



保利文化集團股份有限公司
POLY CULTURE GROUP CORPORATION LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock code: 3636

INTERIM REPORT
2017



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Corporate Profile

REGISTERED NAME OF THE COMPANY

Poly Culture Group Corporation Limited

REGISTERED OFFICE

District A, 20/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, 100010, PRC

HEAD OFFICE IN THE PRC

District A, 25/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, 100010, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36th Floor, Tower 2, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong

BOARD OF DIRECTORS

Executive Directors

Mr. Xu Niansha (*Chairman*)
Mr. Zhang Xi
Mr. Jiang Yingchun
Mr. Hu Jiaquan

Non-executive Directors

Mr. Wang Lin
Mr. Wang Keling

Independent Non-executive Directors

Mr. Li Boqian
Ms. Li Xiaohui
Mr. Yip Wai Ming

AUTHORIZED REPRESENTATIVE

Mr. Jiang Yingchun
District A, 25/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, PRC

Ms. Mok Ming Wai
36th Floor, Tower 2, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong

JOINT COMPANY SECRETARIES

Mr. Chen Peng ¹
Ms. Wang Wei ¹
Ms. Mok Ming Wai

AUDITORS

PRC Auditor

BDO China Shu Lun Pan Certified Public Accountants LLP
4F, No.61, East Nanjing Road, Huangpu District, Shanghai, China

International Auditor

KPMG
Certified Public Accountants
8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

LEGAL ADVISORS

as to Hong Kong law

Clifford Chance
27th Floor, Jardine House, One Connaught Place, Central, Hong Kong

as to PRC law

Jia Yuan Law Offices
F408, Ocean Plaza, No. 158, Fuxing Men Nei Ave, Xicheng District, Beijing, China,

PRINCIPAL BANKERS

China CITIC Bank Corporation Limited
(Fuhua Plaza Branch)
No.8, North Street of Chaoyangmen, Dongcheng District, Beijing, PRC

Bank of Beijing Co., Ltd. (Beijing AoDong Branch)
SDIC Trade Building, No.19 Hui Xin West Street, Chaoyang District, Beijing

H SHARE REGISTRAR

Computershare Hong Kong Investor Service Limited
Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

STOCK CODE

03636

INVESTOR ENQUIRIES

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¹ Mr. Chen Peng resigned his position as a joint company secretary of the Company on January 6, 2017. And Ms. Wang Wei was appointed as a joint company secretary of the Company on the same date.

Financial Highlight

	Six months ended June 30,	
	2017 RMB'000	2016 RMB'000
Revenue	1,574,901	1,225,001
Profit from operations	192,889	183,776
Profit before taxation	202,535	230,088
Income tax	(56,271)	(60,224)
Profit for the period	146,264	169,864
Attributable to:		
Equity Shareholders of the Company	91,703	117,510
Non-controlling interests	54,561	52,354
Earnings per share		
Basic and diluted earnings per share (RMB)	0.37	0.48
Total comprehensive income for the period	137,485	178,684
Attributable to		
Equity Shareholders of the Company	87,068	124,244
Non-controlling interests	50,417	54,440
	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Total non-current assets	1,844,106	1,226,332
Total current assets	6,735,385	5,723,069
Total assets	8,579,491	6,949,401
Total liabilities	3,708,255	2,280,499
Total non-current liabilities	348,301	215,041
Total liabilities	4,056,556	2,495,540
Net assets	4,522,935	4,453,861
Total equity attributable to the equity shareholders of the Company	3,931,521	3,911,944
Non-controlling interests	591,414	541,917
Total equity	4,522,935	4,453,861

The financial information of the Group for the six months ended June 30, 2017 was extracted from page 25 to 57 to this report, which set forth details of the basis of presentation for the unaudited condensed consolidated financial statements. The condensed consolidated financial statements of the Group for the six months ended June 30, 2017 were unaudited.

Management Discussion and Analysis

I. SEGMENT BUSINESS INFORMATION

In the first half of 2017, China's economic GDP recorded a year-on-year growth of 6.9%. However, the economic development was still subject to a number of unstable and uncertain factors. In the face of a complex economic environment, Poly Culture continued to exert great efforts on three principal business segments and accelerated the development of innovative businesses. All the works were advanced steadily.

Art Business and Auction Business

In the first half of 2017, the Chinese artwork market continued to adjust. By giving play to the advantages in terms of whole industry chain of artwork and strategic layout, Poly Culture accumulatively achieved an auction turnover of RMB3.8 billion and maintained its leading position in the industry.



■ "Majestic Appearance of Maoshan" draw by Fu Baoshi, achieved an auction turnover of RMB 186,875,000 by Poly Auction Beijing in Spring of 2017

In the first half of 2017, Poly Auction Beijing achieved an auction turnover of RMB2.75 billion. The auction turnover of the Spring Auction was RMB2.408 billion, of which the auction prices of "Majestic Appearance of Maoshan (《茅山雄姿》)" by Fu Baoshi and "Landscape Capped by Snow (《萬里平鋪雪滿天》)" by Cui Ruzhuo exceed RMB100 million.



Management Discussion and Analysis



■ A set of Myanmar natural jade bracelet and Myanmar natural "emperor green" jade beads chain, achieved an auction turnover of HKD107,000,000 by Poly Auction Hong Kong in Spring of 2017

In the first half of 2017, Poly Auction Hong Kong achieved an auction turnover of HK\$1.256 billion, of which HK\$1.245 billion was generated from the Spring Auction, further narrowing the gap with Sotheby's Hong Kong Limited (香港蘇富比拍賣有限公司) and Christie's Hong Kong Ltd. (佳士得(香港)有限公司) and stably ranking the third in the Hong Kong market. The auction turnover of jewelry and watch exceeded HK\$400 million for the first time, achieving a record-breaking performance.

In the first half of 2017, Poly Art Centre successively launched "Binwang 158 (賓王158)" Cultural and Creative Park project in Yiwu and cooperated with Beijing Film Academy in holding the first session of

Poly Animation Technology Carnival. In addition, the National Copyright Administration issued the Reply on Approval of Establishment of "National Artwork Copyright Trading Base" for the "Poly National Artwork Copyright Trading Base" project. At present, relevant implementation scheme is in proactive preparation.



■ Cultural and Creative Area in Poly Art Museum

In the first half of 2017, Poly Art Investment launched 5 artwork fund projects with a scale of RMB152 million in total. As at the latest practicable date, Poly Art Investment invested in 11 operating fund projects with a scale of RMB493 million in total.

Performance and Theatre Management Business

In terms of the expansion of theatre network, Poly Theatre Management newly managed Guangxi Culture Arts Center, Shuicheng Mingzhu Theatre in Liaocheng, Shandong and Pingshan Performing Arts Center, Shenzhen, and completed the contract renewal with Qingdao Theatre, Kunshan Theatre and Ningbo Theatre. In



Management Discussion and Analysis



■ Shuicheng Mingzhu Theatre in Liaocheng

the first half of 2017, the theatre-line business covered 48 cities in 18 provinces, municipalities and autonomous regions, and Poly Theatre Management operated and managed 54 domestic first-rate theatres with 99 auditoriums and over 100,000 audience seats, which further consolidated its leading position

in the industry. In the first half of 2017, the theatres under management by Poly Theatre Management staged 4,110 performances in total, which accounted for 58% of its annual target performances.



■ The Tour Performance of "Ghost" (《人鬼情未了》), a typical original musical

In terms of the performance and creative production business, Poly Theatre Management strengthened cooperation with domestic and overseas famous organizations and introduced international first-rate symphony orchestras including St. Petersburg Symphony Orchestra from Russia, Vienna Symphony Orchestra from Austria, Radio Philharmonic Orchestra from France and Bern Philharmonic Orchestra from Switzerland to perform in China; the tour performances of "Ghost (《人鬼情未了》)", an original English musical, and "Bodyguard (《保镖》)", an original musical of West End of London, caused a sensation. "Bailuyuan (《白鹿原》)", a drama of Shaanxi People's Art Theatre, and "Thunderstorm (《雷雨》)", a drama of Tianjin People's Art Theatre, achieved both good word of mouth and box office.

Poly Theatre Management launched the performance series with regional characteristics, becoming the bond for carrying forward local culture and the stage for performance of outstanding dramas. The first session of "Fujian, Guangdong, Hong Kong, Macau and Taiwan" outstanding living theatre performance season was held in Southern China; in Central China, "State Treasure • Poly Enthusiasm – Performance of Outstanding Local Chinese Dramas" was launched and 7 outstanding exquisite national dramas were staged for 53 times in 13 cities; in Shandong and Northeast China, the cultivation and output of little theatre performance series were conducted with the three little theatres in Yantai, Qingdao and Shenyang as the centers of original drama and with the influence covering the theatres surrounding Shandong and Northeast China.

Cinema Investment and Management Business

In the first half of 2017, the nationwide accumulative box office amounted to RMB25.459 billion, representing a year-on-year increase of 3.56%. The cinemas under Poly Film's direct operation recorded a box office of RMB340 million.

Management Discussion and Analysis

Poly Film further promoted the construction of cinemas in a steady way. In the first half of 2017, Beijingfang Cinema and Nanning Chendong Cinema commenced operation; Poly Film realized expansion by way of merger and acquisition and took over 11 wholly-owned cinemas and 10 joint venture cinemas under XingX Entertainment due to the acquisition thereof. At present, the total number of cinemas under operation by Poly Film reaches 55, which is of great significance for enhancement of the ranking in the industry and influence of the cinema investment business of Poly Film.



