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

ANNUAL REPORT 2016

CONTENTS

2	Corporate Profile
3	Financial Highlight
4	Corporate Structure
5	Major Events in 2016
6	Chairman's Statement
7	Management Discussion and Analysis
25	Report from the Board of Directors
50	Report from the Board of Supervisors
52	Corporate Governance Report
69	Profile of Directors, Supervisors and Senior Management
73	Environmental, Social and Governance Report
81	Independent Auditor's Report
89	Consolidated Statement of Profit or Loss
90	Consolidated Statement of Profit or Loss and Other Comprehensive Income
91	Consolidated Statement of Financial Position
93	Consolidated Statement of Changes in Equity
95	Consolidated Cash Flow Statement
97	Notes to the Financial Statements
173	Definitions

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

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[2]
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, Wan Chai, Hong Kong

STOCK CODE

03636

INVESTOR ENQUIRIES

Investors' Service Line: +86 10 6408 2711
Fax: +86 10 6408 2662
Website: www.polyculture.com.cn
E-mail: IR@polyculture.com.cn

1 Mr. Chen Peng resigned on January 6, 2017.

2 Ms. Wang Wei was appointed on January 6, 2017.

Financial Highlight

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	**2,682,301**	2,504,965	2,243,024	2,002,984	1,649,915
Profit from operations	**483,846**	388,899	486,636	584,755	517,063
Profit before taxation	**550,111**	450,306	544,087	592,143	515,077
Income tax	**(125,675)**	(117,740)	(130,763)	(142,572)	(128,741)
Profit for the year	**424,436**	332,566	413,324	449,571	386,336
Profit attributable to:					
Equity shareholders of the Company	**310,607**	237,790	251,519	275,209	242,170
Non-controlling interests	**113,829**	94,776	161,805	174,362	144,166
Earnings per share					
Basic and diluted earnings per share (RMB)	**1.26**	0.97	1.09	1.67	1.47
Total comprehensive income for the year	**444,780**	342,537	414,021	446,242	386,712
Total comprehensive income attributable to:					
Equity shareholders of the Company	**323,531**	242,211	251,902	273,342	242,463
Non-controlling interests	**121,249**	100,326	162,119	172,900	144,249
Total non-current assets	**1,226,332**	718,626	585,962	417,548	322,729
Total current assets	**5,723,069**	4,998,375	4,765,931	2,709,354	2,624,675
Total assets	**6,949,401**	5,717,001	5,351,893	3,126,902	2,947,404
Total current liabilities	**2,280,499**	1,585,904	1,461,678	1,591,905	1,548,556
Total non-current liabilities	**215,041**	92,274	19,215	567	314
Total liabilities	**2,495,540**	1,678,178	1,480,893	1,592,472	1,548,870
Net Asset	**4,453,861**	4,038,823	3,871,000	1,534,430	1,398,534
Total equity attributable to the equity shareholders of the Company	**3,911,944**	3,653,440	3,467,619	1,156,827	1,045,335
Non-controlling interests	**541,917**	385,383	403,381	377,603	353,199
TOTAL EQUITY	**4,453,861**	4,038,823	3,871,000	1,534,430	1,398,534

The financial information of the Group for the year ended December 31, 2012 was extracted from Appendix I to the Prospectus, which set forth details of the basis of presentation for the audited consolidated financial statements. The financial information of the Group for the years ended December 31, 2013, 2014, 2015 was extracted from 2013, 2014 and 2015 annual reports published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.polyculture.com.cn) on April 28, 2014, April 29, 2015 and April 28, 2016 respectively. The financial information of the Group for the year ended December 31, 2016 was set forth on pages 89 to 172 to this report, which was presented on the basis set forth in Note 2(b) to the audited consolidated financial statements.

Corporate Structure

The following chart sets out our corporate structure up to the Latest Practicable Date:

Major Events in 2016

In February 2016, Wuhuatianbao Artworks Fund No.22 of Poly Art Investment and Wuhuatianbao Artworks Fund No.23 of Poly Art Investment were established. Poly Art Investment initiated the registration of private funds and established the first contractual-type private fund for artworks as both the fund manager and issuer.

In March 2016, Beijing Poly Music Art Development Corporation Limited, a Subsidiary of Poly Culture, held “Growwith Poly, Approvement with Masters – WeDo Opening Ceremony Concert”. The first batch of trainees of PolyWeDo Chambers Orchestra performed together with nationwide famous musicians and groups, witnessing the great achievements of Poly Culture’s devotion to teenagers’ music education.

In April 2016, Poly Theatre Management received honors like the “2015 Top Ten Chinese Performing Arts Institutions” for its self-operated performances, consolidated business income and other industry-leading indicators. Beijing Poly Theatre, Wuhan Qintai Grand Theatre and Wuxi Grand Theatre were among the “2015 Top 20 Chinese Comprehensive Performing Theatres with Vitality”.

In May 2016, Poly Culture was listed in the eighth “Top 30 Cultural Enterprises” in China jointly organized by *Guangming Daily* and *Economic Daily*, being reelected for eight consecutive years since the launch of this award in 2008.

In June 2016, Shanghai Oriental Art Center Management Co., Ltd. was recognized as one of the “Top 10 Shanghai Cultural Enterprises”, as the only one venue management company.

In August 2016, on the first Chinese Cultural Relics and Artwork Auction Ranking awarding ceremony hosted by the China Association of Auctioneers, Poly Auction Beijing was awarded the prize for “2015 Top Ten Chinese Cultural Relics and Artwork Auction Houses” in the comprehensive category, and the prizes for “Excellent Market Share for the Year”, “Extraordinary Profit Performance for the Year”, and “Best Social Contribution for the Year” in the special categories.

In October 2016, Xu Niansha, the Chairman, and Guo Wenpeng, the general manager of Poly Theatre Management visited the Republic of Poland, in response to the national construction policy of “One Belt One Road”, in order to further explore the cooperation opportunities in the culture areas.

In November 2016, the Vancouver Poly Art Museum, jointly established by Poly Art Center and the North America company, was officially opened to the public. To celebrate the opening, Poly Art Museum brought a total of 42 items of Cultural relics, such as the Old Summer Palace bronze heads and Qianlong royal precious cultural relics, for the first time to the American continent.

In December 2016, Poly Auction Beijing successfully held the 2016 Autumn Art Auction of Poly Beijing and achieved a turnover of RMB2.84 billion. At this point, the Company has achieved a total turnover for art auction of RMB9.6 billion in 2016 and we ranked the first in the Chinese art auction for 7 consecutive years in the global market.

On 16 December 2016, Capital Culture Industry Association, Guang Ming Daily and Beijing Daily News Press jointly held the announcement of the results of the second year’s “Top 30 Capital Cultural Enterprises in China”. Poly Culture Group Corporation Limited was listed in the second session of “Top 30 Capital Cultural Enterprises in China”, which was the second year Poly Culture receiving this honor.


1


2


3


4

5


6

7

1. Wuxi Grand Theatre
2. The eighth “Top 30”
3. Wuhan Qintai Grand Theatre
4. Xu Niansha, the chairman, visited the Republic of Poland and made a gift of a stage photography of Penderecki in Poly Theatre
5. The chart of the first Artwork Auction in China
6. The honorary titles of “2015 Top Ten Chinese Performing Arts Institutions” awarded by DAO LUE Center for Culture Industry Research
7. The external landscape of Beijing Theatre

Chairman's Statement

The year 2016 was the opening year of the "Thirteenth Five-Year Plan" in China, a year for cultural industry in China to achieve stable growth and gradual integration and intensification with other industries, as well as a year for Poly Culture to upgrade its strategies, businesses and team efforts. During the last year, Poly Culture began with the implementation of the "Thirteenth Five-Year Plan", leveraged on the strategic opportunities brought by the "One-Belt-One-Road" policy of China, consolidated our existing business strength, continued to explore Culture+Integrative development, explored and cultivated a culture for share and export and achieved a good opening of the "Thirteenth Five-Year Plan".

The year 2017 is the intensifying year of the supply-side structural reform as well as a year for further enhancement of innovative development of culture industry. With the guidance of the "Thirteenth Five-Year Plan", we aim at building a business structure with three traditional major businesses + four innovative businesses. We will closely follow the market demand, broaden development thoughts and extend internationalised operation to comprehensively and firmly carry forward the work.

Only those with beginner's mind improve, only those with composure and confidence win and only those with innovation are strong. Poly Culture will confidently make progress with passions and through innovations, speed up the pace of reform and innovation and enhance its core competitiveness to create positive returns to shareholders. Last but not least, on behalf of the Board, I would like to extend my deepest appreciation to all shareholders, Board members, management of the Group and employees for the support to the Company.

Xu Niansha
Chairman


中国保利
CHINA POLY GROUP

Management Discussion and Analysis

In 2016, China's GDP growth experienced a continuing slowdown with 6.7% year-on-year growth rate. Affected by the macroeconomic environment, the domestic art market continued to adjust, while the growth rate of film market dropped dramatically, which is affected by multiple factors including the source supply and grants reduction; performance market showed some recovery with slow growth. To proactively explore the favorable factors, Poly Culture carefully analyzed the situation and started with the implementation of the Thirteenth Five-Year Plan. Three principal business segments have made a steady progress, new businesses such as art education have been proceeding practically, the annual work has been completed successfully, which marked a good start for the Thirteenth Five-Year Plan.

