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

*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 1060)**

# ANNOUNCEMENT OF SECOND INTERIM RESULTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017

The board of directors (the "Board") of Alibaba Pictures Group Limited (the "Company") announces the unaudited condensed consolidated second interim results of the Company and its subsidiaries (the "Group") for the twelve months ended December 31, 2017 together with the comparative figures for the corresponding period in 2016. The unaudited condensed consolidated second interim financial information for the twelve months ended December 31, 2017 has been reviewed by the audit committee of the Company. PricewaterhouseCoopers, the Company's auditor, has conducted its review on the unaudited condensed consolidated second interim financial information for the twelve months ended December 31, 2017 in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, on which they have expressed an unmodified review conclusion.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Note | **For the twelve months ended December 31, 2017 (Unaudited)** *RMB'000* | 2016 (Audited) *RMB'000* |
|---|---|---|---|
| Revenue | 4 | **2,366,136** | 904,582 |
| Cost of sales and services | | **(609,775)** | (718,530) |
| **Gross profit** | | **1,756,361** | 186,052 |
| Selling and maketing expenses | | **(2,087,268)** | (1,079,562) |
| Administrative expenses | | **(740,800)** | (719,758) |
| Other income | 5 | **108,907** | 63,414 |
| Other gains, net | 6 | **61,363** | 45,911 |
| **Operating loss** | | **(901,437)** | (1,503,943) |
| Finance income | 7 | **76,545** | 545,921 |
| Finance expenses | 7 | **(215,379)** | (11,975) |
| Finance (expenses)/income, net | | **(138,834)** | 533,946 |
| Share of profit or loss of and gain on dilution of investments accounted for using the equity method | 10 | **13,173** | 12,502 |
| **Loss before income tax** | | **(1,027,098)** | (957,495) |
| Income tax expense | 8 | **(25,383)** | (18,649) |
| **Loss for the period** | | **(1,052,481)** | (976,144) |
| **Attributable to:** | | | |
| Owners of the Company | | **(950,259)** | (958,576) |
| Non-controlling interests | | **(102,222)** | (17,568) |
| **Loss per share attributable to owners of the Company for the period** *(expressed in RMB cents per share)* | 9 | | |
| – Basic | | **(3.76)** | (3.80) |
| – Diluted | | **(3.76)** | (3.80) |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | | As at December 31, | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | **(Unaudited)** | (Audited) |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **208,831** | 99,265 |
| Goodwill | | **3,596,058** | 3,532,107 |
| Intangible assets | | **162,005** | 176,901 |
| Deferred income tax assets | | **525** | 1,012 |
| Investments accounted for using the equity method | 10 | **2,377,946** | 2,280,839 |
| Available-for-sale financial assets | | **52,000** | 20,000 |
| Financial assets at fair value through profit or loss | | **1,067,337** | 1,025,170 |
| Trade and other receivables, and prepayments | 11 | **111,402** | 93,391 |
| | | **7,576,104** | 7,228,685 |
| **Current assets** | | | |
| Inventories | | **1,159** | 890 |
| Film and TV copyrights | | **832,433** | 809,004 |
| Trade and other receivables, and prepayments | 11 | **1,106,460** | 1,322,353 |
| Current income tax recoverable | | **6,248** | – |
| Available-for-sale financial assets | | **1,140,793** | 1,954,107 |
| Cash and cash equivalents | | **2,548,745** | 6,220,966 |
| Bank deposits with the maturity over three months | | **2,422,155** | – |
| Restricted cash | | **1,019,524** | 2,027,057 |
| | | **9,077,517** | 12,334,377 |
| **Total assets** | | **16,653,621** | 19,563,062 |

| | Note | As at December 31, **2017** **(Unaudited)** ***RMB'000*** | 2016 (Audited) *RMB'000* |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **5,131,405** | 5,081,884 |
| Shares held for share award scheme | | **(152,172)** | – |
| Reserves | | **9,744,551** | 11,836,139 |
| | | **14,723,784** | 16,918,023 |
| **Non-controlling interests** | | **135,149** | 213,909 |
| **Total equity** | | **14,858,933** | 17,131,932 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 13 | **14,753** | – |
| Deferred income tax liabilities | | **38,394** | 42,922 |
| Finance lease liabilities | | **6,228** | – |
| | | **59,375** | 42,922 |
| **Current liabilities** | | | |
| Trade and other payables, and accrued charges | 12 | **738,505** | 405,542 |
| Current income tax liabilities | | **–** | 2,666 |
| Borrowings | 13 | **993,000** | 1,980,000 |
| Finance lease liabilities | | **3,808** | – |
| | | **1,735,313** | 2,388,208 |
| **Total liabilities** | | **1,794,688** | 2,431,130 |
| **Total equity and liabilities** | | **16,653,621** | 19,563,062 |

## 1 GENERAL INFORMATION

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

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

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange") and secondary listing on the Singapore Exchange Securities Trading Limited. As at December 31, 2017, the Company is 49.03% owned by Ali CV Investment Holding Limited ("Ali CV"). Ali CV is a wholly-owned subsidiary of Alibaba Investment Limited ("AIL") which is in turn wholly-owned by Alibaba Group Holding Limited ("AGHL").

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

This condensed consolidated interim financial information has not been audited.

