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

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2017

The board of directors (the "Board") of Alibaba Pictures Group Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2017 together with the comparative figures for the corresponding period in 2016. The unaudited condensed consolidated interim financial information for the six months ended June 30, 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 interim financial information for the six months ended June 30, 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 ("HKICPA"), on which they have expressed an unmodified review conclusion.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited For the six months ended June 30,	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	4	**1,061,994**	257,257
Cost of sales and services		**(207,756)**	(179,952)
Gross profit		**854,238**	77,305
Selling and marketing expenses		**(1,186,786)**	(523,708)
Administrative expenses		**(287,938)**	(278,310)
Other income		**32,195**	17,828
Other gains, net	5	**62,731**	32,116
Operating loss		**(525,560)**	(674,769)
Finance income	6	**39,773**	240,522
Finance expenses	6	**(109,533)**	(6,094)
Finance (expenses)/income, net		**(69,760)**	234,428
Share of profit/(loss) of investments accounted for using the equity method	9	**48,637**	(122)
Loss before income tax		**(546,683)**	(440,463)
Income tax expense	7	**(15,027)**	(25,244)
Loss for the period		**(561,710)**	(465,707)
Attributable to:			
Owners of the Company		**(485,000)**	(465,869)
Non-controlling interests		**(76,710)**	162
Loss per share attributable to owners of the Company for the period *(expressed in RMB cents per share)*	8		
– Basic		**(1.92)**	(1.85)
– Diluted		**(1.92)**	(1.85)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited For the six months ended June 30, 2017 RMB'000	2016 RMB'000
Loss for the period	**(561,710)**	(465,707)
Other comprehensive (loss)/income:		
Item that may be reclassified to profit or loss		
Currency translation differences	**(28,066)**	4,695
Fair value gains on available-for-sale financial assets, net of tax	**2,292**	3,802
Other comprehensive (loss)/income for the period, net of tax	**(25,774)**	8,497
Total comprehensive loss for the period	**(587,484)**	(457,210)
Attributable to:		
Owners of the Company	**(510,532)**	(457,372)
Non-controlling interests	**(76,952)**	162
Total comprehensive loss for the period	**(587,484)**	(457,210)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited June 30, 2017** *RMB'000*	Audited December 31, 2016 *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**169,100**	99,265
Goodwill		**3,596,058**	3,532,107
Intangible assets		**169,419**	176,901
Deferred income tax assets		**1,012**	1,012
Investments accounted for using the equity method	9	**2,368,286**	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	10	**92,339**	93,391
		7,515,551	7,228,685
Current assets			
Inventories		**1,473**	890
Film and TV copyrights		**928,812**	809,004
Trade and other receivables, and prepayments	10	**1,284,345**	1,322,353
Available-for-sale financial assets		**2,012,663**	1,954,107
Cash and cash equivalents		**5,394,544**	6,220,966
Restricted cash		**2,029,287**	2,027,057
		11,651,124	12,334,377
Total assets		**19,166,675**	19,563,062
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**5,081,884**	5,081,884
Reserves		**11,369,900**	11,836,139
		16,451,784	16,918,023
Non-controlling interests		**201,516**	213,909
Total equity		**16,653,300**	17,131,932

	Note	Unaudited June 30, 2017 RMB'000	Audited December 31, 2016 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**45,749**	42,922
Finance lease liabilities		**11,485**	–
		57,234	42,922
Current liabilities			
Trade and other payables, and accrued charges	11	**472,691**	405,542
Current income tax liabilities		**3,450**	2,666
Borrowings		**1,980,000**	1,980,000
		2,456,141	2,388,208
Total liabilities		**2,513,375**	2,431,130
Total equity and liabilities		**19,166,675**	19,563,062

1 GENERAL INFORMATION

Alibaba Pictures Group Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the operation of an internet-powered integrated platform which spans entertainment content promotion and distribution, serving consumers, studios, and cinema operators. It also invests in content production and develops innovative solutions for commercializing entertainment content.

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 June 30, 2017, the Company is 49.49% owned by Ali CV Investment Holding Limited ("Ali CV"). Ali CV is a wholly-owned subsidiary of Alibaba Investment Limited ("AIL") which is in turn wholly-owned by Alibaba Group Holding Limited ("AGHL").