I. SEGMENT BUSINESS INFORMATION

1. Art business and auction business continued to lead the global auction market of Chinese artworks

In the face of continuous market adjustments, Poly Culture adjusted its operation strategy, took advantage of multi platforms and strengthened marketing efforts. The total annual turnover of artworks in 2016 amounted to RMB9.6 billion, which made the seventh consecutive year for the Company to top the global auction market of Chinese artworks.

Management Discussion and Analysis

Decreasing the quantity while increasing the quality, Poly Auction Beijing improved its strategic deployment and achieved an annual auction turnover of RMB7.1 billion. "The Yun Zhong Jun and Da Si Ming (《雲中君與大司命》)" of Fu Baoshi was traded at RMB230 million during the spring auction, and "The Wu Wang Zui Gui Tu Juan (《五王醉歸圖卷》)" of Ren Renfa was traded at RMB303.6 million in the autumn auction, recording the highest auction prices in global auctions of Chinese artwork in 2016 successively. Following Xiamen, Shandong, Hong Kong and Macau branches, Poly Auction Beijing continued to improve the "Great China Strategy" in 2016 by jointly establishing the Poly Huayi Shanghai Auction Company (保利華誼(上海)拍賣公司) in Shanghai, the first auction of which in December recorded an outstanding result with a total auction turnover of RMB837 million.

Above The Yun Zhong Jun and Da Si Ming

Below The Wu Wang Zui Gui Tu

Management Discussion and Analysis

Persisting on its boutique strategy, Poly Auction Hong Kong optimized its inventory structure and achieved an annual auction turnover of HKD2,382 million, ranking the third in Hong Kong, among which, "Zhou Zhuang (周莊)" of Wu Guanzhong was traded at HKD236 million, marking the highest turnover record for Chinese modern and contemporary oil painting. The annual auction turnover of Poly Auction Macau Limited ("Poly Auction Macau")of Poly Auction Macau was HKD420 million. The influence of the brand "Poly Auction" over Hong Kong, Macau and even the Southeast Asia has been further strengthened and enhanced.

Poly Art Centre innovated its operation model, improved the international standard and established the first overseas gallery, namely the Poly Art Gallery in Vancouver.

Beijing Poly Art Investment Management Corporation Limited added 8 new artwork fund projects, amounting to RMB207 million during the year. Up to now, it has 12 operating projects with a scale of RMB613 million. The total number of artwork fund projects it managed was 28, with a scale amounting to RMB1.66 billion.

Above Zhou Zhuang

Below The Poly Art Gallery in Vancouver

Management Discussion and Analysis

Above left Stage photography of "Ghost: The Musical"
Below left Stage photography of "The Burning of Opium at Humen"
Right Stage photography of "The Sound of Music"

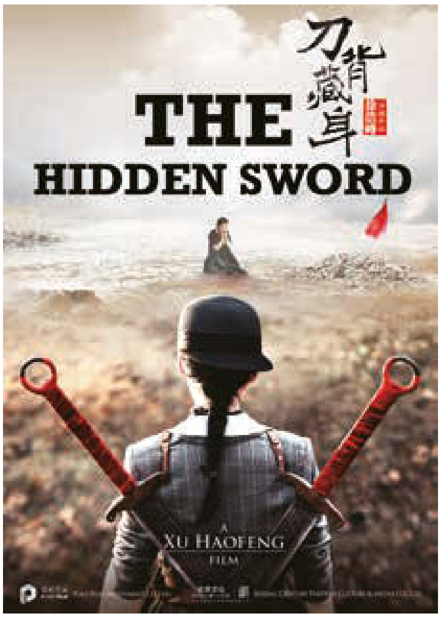
2. The performance and theatre management business was in a more prominent leading position in the industry

In 2016, Poly Theatre Management manages ten new theatres including Changsha Meixi Lake International Cultural and Art Center and Guangxi Cultural and Performance Art Center, reaching the highest record in managing new theatres during its development history. Poly Theatre Management currently has 53 theatres under its management, covering 18 provinces or municipalities with 98 auditoriums and over 100,000 audience seats. It also completed five contract renewals with theatres in Dongguan, Hohhot and Qingdao, etc.

Management Discussion and Analysis

In 2016, the theatres under management staged 6,799 performances in total, representing a year-on-year increase of 26%. In particular, the tour performance projects amounted to 187 with a total of 2,379 performances being staged, overachieving the performance targets of each theatre. Theatres continued to enrich their performance contents. In 2016, it solely sponsored the national tour of "A Life in Music-Final World Tour of Jose Carreras", jointly introduced the British original musical "Ghost: The Musical", receiving a favorable response. In terms of the original contents, Poly Theatre Management made more investment in original play and completed 195 tour performances of projects such as musicals "The Sound of Music" Chinese version and "The Burning of Opium at Humen" (《虎門銷煙》).

To establish new theatre marketing platform and improve the resources integration capability, Beijing Poly Ticket Development Corporation Limited (北京保利票務發展有限公司) was incorporated during the year. Currently, the overall planning and demand production of the ticketing platform has been completed initially.



Above The internet drama "Girls' Dairy"
Below right The original poster of "The Hidden Sword"
Below left The internet drama "Painting Heart Expert"

Management Discussion and Analysis

3. Cinema investment and management business continued to expand the scale of theatre network, vigorously strengthened the content production and improved the industrial chain

In 2016, the growth rate of the domestic film market slowed significantly. The annual cinema box office amounted to RMB45.7 billion, representing a year-on-year increase of 3.73%. Poly Film opened 6 new cinemas during the year of 2016, raising the number of cinemas which officially operated to 32. The cinemas of Poly Film recorded a total box office of RMB518 million for the year of 2016, which was basically unchanged from 2015. As of December 31, 2016, Poly Film had 4 cinema projects under construction and 35 cinema projects initiated while pending for construction, providing sound resources for its future development.

Poly Film proactively explored the film investment model suitable for itself. Its 4 projects made substantial progress during the year, of which, the film "The Hidden Sword" (《刀背藏身》) under its leading investment entered into post-production; the internet drama "Gui Mi Ri Ji (《龜蜜日記》)" under its joint investment and production with trust company has wrapped up; the film "Legend of the Naga Pearls (《鮫珠傳》)" that Poly Film involved in the investment are currently in the process of preparation and the internet drama "Painting Heart Expert (《畫心師》)" will be screened at a later date.

4. Explored and promoted new business with major programs being implemented

While maintaining the operation of three principal businesses, Poly Culture strived to explore new businesses. As for art education, Poly Culture preliminarily proposed the "Development Plan for Art Education of Poly Culture", with the objective of creating the brand of "Poly Art Academy" in 2016. It took the education of teenagers and children as the entry point, timed access to the education with academic qualifications, and established a well-known brand in the industry.

In March 2016, the Poly Music Education Project of Beijing Poly Music Art Development Corporation Limited officially commenced courses in Beijing. It has successfully built up Poly Children Choir, Chamber Orchestra, Symphonic Band and Musical Troupe, and organized a series of activities, including the Concert of "Appoint with Masters", established studios for artists including Tian Jiaxin and Zhang Tianai and offered courses. It launched the "Poly WeDo" Suzhou Music Summer Camp, the Drama Summer Camp for the Teenagers, the Saxophone Summer Camp and other products. At present, it actively carries out preliminary negotiations on establishment of branches. Branches in Beijing, Nanjing and other cities are at the planning stage. The "Poly WeDo" brand has already become an influential brand with reputation in the industry.

Management Discussion and Analysis

As for culture finance, Poly Culture North America Investment Corporation Limited ("North America Company") was registered and established in 2015, providing support for the collection, procurement and auction of art business in North America. Poly Ronghe Financial Leasing Company Limited ("Financial Leasing Company") was registered and established in 2016 and officially launched its operation, carrying out financing for artworks. At the same time, the establishment of Poly Culture Industry Fund is being driven forward, so as to introduce social capital through cooperation with relevant professional institutions and push forward the culture finance development of the Company. The culture financial platform of the Company is taking shape, which will lay a solid financial foundation for its business development participate in mergers and acquisitions and expansion.

As for culture tourism and asset operation and management, in the first half of 2016, the New Business Development Department of Poly Culture was formally established with three preliminary development directions: culture tourism, operation and management of culture venues, and operation and management of culture commerce. In terms of culture tourism, the Company has carried out inspections and negotiations in respect of various domestic tourism projects, and has reached an initial intent and submitted the initial proposal. In terms of operation and management of culture venues (i.e. museum and art gallery), the Company has submitted design and operation proposals for venues to relevant local governments respectively, and has commenced negotiations with various parties in respect of entrusted management agreements. In terms of operation and management of culture commerce, Shenyang Shengjing Poly Culture Art Centre Management Corporation Limited has completed the registration and commenced the operation. The Shenyang Shengjing Poly Culture Art Centre under its entrusted management is expected to officially launch in 2017, marking the first step forward in Poly Culture's business of operation and management of culture commerce.

5. Continued to promote the internationalization

Poly Culture further improved its working mechanism by applying the development strategy as "maintaining three principal businesses, taking advantages of the existing domestic channels, and actively engaging in the overseas resources mergers and acquisitions to build a global business network" so as to accelerate the pace of internationalization.

On the basis of successively establishing Poly Auction Hong Kong, North America Company, Poly Auction Macau and other overseas operating entities, Poly Art Centre and North America Corporation jointly established the Poly Art Gallery in Vancouver, which officially opened in November, 2016, which established a Sino-Canada cultural exchange platform and also opened a new window for the artwork operation of Poly Culture.