■ View of Poly Wedo Yongli International Campus

Proactive promotion of new businesses and implementation of key projects

In terms of art education business, Poly Music Education continued to improve the construction of curriculum system and increased 9 course classes and 4 one-on-one instrumental music curriculums based on customers' demands; in speeding up platform expanding, Beijing Damei Campus commenced enrollment of students and Nanjing Campus will be opened officially in the second half of 2017. Meanwhile, Poly Music Education strengthened publicity and promotion, actively set up customized music art curriculum business for high-end customers.

In respect of cultural finance business, Poly Ronghe implemented artwork financial leasing projects amounting to RMB706 million in the first half of 2017, and the accumulative business size reached RMB1.318 billion. Poly Culture Industry Fund has completed commercial registration. At present, Poly Ronghe is engaged in intensive exchange and communication with financial institutions in order to expand the fund financing channel and accumulate resources of project reserves, striving to implement the project and commence its full operation in 2017.

Management Discussion and Analysis



■ Shengjing Poly Culture Center



As for culture tourism and culture asset operation and management business, Shengjing Poly Culture Center commenced operation on July 8, 2017 and became the first “Poly Culture Center” put into operation in the PRC. Shengjing Poly Culture Center creates the brand of “Poly Culture Center” and will introduce hanging art gallery, international cultural exchange center, little theatres, art book bar, art education and other cultural businesses.

II. ANALYSIS AND DISCUSSION OF RESULTS

Revenue

Total revenue increased by 28.6% from RMB1,225.0 million for the six months ended June 30, 2016 to RMB1,574.9 million for the six months ended June 30, 2017, primarily due to the expansion of theatre and cinema networks and the increasing of business scales of art business.

The respective segment revenue of the Group for the six months ended June 30, 2017 and 2016 is as follows:

	Six months ended June 30,		
	2017 RMB in millions	2016 RMB in millions	% of change
Art business and Auction	646.5	425.5	51.9
Performance and Theatre Management	560.6	465.8	20.4
Cinema Investment and Management	365.1	326.0	12.0

Management Discussion and Analysis

Gross profit

Gross profit increased by 13.8% from RMB469.8 million for the six months ended June 30, 2016 to RMB534.4 million for the six months ended June 30, 2017. Gross profit margin decreased from 38.3% for the six months ended June 30, 2016 to 33.9% for the six months ended June 30, 2017.

Other revenue

Other revenue (mainly including government grants) increased from RMB12.1 million for the six months ended June 30, 2016 to RMB25.2 million for the six months ended June 30, 2017, primarily due to the increase in government grants from performance and theatre management and art business and auction.

Other net losses

We recorded other net losses of RMB8.8 million for the six months ended June 30, 2017 mainly due to foreign exchange losses.

Selling and distribution expenses

Selling and distribution expenses increased by 6.8% from RMB141.0 million for the six months ended June 30, 2016 to RMB150.6 million for the six months ended June 30, 2017, primarily due to (i) the increase in staff costs as a result of an increase in the headcount of selling and marketing employees, which was attributable to our increased selling and marketing activities as a result of our efforts to promote and expand our business; and (ii) the increase in the number of cinemas we operated and theatres we managed.

Administrative expenses

Administrative expenses increased by 29.6% from RMB159.9 million for the six months ended June 30, 2016 to RMB207.2 million for the six months ended June 30, 2017, primarily due to the increase in staff costs as a result of an increase in the headcount of our administrative employees, which was attributable to our increased administrative activities and business scale and the transaction cost for the acquisition of XingX Entertainment.

Reportable segment profit

As a result of the foregoing, reportable segment profit increased by 20.3% from RMB241.6 million for the six months ended June 30, 2016 to RMB290.6 million for the six months ended June 30, 2017.

Management Discussion and Analysis

The respective reportable segment profit of the Group for the six months ended June 30 in 2017 and 2016 is as follows:

	Six months ended June 30,		
	2017 RMB in millions	2016 RMB in millions	% of change
Art Business and Auction	215.7	153.4	40.6
Performance and Theatre Management	32.5	22.0	47.7
Cinema Investment and Management	42.4	66.2	(36.0)

Finance income

Finance income decreased by 54.2% from RMB54.4 million for the six months ended June 30, 2016 to RMB24.9 million for the six months ended June 30, 2017, mainly due to a decrease in interest income from consignor advances.

Finance costs

Finance costs increased by 253.7% from RMB4.1 million for the six months ended June 30, 2016 to RMB14.5 million for the six months ended June 30, 2017, primarily due to an increase in the average amount of bank loans and bonds in this period.

Income tax

Income tax decreased by 6.5% from RMB60.2 million for the six months ended June 30, 2016 to RMB56.3 million for the six months ended June 30, 2017, primarily due to a decrease in taxable income.

Profit for the period

As a result of the foregoing, profit for the period decreased by 13.9% from RMB169.9 million for the six months ended June 30, 2016 to RMB146.3 million for the six months ended June 30, 2017, and net profit margin decreased from 13.9% for the six months ended June 30, 2016 to 9.3% for the six months ended June 30, 2017.

Liquidity and Capital Resources

As at June 30, 2017, the Group's cash and cash equivalents amounted to RMB1,166.1 million, decreased by 15.0% as compared to that of December 31, 2016.

The net cash outflow from operating activities amounted to RMB539.9 million for the six months ended June 30, 2017 (net cash inflow for the six months ended June 30, 2016 was RMB27.1 million). The net cash outflow from investing activities amounted to RMB793.8 million, mainly arising from the costs of acquisition

Management Discussion and Analysis

of XingX Entertainment and the net cash inflow from financing activities amounted to RMB1,130.2 million, mainly arising from the increase of bank loans and issuance of bonds. As such, there was a decrease in cash and cash equivalents of approximately RMB203.5 million as compared to the end of 2016.

Changes to Key Items in Consolidated Statement of Financial Position

Property, plant and equipment

Property, plant and equipment mainly include, but are not limited to cinema equipment and self-owned offices. Our property, plant and equipment increased by 13.5% from RMB665.0 million as at December 31, 2016 to RMB755.1 million as at June 30, 2017 mainly due to the acquisition of XingX Entertainment.

Current assets and current liabilities

Primarily due to the expansion of our business, the current assets increased by 17.7% from RMB5,723.1 million as at December 31, 2016 to RMB6,735.4 million as at June 30, 2017. Current liabilities increased by 62.6% from RMB2,280.5 million as at December 31, 2016 to RMB3,708.3 million as at June 30, 2017. The increase of current liabilities is primarily due to the increase in bank loans.

Inventories

Our inventories increased by 2.3% from RMB1,739.2 million as at December 31, 2016 to RMB1,780.0 million as at June 30, 2017, primarily due to the increase of artwork collections and film production.

Consignor advances

The consignor advances increased by 21.2% from RMB790.5 million as at December 31, 2016 to RMB958.3 million as at June 30, 2017, primarily due to the fact that we took more efforts and paid more consignor advances to collect high quality auction artworks from well-known collectors for 2017 Spring Auction.

Deposits, prepayments and other receivables

The deposits, prepayments and other receivables increased by 26.3% from RMB840.4 million as at December 31, 2016 to RMB1,061.2 million as at June 30, 2017, primarily due to the increase in prepayments for auctioned artwork.

Indebtedness

As at June 30, 2017, we incurred interest-bearing borrowings of RMB1,767.2 million, which were mainly borrowed from reputable financial institutions and were unsecured. Bank loans increased from RMB574.7 million as at December 31, 2016 to RMB1,406.0 million as at June 30, 2017 due to the expansion of business operation. The Company also completed the issuance of corporate bonds on March 15, 2017. The aggregate issuance amount of the corporate bonds was RMB300.0 million with a term of three years, nominal value per unit of RMB100 and coupon rate of 4.80%.

Management Discussion and Analysis

Under artwork trust plans, we are obliged to fund the difference between the total expected monetary trust property and the aggregate amount of the principal of trust, expected return as agreed in the trust plan, applicable taxes and other incurred costs (exclusive of our expected incentive fees) if the borrower fails to repay such amounts. As at June 30, 2017, our maximum exposure amounted to RMB400.5 million.

As at the date of this report, other than disclosed in this report, the Group did not have any significant contingent liabilities nor any other off-balance sheet commitments and arrangements.

Capital Expenditure

Our capital expenditure during the period primarily comprised the purchases of property, plant and equipment, intangible assets which amounted to RMB68.5 million and RMB41.7 million for the six months ended June 30, 2016 and June 30, 2017.

Other Financial Indicators

Our debt-to-equity ratio which is calculated by dividing the interest-bearing debts by total equity increased from 12.9% as at December 31, 2016 to 39.1% as at June 30, 2017.

Employee Remuneration and Policy

As at June 30, 2017, the Group had 6,695 employees in total. The remuneration policy for our employees has been determined by our remuneration and assessment committee of the Board taking into consideration the performance, experience and operational capacity of our employees. As at June 30, 2017, there has been no material change to our remuneration policy and training plans.

Risks Relating to Fluctuation of Interest Rates and Exchange Rate

Our loans granted under financing arrangements operations rely on our working capital and bank borrowings to clients. The increase in interest rates may increase our finance costs. In addition, due to our expansion of overseas business, we may generate revenue in terms of foreign currency in the future, and the contracts we entered into with overseas customers may also be in the value denominated in Hong Kong Dollar or U.S. dollar. Therefore, exchange rate fluctuation (especially among the RMB, the Hong Kong Dollar and the U.S. dollar) may increase our costs but decrease our profitability due to the loss in foreign exchange. We will pay high attention to policies and changes relating to the domestic and foreign financial markets, and adopt specific measures to minimize the impact on the financial costs and profits.

Management Discussion and Analysis

III. OUTLOOK

At present, the Chinese government has strengthened financial regulation and real estate regulation and control. Despite many macroeconomic uncertainties, the innovation momentum has been enhanced. In the culture industry, China's domestic artwork market continued to adjust and the pressure was unabated; the box office of film market increased by 3.56% over the same period last year, and the increase gradually becomes rational; the overall development of performance market improved along with increased industrialization and internationalization. However, the growth is relatively slow.