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

This condensed consolidated interim financial information for the six months ended June 30, 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 year ended December 31, 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by 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 estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending December 31, 2017.

(a) Amendments to HKFRSs effective for the financial year ending December 31, 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'

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. The Group has decided not to adopt HKFRS 9 until it becomes mandatory on January 1, 2018.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets 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.

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

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. The new standard is effective for first interim period within annual reporting period beginning on or after January 1, 2018. The Group will adopt the new standard from January 1, 2018.

Management has identified the following areas that are likely to 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 the customer loyalty programme – HKFRS 15 requires that the total consideration received must be allocated to the points and goods based on relative stand-alone selling prices rather than based on the residual value method; this could result in higher amounts being allocated to the loyalty points and delay the recognition of a portion of the 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 recognised 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, and

- rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new standards on the Group's financial statements. The Group will make more detailed assessments of the impact in the second half of 2017.

(iii) HKFRS 16 'Leases'

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.

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. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for first interim period within annual reporting period beginning on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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 year ended December 31, 2016, the Group has redefined its operating and reportable segments and the comparative figures for the six months ended June 30, 2016 have been restated to conform to the current year presentation. During this interim period, 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.

	Unaudited For the six months ended June 30,	
	2017	2016
	RMB'000	*RMB'000*
Internet-based promotion and distribution	**913,914**	211,950
Content production	**111,040**	43,346
Integrated development	**37,040**	1,961
Total revenues	**1,061,994**	257,257

Segment revenue and results

	Unaudited For the six months ended June 30, 2017			
	Internet-based promotion and distribution	**Content production**	**Integrated development**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue	**913,914**	**111,040**	**37,040**	**1,061,994**
Segment results	**(363,780)**	**31,480**	**21,380**	**(310,920)**
Unallocated selling and marketing expenses				**(21,628)**
Administrative expenses				**(287,938)**
Other income				**32,195**
Other gains, net				**62,731**
Finance income				**39,773**
Finance expenses				**(109,533)**
Share of profit of investments accounted for using the equity method				**48,637**
Loss before income tax				**(546,683)**

	Unaudited			
	For the six months ended June 30, 2016			
	Internet-based promotion and distribution	Content production	Integrated development	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	211,950	43,346	1,961	257,257
Segment results	(373,579)	(45,047)	(13,444)	(432,070)
Unallocated selling and marketing expenses				(14,333)
Administrative expenses				(278,310)
Other income				17,828
Other gains, net				32,116
Finance income				240,522
Finance expenses				(6,094)
Share of loss of investments accounted for using the equity method				(122)
Loss before income tax				(440,463)

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 GAINS, NET

	Unaudited For the six months ended June 30, 2017 RMB'000	2016 RMB'000
Change in fair value of financial assets at fair value through profit or loss	**61,667**	–
Gain on deregistration of subsidiaries	**827**	–
Gain on derecognition of repurchase option upon expiry *(Note)*	**–**	33,000
Others	**237**	(884)
Total	**62,731**	32,116

Note:

The amount recognized during the six months ended June 30, 2016 represented the gain on derecognition of the repurchase option in relation to the acquisition of Guangdong Yueke Software Engineering Company Limited which was expired on March 10, 2016.

6 FINANCE INCOME AND EXPENSES

	Unaudited For the six months ended June 30, 2017 RMB'000	2016 RMB'000
Finance income		
– Interest income on bank deposits	**39,773**	77,420
– Exchange gain, net	**–**	163,102
	39,773	240,522
Finance expenses		
– Exchange loss, net	**(103,394)**	–
– Interest expenses on bank borrowings	**(6,139)**	(6,094)
	(109,533)	(6,094)
Finance (expenses)/income, net	**(69,760)**	234,428

7 INCOME TAX EXPENSE

	Unaudited For the six months ended June 30, 2017 RMB'000	2016 RMB'000
Current income tax	**15,208**	9,735
Deferred income tax	**(181)**	15,509
	15,027	25,244

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.

8 LOSS PER SHARE

	Unaudited For the six months ended June 30, 2017 RMB cents	2016 RMB cents
Basic/diluted loss per share	**1.92**	1.85

(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.