Management Discussion and Analysis

During the year, Poly Theatre Management conducted friendly talks with internationally renowned institutions and organizations such as UK Ambassadors Theatre, The American Bushnell Center for the Performing Arts, French Embassy in China, Ministry of Culture and National Heritage of the Republic of Poland, Beethoven Foundation and the German International College of Music Hamburg, completed the introduction of major plays including the "Final World Tour of Jose Carreras", "Ghost: The Musical" and the "Cirkopolis", and explore further cooperation.

Poly Film also enthusiastically sought opportunities to work with international film making teams, such as those from Hollywood, proposing to introduce their sophisticated operating mechanisms, discussing cooperation in content-making and other aspects, as well as deeply exploring the internationalized operation and expansion of film operation.

II. RESULTS ANALYSIS AND DISCUSSION

Overview of our operating results

Revenue

Total revenue increased by 7.1% from RMB2,505.0 million for the year ended December 31, 2015 to RMB2,682.3 million for the year ended December 31, 2016, primarily due to the increase in revenue from the performance and theatre management segment and the cinema investment and management segment, which was primarily due to the continuing expansion of our theatre and cinema networks.

The respective segment revenue of the Group in 2016 and 2015 is as follows:

	Years ended December 31,		
	2016	2015	
	RMB in millions	*RMB in millions*	*% of change*
Art Business and Auction	**891.9**	932.0	(4.3)
Performance and Theatre Management	**1,162.4**	973.5	19.4
Cinema Investment and Management	**631.0**	597.5	5.6

Gross profit

Gross profit increased by 4.1% from RMB956.4 million for the year ended December 31, 2015 to RMB995.3 million for the year ended December 31, 2016. Gross profit margin decreased from 38.2% for the year ended December 31, 2015 to 37.1% for the year ended December 31, 2016.

Other revenue

Other revenue (mainly including government grants) increased from RMB23.0 million for the year ended December 31, 2015 to RMB55.6 million for the year ended December 31, 2016, primarily due to the increase in government grants from performance and theatre management segment and cinema investment and management segment.

Other net income

We recorded other net income of RMB99.4 million for the year ended December 31, 2016, mainly due to gain on disposal of interest in a joint venture.

Management Discussion and Analysis

Selling and distribution expenses

Selling and distribution expenses increased by 10.6% from RMB288.5 million for the year ended December 31, 2015 to RMB319.2 million for the year ended December 31, 2016, 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 2.7% from RMB338.2 million for the year ended December 31, 2015 to RMB347.2 million for the year ended December 31, 2016, 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.

Reportable segment profit

As a result of the foregoing, reportable segment profit increased by 9.1% from RMB453.1 million for the year ended December 31, 2015 to RMB494.2 million for the year ended December 31, 2016.

The respective reportable segment profit of the Group in 2016 and 2015 is as follows:

	Years ended December 31,		
	2016	2015	
	RMB in millions	*RMB in millions*	*% of change*
Art Business and Auction	**318.2**	308.0	3.3
Performance and Theatre Management	**46.9**	40.7	15.2
Cinema Investment and Management	**129.1**	104.4	23.7

Finance income

Finance income increased by 3.4% from RMB79.0 million for the year ended December 31, 2015 to RMB81.7 million for the year ended December 31, 2016, mainly due to an increase in interest income from consignor advances.

Finance costs

Finance costs increased by 109.8% from RMB5.1 million for the year ended December 31, 2015 to RMB10.7 million for the year ended December 31, 2016, primarily due to an increase in the average amount of bank loans.

Income tax

Income tax increased by 6.8% from RMB117.7 million for the year ended December 31, 2015 to RMB125.7 million for the year ended December 31, 2016, primarily due to an increase in taxable income.

Profit for the year

As a result of the foregoing, profit for the year increased by 27.6% from RMB332.6 million for the year ended December 31, 2015 to RMB424.4 million for the year ended December 31, 2016, and net profit margin increased from 13.3% for the year ended December 31, 2015 to 15.8% for the year ended December 31, 2016.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2016, the Group maintained a stable financial position and adequate liquidity. As at December 31, 2016, the Group's cash and cash equivalents amounted to RMB1,371.6 million (2015: RMB1,415.3 million), decreased by 3.1% as compared to that of December 31, 2015.

During the year ended December 31, 2016, the net cash outflow from operating activities amounted to RMB503.5 million. After adding RMB75.6 million in net cash inflow from investing activities mainly arising from repayment for consignor advances, and adding RMB382.1 million in net cash inflow from financing activities mainly arising from the increase of bank loans of the Group, there was still a decrease in cash and cash equivalents of approximately RMB45.8 million as compared to the end of last year.

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 11.5% from RMB596.6 million as at December 31, 2015 to RMB665.0 million as at December 31, 2016, mainly due to the continued expansion of our cinema network.

Current assets and current liabilities

Primarily due to the expansion of our business, the current assets increased by 14.5% from RMB4,998.4 million as at December 31, 2015 to RMB5,723.1 million as at December 31, 2016. Current liabilities increased by 43.8% from RMB1,585.9 million as at December 31, 2015 to RMB2,280.5 million as at December 31, 2016. The increase of current liabilities is primarily due to the increase in bank loans.

Inventories

Our inventories increased by 4.7% from RMB1,661.3 million as at December 31, 2015 to RMB1,739.2 million as at December 31, 2016, primarily due to the increase of film production.

Consignor advances

The consignor advances decreased by 23.1% from RMB1,027.4 million as at December 31, 2015 to RMB790.5 million as at December 31, 2016, primarily due to the collection of consignor advances.

Deposits, prepayments and other receivables

The deposits, prepayments and other receivables increased by 24.5% from RMB675.2 million as at December 31, 2015 to RMB840.4 million as at December 31, 2016, primarily due to the increase in prepayments for purchase of inventories and prepayments for film production.

Management Discussion and Analysis

INDEBTEDNESS

As at December 31, 2016, we incurred bank loans of RMB574.7 million, all of which were borrowed from reputable financial institutions and were unsecured. Bank loans increased from RMB93.0 million as at December 31, 2015 to RMB574.7 million as at December 31, 2016 due to the expansion of business operation.

Under artwork financing 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 and its guarantor fail to repay such amounts. As at December 31, 2016, our maximum exposure amounted to RMB163.1 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 expenditures primarily comprised expenditures on property and equipment, which amounted to RMB178.9 million and RMB134.7 million, respectively, for the years ended December 31, 2016 and 2015.

OTHER FINANCIAL INDICATORS

For the years ended December 31, 2016 and 2015, debt-to-equity ratio was 12.9% and 2.3% respectively (debt-to-equity ratio is calculated by dividing the year-end total interest-bearing debts by the year-end total equity).

EMPLOYEE REMUNERATION AND POLICY

As at December 31, 2016, the Group had 6,025 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 working capability of our employees. As at December 31, 2016, 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 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.

III. RISK FACTORS

The Company's exposure to risks in connection with its operations mainly includes: market risk, risk of staff turnover, competition risk, interest rate and exchange rate risk.

1. Market Risk

Uncertainties in the global economy (in particular economy of China)

At present, the domestic and world economical and financial situation remains complex and grave, and challenges and risks cannot be underestimated. The world economy stays weak in the profound adjustment of the recovery, with the clear differentiation in the economic growth outlook among different countries, continuous price decrease of international bulk commodities and intensification of financial market turmoil. The fundamental situation that economy of China develops well in the long term has not changed, however, affected by structural and cyclical factors, the economy faces with great downward pressure, the stock market shocks strongly, the devaluation of the RMB exchange rate is expected to expand and multiple interwoven factors lead to enhanced uncertainty. Under our art business and auction segment, the results of our operations are particularly exposed to risks associated with fluctuation of international and domestic economic and financial environment. The company will integrate the brand value and resources of Poly Culture to actively develop a new industrial pattern, explore new source of profit growth and mitigate the adverse impact arising from economic fluctuations while handling well the three principal existing business segments.

Unpredictability of the demand for artworks

The demand for artworks is influenced by various factors, including the overall economic and political environment, changes in the collecting categories that are most sought after and preferences of collectors. For example, under our auction operation, a decrease in market demand may cause a decline in artworks auction turnover, which could result in lower commission income earned by us. In addition, when we are in the process of art business operations, we may not be able to collect favorable artworks at reasonable prices amidst keen market demands and we may find it difficult to gain expected returns on selling the relevant artworks under declining market demands. We will keep an eye on the market changes, understand rotation rules of hotspots in the artwork sector and work out countermeasures appropriately. In particular, we will focus on expanding the portfolio of new international clients and variety of artworks, as well as enhancing overseas sourcing so as to reduce the risks arising from volatility in the market demand.

2. Risk of staff turnover

Our success has been substantially attributable to excellent management professionals. In terms of the art business and auction segment, we rely on a number of industry professionals to conduct authentication and valuation of artworks, who require long-term practices to accumulate sufficient experience to provide professional and reliable advice. In other business segments, we also rely on qualified employees to ensure that we can manage our theatres and cinemas with unified and high level standards to improve the audience's experience, and enhance our brand recognition and profitability. We strive to attract the best talent through excellent human resources management and provide them with good career development opportunities. We will actively enhance internal talent cultivation, further enlarge the pool of key management and professional talent, enhance the loyalty of key talent, and make innovations in the talent motivation mechanism.