In view of this context, Poly Culture has set the general task for the second half of 2017, including: aiming at accomplishing the operation tasks for the year with the focus placed on continuous enhancement of management and full implementation of key works of development and reform for the year; steady expansion of three principal businesses and realizing breakthrough in new businesses; speeding up the pace of “going global”; and effectively promoting the reform of three systems to lay a good foundation for the realization of the “Thirteenth Five-year” Plan.

Management Discussion and Analysis

Continuing to Focus on the Three Principal Businesses and Striving for Progress while Maintaining Stable Growth in Operating Results

Art business and auction business

Poly Auction Beijing will comprehensively streamline the working procedures and improve the management system to enhance management and further reinforce core competitiveness. It will give play to the overall advantages to maintain the position in the market. In addition, it will proactively develop the overseas market and proceed with the “global layout” by way of merger and acquisition, international cooperation and other means. The focus will be laid on the Autumn Auction with a view to consolidating the leading position in the market.

Poly Auction Hong Kong will elaborately prepare the fifth anniversary of Autumn Auction and insist on the boutique strategy to constantly increase its market share, striving to further narrowing the gap with Sotheby's Hong Kong Limited (香港蘇富比拍賣有限公司) and Christie's Hong Kong Ltd. (佳士得(香港)有限公司). Meanwhile, great efforts will be exerted on internal management and Poly Auction Hong Kong will insist on cost reduction and efficiency enhancement.

Poly Art Centre will, leveraging on the advantages of the domestic and overseas platforms, increase efforts for sales of artwork; proactively propel the construction of domestic and overseas gallery chains and give scope to the role of support for auction business to fully reveal the advantages of the entire industrial chain of Poly artwork.

Poly Art Investment will intensify development of new projects and increase the management scale to provide more support for the overall art business.



Management Discussion and Analysis

Performance and theatre management business

Poly Theatre Management will continue to expand theatre line steadily, proactively contact with newly built theatres and participate in the tender and bid for theater projects, and proceed with the renewal of entrusted management contracts, striving to reach a total of over 55 theatres under its management in 2017. It will make proper arrangements for performances endeavouring to stage over 7,100 performances throughout the year. It will strengthen contact with international partners and develop oversea theater projects. It will establish pilot child play theatres and make reasonable arrangements for staging performances in due course; a series of brand performances will be launched including “Poly Art Festival Performance Season” and “Series Performance Season in Memory of the 110th Anniversary of Chinese Drama”; in addition to the tour performance of key dramas including the musical “Bodyguard (《保鏢》)” and the opera “A Dream in Red Mansions (《紅樓夢》)”, Poly Theatre Management will jointly present the star version of the drama “Duan Jin (《斷金》)”; the construction of the platform for box office marketing will be strengthened and the replacement of cinema ticket system will be preliminarily completed to ensure full operation.



■ Musical “Bodyguard (《保鏢》)”



■ “Duan Jin (《斷金》)”, an original drama

Management Discussion and Analysis

Cinema Investment and Management Business

Poly Film will quicken project development and construction and plans to open 4 to 6 new cinemas in the second half of 2017, striving to realize that the total number of cinemas directly operated by it will exceed 60. It will engage in the business integration for the cinemas under XingX Entertainment acquired in the first half of 2017 to become stronger and bigger by leveraging on the capital market.

Further Promoting Four New Businesses and Striving for the Implementation of More Projects within this Year

As for art education, Poly Music Education will further improve the construction of its own education and training system to enhance the brand influence of “Poly WeDo” and strengthen cooperation in respect of brand output; it will accelerate the expansion of business scale and endeavor to complete the construction of campus in Nanjing and other places in the second half of 2017.



As for culture finance, Poly Ronghe will expand as soon as possible to boost the development of art business. As commercial registration has been completed, Poly Culture Industry Fund will achieve implementation of projects in the year and commence full operation.

As for operation and management of culture asset, starting from the operation and management of Shengjing Poly Culture Centre, we will carefully study the business model and operation plan of Poly Culture commercial complex and establish a sound business model, in order to lay the foundation for the next prioritizing development of other complex projects.

Actively Promoting the Substantive Operations of Overseas Projects and Speeding up the Development Steps of “Going Global”



We will expedite the development of overseas theatre projects, trying to make a breakthrough in overseas theatre business. We will intensify the study on the way of cooperation with international auction houses and further explore acquisition of large artwork auction enterprises in Europe and America.

Corporate Governance

The Company has committed to enhancing corporate governance standard and regarded it as an indispensable part to creating values for Shareholders. The Company has established a modern corporate governance structure which comprises a number of independently operated and effectively balanced bodies including general meetings, Board of Directors, Board of Supervisors and Senior Management with reference to the code provisions as set out in the Corporate Governance Code. The Company has also adopted the Corporate Governance Code as our own corporate governance practices.

COMPLIANCE WITH THE REQUIREMENTS OF CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2017, the Company had complied with all code provisions in the Corporate Governance Code, and had complied with most of the recommended best practices set out in the Corporate Governance Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code for all Directors and Supervisors to conduct transactions of the Company's securities. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for relevant employees (as defined in the Listing Rules). The Company has made specific inquiries to all Directors and Supervisors about their compliance with the Model Code, and they all confirmed that they complied with the standards specified in the Model Code for the six months ended 30 June 2017. The Company has made specific inquiries of relevant employees about their compliance with the guidelines on transactions of the Company's securities, without noticing any violation of the guidelines.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has appointed a sufficient number of independent non-executive Directors with appropriate professional qualifications, or appropriate accounting or relevant financial management expertise in accordance with the requirements of the Listing Rules. The Company appointed a total of three independent non-executive Directors, including Mr. Li Boqian, Ms. Li Xiaohui, and Mr. Yip Wai Ming.

Corporate Governance

AUDIT COMMITTEE

The Company has established the Audit Committee in accordance with the requirements of the Listing Rules. The primary responsibilities of the Audit Committee are reviewing and supervising our financial reporting procedures, including making proposals on appointing or changing the external auditors; supervising the Company's internal audit system and its implementation; communication between the internal auditors and external auditors; auditing the Company's financial information and its disclosure; reviewing the Company's financial monitoring, internal control and risk management system and laying down the procedures to review its effectiveness; and auditing the significant connected transactions; nominating the heads of the internal audit department; and other matters that the Board of Directors has authorized it to deal with.

The Audit Committee consists of three Directors: Ms. Li Xiaohui (independent non-executive Director), Mr. Yip Wai Ming (independent non-executive Director) and Mr. Wang Keling (non-executive Director). Ms. Li Xiaohui currently serves as the chairlady of the Audit Committee.

On August 18, 2017, the Audit Committee reviewed and confirmed the announcement of interim results of the Group for the six months ended June 30, 2017, the 2017 interim report and the unaudited interim financial statements for the six months ended June 30, 2017 prepared in accordance with International Accounting Standards.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors have confirmed their responsibility for preparing financial statements of the Company. During the Reporting Period, the Company has published the 2016 annual report in strictly compliance with related provisions.

SHARE CAPITAL

As at the Latest Practicable Date, the total share capital of the Company is RMB246,316,000, divided into 246,316,000 Shares with a nominal value of RMB1.00 each.

INTERIM RESULTS

The interim results of the Group for the six months ended June 30, 2017 were published on the websites of the Stock Exchange for information disclosure (www.hkexnews.hk) and the Company on August 29, 2017.

Corporate Governance

INTERIM DIVIDEND

The Board of Directors has not made any recommendation on the distribution of interim dividend for the six months ended June 30, 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities for the six months ended June 30, 2017.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

On June 30, 2017, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors, Supervisors, chief executives or their respective associates is deemed to have under such provisions of the SFO), or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 2017, to the knowledge of the Directors, the interests or short positions of the following persons (which are not Directors, Supervisors or chief executives of the Company) in the Shares or underlying Shares of the Company, which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Shareholders	Type of Shares	Capacity	Number of Shares/ underlying Shares held (note 1)	Percentage of the relevant class of Shares (%) (note 2)	Percentage of the total number of Shares (%) (note 2)
Poly Group (Note 3)	Domestic Shares	Beneficial owner and interest of controlled corporation	156,868,400 (L)	100.00	63.69
Poly Southern	Domestic Shares	Beneficial owner	50,197,900 (L)	32.00	20.38

Note:

1. "L" stands for long positions.
2. The percentage is calculated with the number of the relevant class of Shares of the Company issued as at June 30, 2017 divided by the total number of Shares. As at June 30, 2017, the total number of Shares is 246,316,000, of which 156,868,400 Shares are Domestic Shares and 89,447,600 Shares are H Shares.
3. Poly Group directly holds 106,670,500 Shares of the Company, and holds 100% of the equity interest of Poly Southern, which in turn holds 50,197,900 Shares of the Company. Accordingly Poly Group is deemed to be interested in the 50,197,900 Shares held by Poly Southern under the SFO.

Save as disclosed above, as at June 30, 2017, to the knowledge of the Directors, there were no other persons who had interests or short positions in the Shares or underlying Shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Other Information

OTHER SIGNIFICANT MATTERS

Completion of issuance of 2017 corporate bonds (first tranche)

The Company has completed the issuance of 2017 corporate bonds (first tranche) (the “Corporate Bonds”) on March 15, 2017. The aggregate issuance amount of the Corporate Bonds was RMB300 million with a term of three years, nominal value per unit of RMB100 and coupon rate of 4.80%. Interest will be paid every year during the term, while the principal and interest will be repaid in a lump sum on maturity. The interests shall be accrued from March 15, 2017. CITIC Securities Company Limited was the lead underwriter for the public offering of the Corporate Bonds. After deducting issuance expenses, the proceeds raised from the Corporate Bonds are intended to be used for repayment of borrowings from financial institutions and used as additional working capital. For details, please refer to the Company’s announcement dated March 15, 2017.

