & TV copyrights

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and kind of legal entity	Place of operation	Particulars of issued share capital	Proportion of equity interests held by the Company		Proportion of equity interests held by non-controlling interests		Principal activities
				2018 (%)	2016 (%)	**2018 (%)**	2016 (%)	
Zhonglian Shengshi Culture (Beijing) Co., Ltd. 中聯盛世文化(北京)有限公司	PRC/Wholly foreign owned enterprise	PRC	Registered Capital RMB100,000,000	**100**	100	**–**	–	Investment holding
Alibaba Shouquanbao (Tianjin) Culture Media Broadcasting Co., Ltd. (formerly known as Asian Union (Tianjin) Advertising Co., Ltd.) 阿里巴巴授權寶(天津)文化傳播有限公司(前稱「中聯華盟(天津)廣告有限公司」) (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB7,500,000	**–**	–	**–**	–	Advertising and sale of entertainment related merchandise and derivatives; radio and television program production
Yunzhi	PRC/Limited liability company	PRC	Registered Capital RMB10,000,000	**100**	96	**–**	4	Supply of cinema ticketing and connecting software systems
Beijing Ali Tao (Note i)	PRC/Limited liability company	PRC	Registered Capital RMB99,000,000	**–**	–	**–**	–	Investment holding
Zhejiang Dongyang Alibaba Pictures Co., Ltd. 浙江東陽阿里巴巴影業有限公司 (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB50,000,000	**–**	–	**–**	–	Investment in and production and distribution of film & TV copyrights
Zhejiang Dongyang Xiaoyuzhou Movie & Media Co., Ltd. 浙江東陽小宇宙影視傳媒有限公司 (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB10,000,000	**–**	–	**–**	–	Investment in and production and distribution of film & TV copyrights

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and kind of legal entity	Place of operation	Particulars of issued share capital	Proportion of equity interests held by the Company		Proportion of equity interests held by non-controlling interests		Principal activities
				2018 (%)	2016 (%)	**2018 (%)**	2016 (%)	
Beijing Yulebao Movie & Media Co., Ltd. 北京娛樂寶影視傳媒有限公司 (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB30,000,000	**–**	–	**–**	–	Investment in and production and distribution of film & TV copyrights
Shanghai Taopiaoer Information Technology Co., Ltd. 上海淘票兒信息科技有限公司	PRC/Limited liability company	PRC	Registered Capital RMB64,800,000	**100**	100	**–**	–	Online movie ticketing agent & software development
Alibaba Pictures LLC	USA/Limited liability company	USA	N/A	**100**	100	**–**	–	Investment holding
Alibaba Pictures International LLC	USA/Limited liability company	USA	N/A	**100**	100	**–**	–	Provision of management services to group companies
Alibaba Pictures Media LLC	USA/Limited liability company	USA	N/A	**100**	100	**–**	–	Investment in and production of film rights
Aurora Media (BVI) Limited	BVI/Limited liability company	Hong Kong	Registered Capital US$99,900,000	**–**	100	**–**	–	Investment holding
Aurora Media (HK) Limited	Hong Kong/Limited liability company	Hong Kong	Registered Capital US$99,900,000	**100**	100	**–**	–	Investment holding
Hangzhou Aurora Multi-Media Technology Co., Ltd. 杭州晨熹多媒體科技有限公司	PRC/Sino foreign cooperative	PRC	Registered Capital US$193,191,909	**96.7**	87.6	**3.3**	12.4	Online movie ticketing agent
Hangzhou Xingji (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB25,390,686	**–**	–	**–**	–	Film screening
Shanghai Tao Piao Piao (Note i)	PRC/Limited liability company	PRC	Registered Capital RMB10,000,000	**–**	–	**–**	–	Online movie ticketing agent
Shanghai Alibaba Pictures Co., Ltd. 上海阿里巴巴影業有限公司 (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB30,000,000	**–**	–	**–**	–	Film investment, film production