Management Discussion and Analysis

3. All our business segments face competition

For the art business and auction segment, we mainly compete with key auction houses in the local and foreign markets throughout the operation chain. The competition may possibly reduce our commission income, and increase our costs in sourcing, purchasing and selling artworks, as well as expenses in talent recruitment. In the performance and theatre management segment, we compete with other theatre management companies in China in terms of program resources, theatre network coverage and brand recognition. In the cinema investment and management segment, we mainly compete with other cinema operators in regions where we operate cinemas. The Company will seek to gain a more precise understanding of the market demands and enhance core competitiveness so as to maintain the leading market position.

4. Risks relating to fluctuation of interest rates and exchange rate

Under our art business operations, we purchase and hold artworks which we believe are undervalued or which we believe have appreciation potentials, and resell them at an appropriate time to make profit. We mainly rely on our working capital and bank loans to fund our acquisitions of artworks. Increase in interest rates may increase our costs to purchase and hold the relevant artworks, which could in turn adversely affect our operating results of performance if we are unable to pass the costs to customers when we resell the relevant artworks. In addition, due to our expansion of overseas business, we may generate revenue in terms of foreign currency in the future, and the contract we entered into with overseas customers may also be in the value denominated in Euro or U.S. dollar. Therefore, exchange rate fluctuation (especially among the RMB, the Euro and the U.S. dollar) may increase our costs but decrease our profitability due to the decline in foreign exchange. We will keep an eye on policies and changes relating to the domestic and foreign financial markets, and adopt a specific financing pattern to partially offset impact of changes in the interest rates on the finance costs during the interest rate hike cycle and interest rate reduction cycle.

IV. OUTLOOK

Poly Culture has set the general task for 2017, including: **Fully and practically promoting the work under the guidance of the Thirteenth Five-Year Plan with the objective of establishing the "Three traditional principal businesses + Four innovative businesses " business structure. Further strengthening, expanding and optimizing three principal businesses, starting to show results of new businesses, achieving a breakthrough in international operation, making practical progress in enterprise M&A and capital market development, continuously improving the management standard and making a steady improvement in operation performances.**

As for art market, according to the "Report of Chinese Art Auction Market 2016 (Autumn)" produced by Artron (Culture) Group Co., Ltd., the Chinese art auction market in 2016 showed the characteristic of "decreasing the quantity while increasing the quality". Auction lots and auction turnover declined while auction clearance rate increased year on year. Art business and auction business should follow the trend and further stress on the boutique strategy by wining with "finesse".

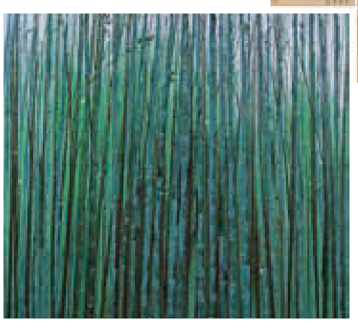
Management Discussion and Analysis

In terms of performance market, according to the annual report of China Association of Performing Arts, the Chinese performance market has gradually recovered, becoming more rational and putting greater emphasis on the innovation and quality. More social capital will be focused on performance area with the emergence of some new trend. Performance and theatre management business needs to actively adapt to the industrial development to further utilize the advantages of leading channels, innovate its development and connect capitals so as to achieve greater market value.

As for film market, the growth rate of the domestic film market slowed significantly in 2016 with a year-on-year increase of 3.73% only, which was far behind the over 40% growth rate over the last two years and was much lower than the previous market expectation. As the base number increases, the domestic film market will step into a stable development phase gradually. Industry concentration has been further increased with the increasing number of M&As in the cinema industry. Content-making will pay more attention to quality. While accelerating the self-construction, Poly Film also needs to actively enlarge its scale through M&A and increase market share, and to win the market reputation through the production of film and television boutiques at the same time.

1. Continuing to focus on the three principal businesses and maintaining the growth of operating results

Artwork operation and auction business will consolidate the leading position in domestic market and actively expand overseas market at the same time, and endeavor to build a "global network" through mergers, acquisitions and international cooperation. Pressing ahead with boutique strategy, the Company optimizes inventory structure and enhances publicizing and collecting efforts, striving to maintain steady growth in the auction turnover throughout the year. Actively exploring selling channels, artwork operation business will enhance the market vitality and improve the market influence of "Poly Art". The Company will continue to promote the establishment of the Poly international gallery chain (art gallery) to strongly support the industrial chain of Poly Culture artworks. The Company will innovate and develop the financial services in artwork investment consultation business, actively expand overseas market, make good use of domestic and overseas funds, reduce project costs, and effectively increase the scale and market share.



Management Discussion and Analysis

Performance and theatre management business will enhance the theatre management and the platform construction, in particular, to make greater efforts on managing theatres in key cities such as provincial capitals by managing 2 to 3 new theatres during the year, ensuring the successful renewal of the expiring contracts for high quality theatres, and aiming to increase the total number of theatres under its management to 55 or above and stage more than 7,100 performances, and striving to make a zero breakthrough in overseas theatre. Leveraging the current resources of small theatre, we will explore the operation model of child play by building up child play theatres. We will make more efforts in introducing more programs from well-known international institutions and producing more original performances, launching major plays such as the star version of the drama "Duan Jin (斷金)"and the musical "An American in Paris", and ensuring the successful preparation and performance of Chengdu International Music Festival and International Pop Festival. For the preparation for the first Poly International Performing Arts Fair, the ticketing company needs to complete the first phrase establishment of the ticketing system, standardize the theatre membership system to realize all-in-one card business, explore online transaction and seek a deep integration with internet.

Through multiple measures, the cinema investment and management business will rapidly increase the scale of cinema network and market share, explore an investment model suitable for itself, creating boutiques and establishing brand. We plan to open another 7 to 8 cinemas during the year and propose to make 20 to 30 cinema acquisitions, and meanwhile, achieve enhancement and expansion by making full use of capital market.

2. Proactively carrying on innovative business and preliminarily establishing a new industry structure

In terms of art education, Poly Music Art will speed up the establishment of branches in Beijing, Nanjing and other cities and commence the operation during the year, and meanwhile, launch the establishment of branches in Changsha and other cities, so as to promote the regional development in Yangtze River Delta, Pearl River Delta, North China, Northeast China and other regions via key cities which enables a rapid promotion of the "Poly WeDo" music education brand over the country. It will also register and establish the "Poly Art Academy" in a timely manner, and actively contact elite schools and professional institutions at home and abroad, strive to reach a substantive cooperation framework so as to practically promote the construction of relevant disciplines and programs and lay the foundation for future development.

As for culture finance, Financial Leasing Company will enlarge its scale as soon as possible to facilitate the development of art business, and become a new profit growth point. The Company will actively prepare for the establishment of the Poly Culture Industry Fund to carry out a comprehensive operation as soon as possible, providing financial support for company development.

As for culture tourism and asset operation and management, the Company will actively deploy high-tech entertainment experience as well as the creative culture industry, make sure a smooth opening of the Shenyang Shengjing Poly Culture Art Centre and achieve good results, continue to

Management Discussion and Analysis

promote other projects at home and abroad and so on. At the same time, the Company will sort out the relevant businesses, sum up business models, determine the work process, and build the Poly culture assets operating platform when the time is ripe.

3. Speeding up in going global and achieving a substantial breakthrough

The auction business will speed up the research on cooperation with the international auction houses, continue to explore matters such as the acquisition of large-scale European and American auction enterprises.

Poly Theatre Management will strengthen its international cooperation, continue to introduce and co-produce dramas, and select appropriate overseas theatres in Europe and the United States so as to timely manage the first overseas theatre.

Poly Film will make greater efforts in cooperation with European and American film and television institutions, and strive to achieve equity and business cooperation as soon as possible.

4. Formulating talent development strategy to improve team building

We will implement the "Talent Development Strategic Plan", explore a personnel management system where there will be flexible recruitment and dismissal, promotion and demotion and the exchange of talents, improve the talent evaluation and training system, actively explore the construction of long-term incentive mechanism, and strive to create a sound environment with innovative development and achievement sharing, so as to promote the sustainable development of the enterprise.

Management Discussion and Analysis

5. Consolidating corporate governance structure to improve management

Regarding improving corporate governance structure as the core, the Company will step up to clarify the division between rights and responsibilities, strengthen the corporate governance and system construction of the Company, and improve the execution ability of such systems to ensure the corporate management to be more regulated, scientific and efficient.

The Company will pay attention to prevention against safety risks, especially in face of the new trend that crowded places such as cinemas and theatres are bearing high safety risks. The Company will further clarify primary responsibility, enhance relevant safety equipment and facilities, and perfect safety emergency plan and exercise to avoid safety incidents.

The Company will continuously optimize its financial management to reduce capital precipitation, enhance asset turnover efficiency, and issue short-term financing bonds and corporate bonds when appropriate to satisfy corporate capital requirements.

The Company will continuously ramp up its investment management level. It will take heed of the development and changes in the industry and further refine its standards on granting approval for investment and establishment of projects while constantly improving the operation mechanism of the Investment Committee. The Company will also improve its decision-making level in investment-related matters, earnestly carry out post-investment evaluation and strengthen its capability in managing and controlling investment-related risk.

Report from the Board of Directors

CORPORATE PROFILE AND GLOBAL OFFERING

The Company was established as a joint stock limited company on December 14, 2010. The Company's H Shares were listed and traded on the Main Board of the Stock Exchange on March 6, 2014. The Prospectus has been published on the websites of the Stock Exchange for information disclosure (www.hkexnews.hk) and the Company (www.polyculture.com.cn).