	Unaudited For the six months ended June 30, 2017 RMB'000	2016 RMB'000
Loss attributable to owners of the Company	**485,000**	465,869
Weighted average number of ordinary shares in issue *(thousands)*	**25,234,561**	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 one category of dilutive potential ordinary shares during the six months ended June 30, 2017 and 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 six months ended June 30, 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.

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investment in associates

	Unaudited	
	For the six months ended June 30,	
	2017	*2016*
	RMB'000	*RMB'000*
At January 1,	**2,280,839**	19,081
Additions	**38,166**	10,000
Share of loss of investments	**(30,331)**	(122)
Gain on dilution of interest in an associate *(Note)*	**78,968**	–
Currency translation differences	**644**	421
At June 30,	**2,368,286**	29,380

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 six months ended June 30, 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 six months ended June 30, 2017.

10 TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

	Unaudited June 30, 2017 *RMB'000*	Audited December 31, 2016 *RMB'000*
Trade receivables *(Note a)*		
– Related parties	**123,644**	100,801
– Third parties	**340,916**	211,368
Less: allowance for impairment of trade receivables	**(25,528)**	(31,028)
Trade receivables – net	**439,032**	281,141
Prepaid film deposits	**90,000**	90,000
Prepayment to related parties	**68,617**	97,952
Prepayment for investment in film and TV copyrights	**13,597**	32,421
Prepayment for investment	**–**	45,000
Other prepayments	**79,897**	23,140
Other receivables arising from:		
– Refund receivable in relation to the restructuring of Bona Film	**297,126**	506,179
– Receivables in respect of Yulebao's business	**183,930**	201,813
– Deductible VAT input	**38,192**	34,031
– Receivables from related parties	**12,971**	63,043
– Interest income receivables	**8,392**	8,063
– Refundable investment cost	**–**	12,000
– Other receivables and deposits	**147,491**	55,052
Less: allowance for impairment of other receivables and prepayments	**(2,561)**	(34,091)
Other receivables and prepayments – net	**937,652**	1,134,603
Total trade and other receivables, and prepayments	**1,376,684**	1,415,744
Less: non-current portion	**(92,339)**	(93,391)
Current portion	**1,284,345**	1,322,353

As at June 30, 2017, non-current balances mainly represented prepayments for film deposits. The 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 the film cooperation agreements respectively.

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

Note:

(a) Trade receivables

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:

	Unaudited June 30, 2017 *RMB'000*	Audited December 31, 2016 *RMB'000*
0 – 90 days	**201,978**	192,433
91 – 180 days	**54,959**	45,498
181 – 365 days	**157,714**	40,830
Over 365 days	**49,909**	33,408
	464,560	312,169

11 TRADE AND OTHER PAYABLES, AND ACCRUED CHARGES

	Unaudited June 30, 2017 *RMB'000*	Audited December 31, 2016 *RMB'000*
Trade payables *(Note a)*		
– Related party	**19,754**	5,964
– Third parties	**55,016**	31,172
	74,770	37,136
Other payables and accrued charges		
Payable in respect of Yulebao's business	**114,878**	41,187
Payroll and welfare payable	**45,483**	55,616
Payable in relation to distribution of films	**37,696**	29,489
Amount received on behalf of cinemas	**32,985**	2,006
Other tax payable	**32,326**	59,264
Accrued marketing expense	**30,898**	29,312
Amounts due to related parties	**30,459**	52,105
Advance from customers	**30,273**	34,711
Amount received on behalf of cinema ticketing system providers	**10,210**	10,040
Professional fees payable	**6,898**	9,288
Payable for property, plant and equipment	**2,258**	6,863
Interest payable	**132**	4,587
Consideration payable for business combination	**–**	3,900
Other payables and accrued charges	**23,425**	30,038
	397,921	368,406
Total trade and other payables, and accrued charges	**472,691**	405,542

Note:

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

	Unaudited June 30, 2017	Audited December 31, 2016
	RMB'000	*RMB'000*
0 – 90 days	**33,492**	21,914
91 – 180 days	**26,652**	286
181 – 365 days	**412**	404
Over 365 days	**14,214**	14,532
	74,770	37,136

12 DIVIDENDS

The Board has resolved not to declare a dividend for the six months ended June 30, 2017 (2016 interim: Nil)

13 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

(a) In July 2017, the Group acquired an aggregate 9.12% equity interest in the Company's subsidiary that operates the online ticketing platform from certain non-controlling shareholders, for a total cash consideration of approximately RMB1,332,751,000.