New Issuance and placement of H shares

On May 8, 2017, the Company entered into the four share subscription agreements with eight subscribers, respectively, upon which the Company will issue and place to these subscribers of up to 59,209,300 H Shares (subject to the final number approved by the competent regulatory authorities) in aggregate at a price of HK\$18.3 per share (the “New Issues”). The Company will receive proceeds of approximately HK\$1,084 million from the New Issues. Upon finalisation of the undermentioned acquisitions, the proceeds after deduction of relevant issuance expenses will be fully used by the Company for payment of consideration of equity transfer to minority shareholders of Beijing Auction and Hong Kong Auction. On June 29, 2017, the New Issues were considered and approved by independent shareholders at the 2016 annual general meeting, the first class meeting of holders of domestic shares in 2017 and the first class meeting of H shareholders in 2017 by way of special resolutions. For details, please refer to the announcements dated April 18, 2017, May 8, 2017 and June 29, 2017 and the circular dated May 19, 2017.

Other Information

The Acquisitions

On May 8, 2017, the Company (as the transferee) entered into the equity transfer agreements with the minority shareholders of Beijing Auction and Hong Kong Auction (as the transferors), respectively, pursuant to which the Company shall acquire 35% equity interests of Beijing Auction held by the minority shareholders of Beijing Auction at a consideration of approximately RMB625.0 million and 31.5% equity interests of Hong Kong Auction held by the minority shareholders of Hong Kong Auction at a consideration of approximately RMB284.6 million (the “Acquisitions”). Upon completion of the Acquisitions, the Company will hold 90% and 100% equity interests of Beijing Auction and Hong Kong Auction, respectively. On June 29, 2017, the Acquisitions were considered and approved by independent shareholders at the 2016 annual general meeting by way of ordinary resolutions. For details, please refer to the announcements dated April 18, 2017, May 8, 2017 and June 29, 2017 and the circular dated May 19, 2017.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the six months ended June 30, 2017. So far as the Directors are aware, there is no litigation or claims which are pending or threatened against the Company.

CHANGES OF INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Due to work adjustment, Mr. Chen Peng resigned from his position as the joint company secretary of the Company on January 6, 2017. On the same day, the Board of Directors approved to appoint Ms. Wang Wei as the joint company secretary of the Company. Ms. Mok Ming Wai continues to serve as the joint company secretary of the Company to assist Ms. Wang Wei in performing her duties as a company secretary of the Company. Ms. Wang Wei is the main contact person of the Company.

Other Information

On February 28, 2017, the Board of Directors approved to appoint Mr. Liu Shibin as the chief financial officer of the Company.

Due to work adjustment, Mr. Chen Yuwen resigned from his position as the Supervisor of Poly Energy Holdings Limited.

Save as disclosed above, the Company did not appoint or dismiss any Director, Supervisor or Senior Management for the six months ended 30 June 2017. Meanwhile, there is no change of information about the Directors, Supervisors or chief executive which shall be disclosed pursuant to 13.51(2) of the Listing Rules.

SUBSEQUENT EVENT

From June 30, 2017 to the date of this report, the Company has no significant event.

Corporate Social Responsibilities

On March 2, 2017, the “2017 Art Market Value List and 2016 Beijing Auction Season Annual Industry Summit” sponsored by Beijing Business Today and Beijing Association of Auctioneers was held in Beijing. Upon discussion and appraisal by the expert panel and media judges, Poly Auction Beijing and the projects undertaken by it and its staff were awarded three honors, i.e. “2016 Auction Enterprise with Brand Influence”, “2016 Special Auction for Academic Value” and “2016 Men of Auction”.

From April 11 to 13, 2017, the 2017 “Art Performance Beijing” Expo was held at China Millennium Monument by Beijing Daolue Management and Consulting Co., Ltd., Beijing Trade Association for Performances and other units with the support of Beijing Municipal Bureau of Culture and the Propaganda Department of the CPC Haidian District Committee. During the expo, the “2016 Art Performance List of China” was issued. Poly Theatre Management and the cinemas under its management won 30 awards including China Top 10 Art Performance Institutions, far ahead of its peers in the industry in China.

From April 24 to 27, 2017, the “2017 China (Hefei) Performance Trade Fair” was held in Hefei, Anhui. Hefei Poly Grand Theatre under Poly Theatre Management undertook three important events, i.e. Theatre Committee Meeting of China Association of Performing Arts, 2017 National Theatre Assembly and the Opening Ceremony of the 2017 China (Hefei) Performance Trade Fair.

On May 27, 2017, Tian Jiaxin, an international pianist, and the students of “Poly WeDo” jointly held the “June 1 Teacher and Students Public Benefit Concert” to celebrate the International Children’s Day.

On May 28, 2017, Guangzhou Federation of Social Organizations and Guangzhou Poly International Cinema Corporation Limited established the “Guangzhou Public Benefit Film Base”. As the first public benefit film base in Guangzhou, Guangzhou Poly International Cinema will regularly show public benefit films and provide concessionary fares to public benefit organizations or warm-hearted citizens, and held various public benefit film events.

In June 2017, Poly Culture North America Investment Corporation Limited sponsored the exhibition “Claude Monet’s Secret Garden” at Vancouver Art Gallery with CAD500,000.

From January to June, 2017, Poly Art Centre and Poly Art Museum held exhibitions nationwide including “Appreciation of Each Other, Great Gratitude for Kindness: Joint Exhibition of Works by Qi Baishi and Chen Shizeng”, “Series Exhibition of Literature on the History of Chinese and Western Cultural Exchange – Atlas of Chinese Birds Drawn by a French Missionary in the 19th Century”, “Letters of Poem Drafts from Zhang Shizhao to Pan Boying and Other Friends” and “Yiyu “May 4” – Exhibition of Writings by Cultural Celebrities in the Republic of China”, “Ingenuity Builds the Dream of Red Stoneware – Exhibition of Red Stoneware Works by Ji Yishun in Forty Years of Engagement in Red Stoneware Art”, and “Soul of Silk Road – Dunhuang Art Exhibition and Special Exhibition of Cultural Relics of the Land of Abundance and Silk Road”; and cooperated with the Palace Museum and the National Museum in holding 4 lectures on artwork.

On July 19, 2017, Mr. Xu Niansha, chairman of the Company, was granted the “Star of Italy” for Grand Officer.

Condensed Consolidated Statement of Profit or Loss

for the six months ended June 30, 2017 – unaudited (Expressed in Renminbi (“RMB”))

	Note	Six months ended June 30,	
		2017 RMB'000	2016 RMB'000
Revenue	4	1,574,901	1,225,001
Cost of sales		(1,040,532)	(755,222)
Gross profit		534,369	469,779
Other revenue	6	25,170	12,062
Other net (losses)/income	6	(8,842)	2,867
Selling and distribution expenses		(150,572)	(140,991)
Administrative expenses		(207,236)	(159,941)
Profit from operations		192,889	183,776
Finance income		24,945	54,387
Finance costs	7(a)	(14,493)	(4,060)
Share of losses of associates		(565)	(1,831)
Share of profits less losses of joint ventures		(241)	(2,184)
Profit before taxation	7	202,535	230,088
Income tax	8	(56,271)	(60,224)
Profit for the period		146,264	169,864
Attributable to:			
Equity shareholders of the Company		91,703	117,510
Non-controlling interests		54,561	52,354
Profit for the period		146,264	169,864
Earnings per share			
Basic and diluted earnings per share (RMB)	9	0.37	0.48

The notes on pages 31 to 57 are an integral part of these unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended June 30, 2017 – unaudited (Expressed in Renminbi (“RMB”))

	Note	Six months ended June 30,	
		2017 RMB'000	2016 RMB'000
Profit for the period		146,264	169,864
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside the PRC		(8,779)	8,820
Total comprehensive income for the period		137,485	178,684
Attributable to:			
Equity shareholders of the Company		87,068	124,244
Non-controlling interests		50,417	54,440
Total comprehensive income for the period		137,485	178,684

The notes on pages 31 to 57 are an integral part of these unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position

at June 30, 2017 – unaudited (Expressed in Renminbi (“RMB”))

	Note	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Non-current assets			
Property, plant and equipment		755,086	665,005
Intangible assets		28,524	–
Goodwill	10	164,398	–
Long-term prepayments		3,166	3,278
Other financial assets	11	339,185	493,147
Interest in associates		5,379	10,096
Interest in joint ventures	12	526,142	34,710
Deferred tax assets		22,226	20,096
		1,844,106	1,226,332
Current assets			
Other financial assets	11	1,364,234	626,003
Inventories	13	1,780,045	1,739,166
Trade receivables	14	161,341	119,296
Consignor advances	15	958,326	790,511
Deposits, prepayments and other receivables	16	1,061,154	840,404
Restricted cash		126,676	146,055
Deposits with original maturities over three months		92,721	75,313
Current tax assets		24,762	14,735
Cash and cash equivalents	17	1,166,126	1,371,586
		6,735,385	5,723,069
Current liabilities			
Interest-bearing borrowings	18	1,467,183	400,618
Trade and other payables	19	2,189,843	1,823,672
Current taxation		51,229	56,209
		3,708,255	2,280,499
Net current assets		3,027,130	3,442,570
Total assets less current liabilities		4,871,236	4,668,902

The notes on pages 31 to 57 are an integral part of these unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position

at June 30, 2017 – unaudited (Expressed in Renminbi (“RMB”))