MAIN BUSINESS

The Company is a leading culture and art enterprise in China with diversified business operations, which maintains a well-balanced business pattern of three pillar operations, namely art business and auction, performance and theatre management and cinema investment and management, through its twelve first-level wholly-owned subsidiaries.

ANALYSIS OF KEY INDICATORS OF FINANCIAL PERFORMANCE

For details of analysis of key indicators of financial performance, please refer to "Management Discussion and Analysis—Results Analysis and Discussion" of this report.

INFORMATION ABOUT THE ULTIMATE HOLDING COMPANY

Our ultimate holding company is Poly Group, which was established in 1992 as a large state-owned enterprise under the direct supervision and administration of SASAC. Apart from the culture and art business conducted through our Group, Poly Group is primarily engaged in military and civilian trade and business, real estate development, investment and exploitation in mineral resource field and manufacture of civilian explosive equipment and blasting service.

ANNUAL RESULTS

The annual results of the Group for the year ended December 31, 2016 were published on the websites of the Stock Exchange for information disclosure and the Company on March 31, 2017.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended December 31, 2016 are set out in Note 12 to the Comprehensive Financial Statements of this report.

SHARE CAPITAL

As at the date of this report, 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.

Report from the Board of Directors

RESERVES

Movements in the reserves of the Company for the year ended December 31, 2016 are set out in the Consolidated Statement of Changes in Equity and Note 24 to the Financial Statements of this report, and details of reserves available for distribution to our Shareholders are set out in Note 24(e) to the Financial Statements of this report.

CHANGE OF PRC AUDITORS

For the year ended December 31, 2016, the Company appointed BDO China Shu Lun Pan Certified Public Accountants LLP as the PRC auditor of the Company for the year 2016, and appointed KPMG as the international auditor of the Company. BDO China Shu Lun Pan Certified Public Accountants LLP and KPMG will retire as the Company's auditors at the end of the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-appointment. A resolution will be proposed for approval by Shareholders at the forthcoming annual general meeting of the Company to re-appoint KPMG as the Company's international auditor for the year ending December 31, 2017.

As approved by the annual general meeting of 2013, the Company appointed BDO China Shu Lun Pan Certified Public Accountants LLP as the new PRC auditor of the Company, and did not re-appoint its previous PRC auditor PKF DAXIN Certified Public Accountants LLP. For details please refer to the announcements and circular published on April 28, 2014 and June 17, 2014, respectively.

PROFIT DISTRIBUTIONS

The Board recommends to distribute a final dividend of RMB0.274 per shares (tax inclusive) in cash to the Shareholders for the year ended December 31, 2016. The above dividend is expected to be distributed before July 26, 2017 upon approval of Shareholders at the annual general meeting of the Company.

TAXATION

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and its implementation regulations (the "EIT Law"), the tax rate of the enterprise income tax applicable to the income of a non-resident enterprise deriving from the PRC is 10%. For this purpose, any H Shares registered under the name of non-individual enterprise, including the H Shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organizations or entities, shall be deemed as shares held by non-resident enterprise Shareholders (as defined under the EIT Law). The Company will distribute the dividend to those non-resident enterprise Shareholders subject to a deduction of 10% enterprise income tax withheld and paid by the Company on their behalf.

Any resident enterprise (as defined under the EIT Law) which has been legally incorporated in the PRC or which was established pursuant to the laws of foreign countries (regions) but has established effective administrative entities in the PRC, and whose name appears on the Company's H Share register should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the official chop of the law firm issuing the opinion affixed thereon) and relevant documents to Computershare Hong Kong Investor Services Limited in due course, if they do not wish to have the 10% enterprise income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guoshuifa (1993) No. 045 Document (關於國稅發（1993）045號文件廢止後有關個人所得稅徵管問題的通知) (the “Notice”) issued by the State Administration of Taxation on June 28, 2011, the dividend to be distributed by the PRC non-foreign invested enterprise which has issued shares in Hong Kong to the overseas resident individual Shareholders, is subject to the individual income tax with a tax rate of 10% in general.

However, the tax rates for respective overseas resident individual Shareholders may vary depending on the relevant tax agreements between the countries of their residence and mainland China. Thus, 10% individual income tax will be withheld from the dividend payable to any individual Shareholders of H Shares whose names appear on the H Share register of members of the Company on the record date, unless otherwise stated in the relevant taxation regulations, tax treaties or the Notice.

The Company will withhold payment of the enterprise and individual income tax strictly in accordance with the relevant laws or requirements of the relevant government departments and based on the Company’s register of members of H Shares on the record date. The Company assumes no liability whatsoever in respect of and will not entertain any claims arising from any delay in, or inaccurate determination of, the status of the Shareholders or any disputes over the mechanism of withholding of enterprise income tax. The Company will not be liable for any claim arising from any delay in, or inaccurate determination of the status of the Shareholders or any disputes over the mechanism of withholding.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company’s listed securities for the year ended December 31, 2016.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2016, sales to the top five customers of the Company and the purchases from the top five suppliers of the Company accounted for less than 30% of the Group’s total sales and total purchases, respectively.

DIRECTORS AND SUPERVISORS’ INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company or its holding company, any of its fellow subsidiaries and subsidiaries was a party and in which a Director or Supervisor or their connected entities still have or had a material interest, whether directly and indirectly, subsisted at the end of the year ended December 31, 2016 or at any time during that year.

PRINCIPAL RELATIONSHIP BETWEEN THE COMPANY AND ITS CUSTOMERS, EMPLOYEES, SUPPLIERS AND OTHER ENTITIES WHICH HAVE SIGNIFICANT INFLUENCE ON THE COMPANY

Customers

The Group has a diversified customer base in various business segments. The major customers include individuals, corporations, and financial institutions (Art Fund, etc.). The Group's customers are primarily located in China, but it is expected to serve more overseas customers as the Group expands our overseas operations.

The Company is always concerned about the needs of our customers. Its auction companies adhere to the concept of "boutique Poly", continue to provide quality services to domestic and international customers and gradually establish a set of standard customer service process. We form strict service standards and timings for the whole process, from the collection and storage of auction items, the issuance of auction notices, the delivery of invoice to buyers and sellers after the auction was completed to the real time tracking of customers' settlement.

Employees

In terms of employees, the Company has established a good training system, to promote career development for our employees, help them maintain work life balance and will explore to construct a mid-to-long-term incentive mechanism. We strive to create a good working environment of innovative development and result-sharing.

Investors

The Company has always and continues to highly value the maintenance and development of investor relations, in order to timely and effectively convey the corporate information to the public, enhance the Company's information transparency and build an effective communication channel between the Company and investors.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group for the year ended December 31, 2016 were set forth in Note 21 to the Financial Statements of this report.

EMPLOYEES REMUNERATION AND POLICIES

As at December 31, 2016, the Group had 6,025 employees. The remuneration policy of the Group is determined by the Remuneration and Assessment Committee under the Board of Directors as per the performance, qualifications and competence of our employees. Details of the employee remuneration of the Company were set forth in Note 7(b) to the Financial Statements of this report.

RETIREMENT AND EMPLOYEES BENEFIT SCHEME AND SHARE OPTION INCENTIVE PLAN

Details of the retirement and employees benefit scheme of the Company are set forth in Note 7(b) to the Financial Statement of this report.

As at the date of this report, the Company did not have any share option incentive plan.

ENVIRONMENT POLICY AND PERFORMANCE OF THE COMPANY

The Company insists on the concept of scientific and green development. We study, publicize and strictly comply with national laws and regulations relating to environmental protection and energy conservation. We actively promote the production and business mode of energy conservation, green and low-carbon. We change bad consumption patterns and living habits, avoiding waste. The Company has established an OA (office automation) system and implemented paperless work, to promote the re-use of office paper. We suggest our employees to go out by walk or public transportation and drive as little as possible. We hold meetings by video and telephones, to effectively reduce operating costs and carbon emissions.

COMPANY'S COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group is able to comply with the relevant requirements of laws, regulations, rules and provisions of the Companies Ordinance, the Listing Rules and SFO in Hong Kong, the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Basic Norms of Enterprise Internal control (《企業內部控制基本規範》) in China etc., which have significant influence over the business and operation of the Company including information disclosure, corporate governance and standard industry operation, etc. The Group has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code").

DIRECTORS' AND SUPERVISORS' INDEMNITIES

At no time during the year ended December 31, 2016 and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors or Supervisors (whether made by the Company or otherwise) or an associated company (if made by the Company). The Company has arranged appropriate Directors', Supervisors' and officers' liability insurance coverage for the Directors, Supervisors and officers of the Group.

EQUITY-LINKED AGREEMENTS

For the year ended December 31, 2016, the Company did not enter into any equity-linked agreements.

DEBENTURES ISSUED

For the year ended December 31, 2016, the Company did not issue any debentures.

DONATIONS

For the year ended December 31, 2016, the charity donations made by the Group amounted to approximately RMB280,000.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The profiles and changes of our Directors, Supervisors and senior management were set forth on pages 69 to 72 of this report. Saved as disclosed in this report, there have been no changes to the information about the Directors, Supervisors and senior management of the Company which are required to be disclosed under Rule 13.51(2) of the Listing Rules during the Reporting Period.