(b) On July 28, 2017, the Company granted 183,060,000 awarded shares in accordance with the terms of the Share Award Scheme. 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 respectively (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.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2017 (2016 interim: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In the reporting period ended June 30, 2017, the Group continued to embark on its strategic path of building its new infrastructure for the movie industry. In this period, the Group allocated significant resources to further strengthen the market share of its online ticketing platform Tao Piao Piao and achieved material progress on its internet-based promotion and distribution business and its merchandising business. In addition, the Group began business collaborations with various entities in Alibaba Group's media and digital entertainment matrix. Youku, one of the PRC's leading online video streaming sites, acquired a number of drama series from the Group. UCWeb, a leading mobile browser in India, has begun to work with the Company's Indian subsidiary TicketNew in providing user traffic support. Having laid the foundation for its core business segments over the last two years, the Group is expected to advance to a new phase of development in the near future.

For the first half of 2017, the Group recorded revenue of RMB1,062.0 million, an increase of 313% from the same period in the previous year. Each of the Group's three business segments achieved robust revenue increases. In absolute terms, the majority of the increase was generated by the internet-based promotion and distribution segment. As Tao Piao Piao further solidified its market position, it has been able to increase its revenue from both consumers for providing ticketing service, and from film producers for providing promotion and distribution services. Yueke maintained its leading market share in ticket issuance system and contributed revenue growth that exceeded the overall box office growth. According to the State Administration of Press, Publication, Radio, Film and Television, the overall box office revenues in the PRC exceeded RMB27.3 billion for the first half of 2017, representing a year-over-year increase of 11.2% from RMB24.6 billion in the previous year. The Group's integrated development business segment (previously called entertainment e-commerce) also showed outstanding year-on-year revenue growth of about 18 times to RMB37.0 million, as its merchandising business began to gain traction.

For the first half of 2017, the Group recorded a net loss attributable to the owners of the Company of RMB485.0 million, compared with RMB465.9 million for the same period in the previous year. The moderate increase in net loss was primarily attributable to the loss in foreign exchange, as Renminbi appreciated against foreign currencies such as USD and HKD, and Tao Piao Piao's marketing expenses. Tao Piao Piao incurred significant marketing expenses in the first half of 2017, as it provided ticket subsidies to cinemas in order to expand its user base, which was accomplished steadily. Tao Piao Piao now offers online ticketing and seat selection services in close to 7,000 theaters nationwide, covering over 97% of the country's total box office. In July 2017, the Group announced it increased its equity stake in Tao Piao Piao by 9.12% to 96.71%. Being the platform that serves the most critical function of consumer reach for the Group's new infrastructure, the Group remains committed to investing in Tao Piao Piao and is confident of its market potentials in the Group's entertainment ecosystem.

The Group made substantial progress 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

For the first half of 2017, the Group allocated substantial resources to its online movie ticketing platform Tao Piao Piao to improve its overall business profile. Because of its effective marketing strategy, Tao Piao Piao's gross merchandise value (GMV) increased at a rate much faster than the growth of the overall box office, resulting in market share expansion. As Tao Piao Piao continued to expand its coverage and 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) and *Duckweed* (乘風破浪), both of which achieved strong box office performances in the PRC.

In addition to online ticketing, the Group demonstrated capabilities in film promotion and distribution in the first half of 2017 with several projects, 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, attained a domestic box office of over RMB600 million, which exceeded that of North America. The Group successfully planned and executed its marketing campaign that targeted specific groups of audiences with different approaches at different times. As the domestic box office continues to grow, the Group is gaining reputation as one of the premier promotion and distribution partners for both domestic and international film studios.