	Note	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Non-current liabilities			
Interest-bearing borrowings	18	300,000	174,119
Deferred revenue		14,111	14,531
Deferred tax liabilities		6,748	–
Trade and other payables	19	27,442	26,391
		348,301	215,041
NET ASSETS			
		4,522,935	4,453,861
CAPITAL AND RESERVES			
Share capital	20(b)	246,316	246,316
Reserves		3,685,205	3,665,628
Total equity attributable to equity shareholders of the Company			
		3,931,521	3,911,944
Non-controlling interests			
		591,414	541,917
Total Equity			
		4,522,935	4,453,861

The notes on pages 31 to 57 are an integral part of these unaudited condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

for the six months ended June 30, 2017 – unaudited (Expressed in Renminbi (“RMB”))

	Attributable to equity shareholders of the Company									
	Note	Share Capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	PRC statutory reserve RMB'000	Retained profits RMB'000	Exchange reserve RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2016		246,316	1,982,448	(4,472)	101,590	1,324,327	3,231	3,653,440	385,383	4,038,823
Changes in equity for the six months ended June 30, 2016:										
Profit for the period		-	-	-	-	117,510	-	117,510	52,354	169,864
Other comprehensive income		-	-	-	-	-	6,734	6,734	2,086	8,820
Total comprehensive income for the period		-	-	-	-	117,510	6,734	124,244	54,440	178,684
Capital contributions from non-controlling equity owners		-	-	-	-	-	-	-	30,450	30,450
Dividends declared by subsidiaries to non-controlling equity owners		-	-	-	-	-	-	-	(8,465)	(8,465)
Dividends approved in respect of the previous year	20(a)	-	-	-	-	(65,027)	-	(65,027)	-	(65,027)
Balance At June 30, 2016 and July 1, 2016		246,316	1,982,448	(4,472)	101,590	1,376,810	9,965	3,712,657	461,808	4,174,465
Changes in equity for the six months ended December 31, 2016:										
Profit for the period		-	-	-	-	193,097	-	193,097	61,475	254,572
Other comprehensive income		-	-	-	-	-	6,190	6,190	5,334	11,524
Total comprehensive income for the period		-	-	-	-	193,097	6,190	199,287	66,809	266,096
Appropriation of reserve		-	-	-	25,049	(25,049)	-	-	-	-
Capital contributions from non-controlling equity owners		-	-	-	-	-	-	-	80,900	80,900
Dividends declared by subsidiaries to non-controlling equity owners		-	-	-	-	-	-	-	(67,600)	(67,600)
Balance At December 31, 2016 and January 1, 2017		246,316	1,982,448	(4,472)	126,639	1,544,858	16,155	3,911,944	541,917	4,453,861
Changes in equity for the six months ended June 30, 2017:										
Profit for the period		-	-	-	-	91,703	-	91,703	54,561	146,264
Other comprehensive income		-	-	-	-	-	(4,635)	(4,635)	(4,144)	(8,779)
Total comprehensive income for the period		-	-	-	-	91,703	(4,635)	87,068	50,417	137,485
Capital contributions from non-controlling equity owners		-	-	-	-	-	-	-	6,410	6,410
Changes from an associate to a subsidiary		-	-	-	-	-	-	-	6,032	6,032
Dividends declared by subsidiaries to non-controlling equity owners		-	-	-	-	-	-	-	(13,362)	(13,362)
Dividends approved in respect of the previous year	20(a)	-	-	-	-	(67,491)	-	(67,491)	-	(67,491)
Balance At June 30, 2017		246,316	1,982,448	(4,472)	126,639	1,569,070	11,520	3,931,521	591,414	4,522,935

The notes on pages 31 to 57 are an integral part of these unaudited condensed consolidated interim financial statements.

Condensed Consolidated Cash Flow Statement

for the six months ended June 30, 2017 – unaudited (Expressed in Renminbi (“RMB”))

	Note	Six months ended June 30,	
		2017 RMB'000	2016 RMB'000
Operating activities			
Cash (used in)/generated from operations		(476,212)	115,485
Tax paid		(63,708)	(88,423)
Net cash (used in)/generated from operating activities		(539,920)	27,062
Net cash used in investing activities		(793,829)	(713,577)
Net cash generated from financing activities		1,130,210	539,537
Net decrease in cash and cash equivalents		(203,539)	(146,978)
Cash and cash equivalents at January 1	17	1,371,586	1,415,268
Effect of foreign exchange rates changes		(1,921)	806
Cash and cash equivalents at June 30	17	1,166,126	1,269,096

The notes on pages 31 to 57 are an integral part of these unaudited condensed consolidated interim financial statements.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

1 PRINCIPAL ACTIVITIES AND ORGANISATION

Poly Culture Group Corporation Limited was established in the People's Republic of China (the "PRC" or "China") on December 14, 2010 as a joint stock company with limited liability. The Group is mainly engaged in art business and auction, performance and theatre management and cinema investment and management.

On March 6, 2014, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE").

2 BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on HKSE, including compliance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on August 29, 2017.

These interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of interim financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE

The Group is principally engaged in art business and auction, performance and theatre management, and cinema investment and management.

Revenue mainly represents commission from auction services, the sales value of artworks and cultural relic collections, art investment consultation and other services, income from theatre management, box office income from performances and income from cinema box office. The amount of each significant category of revenue recognised during the period is as follows:

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Revenue from art business and auction	646,458	424,650
Revenue from performance and theatre management	560,599	465,772
Revenue from cinema investment and management	365,113	326,011
Revenue from other services	2,731	8,568
	1,574,901	1,225,001

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

5 SEGMENT REPORTING

The Group manages its businesses by subsidiaries, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments for the six months ended June 30, 2017:

- Art business and auction: including auction, buy and sale of Chinese antiques, Chinese modern and contemporary calligraphy and painting, Chinese ancient calligraphy and painting, Chinese oil painting and sculpture and other Chinese cultural relics and artwork. It also provides artwork investment consultation and other services and earns interest revenue from consignor advances and loans granted under financial arrangements.
- Performance and theatre management: including daily management of theatre, arrangement of performances, leases of theatres and theatre design consultation services.
- Cinema investment and management: including cinema construction and cinema operation.

(a) Segment results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all assets with the exception of interest in associates and joint ventures, available-for-sale equity securities, deferred tax assets and other corporate assets. Segment liabilities include all liabilities with the exception of tax payables, deferred tax liabilities and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments.

Segment profit represents revenue less cost of sales, and includes selling and distribution expenses and administrative expenses directly attributable to the segment. Items that are not specifically attributable to individual segments, such as unallocated head office and corporate other revenue and other net (losses)/income, share of losses of associates, share of profits less losses of joint ventures, depreciation, finance income, finance costs and unallocated head office and corporate expenses are not included in segment profit. In addition to receiving segment information concerning segment profit, management is also provided with segment information concerning depreciation, finance income and finance costs.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended June 30, 2017 and 2016 are set out below:

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

5 SEGMENT REPORTING (continued)**(a) Segment results, assets and liabilities** (continued)

	Six months ended June 30, 2017			Total RMB'000
	Art business and auction RMB'000	Performance and theatre management RMB'000	Cinema investment and management RMB'000	
Revenue from external customers	646,458	560,599	365,113	1,572,170
Inter-segment revenue	4	-	-	4
Reportable segment revenue	646,462	560,599	365,113	1,572,174
Reportable segment profit	215,716	32,537	42,357	290,610
Depreciation	(6,523)	(3,531)	(54,535)	(64,589)
Finance income	23,692	4,954	646	29,292
Finance costs	(37,804)	-	(11,186)	(48,990)
Reportable segment assets	6,075,698	744,342	1,174,668	7,994,708
Reportable segment liabilities	4,407,337	466,476	1,405,858	6,279,671
	Six months ended June 30, 2016			
	Art business and auction RMB'000	Performance and theatre management RMB'000	Cinema investment and management RMB'000	Total RMB'000
Revenue from external customers	424,650	465,772	326,011	1,216,433
Inter-segment revenue	805	-	-	805
Reportable segment revenue	425,455	465,772	326,011	1,217,238
Reportable segment profit	153,387	22,003	66,184	241,574
Depreciation	(4,573)	(3,762)	(43,002)	(51,337)
Finance income	52,882	4,560	578	58,020
Finance costs	(47,517)	-	(2,902)	(50,419)
Reportable segment assets	4,959,513	663,826	803,727	6,427,066
Reportable segment liabilities	3,657,652	415,979	534,604	4,608,235

Note: There was no individual customer that represents more than 10 percent of the Group's revenue during the six months ended June 30, 2017 and 2016.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

5 SEGMENT REPORTING (continued)**(b) Reconciliations of reportable segment profit or loss, assets and liabilities**

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Reportable segment profit	290,610	241,574
Revenue from other services	2,731	8,568
Unallocated head office and corporate other revenue and other net gain	(19,645)	11,321
Share of losses of associates	(565)	(1,831)
Share of profits less losses of joint ventures	(241)	(2,184)
Depreciation	(65,426)	(51,845)
Finance income	24,945	54,387
Finance costs	(14,493)	(4,060)
Unallocated head office and corporate expenses	(15,381)	(25,842)
Consolidated profit before taxation	202,535	230,088
	At June 30,	At December 31,
	2017	2016
	RMB'000	RMB'000
Assets		
Reportable segment assets	7,994,708	6,769,191
Elimination of inter-segment receivables	(2,699,017)	(2,320,495)
Available-for-sale equity securities	111,835	109,883
Interests in associates	5,379	10,096
Interests in joint ventures	526,142	34,710
Deferred tax assets	22,226	20,096
Unallocated head office and corporate assets	2,618,218	2,325,920
Consolidated total assets	8,579,491	6,949,401
Liabilities		
Reportable segment liabilities	6,279,671	4,709,906
Elimination of inter-segment payables	(2,699,017)	(2,320,495)
Current taxation	51,229	56,209
Deferred tax liabilities	6,748	–
Unallocated head office and corporate liabilities	417,925	49,920
Consolidated total liabilities	4,056,556	2,495,540

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

5 SEGMENT REPORTING (continued)**(c) Geographic information**

The Group's operations are mainly located in Mainland China, Hong Kong, Macau and Canada.