Report from the Board of Directors

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

None of the independent non-executive Directors has any business or financial interests in the Group, nor do they hold any executive positions in the Company, which effectively guaranteed their independence.

The Company has received from each of the independent non-executive Directors an annual confirmation of their independence as per Rule 3.13 of the Listing Rules. As at the Latest Practicable Date, the Company is of the opinion that all the independent non-executive Directors are independent as per Rule 3.13 of the Listing Rules.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

The Company has entered into a service contract with each of the Directors and Supervisors, which mainly set forth: 1) each service contract lasts for a term of three years; and 2) the service contract may be terminated as per its terms.

None of the Directors and Supervisors has entered into a service contract with the Company which cannot be terminated by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Reporting Period, none of the Directors or their respective associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2016, none of the Directors, Supervisors or senior management 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.

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

As at December 31, 2016, to the knowledge of the Directors of the Company, 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 share capital (%) (note 2)	Percentage of the total share capital (%) (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
董平	H Shares	Beneficial owner	4,510,000 (L)	5.04	1.83

Note:

1. "L" stands for long positions, "S" stands for short positions and "P" stands for lending pool.

2. The percentage is calculated with the number of the relevant class of Shares of the Company issued as at December 31, 2016 divided by the total number of 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 December 31, 2016, 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.

Report from the Board of Directors

MANAGEMENT CONTRACTS

The Company did not enter into any contract in respect of the management and administration of the entire or any significant part of the business nor did any such contract subsist at any time during the Reporting Period.

CONNECTED TRANSACTIONS

1. Non-exempt One-off Connected Transaction

Entering Into the Limited Liability Partnership Agreement

Parties

Limited partners: Poly Real Estate, Poly Group, the Company, Poly International, Poly Property, and Jiulian Development

General Partner/Executive Partner: Poly Fund Management Company

Principal Terms

Signing date	:	November 25, 2016
Date of incorporation	:	Initially year 2016. The specific date of incorporation is subject to the completion of record registration on the Asset Management Association of China [Note 1].
Name of the fund	:	Poly Limin (Tianjin) Equity Investment Fund Limited Partnership (Limited Partnership)
Fund size	:	RMB300,000,001
Amount of contribution	:	**Limited partners** Poly Real Estate RMB100,000,000 Poly Group RMB80,000,000 The Company RMB30,000,000 Poly International RMB30,000,000 Poly Property RMB30,000,000 Jiulian Development RMB30,000,000 **General Partner/Executive Partner** Poly Fund Management Company RMB1
Capital contribution	:	Currency contribution

Note 1: As at the Latest Practicable Date, the company has not yet been incorporated.

Report from the Board of Directors

Investment focus	:	Proposing to directly invest in the Poverty Alleviation Fund, Poly Limin Fund mainly invests in poor areas for resource development and utilization, industrial park construction, development of new urbanization, etc. by adopting the market-oriented mode of operation. The main revenue source of Poly Limin Fund is the dividends to shareholders of the Poverty Alleviation Fund. Poly Limin Fund withdraws investment via project equity transfer and other ways.
Management mode	:	As the general partner of Poly Limin Fund, Poly Fund Management Company is responsible for the execution of the partnership affairs of Poly Limin Fund, and represents Poly Limin Fund externally. Poly Limin Fund has an investment decision-making committee (whose members are appointed by the general partner) responsible for making investment and withdrawing decisions regarding the external investment projects of Poly Limin Fund. Any final investment or withdrawal decision of Poly Limin Fund is subject to the approval of all members of the investment decision-making committee. Limited partners do not execute the affairs of Poly Limin Fund, and only need to pay the contribution in accordance with the share of the subscribed fund, and share the fund investment return or bear the fund investment loss according to the proportion of fund shares held; limited partners are entitled to supervise the execution of partnership affairs by the executive partner and change the general partner. Meanwhile, the general partner of Poly Limin Fund does not charge any management fee to the limited partners and does not withdraw excess earnings. All the revenue from the operation of Poly Limin Fund will be distributed by the limited partners according to the proportion of contribution.
Term of operation	:	The term of the partnership for the fund is 15 years, and may be reasonably extended based on the operation condition.

Report from the Board of Directors

Listing Rules Implications

Since Poly Group directly holds 43.30% equity interest of the Company and indirectly holds 20.40% equity interest of the Company through Poly Southern, a subsidiary of Poly Group. Poly Group is a Connected Person of the Company pursuant to Chapter 14A of the Listing Rules. Since Poly Group and its subsidiaries directly and indirectly hold a total of 40.87%, 100.00%, 47.32%, 30.00% and 100.00% of the shares of Poly Real Estate, Poly International, Poly Property, Jiulian Development and Poly Fund Management Company respectively, Poly Real Estate, Poly International, Poly Property, Jiulian Development and Poly Fund Management Company are subsidiaries or associates of Poly Group, therefore, constitute Connected Persons of the Company. Therefore, entering into the Limited Liability Partnership Agreement and the transactions contemplated thereunder constitute the connected transactions of the Company pursuant to the Listing Rules. As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) of the Subscription calculated in accordance with the Listing Rules is higher than 0.1% but less than 5%, such transaction is subject to the reporting and announcement requirements but exempted from the independent Shareholders' approval requirement as set out in Chapter 14A of the Listing Rules.

Transaction and its Reasons

In response to the appeals of the SASAC for the establishment of fund for industrial investment in poverty regions, the Poverty Alleviation Fund was set up by the funding of multiple central state-owned enterprises, and is mainly used in poor areas for resource development and utilization, industrial park construction and development of new urbanization, etc. Poly Group proposes to participate in the poverty alleviation construction by way of establishing Poly Limin Fund, and proposes to directly invest in the Poverty Alleviation Fund. The Company makes contribution for the Subscription to fulfill its social responsibilities.

For details of the above transaction, please refer to the announcement published on November 25, 2016.

2. Non-exempt Continuing Connected Transactions

During the Reporting Period, the Company has conducted certain non-exempt Continuing Connected Transactions as listed below:

Number	Connected Transaction	Connected Person	Annual Cap of 2016 (RMB Million)	Actual Transaction Amount of 2016 (RMB Million)
1	Financial Services Agreement	Poly Finance	the maximum daily deposit balance: 1,000 the maximum daily lending balance: 500	depositing services: 767.4 lending services: 0 settlement services: 0 miscellaneous financial services: 0
2	General Services Framework Agreement	Poly Group (as the service receiver)	24 (revised annual cap)	0.9
3	Commodities Sale and Purchase Framework Agreement	Poly Group (as the purchaser)	17 (revised annual cap)	6.9
4	Property Lease Framework Agreement	Poly Group (as the lessor)	68.8	38.0
5	Cinema Box Office Income Sharing Framework Agreement	Poly Group	451.1	206.4
6	Finance Lease Framework Agreement	Poly Group (as the lessor)	164	0.5

- For the above-mentioned No.1 non-exempt Continuing Connected Transaction, its annual caps from 2015 to 2017 have been approved by the extraordinary general meeting of the Company convened on December 22, 2014.

- For the above-mentioned No.2 to No.5 non-exempt Continuing Connected Transactions, the Company has obtained waivers from the Stock Exchange for the annual caps of such Continuing Connected Transactions to exempt from the requirements of announcement and independent Shareholders' approval upon its Listing. Among them, for the above-mentioned No.2 General Services Framework Agreement, the Company published the Revision of Existing Annual Caps of Continuing Connected Transactions Announcement on December 17, 2014. For the above-mentioned No.3 Commodities Sale and Purchase Framework Agreement, the Company published the Revision of Existing Annual Caps of Continuing Connected Transactions Announcement and its Supplemental Announcements on December 17, 2014, March 24, 2016, March 31, 2016 and April 1, 2016.

- For the above-mentioned No.6 non-exempt Continuing Connected Transaction, its annual caps from 2016 to 2023 have been approved by the annual general meeting of 2015 of the Company convened on June 7, 2016.

Report from the Board of Directors

(1) *Financial Services Agreement*

Parties

Poly Finance and the Company

Principal terms

The Company and Poly Finance entered into the Financial Services Agreement on November 5, 2014, pursuant to which Poly Finance agreed to provide deposit services, credit lending services, settlement services and miscellaneous financial services for the Group.

Poly Finance undertakes to provide the Company with high-quality and efficient financial services and to timely notify the Company of agreed events in order to safeguard the financial assets of the Company and adopt proper mitigation measures.

In respect of the deposit services under Financial Services Agreement, the maximum daily deposit balance of the Group with Poly Finance is RMB1 billion during the term of the Financial Services Agreement.

In respect of the credit lending services provided by Poly Finance under Financial Services Agreement, the maximum daily lending balance of the Group with Poly Finance is RMB0.5 billion during the term of the Financial Services Agreement.

Conditional upon the compliance with the Financial Services Agreement, the Company and Poly Finance will enter into separate contracts in respect of deposit services, credit lending services, settlement services and miscellaneous financial services to provide for the details on the provision of these services.

The term of the Financial Services Agreement is three years from January 1, 2015 to December 31, 2017. Unless one party notifies the other party to terminate the Financial Services Agreement, it will be extended for another three years upon its expiry without limitation on the number of times of extension. The extension of the agreement as well as its proposed annual caps for the transaction should also comply with the applicable requirements of the Listing Rules.

Listing Rules Implications

Poly Finance is a subsidiary owned as to 85% by Poly Group, the Controlling Shareholder of the Company, and therefore it is a Connected Person of the Company. Accordingly, the Financial Services Agreement entered into between Poly Finance and the Company and the contemplated transactions under the agreement constitute the Continuing Connected Transactions of the Company under the Listing Rules.