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and kind of legal entity	Place of operation	Particulars of issued share capital	Proportion of equity interests held by the Company 2018 (%)	Proportion of equity interests held by the Company 2016 (%)	Proportion of equity interests held by non-controlling interests 2018 (%)	Proportion of equity interests held by non-controlling interests 2016 (%)	Principal activities
Tianjin Junsheng Pictures Management Co., Ltd 天津駿聲影業管理有限公司 (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB500,000,000	-	–	-	–	Construction of cinemas
Tianjin Alibaba Pictures Development Co., Ltd. 天津阿里巴巴影業發展有限公司 (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB600,000,000	-	–	-	–	Construction of cinemas
Horgos Xiaoyuzhou Media Culture Co., Ltd 霍爾果斯小宇宙影視文化有限公司 (Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB10,000,000	-	–	-	–	Investment in and production and distribution of film & TV copyrights
Cool Young Culture Communication Co., Ltd 酷漾文化傳播有限公司 (Note iii)	PRC/Limited liability company	PRC	Registered Capital RMB50,000,000	51%	–	49%	–	Provision of talent agency services
Beijing Taoyukuying Culture Media Co., Ltd 北京淘娛酷影文化傳媒有限責任公司(Note iii)	PRC/Limited liability company	PRC	Registered Capital RMB39,000,000	51%	–	49%	–	Investment in and production and distribution of film & TV copyrights
Tianjin Tao Piao Piao Weimeng New Media Technology Co., Ltd 天津淘票票微夢新媒體科技有限公司(Note ii)	PRC/Limited liability company	PRC	Registered Capital RMB10,000,000	-	–	-	–	Internet information service & advertising and marketing

Notes:

(i) These are subsidiaries arising from the Contractual Arrangements (Note 2.2.1(a)).

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

(iii) These are subsidiaries established by Zhejiang Dongyang Alibaba Pictures Co., Ltd and Youku Information Technology (Beijing) Co., Ltd (a subsidiary of AGHL).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives' emoluments

The remuneration of directors and the chief executives of the Company for the fifteen months ended March 31, 2018 is set out below:

	Fees RMB'000	Salary (Note vi) RMB'000	Discretionary bonuses RMB'000	Share -based compensation (Note vii) RMB'000	Allowances and benefits in kind (Note ix) RMB'000	Employer's contributions to the retirement benefit (Note b) RMB'000	Social security costs excluding retirement RMB'000	Total RMB'000
Name								
Executive directors								
Mr. Fan Luyuan (Note i)	-	-	-	-	-	-	-	-
Mr. Yu Yongfu (Note ii)	-	-	-	-	-	-	-	-
Ms. Zhang Wei (Note iii)	-	3,103	1,068	3,399	237	85	238	8,130
Mr. Zhang Qiang (Note iv)	-	5,873	-	(24,116)	169	262	344	(17,468)
Non-Executive Directors								
Mr. Shao Xiaofeng (Note v)	-	-	-	-	-	-	-	-
Mr. Li Lian Jie (Note viii)	214	-	-	-	-	-	-	214
Independent non-executive directors								
Ms. Song Lixin (Note viii)	300	-	-	-	-	-	-	300
Mr. Tong Xiaomeng (Note viii)	364	-	-	-	-	-	-	364
Mr. Johnny Chen (Note viii)	321	-	-	-	-	-	-	321
	1,199	8,976	1,068	(20,717)	406	347	582	(8,139)

Notes:

(i) Mr. Fan Luyuan was appointed as chairman of the Company on August 2, 2017 and chief executive officer on October 13, 2017. The emoluments of Mr. Fan Luyuan which were not included in director's emoluments, were paid by AGHL.

(ii) Mr. Yu Yongfu resigned as chief executive officer on August 2, 2017 and chairman of the Company on October 13, 2017. The emoluments of Mr. Yu Yongfu which were not included in directors' emoluments, were paid by AGHL.

(iii) Ms. Zhang Wei was appointed as co-president on June 23, 2017 and president on October 13, 2017.

(iv) Mr. Zhang Qiang was resigned as director of the Company on June 23, 2017.

(v) The emoluments of Mr. Shao Xiaofeng which were not included in directors' emoluments, were paid by AGHL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

The remuneration of every director and the chief executives for the year ended December 31, 2016 is set out below:

	Fees RMB'000	Salary (Note vi) RMB'000	Discretionary bonuses RMB'000	Share -based compensation (Note vii) RMB'000	Allowances and benefits in kind (Note ix) RMB'000	Employer's contributions to the retirement benefit scheme (Note b) RMB'000	Social security costs excluding retirement cost RMB'000	Total RMB'000
Name								
Executive directors								
Mr. Fan Luyuan (Note i)	–	–	–	–	–	–	–	–
Mr. Yu Yongfu (Note ii)	–	–	–	–	–	–	–	–
Ms. Zhang Wei (Note iii)	–	2,368	1,500	3,863	148	39	136	8,054
Mr. Zhang Qiang (Note iv)	–	1,325	–	29,032	29	47	65	30,498
Mr. Deng Kangming	–	1,805	1,019	21,112	29	47	136	24,148
Non-Executive Directors								
Mr. Shao Xiaofeng (Note v)	–	–	–	–	–	–	–	–
Mr. Li Lian Jie (Note viii)	171	–	–	–	–	–	–	171
Independent Non-Executive Directors								
Ms. Song Lixin (Note viii)	240	–	–	–	–	–	–	240
Mr. Tong Xiaomeng (Note viii)	291	–	–	–	–	–	–	291
Mr. Johnny Chen (Note viii)	237	–	–	–	–	–	–	237
	939	5,498	2,519	54,007	206	133	337	63,639

Notes:

(vi) Salary paid to a director is generally an emolument paid or receivable in respect of that person's other services in connection with the management of the affairs of the Company or its subsidiaries undertakings.

(vii) The values of share-based compensation are based on the share based compensation recognized for the period/year.

(viii) During the fifteen months ended March 31, 2018, the total remuneration paid to each of Mr. Li Lian Jie, Ms. Song Lixin, Mr. Tong Xiaomeng and Mr. Johnny Chen comprised of director's fee and the fee for acting as chairman and/or member of the Company's board committees.

(ix) Includes housing allowances and estimated money value of other non-cash benefits: car, insurance premium and club membership.

No directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as a compensation for loss of office as director during the fifteen months ended March 31, 2018 (Year ended December 31, 2016: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(b) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertaking during the fifteen months ended March 31, 2018 (Year ended December 31, 2016: nil).

(c) Directors' termination benefits

No payment was made to directors as compensation for early termination of the appointment during the fifteen months ended March 31, 2018 (Year ended December 31, 2016: nil).

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

No payment was made to the former employer of directors or third parties for making available the services as a director of the Company during the fifteen months ended March 31, 2018 (Year ended December 31, 2016: nil).

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

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the fifteen months ended March 31, 2018. (Year ended December 31, 2016: nil).

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

No significant transaction, arrangements and contracts in relation to the Group's business to which the group companies were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the fifteen months ended March 31, 2018 (Year ended December 31, 2016: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(g) Directors' emoluments

The remuneration of directors is set out below:

For the fifteen months ended March 31, 2018

Aggregate emoluments paid to or receivable by directors in respect of their services as directors RMB'000	Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company RMB'000	Total RMB'000
1,199	**(9,338)**	**(8,139)**

For the year ended December 31, 2016:

Aggregate emoluments paid to or receivable by directors in respect of their services as directors RMB'000	Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company RMB'000	Total RMB'000
939	62,700	63,639

FINANCIAL SUMMARY

RESULTS

	For the year ended December 31,				For the fifteen months ended March 31,
	2013	2014	2015	2016	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Continuing operations					
Revenue	349,378	126,631	263,717	904,582	**3,302,783**
Profit/(loss) before income tax	199,033	(362,873)	486,782	(957,495)	**(1,759,647)**
Income tax expenses	(33,126)	(17,381)	(14,079)	(18,649)	**(35,313)**
Profit/(loss) for the year from continuing operations	165,907	(380,254)	472,703	(976,144)	**(1,794,960)**
Discontinued operations					
Profit/(loss) for the year from discontinued operations	20,172	(35,037)	(6,689)	–	**–**
Profit/(loss) attributable to:					
Owners of the Company	179,671	(417,276)	466,040	(958,576)	**(1,658,647)**
Non-controlling interests	6,408	1,985	(26)	(17,568)	**(136,313)**
	186,079	(415,291)	466,014	(976,144)	**(1,794,960)**

ASSETS AND LIABILITIES

	As at December 31,				As at March 31,
	2013	2014	2015	2016	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	1,709,211	6,337,432	18,975,861	19,563,062	**14,982,583**
Total liabilities	(312,649)	(270,364)	(2,782,281)	(2,431,130)	**(885,684)**
Total equity	1,396,562	6,067,068	16,193,580	17,131,932	**14,096,899**
Non-controlling interest	(13,651)	588	2,231	(213,909)	**(120,202)**
Equity attributable to owners of the Company	1,382,911	6,067,656	16,195,811	16,918,023	**13,976,697**