Information about the Group's revenue from its operations from external customers is presented based on the company's operation location of incorporation/establishment. Information about the Group's non-current assets other than deferred tax assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	Six months ended June 30,		At June 30,	At December 31,
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Mainland China	1,434,071	1,091,491	1,814,163	878,647
Others	140,830	133,510	7,717	327,589
	1,574,901	1,225,001	1,821,880	1,206,236

6 OTHER REVENUE AND OTHER NET (LOSSES)/INCOME

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Other revenue		
Government grants	10,964	8,551
Dividend income from available-for-sale equity securities	2,087	–
Others	12,119	3,511
	25,170	12,062
Other net (losses)/income		
Net foreign exchange (loss)/gain	(8,894)	2,904
Net gain/(loss) on disposal of property, plant and equipment	52	(37)
	(8,842)	2,867

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Interest expenses	14,576	4,315
Less: interest expense capitalised into property, plant and equipment	83	255
	14,493	4,060

(b) Staff costs

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and other benefits	279,193	251,520
Contributions to defined contribution retirement plans	28,639	23,340
	307,832	274,860

(c) Other items

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Depreciation	65,426	51,845
Impairment (recovery)/losses		
– trade receivables	(931)	(13,648)
– deposits, prepayments and other receivables	(2,828)	274
Operating lease charges	98,301	97,929

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

*(Expressed in Renminbi ("RMB") unless otherwise indicated)***8 INCOME TAX**

Income tax in the consolidated statement of profit or loss represents:

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Current tax – PRC corporate income tax	47,900	47,402
Current tax – Other regions	10,830	10,834
Deferred taxation	(2,459)	1,988
	56,271	60,224

Notes:

- (i) The Company and its PRC subsidiaries are subject to standard PRC corporate income tax rate of 25% (2016: 25%).
- (ii) Two subsidiaries incorporated in the British Virgin Islands are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation. Three subsidiaries of the Group are incorporated and carried out business in Hong Kong and are subject to Hong Kong Profits Tax at 16.5%. One subsidiary of the Group is incorporated and carried out business in Macau and is subject to Macau Profits Tax at 12%. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

9 EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share is based on profit attributable to ordinary equity shareholders of the Company of RMB91,703,000 for the six months ended June 30, 2017 (six months ended June 30, 2016: RMB117,510,000) and the weighted average number of ordinary shares in issue as at the end of each interim period, calculated as follows:

Weighted average number of ordinary shares

	Six months ended June 30,	
	2017	2016
	No. of shares	No. of shares
Ordinary shares issued at January 1	246,316,000	246,316,000
Effect of issuance of shares	–	–
Weighted average number of ordinary shares at June 30	246,316,000	246,316,000

(b) Diluted earnings per share

The Company did not have any potential dilutive shares throughout the six months ended June 30, 2017 and 2016. Accordingly, diluted earnings per share is the same as the basic earnings per share.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

10 GOODWILL

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Cost:		
At January 1	–	–
Addition through business combination (note 26)	164,398	–
	164,398	–
Less: impairment loss	–	–
Carrying amount	164,398	–

11 OTHER FINANCIAL ASSETS

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Available-for-sale-equity securities:		
– Unlisted (note (i))	111,835	109,883
Loans granted under financing arrangements (note (ii))		
– Within 1 year or on demand	1,364,234	626,003
– After 1 year but within 2 years	227,350	383,264
	1,703,419	1,119,150

Notes:

- (i) In 2016, the Company entered into a Capital Increase Agreement with Poly Finance Company Limited ("Poly Finance"), a related party, and acquire 5% of Poly Finance equity interest by cash injection.
- (ii) Poly Culture North America investment Corporation Limited ("Poly North America") and Poly Ronghe Financial Leasing Corporation Limited ("Poly Ronghe") granted term loans to third parties secured by works of art which bear interest from 8% to 15% per annum.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

12 INTEREST IN JOINT VENTURES

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Unlisted shares, at cost	544,942	50,000
Share of net assets	(18,800)	(15,290)
Total	526,142	34,710

The following list contains the particulars of joint ventures, all of which are unlisted corporate entities whose quoted market price are not available:

Name of joint venture	Form of business structure	Place of incorporation and operation	Proportion of ownership interest		
			Group's effective interest	Held by the Company	Principal Activity
Guilin Poly Culture Investment development Corporation Limited 桂林保利文化投資發展有限公司	Incorporated	The PRC	50%	50%	Culture investment and consulting services
Anyang Bao Xin Property Corporation Limited ("Anyang Baoxin") 安陽保鑫置業有限公司	Incorporated	The PRC	25%	–	Real estate development and sales
Shenzhen Huaxi Culture Investment development Corporation Limited 深圳華熙文化廣場投資發展有限公司	Incorporated	The PRC	50%	50%	Culture investment and consulting services
Beijing Eastern Poly Culture and Art Corporation Limited ("Eastern Poly") (note(i)) 北京東方保利文化藝術有限公司	Incorporated	The PRC	64%	–	Culture consulting services
Wuhan Xijie XingX TianDi Cinema Corporation Limited (note(ii)) 武漢希傑星星天地影城有限公司	Incorporated	The PRC	51%	–	Cinema operation management
Xijie XingX (Tianjin) International Cinema Corporation Limited (note(ii)) 希傑星星(天津)國際影城有限公司	Incorporated	The PRC	51%	–	Cinema operation management
Beijing Xijie XingX International Cinema Corporation Limited (note(ii)) 北京希傑星星國際影城有限公司	Incorporated	The PRC	51%	–	Cinema operation management

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

12 INTEREST IN JOINT VENTURES (Continued)

Name of joint venture	Form of business structure	Place of incorporation and operation	Proportion of ownership interest		
			Group's effective interest	Held by the Company	Principal Activity
Xijie XingX (Fushun) Cinema Corporation Limited (note(ii)) 希傑星星(撫順)影城有限公司	Incorporated	The PRC	51%	-	Cinema operation management
Xijie XingX (Shanghai) Cinema Corporation Limited (note(iii)) 希傑星星(上海)影城有限公司	Incorporated	The PRC	51%	-	Cinema operation management
Zhongshan Xijie XingX Cinema Corporation Limited (note(ii)) 中山希傑星星影城有限公司	Incorporated	The PRC	51%	-	Cinema operation management
Changsha Xijie XingX Cinema Corporation Limited (note(ii)) 長沙希傑星星影城有限公司	Incorporated	The PRC	51%	-	Cinema operation management
Hubei XingX Hongji Cinema Corporation Limited (note(iii)) 湖北星星宏基影城有限公司	Incorporated	The PRC	55%	-	Cinema operation management
Nanjing XingX Rongsheng Cinema Corporation Limited (note(iii)) 南京星星榮盛影城有限公司	Incorporated	The PRC	60%	-	Cinema operation management
Foshan XingX Xijie Cinema Corporation Limited (note(ii)) 佛山星星希傑影城有限公司	Incorporated	The PRC	80%	-	Cinema operation management

Note:

- (i) On March 28, 2017, Beijing Poly Art Centre Corporation Limited ("Poly Art Centre"), wholly-owned subsidiary of the Group, entered into an equity transfer agreement, pursuant to which Poly Art Centre acquired 30% interest in Eastern Poly from Beijing Eastern Pacific Investment Management Corporation Limited and Beijing Taihedafang Investment and Development Corporation Limited at the consideration of RMB3.4 million. Upon completion of the above transaction, the Poly Art Centre hold 64% equity interest in Eastern Poly. Pursuant to the articles of incorporation, Poly Art Centre exercise joint control over Eastern Poly.
- (ii) In accordance with agreements between the investors, the investors exercise joint control over the entities.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

*(Expressed in Renminbi ("RMB") unless otherwise indicated)***13 INVENTORIES****(a) Inventories in the statement of financial position comprise:**

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Antiques, works of art	1,274,910	1,242,053
Chinese calligraphy and painting	420,632	428,759
Oil painting and sculptures	31,319	29,161
Small value items for resale	10,320	9,841
Low value materials	689	490
Drama rights	6,029	1,048
Film production	36,146	27,814
	1,780,045	1,739,166

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Six months ended June 30,	
	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	181,422	21,602

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

*(Expressed in Renminbi ("RMB") unless otherwise indicated)***14 TRADE RECEIVABLES**

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Trade receivables for sale of goods and rendering of services due from:		
– related parties	2,170	3,401
– third parties	164,591	122,306
	166,761	125,707
Less: allowance for doubtful debts	5,420	6,411
	161,341	119,296

All trade receivables (net of allowance for doubtful debts) of the Group are expected to be recovered within one year.

(a) Aging analysis

As of the end of the reporting period, the aging analysis of trade receivables of the Group, based on the invoice date and net of allowance for doubtful debts, is as follows:

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Within 1 month	82,751	43,709
1 to 3 months	19,651	18,606
3 to 6 months	5,834	2,259
6 to 12 months	9,801	8,453
Over 1 year	43,304	46,269
	161,341	119,296

Trade receivables are generally due immediately without credit or within a credit period of two months.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

14 TRADE RECEIVABLES (Continued)

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

(c) Trade receivables that are not impaired

The aging analysis of trade receivables of the Group that are neither individually nor collectively considered to be impaired are as follows:

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Neither past due nor impaired	61,310	27,197
1 to 3 months past due	5,801	1,831
3 to 12 months past due	395	1,592
More than 12 months past due	29,265	29,829
Amounts past due	35,461	33,252
	96,771	60,449

Receivables that were past due but not impaired relate to a wide range of customers for whom there were no recent history of default and have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

15 CONSIGNOR ADVANCES

Consignor advances are provided by the Group to certain collectors and art dealers with interest. Advance is generally provided based on a percentage of auction reserve price.