Yueke continued to deliver steady performance in the first half of 2017, recording solid year-on-year revenue growth. The Group has begun to increasingly integrate the operations of Yueke, which is expected to work closely with head office and Tao Piao Piao on both the operational and business fronts. In terms of financial results, the Group's internet-based promotion and distribution business segment generated RMB913.9 million of revenue in the first six months of 2017, an increase from RMB212.0 million for the same period in the previous year. The increase in the segment's revenues were offset by Tao Piao Piao's marketing expenses, and the resulting segment loss was RMB363.8 million, compared with RMB373.6 million in the corresponding period in 2016.

CONTENT PRODUCTION

Following the release of *Ferry Man* (擺渡人) in December 2016, the Group released *Mr. Pride vs Miss Prejudice* (傲嬌與偏見) in early April 2017. The movie recorded a domestic box office of RMB124 million. In late April 2017, *This is Not What I Expected* (喜歡你), a film starring Takeshi Kaneshiro and Zhou Dongyu, was released in the PRC. The Group co-invested in this film, the box office of which reached RMB210.4 million.

The much anticipated film *Once Upon a Time* (三生三世十里桃花), was released after the interim period, in August 2017. It is expected the romance film *21 Carats* (21克拉), starring Dilraba Dilmurat, will be released in the second half of 2017. Other projects that are in development include *Swords of Legend 2* (古劍奇譚2), which is based on a widely popular game in the PRC and will feature cutting edge visual effects.

Besides movies, the Group has also been engaged in the production and investment of drama series. In the first half of 2017, the Group sold the broadcasting rights of several drama series to Youku. *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. The Group will continue to selectively develop film and drama series projects. For the six months ended June 30, 2017, the content production business segment of the Group recorded revenue of RMB111.0 million, compared to RMB43.3 million in the same period of the previous year. As revenue increased, the Group recorded a segment profit of RMB31.5 million for the first half of 2017, compared to a loss of RMB45.0 million in for the same period in 2016.

INTEGRATED DEVELOPMENT

The Group's integrated development business segment consists of two main functions – C2B financing for entertainment projects and merchandising. The Group completed several C2B financing projects in the first half of 2017. In addition, the Group has made improvements to its business model for the purpose of further enhancing business sustainability. Measures were taken to lower the overall costs of the C2B financial service. Counter-party risks, including credit risks, in addition to project viability, have also been emphasized in the course of business activities in an evolving industry environment.

IP-centric merchandising has become an important business area for the Group. An asset-light licensing business model has been adopted and shown promising results. In the first half of 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 who have done business through Taobao and Tmall. 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 is also prepared to sub-license IPs from third parties in order to develop more products. Doing so will quickly enhance the business scalability of IP merchandise.

The growth and development of the Group's merchandising business contributed to the improved financial performance of integrated development business segment. For the first six months of 2017, the segment recorded revenue of RMB37.0 million and profit of RMB21.4 million, compared to revenue of RMB2.0 million and loss of RMB13.4 million for the same period in 2016.

PROSPECTS

As the Group experienced revenue growth across all business segments, it continues to upgrade its products and services revolving around the entertainment ecosystem, in response to the rapid evolution of industry structure and consumer behavior.

For C end (users), the Group will, leveraging the resources in Alibaba Group's ecosystem and the resources in its media and entertainment segment, enrich its media functions in order for Tao Piao Piao to transform from a "ticketing platform" to a "social platform revolving around movie content". For B end (studios and cinemas), the Group will continue to upgrade and innovate its products and services to address their most critical needs. For studios, the Group will work towards perfecting data driven marketing approaches for film distribution. And for cinemas, the Group will focus on technological solutions to enhance their operational efficiency. In serving better both C end and B end, the Group will continue to work towards becoming the new infrastructure of the entertainment industry.

In terms of content development, in addition to the emphasis on creativity and consumer preferences, the Group will accelerate the cross-development between content and merchandise, games, etc. Such initiative can extend the revenue stream of original IP and allow for its sustainable development. The Group's new CEO (appointed in August 2017) Mr. Fan Luyuan is experienced in building technology-driven business infrastructure. Under his leadership, the Group will, utilizing its technological capabilities and resources, continue to fortify the business foundations in its ecosystem, and develop innovative business initiatives. It will also further strengthen the collaboration with Alibaba Group's media and digital entertainment matrix. The Group is ready to advance to a new phase of development.