The deposit services provided by Poly Finance:

(1) constitute Connected Transactions by way of financial assistance to a Connected Person by the Group. As the highest applicable percentage ratio to deposit services under the Financial Services Agreement exceeds 5%, the deposit services provided by Poly Finance to the Group shall be subject to the reporting, announcement, annual review and independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

(2) constitute Connected Transactions by way of financial assistance by the Group as set out in Chapter 14 of the Listing Rules. As the highest applicable percentage ratio to deposit services under the Financial Services Agreement is more than 5% but less than 25%, the deposit services provided by Poly Finance to the Group constitute discloseable transaction as set out in Chapter 14 of the Listing Rules and shall be subject to reporting, announcement, and annual review requirements but are exempted from the independent Shareholders' approval requirements as set out in Chapter 14 of the Listing Rules.

The credit lending services provided by Poly Finance to the Group constitute Connected Transactions by way of financial assistance to the Group provided by a Connected Person. As the highest applicable percentage ratio to the credit lending services under the Financial Services Agreement exceeds 5%, the credit lending services provided by Poly Finance to the Group shall be subject to the reporting, announcement, annual review and independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

In respect of settlement services and miscellaneous financial services provided by Poly Finance to the Group, each of the percentage ratios is, or is expected to be, below the de minimis threshold as stipulated in Chapter 14A of the Listing Rules. Therefore, the provision of settlement services and the provision of miscellaneous financial services by Poly Finance to the Group are exempted from the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will comply with the reporting, announcement and/or independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if the transaction amount of the miscellaneous financial services to be provided by Poly Finance to the Group under the Financial Services Agreement exceeds the relevant threshold.

Transaction and its Reasons

The main reasons and benefits for our utilizing the financial services provided by Poly Finance are as follows:

(1) The Group is expected to benefit from Poly Finance's better understanding of the operations of the Group which allows expedient and efficient service provision. As an intra-group service provider, Poly Finance communicates more conveniently and efficiently with the Group as compared with other independent commercial banks; and

(2) The interest rates on deposits and financing offered by Poly Finance to the Group are more favorable than those offered by other independent PRC commercial banks in general. The Financial Services Agreement is entered into on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole. The transactions contemplated under the Financial Services Agreement will not have any adverse effect on the Group's revenue as well as its assets and liabilities.

For details of the above transactions, please refer to the announcements and circulars published on the websites of the Stock Exchange for information disclosure and the Company on November 5, 2014, November 27, 2014, and December 22, 2014.

(2) General Services Framework Agreement

Parties

Poly Group (as the service receiver), and the Company (as the service provider)

Principal terms

We entered into the General Services Framework Agreement with Poly Group on February 14, 2014, pursuant to which we from time to time provide Poly Group and/or its associates with certain types of services, mainly including exhibition service, theatre management service, art appreciation activity service and general service. The principal terms of the General Services Framework Agreement are as follows:

(1) the General Services Framework Agreement is valid for a term of three years commencing on the Listing Date and can be renewed for another three years upon its expiry;

(2) relevant subsidiaries or associated companies of both parties will enter into separate underlying contracts which will set out the specific terms and conditions according to the principles provided in the General Services Framework Agreement; and

(3) the price for the service provided under General Services Framework Agreement will be determined by reference to the then market price or as agreed by both parties after arm-length negotiations.

The Company renewed the General Services Framework Agreement on October 17, 2016 and proposed the annual caps for 2017,2018 and 2019. The validity will last for a term of three years commencing from January 1, 2017 and can be renewed for another three years upon its expiry.

Listing Rules Implications

As Poly Group is the Controlling Shareholder of the Company, Poly Group constitutes a Connected Person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions under the General Services Framework Agreement between the Company and Poly Group constitute the Continuing Connected Transactions under the Listing Rules.

As the highest applicable percentage ratio to revised annual cap under the General Services Framework Agreement between the Company and Poly Group is more than 0.1% but less than 5%, the Continuing Connected Transactions under the General Services Framework Agreement shall be subject to the reporting, announcement and annual review requirements but exempted from the independent Shareholders' approval requirement as set out in Chapter 14A of the Listing Rules.

The Company has obtained waivers from the Stock Exchange for the annual caps of such Continuing Connected Transactions in 2014, 2015 and 2016 to exempt from the requirements of announcement and independent Shareholders' approval.

Transaction and its Reasons

The provision of service by the Company to Poly Group started before 2010. Poly Group is engaged in the business of real estate development and needs artistic decoration and exhibition for their real estate display hall from time to time. Poly Group also conducts promotion activities for their high-end real estate projects by hosting art appreciation activities. Poly Art Centre, a wholly-owned subsidiary of the Company, is engaged in exhibition undertakings and organization of art communication activities. In order to seize such business opportunity, Poly Group and its subsidiaries need to promote its sales and marketing activities all over the country, and Poly Art Centre holds local exhibition with selected exhibits which will enhance the market influence of Poly Group and which also accords with Poly Group's promotion slogan "Cultural Real Estate". In the meantime, Poly Art Centre can also earn profits in the promotion of our artistic brand. For Poly Group, it is always dedicated to the merger between real estate and culture by means of the introduction of some cultural elements, like Poly Theatre, into Beijing and Shenzhen in order to enhance the cultural content and commercial value and complement each other's benefit with Poly Culture. Thus, the provision of exhibition service from our Group to Poly Group would not only enhance the recognition of the real estate projects of Poly Group but also expand and develop the business of our Group. In addition, our Group has gradually established theatre management companies in many cities in the PRC and has recruited a group of professionals in the field of theatre management, which are comparably hard to find in the market. The above-mentioned provision of service by our Group to Poly Group was and will be conducted in line with the market practice and can exert the strength and advantage from both our Group and Poly Group.

For details of the above transactions, please refer to the Prospectus of the Company and the announcements published on the websites of the Stock Exchange for information disclosure and the Company on December 17, 2014 and October 17, 2016.

(3) Commodities Sale and Purchase Framework Agreement

Parties

Poly Group (as the purchaser) and the Company (as the seller)

Principal terms

We entered into the Commodities Sale and Purchase Framework Agreement with Poly Group on February 14, 2014, pursuant to which we from time to time sell commodities mainly including art products and theatre tickets to Poly Group and/or its associates. The principal terms of the Commodities Sale and Purchase Framework Agreement are as follows:

(1) the Commodities Sale and Purchase Framework Agreement is valid for a term of three years commencing on the Listing Date of the Company and can be renewed for another three years upon its expiry;

(2) relevant subsidiaries of both parties will enter into separate underlying contracts which will set out the specific terms and conditions according to the principles provided in the Commodities Sale and Purchase Framework Agreement; and

(3) the price of the commodities sold by the Company under the Commodities Sale and Purchase Framework Agreement will be determined through arm-length negotiations by parties thereto by reference to market price.

The Company renewed the Commodities Sale and Purchase Framework Agreement on October 17, 2016 and proposed the annual caps for 2017, 2018 and 2019, which is valid for a term of three years commencing from January 1, 2017 and can be renewed for another three years upon its expiry.

Listing Rules Implications

As Poly Group is the Controlling Shareholder of the Company, Poly Group constitutes a Connected Person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Commodities Sale and Purchase Framework Agreement entered into between the Company and Poly Group constitutes a Continuing Connected Transaction of the Company under the Listing Rules.

As the highest applicable percentage ratio to the revised annual cap under the Commodities Sale and Purchase Framework Agreement between the Company and Poly Group is more than 0.1% but less than 5%, the Continuing Connected Transactions under the Commodities Sale and Purchase Framework Agreement shall be subject to reporting, announcement, and annual review requirements but exempted from the independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

The Company has obtained waivers from the Stock Exchange for the annual caps of such Continuing Connected Transactions in 2014, 2015 and 2016 to exempt from the requirements of announcement and independent Shareholders' approval.

Transaction and its Reasons

It is our ordinary and usual course of business to sell art products and theatre tickets. Poly Group places great emphasis on the working environment and welfare of its employees. There is a need for Poly Group and/or its associates to purchase theatre tickets as employee benefits and marketing promotion from time to time, and/or purchase art products for interior decoration of their office building from time to time. The terms of the sales and purchases of the above commodities are in line with the market rates.

For details of the above transactions, please refer to the Prospectus of the Company and the announcements published on the websites of the Stock Exchange for information disclosure and the Company on December 17, 2014, March 24, 2016, March 31, 2016, April 1, 2016 and October 17, 2016.

(4) Property Lease Framework Agreement

Parties

Poly Group (as the lessor) and the Company (as the lessee)

Principal terms

We entered into a Property Lease Framework Agreement with Poly Group on February 14, 2014, pursuant to which we lease properties from Poly Group and/or its associates for the purpose of office premises, cinema operation, theatre operation, auction business operation and ancillary service. The principal terms of the Property Lease Framework Agreement are as follows:

(1) the Property Lease Framework Agreement is valid for a term of 20 years commencing on the Listing Date;

(2) relevant subsidiaries or associated companies of both parties will enter into separate lease agreements which will set out the specific terms and conditions according to the principles provided in the Property Lease Framework Agreement;

(3) basis of determination of rentals: the rentals shall be determined by reference to the then market price or as agreed by both parties after arm-length negotiations;

(4) the property management fee shall be determined by reference to the then market price or as agreed by both parties after arm-length negotiations;

(5) the energy charge and other facilities fee shall follow the government prescribed price or where no such government-prescribed price is applicable, it shall then be determined by reference to the then market price or as agreed by both parties after arm-length negotiations; and

Report from the Board of Directors

(6) the term of the separate underlying lease agreements entered into under the Property Lease Framework Agreement shall be for a maximum of 20 years. We may request to renew the term of the lease by issuing a written notice to relevant members of Poly Group at least one month before expiry of the lease. Relevant members of Poly Group shall, upon receipt of the said notice, consent to the request for renewal and shall renew the lease with members of our Group before its expiration.