As at June 30, 2017, 19.0% of the consignor advances was due from the largest debtor related to art business and auction (As at December 31, 2016: 17.7%).

Interest income from consignor advances is included in "Finance income".

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

16 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At June 30, 2017	At December 31, 2016
	RMB'000	RMB'000
Prepayments for auctioned artwork	615,346	459,275
Receivables for auctioned artwork	18,414	5,574
Prepayments for purchase of inventories	42,720	56,280
Prepayments for performance	45,296	27,186
Rental deposits	20,363	17,523
Guarantee deposits	47,191	47,891
Interest receivables from consignor advances on auctioned artwork	70,417	70,741
Advances to staff for business related activities	21,012	16,109
Investment deposit	30,000	30,000
Prepayments for film production	54,039	46,134
Receivables from film co-investors	21,100	–
Others	78,308	66,624
	1,064,206	843,337
Less: allowance for doubtful debts	3,052	2,933
	1,061,154	840,404

Impairment of deposits, prepayments and other receivables

Impairment losses in respect of deposits, prepayments and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against deposits, prepayments and other receivables directly.

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statements of financial position and cash flow statement comprise:

	At June 30, 2017	At December 31, 2016
	RMB'000	RMB'000
Cash at bank and on hand	1,166,126	1,371,586

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

*(Expressed in Renminbi ("RMB") unless otherwise indicated)***18 INTEREST-BEARING BORROWINGS****(a)** The analysis of the carrying amount of Interest-bearing Borrowings of the Group is as follows:

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Current Interest-bearing borrowings		
Bank loans		
– Unsecured	1,405,983	400,618
Borrowings from joint ventures (note (i))	61,200	–
	1,467,183	400,618
Non-current Interest-bearing borrowings		
Bonds (note (ii))	300,000	–
Bank loans		
– Unsecured	–	174,119
	300,000	174,119
	1,767,183	574,737

All of the interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

Notes:

- (i) The borrowings from joint ventures bear interest at 2.40% and 3.20% per annum, are unsecured and repayable in 2017.
- (ii) On March 15, 2017, the Company issued corporate bonds with an aggregate principal amount of RMB300 million with a term of three years, nominal value per unit of RMB100 and coupon rate of 4.80% per annum.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

18 INTEREST-BEARING BORROWINGS (Continued)

(b) The interest rates per annum on interest-bearing borrowings as follows:

	At June 30, 2017	At December 31, 2016
	%	%
Fixed-rate borrowings		
– Bank loans	3.92 – 4.35	3.92
– Borrowings from joint ventures	2.40 – 3.20	–
– Bonds	4.80	–
Variable-rate borrowings		
– Bank loans	1-month HIBOR plus 0.50% – 4.13%	1-month HIBOR plus 0.62% – 3-month USD LIBOR plus 1.50%

(c) At June 30, 2017, the Interest-bearing borrowings were repayable as follows:

	At June 30, 2017	At December 31, 2016
	RMB'000	RMB'000
Within 1 year or on demand	1,467,183	400,618
After 1 year but within 2 years	–	174,119
After 2 years but within 3 years	300,000	–
	1,767,183	574,737

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

19 TRADE AND OTHER PAYABLES

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Current		
Trade payables to		
– related parties	72,773	70,147
– third parties	195,049	162,658
	267,822	232,805
Interest payables		
– related parties	11,136	8,497
– third parties	4,320	454
Payables for staff related costs	71,027	41,654
Payables for other taxes and surcharges (note)	15,481	39,165
Dividends payable	68,138	65
Other accruals and payables		
– related parties	17,729	17,097
– third parties	1,145,112	1,026,372
Financial liabilities measured at amortised cost	1,600,765	1,366,109
Receipts in advance		
– related parties	1,471	1,179
– third parties	587,607	456,384
	589,078	457,563
	2,189,843	1,823,672
Non-current		
Payable for purchase of equipment		
– related parties	537	441
– third parties	26,905	25,950
	27,442	26,391

As at June 30, 2017, all current trade and other payables of the Group are expected to be settled within one year or are repayable on demand.

Note:

Based on taxable revenue before May 1, 2016. According to Caishui [2016] No.36, jointly issued by MOF and State Administration of Taxation, all taxpayers subject to business tax in China are included in the scope of the VAT pilot scheme. Effective from May 1, 2016, those taxpayers are required to pay VAT in lieu of business tax.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

20 CAPITAL, RESERVES AND DIVIDENDS**(a) Dividends****(i) Dividends payable to equity shareholders of the Company attributable to the interim period**

No interim dividend has been declared and recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.274 per ordinary share (six months ended 30 June 2016: RMB0.264 per ordinary share)	67,491	65,027

(b) Share capital

Movements of the Company's ordinary shares are set out below:

	At June 30, 2017		At December 31, 2016	
	No, of shares		No, of shares	
	'000	RMB'000	'000	RMB'000
Ordinary shares, issued and fully paid:				
At January 1 / At June 30 / December 31	246,316	246,316	246,316	246,316

(c) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

At June 30, 2017 and December 31, 2016, the Group has no financial instruments measured at fair value.

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at June 30, 2017 and December 31, 2016, which are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The investments in unquoted equity securities are measured at cost which fair value cannot be measured reliably as these investments in non-listed companies do not have quoted market price in an active market. The Group has no intention to dispose these investments.

22 COMMITMENTS

Commitments for the acquisition of property, plant and equipment, purchase of performances, leasehold improvements for cinema investment and management outstanding at each balance sheet date not provided for in the financial statements were as follows:

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Contracted for	163,801	133,874
Authorised but not contracted for	1,046,224	1,060,734
	1,210,025	1,194,608

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

*(Expressed in Renminbi ("RMB") unless otherwise indicated)***23 CONTINGENT ASSETS AND LIABILITIES****(a) Financial guarantees issued**

As at the end of each reporting period, the Company issued financial guarantees to banks in respect of the bank loans granted to the Company's subsidiaries as follows:

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Financial guarantees to banks for subsidiaries	1,305,983	474,737

As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees.

(b) Contingent liabilities

As an investment consultant of artwork trust plan for certain subsidiaries, the Group is obliged to fund the difference if the expected proceeds from the sale of trust properties were insufficient to cover the trust principal, trust fee, beneficiary's expected net gain and relevant tax expenses at the expiring date of the trust plan.

As at the end of each reporting period, maximum exposure in respect of trust plan assuming nil proceeds at expiring date as follows:

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
Trust related	400,487	163,059

24 CONTINGENT LIABILITY IN RESPECT OF LEGAL CLAIM

A number of outstanding litigation matters against the Group had arisen in the normal course of its business as at June 30, 2017. With consideration of the professional advice, the Group's management believes such litigation will not have a significant impact to the Group.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

25 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following significant related party transactions during the six months ended June 30, 2017 and 2016:

(a) Name and relationship with related parties

During the six months ended June 30, 2017 and 2016, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
China Poly Group Corporation 中國保利集團公司 ("Poly Group")	Parent and ultimate holding company
Poly Group's affiliates 中國保利集團公司附屬公司	Under common control
Beijing Eastern Poly Culture and Art Corporation Limited ("Eastern Poly") 北京東方保利文化藝術有限公司	Joint venture of the Group
Shenyang Shengjing Poly Culture Art Center Management Corporation Limited ("Shengjing Poly") 瀋陽盛京保利文化藝術中心管理有限公司	Associate of the Group
Beijing Xijie XingX International Cinema Corporation Limited 北京希傑星星國際影城有限公司	Joint venture of the Group
Xijie XingX (Tianjin) International Cinema Corporation Limited 希傑星星(天津)國際影城有限公司	Joint venture of the Group
Xijie XingX (Fushun) Cinema Corporation Limited 希傑星星(撫順)影城有限公司	Joint venture of the Group

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

25 MATERIAL RELATED PARTY TRANSACTIONS (Continued)**(b) Significant transactions with related parties**

The Group is part of a large group of companies under Poly Group and has significant transactions and relationships with Poly Group and its affiliates.