FINANCIAL REVIEW

Revenue and Profit for the period

During the Reporting Period, the Group recorded revenue of RMB1,062.0 million, compared with RMB257.3 million in the corresponding period in 2016. Gross profit during the Reporting Period was RMB854.2 million, compared with RMB77.3 million for the same period in the previous year. All three business segments recorded significant year-over-year increases in revenue and profit, whereby the largest contribution came from the internet-based promotion and distribution segment.

Net loss attributable to the owners of the Company amounted to RMB485.0 million, up from net loss of RMB465.9 million in the first half of 2016. The year-over-year increase in net loss was caused by a foreign exchange loss due to currency fluctuation and an increase in marketing expenses.

For the six months ended June 30, 2017, loss per share (basic and diluted) for the Group amounted to RMB1.92 cents, up from a loss per share of RMB1.85 cents for the same period in the previous year.

Selling, Marketing and Administrative Expenses

Selling and marketing expenses for the Reporting Period were RMB1,186.8 million, compared with approximately RMB523.7 million in the corresponding period in 2016. The increase is primarily attributable to the marketing expenses of Tao Piao Piao in its efforts to increase its market share of online ticket sales. Administrative expenses increased slightly from RMB278.3 million to RMB287.9 million year-over-year mainly due to employee benefit expenses related to higher headcounts across multiple functions for business expansion.

Finance Income

For the first six months of 2017, the Group recorded finance income of RMB39.8 million, offset by a finance expense of RMB6.1 million and foreign exchange loss of RMB103.4 million. 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 the first half of 2017, the Group completed the acquisitions of majority stakes 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. Besides acquisitions, the Group has also made minority investments in businesses in the entertainment industry over the past several years. As at June 30, 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 RMB2.37 billion. The three largest investments are in BONA Film Group Ltd. ("BONA"), Hehe (Shanghai) Pictures Co., Ltd., and Storyteller Holding Co., LLC, which are all involved in film production or distribution. In the first half of 2017, the Group recorded a total gain of RMB48.6 million in its investments in associates, mainly as a result of dilution gain in BONA of approximately RMB79.0 million.

Financial Resources and Liquidity

As at June 30, 2017, the Group had cash and cash equivalents of approximately RMB5.4 billion in multiple currencies. The Group had short-term available-for-sale financial assets of approximately RMB2.0 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 2.6% to 4.5% per annum and redeemable within one year. The Group recognized an investment income of approximately RMB28.4 million (as recorded as "other income" in the interim condensed consolidated statement of profit or loss) from its available-for-sale financial assets in the first half of 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 June 30, 2017, the Group had no long-term debt obligations. Short-term borrowings amounted to RMB1.98 billion, which are secured by restricted cash of approximately RMB2.0 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 (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 management expenses are denominated in RMB, many investment opportunities and collaborations with studios outside Mainland China require foreign currencies. The Group continues to monitor capital needs closely and manage foreign currency exposure accordingly. The Group has not used any currency hedging instruments.

Charge on Assets

As at June 30, 2017, the Group did not have any charge on assets (December 31, 2016: nil).

Contingent Liabilities

As at June 30, 2017, the Group did not have any material contingent liabilities (December 31, 2016: nil).

Employees

As at June 30, 2017, the Group, including its subsidiaries but excluding its associates, had 1,065 (December 31, 2016: 863) employees. The total employee benefit expenses of the Group were RMB271.5 million in the first half of 2017. The remuneration policies of the Group are based on the prevailing market levels and performance of the respective group companies and individual employees. These policies are reviewed on a regular basis.

CORPORATE GOVERNANCE

During the six months ended June 30, 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 ("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. The Board considered that vesting the roles of both chairman and chief executive officer in the same person would facilitate the development and execution of the Group's business strategies, and enhance its internet and e-commerce capabilities. The Board believed that the balance of power and authority under such arrangement would not be impaired and adequately ensured by the current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive directors. 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.

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 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 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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 throughout the six months ended June 30, 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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the six months ended June 30, 2017.

On behalf of the Board
Alibaba Pictures Group Limited
Yu Yongfu
Chairman

Hong Kong, August 30, 2017

As at the date of this announcement, the Board comprises Mr. Yu Yongfu, Mr. Fan Luyuan 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.