## 2 BASIS OF PREPARATION

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

This condensed consolidated interim financial information for the twelve months ended December 31, 2017 has been prepared in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the twelve months ended December 31, 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

## 3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2016, as described in those annual financial statements, except for the adoption of amendments to HKFRSs effective for the financial period beginning on January 1, 2017.

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

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

*(i) HKFRS 9 'Financial instruments'*

*Nature of change*

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

*Impact*

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

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

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

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

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

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

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

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.

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

*Nature of change*

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

*Impact*

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

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

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

*Date of adoption by the Group*

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

*(iii) HKFRS 16 'Leases'*

*Nature of change*

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

The accounting for lessors will not significantly change.

*Impact*

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

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

*Date of adoption by the Group*

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

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

## 4 REVENUES AND SEGMENT INFORMATION

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

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

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

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

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

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

**Segment revenue and results**

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

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

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

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

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

## 5 OTHER INCOME

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

## 6 OTHER GAINS, NET

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

## 7 FINANCE INCOME AND EXPENSES

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

## 8 INCOME TAX EXPENSE

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

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

## 9 LOSS PER SHARE

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

### (a) Basic

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

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

### (b) Diluted

Diluted earnings or loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares for the twelve months ended December 31, 2017, which are share options and unvested awarded shares; while the company has only one category of dilutive potential ordinary shares for the twelve months ended December 31, 2016, which is share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the closing market price per share for the period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings or loss per share.

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

## 10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

**Investment in associates**

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

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

## 11 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

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

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

*Notes:*

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

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

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

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

## 12 TRADE AND OTHER PAYABLES, AND ACCRUED CHARGES

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

*Note:*

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

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

## 13 BORROWINGS

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

Movements in borrowings are analysed as follows:

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

*Note:*

As at December 31, 2017, short-term borrowings of RMB990,000,000 (December 31, 2016: RMB1,980,000,000) are secured by restricted cash of RMB1,001,153,000 (December 31, 2016: RMB2,007,439,000), repayable at the discretion of the Group and bear interest at 0.3% per annum.

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

## 14 DIVIDENDS

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

## INTERIM DIVIDEND

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

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

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

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

## BUSINESS REVIEW

### *INTERNET-BASED PROMOTION AND DISTRIBUTION*

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

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

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

### *CONTENT PRODUCTION*

The Group released several films in 2017. In April, the Group released *Mr. Pride Vs Miss Prejudice* (傲嬌與偏見), the domestic box office of which reached RMB124 million. In August, the much anticipated film *Once Upon a Time* (三生三世十里桃花), featuring highly popular actress Liu Yifei and actor Yang Yang, was released and its box office totaled RMB534 million. In addition to these projects, the Group also co-invested in films developed by other producers. Such films include *This is Not What I Expected*

(喜歡你), a film starring Takeshi Kaneshiro and Zhou Dongyu*, and Paradox* (殺破狼 • 貪狼), featuring Louis Koo. These films grossed RMB210 million and RMB523 million in domestic box office respectively. Internationally, the thriller film *Real* (真實) was released in Korea in the summer of 2017. The Group continues to invest in the development of entertainment content selectively. *Swords of Legend 2* (古劍奇譚2), which is based on a widely popular game in the PRC, is being developed into a film and TV drama concurrently.

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

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

***INTEGRATED DEVELOPMENT***

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

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

## *PROSPECTS*

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

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

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

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

## FINANCIAL REVIEW

### Revenue and Profit for the period

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

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

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

### Selling, Marketing and Administrative Expenses

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

### Finance Income

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

### Material Investments

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

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

**Financial Resources and Liquidity**

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

**Foreign Exchange Risks**

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

**Charge on Assets**

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

**Contingent Liabilities**

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

**Employees**

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

## CORPORATE GOVERNANCE

During the twelve months ended December 31, 2017, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for certain deviations which are summarized 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, appointed as the chairman of the Board on November 21, 2016, had also been the chief executive officer of the Company during the period from December 5, 2016 to August 2, 2017, the date on which Mr. Fan Luyuan was appointed as the chief executive officer of the Company in place of Mr. Yu. Following the appointment of Mr. Fan Luyuan as the chief executive officer of the Company, the Company has been fully in compliance with the code provision A.2.1 with effect from August 2, 2017. Subsequently, in view of the Group's continuous business growth in line with its clear strategic direction, and the fact that Mr. Fan has demonstrated outstanding management and leadership capabilities along with his thorough understanding of the Group's strategy of building new infrastructure for the domestic movie industry since his appointment as the chief executive officer of the Company, Mr. Yu resigned as chairman of the Board, and Mr. Fan was appointed as chairman of the Board, with effect from October 13, 2017. The Board believed that the balance of power and authority under such arrangement would not be impaired and would continue to be adequately ensured by the current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive directors.

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 of the Company have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the twelve months ended December 31, 2017. The Company has also adopted the Model Code to regulate dealings in the securities of the Company by certain officers and employees of the Company or its subsidiaries who are considered to be likely in possession of unpublished inside information in relation to the Company or its securities.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Except that the trustee of the share award scheme 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 twelve months ended December 31, 2017.

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

Hong Kong, February 27, 2018

*As at the date of this announcement, the Board comprises Mr. Fan Luyuan, Mr. Yu Yongfu and Ms. Zhang Wei, being the executive directors; Mr. Li Lian Jie and Mr. Shao Xiaofeng, being the non-executive directors; and Ms. Song Lixin, Mr. Tong Xiaomeng and Mr. Johnny Chen, being the independent non-executive directors.*