The principal transactions which were carried out in the ordinary course of business are as follows:

	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
<i>Sales to</i>		
Poly Group and its affiliates	1,737	3,877
<i>Service provided to</i>		
Poly Group and its affiliates	2,100	1,412
<i>Receiving Service (note (iii))</i>		
Poly Group and its affiliates	111,845	113,269
<i>Office rental from (note (iv))</i>		
Poly Group and its affiliates	14,279	15,964
<i>Interest income from</i>		
Poly Group and its affiliates	1,922	1,559
<i>Property management services (note (v))</i>		
Poly Group and its affiliates	4,123	4,468
<i>Borrowings from (note (vi))</i>		
Poly Group and its affiliates	100,000	–
<i>Borrowing costs to</i>		
Poly Group and its affiliates	1,389	–
<i>Borrowing from (note (vii))</i>		
Joint ventures	61,200	–
<i>Borrowing costs to</i>		
Joint ventures	480	–
<i>Repayment of loans (note(viii))</i>		
Shengjing Poly	2,000	–
<i>Borrowing costs to</i>		
Shengjing Poly	131	–
<i>Loans to (note(ix))</i>		
Eastern Poly	7,000	–
<i>Interest expenses (note(x))</i>		
Poly Group and its affiliates	20	–

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

25 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Significant transactions with related parties (continued)

Notes:

- (i) Poly Group's affiliates refer to the entities which are under common control by the same ultimate holding company with the Group, and are not the parent or associates of the Group.
- (ii) The Directors are of the opinion that these related party transactions are arising in the Group's normal course of business.
- (iii) Receiving service mainly refers to the box office income distributed to Chongqing Poly Wanhe Cinema Circuit Corporation Limited ("Poly Wanhe Cinema Circuit"). Pursuant to the Cinema Box Office Income Sharing Framework Agreement signed between the Group and Poly Wanhe Cinema Circuit, Poly Wanhe Cinema Circuit provided new film prints to the Group, and the Group then arranged movie screening in the cinemas. Both parties agree to split the net cinema box office income generated from the movie screening based on the pre-agreed sharing percentage. In turn, Poly Wanhe Cinema Circuit may then further share the revenue generated from such split with movie distributors and producers pursuant to separate agreements among themselves.
- (iv) Poly Art Centre paid nil rent to Poly Group for its use of office space for the six months ended June 30, 2017 and 2016.
- (v) Property management services are for the purpose of office premises, cinema operation, theatre operation, auction business operation and ancillary service.
- (vi) Borrowings from Poly Group and its affiliates refers to the loans, which was recognised in interest-bearing borrowings, of RMB100 million from Poly Finance.
- (vii) Borrowings from joint ventures refers to the loans, which was recognised in interest-bearing borrowings.
- (viii) Repayment of loans to Shengjing Poly refers to the entrusted loan, which was recognised in trade and other payables.
- (ix) Loans to Eastern Poly refers to the entrusted loan, which was recognised in deposits, prepayment and other receivables.
- (x) Interest expenses refers to the finance lease interests which is paid by Poly Film to Poly Financial Leasing Corporation Limited ("Poly Leasing").

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

25 MATERIAL RELATED PARTY TRANSACTIONS (Continued)**(c) Outstanding balances, including commitment, with related parties**

Details of the outstanding balances with related parties are as follows:

	At June 30, 2017 RMB'000	At December 31, 2016 RMB'000
<i>Cash and cash equivalents (note)</i>		
Poly Group and its affiliates	353,094	381,310
<i>Deposits with original maturities over three months (note)</i>		
Poly Group and its affiliates	94,173	53,800
<i>Interest bearing borrowings</i>		
Poly Group and its affiliates	100,000	–
<i>Interest bearing borrowings</i>		
Joint ventures	61,200	–
<i>Trade receivables</i>		
Poly Group and its affiliates	2,170	3,401
<i>Deposits, prepayments and other receivables</i>		
Poly Group and its affiliates	57,224	50,119
<i>Trade and other payables</i>		
Poly Group and its affiliates	103,646	97,361

Note:

The Board announces that on November 5, 2014, the Company and Poly Finance entered into the Financial Services Agreement, pursuant to which Poly Finance agreed to provide deposit services, credit lending services, settlement services and miscellaneous financial services to the Group pursuant to the terms and conditions under the Financial Services Agreement. The maximum daily deposit balance for deposit services is RMB1 billion and the maximum daily lending balance for credit lending services is RMB0.5 billion. The interest rates of Poly Finance ranged from 1.15% to 3.3% according to the period of deposits and the loans bear interest at 4.13% per annum.

(d) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by relevant local government authorities for its staff. As at June 30, 2017, there was no material outstanding contribution to post-employment benefit plans.

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(Expressed in Renminbi ("RMB") unless otherwise indicated)

26 BUSINESS COMBINATION

On March 7, 2017, Poly Film entered into an Equity Transfer Agreement with XingX Group and XingX Holdings, pursuant to which Poly Film agree to acquire 100% equity interest in XingX Entertainment from XingX Group and XingX Holdings with a total cash consideration of RMB680 million. The acquisition was completed on March 29, 2017. As a result, XingX Entertainment became a wholly-owned subsidiary of Poly Film. The acquisition of XingX Entertainment expands the Group's cinema investment business.

The following summarises the consideration transferred, and the provisional fair value of assets acquired and liabilities assumed at the acquisition date:

	Recognised values on acquisition
	RMB'000
Property, plant and equipment	98,548
Intangible assets	27,682
Interest in joint ventures	488,543
Other financial assets	1,953
Cash and cash equivalents	4,694
Trade and other receivables	22,237
Prepayments	2,860
Trade and other payables	(124,318)
Deferred Tax Liabilities	(6,920)
Others	323
Total identifiable net assets acquired	515,602
Add: Goodwill arising from the acquisition (note 10)	164,398
Total consideration transferred	680,000
Satisfied by:	
Consideration payable	49,849
Cash paid	630,151
Total consideration transferred	680,000
Cash flow in respect of the acquisition:	
Cash paid by the Group	630,151
Less: Cash acquired	4,694
Net cash outflow in respect of the acquisition	625,457

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Expressed in Renminbi ("RMB") unless otherwise indicated)

26 BUSINESS COMBINATION *(Continued)*

The Goodwill of approximately RMB164,398 thousand arose in the acquisition of XingX Entertainment because the purchase consideration included amounts in relation to the benefit of expected synergies, which cannot be recognised separately from goodwill because it does not meet the recognition criteria for identifiable intangible assets.

Since the acquisition, the XingX Entertainment contributed RMB18,227 thousand to the Group's revenue and profit of RMB223 thousand to the consolidated profit for the six months ended June 30, 2017.

Had the acquisition been completed on January 1, 2017, the Group's pro forma combined revenue and pro forma combined profits for the six months ended June 30, 2017 would have been RMB1,587,031 thousand and RMB144,339 thousand respectively. These pro forma combined figures are for inclusion in these financial statements and for illustrative purpose only. Because of their nature, these pro forma combined figures may not give a true picture of the financial position or results of the combined Group that would have occurred had the acquisition actually been completed at the commencement of the reporting period, nor is intended to be a projection of the future prospects of the combined Group.

Acquisition-related costs

The Group incurred transaction costs of RMB17,584 thousand for the acquisition. These transaction costs have been expensed and also included in administrative expenses in the condensed consolidated statement of profit or loss.

Fair values measured on a provisional basis

The following amounts have been measured on a provisional basis.

The fair value of intangible assets (right to use the brands) has been measured provisionally, pending completion of an independent valuation.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

27 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

There is no significant event after June 30, 2017.

28 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed in 2016.

Definitions

“Audit Committee”	the Audit Committee of the Board of Directors
“Board of Directors”	the board of directors of the Company
“Board of Supervisors”	the board of supervisors of the Company
“CAD”	Canadian dollars, the lawful currency of Canada
“Company”, “Poly Culture”, “we”, “us” or “our”	Poly Culture Group Corporation Limited (保利文化集團股份有限公司) and except where the context indicates otherwise, all of its Subsidiaries and with respect to the period before our Company became the holding company of its present subsidiaries, the businesses operated by its present subsidiaries or (as the case may be) their predecessors
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the laws of Hong Kong
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	Corporate Governance Code and Corporate Governance Report on Corporate Governance in Appendix 14 to the Listing Rules
“Directors”	the directors of the Company
“Domestic Shares”	ordinary shares in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“Group”	the Company and its Subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Shares”	overseas listed foreign shares in our ordinary share capital, with a nominal value of RMB1.00 each
“International Accounting Standards”	International Accounting Standards and its notes
“Latest Practicable Date”	8 September 2017, being the latest practicable date for the inclusion of certain information in this report prior to its publication

Definitions

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock market operated by the Stock Exchange (excluding the option market), which is independent of and operating in parallel with the GEM
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Poly Art Centre”	Beijing Poly Art Centre Co., Ltd. (北京保利藝術中心有限公司)
“Poly Art Investment”	Beijing Poly Art Investment Management Co., Ltd. (北京保利藝術投資管理有限公司)
“Poly Auction Beijing”	Beijing Poly International Auction Co., Ltd. (北京保利國際拍賣有限公司)
“Poly Culture Industrial Fund”	Poly Culture Industrial Investment Fund Co., Ltd (保利文化產業基金管理有限公司)
“Poly Auction Hong Kong”	Poly Auction (Hong Kong) Limited (保利香港拍賣有限公司)
“Poly Film”	Poly Film Investment Co., Ltd. (保利影業投資有限公司)
“Poly Group”	China Poly Group Corporation (中國保利集團公司), a state-owned company incorporated in the PRC and our Controlling Shareholder, and (when the context requires) including its subsidiaries
“Poly Music Education”	Beijing Poly Music & Arts Development Corporation Limited
“Poly Ronghe”	Poly Ronghe Financial Leasing Corporation Limited (保利融禾融資租賃有限公司)
“Poly Southern”	Poly Southern Group Co., Ltd. (保利南方集團有限公司), a state-owned company incorporated in the PRC, a wholly-owned subsidiary of Poly Group and a Substantial Shareholder of our Company
“Poly Theatre Management”	Beijing Poly Theatre Management Co., Ltd. (北京保利劇院管理有限公司)
“PRC” or “China” or “People’s Republic of China”	the People’s Republic of China which, for the purposes of this report, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Reporting Period”	for the six months ended June 30, 2017
“RMB or Renminbi”	the lawful currency of the PRC

Definitions

“Senior Management”	the senior management of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shengjing Poly Culture Center”	Shenyang Shengjing Poly Culture Art Center Management Corporation Limited (沈陽盛京保利文化藝術中心管理有限公司)
“Share(s)”	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, comprising our Domestic Shares and our H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	has the meaning as defined in Section 2 of the Companies Ordinance
“Supervisor(s)”	supervisor(s) of the Company
“XingX Entertainment”	XingX Entertainment Co., Ltd. (星星文化傳播有限公司)

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POLY CULTURE GROUP CORPORATION LIMITED

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