Due to the expiry of annual cap under the Property Lease Framework Agreement on December 31, 2016, the Company published an announcement on October 17, 2016, confirming that the Company would renew the above-mentioned Property Lease Framework Agreement and proposing the annual caps in 2017, 2018, and 2019 respectively.

Listing Rules Implications

As Poly Group is the Company's Controlling Shareholder, Poly Group constitutes a Connected Person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Property Lease Framework Agreement between the Company and Poly Group constitutes a Continuing Connected Transaction of the Company under the Listing Rules.

As the highest applicable percentage ratio to the annual cap under the Property Lease Framework Agreement between the Company and Poly Group is more than 0.1% but less than 5%, the Continuing Connected Transactions under the Property Lease Framework Agreement shall be subject to reporting, announcement, and annual review requirements but exempted from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company has obtained waivers from the Stock Exchange for the annual caps of such Continuing Connected Transactions in 2014, 2015 and 2016 to exempt from the requirements of announcement and independent shareholders' approval.

Transaction and its Reasons

Our Group has started to lease and use the above properties for its business operation prior to 2010. Any relocation may cause unnecessary disruption to our business operation and incur unnecessary costs.

Our Directors are of the view that the long-term nature of the property lease agreement would enable the Group to secure locations for its business operation at fair market price and to prevent unnecessary cost, time and interruption of business caused by relocation in the case of short term lease. As such, our Directors are of the view that the lease term of 20 years is appropriate for the Property Lease Framework Agreement and is the normal business practice for lease agreements of this type to be of such duration.

For details of the above transactions, please refer to the Prospectus of the Company and the announcement published on the websites of the Stock Exchange for information disclosure and the Company on October 17, 2016.

(5) Cinema Box Office Income Sharing Framework Agreement

Parties

Poly Group and the Company

Principal terms

We entered into a Cinema Box Office Income Sharing Framework Agreement with Poly Group on February 14, 2014, according to which Poly Group and/or its associates will provide new film prints for our Group and our Group will then arrange movie screening in our cinemas. Both parties agreed to split the net cinema box office income generated from the movie screening based on the pre-agreed sharing percentage. In turn, Poly Group and/or its associates may then further share the revenue generated from such split with movie distributors and producers pursuant to separate agreements among themselves. Such cinema box office income sharing arrangement is in line with the current film industry practice in the PRC.

The principal terms of the Cinema Box Office Income Sharing Framework Agreement are as follows:

(1) the Cinema Box Office Income Sharing Framework Agreement is valid for a term of three years commencing on the Listing Date and can be renewed for another three years upon its expiry;

(2) relevant subsidiaries or associated companies of both parties will enter into separate underlying contracts which will set out the specific terms and conditions according to the principles provided in the Cinema Box Office Income Sharing Framework Agreement; and

(3) Poly Group and/or its associates will provide new film prints to our Group and our Group will then arrange movie screening in our cinemas. Our Group will first receive the net cinema box office income generated from the film screening and then split a portion of such revenue with Poly Group and/or its associates in accordance with the respective sharing percentage as set out in the separate underlying contracts as agreed by both parties after arm-length negotiations.

The Company renewed the Cinema Box Office Income Sharing Framework Agreement on October 17, 2016, which is valid for a term of three years commencing on January 1, 2017 and can be renewed for another three years upon expiry. The annual caps in 2017, 2018 and 2019 were approved by the first Extraordinary General Meeting in 2016 of the Company on December 23, 2016.

Listing Rules Implications

As Poly Group is the Controlling Shareholder of the Company, Poly Group constitutes a Connected Person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Cinema Box Office Income Sharing Framework Agreement between the Company and Poly Group constitutes a Continuing Connected Transaction of the Company under the Listing Rules.

As the highest applicable percentage ratio to the Cinema Box Office Income Sharing Framework Agreement between the Company and Poly Group is more than 5%, thus the Continuing Connected Transactions under the Cinema Box Office Income Sharing Framework Agreement shall be subject to the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Report from the Board of Directors

The Company has obtained waivers from the Stock Exchange for the annual caps of such Continuing Connected Transactions in 2014, 2015 and 2016 to exempt from the requirements of announcement and independent Shareholders' approval.

Transaction and its Reasons

Historically, we entered into intra-group box office income sharing agreements with Poly Wanhe Cinema Circuit (a then non wholly-owned subsidiary of our Company mainly engaging in the cinema circuit business before the reorganization). Pursuant to those agreements, Poly Wanhe Cinema Circuit provided new film prints to us and we then arranged movie screening in our cinemas. Cinema circuit business is forbidden for foreign investment under the applicable PRC laws and regulations. Upon the Listing, the Company became an enterprise with foreign investment and is prohibited from investing or conducting cinema circuit business. Accordingly, during our preparation for the Listing, our Group had to dispose of the cinema circuit business and we transferred our 51% equity interest in Poly Wanhe Cinema Circuit to Poly Group as part of the reorganization. Our Directors expect that, among others, considering that the historical sound business relationship between Poly Wanhe Cinema Circuit and our cinemas, and the fact that the relevant income sharing percentages are comparable to the market standards, it is in the Group's interest that such arrangement between our Group and Poly Wanhe Cinema Circuit will continue after the Listing. Any cessation of such arrangement may cause unnecessary disruption to our business operation.

For details of the above transactions, please refer to the Prospectus of the Company and the announcements and circulars published on the websites of the Stock Exchange for information disclosure and the Company on October 17, 2016, November 4, 2016, and December 23, 2016.

(6) Finance Lease Framework Agreement

Parties

Poly Film (as the Lessee) and Poly Leasing (as the Lessor)

Principal terms

Date	:	April 22, 2016
Term of Agreement	:	The Finance Lease Framework Agreement shall become effective upon the approval of the annual general meeting of 2015 (June 7, 2016) and up to December 31, 2023.
Lease Period		Both parties will enter into a specific agreement for each finance lease service. The lease period of each specific finance lease service shall be determined with reference to the useful life of relevant film equipment, the Lessee's financial needs and the Lessor's capital position.

		The lease period of each specific finance lease service shall not exceed the useful life of the film equipment and the term of the Finance Lease Framework Agreement, and shall not exceed 96 months.
Lease Object	:	Film equipment of Poly Film and its subsidiaries, including but not limited to, projecting screens, seats, audios and electronic screens, etc. (the "Film Equipment").
Form of Lease	:	Poly Film and Poly Leasing will enter into specific individual implementation agreement(s) from time to time. The terms of each implementation agreement will be in line with the terms of the Finance Lease Framework Agreement, and each implementation agreement shall be subject to and conditional upon the Finance Lease Framework Agreement (or its renewal agreement) continuing to be in force. Pursuant to the specific individual implementation agreement(s) entered into with Poly Film from time to time, Poly Leasing will procure Film Equipment and lease it to Poly Film and/or its subsidiaries according to the requirements including Film Equipment's name, quality, specification, quantity and price provided by Poly Film. Poly Film shall lease such equipment and agree to pay the principal and interests equally on a monthly basis to Poly Leasing on the basis of the terms, conditions and interest rates as stipulated under the specific agreement(s) entered into from time to time.
Guarantees	:	Poly Film provides full amount guarantees for the finance leases of Poly Film's subsidiary under the Finance Lease Framework Agreement.
History Figures	:	No historical figures of Poly Film are available for the transactions under the Finance Lease Framework Agreement.
End of the Lease Period	:	Once the equipment principal and interest expenses of each of the finance lease agreements are fully paid, the ownership of such Film Equipment will be attributable to Poly Film and its subsidiaries without paying for the consideration.

Listing Rules Implications

Since Poly Group directly holds 43.3% equity interest of the Company and indirectly holds 20.4% equity interest of the Company through Poly Southern, a subsidiary of Poly Group, Poly Group is a Connected Person of the Company pursuant to Chapter 14A of the Listing Rules. As Poly Leasing is the subsidiary of Poly Group, Poly Leasing is a Connected Person of the Company pursuant to Chapter 14A of the Listing Rules. In addition, as Poly Film is a wholly-owned subsidiary of the Company, the proposed transactions under the Finance Lease Framework Agreement constitute Continuing Connected Transactions of the Company.

Report from the Board of Directors

As the highest applicable percentage ratio of the applicable percentage ratios calculated in accordance with the Listing Rules is higher than 5%, the transaction is subject to the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Transaction and its Reasons

In recent years, with the fast increase of box office in China and the demand of market development, the construction of new cineplex of Poly Film is also faster than the previous years. The current owned funds of the Company are difficult to meet the fund demand for the construction of new cineplex. Financing cost of bank loan is also relatively high and the current interest rate set by the The People's Bank of China for one to five-year term loans is 4.75%. Through the Finance Lease Framework Agreement, Poly Film adopted finance lease for equipment and obtained a more favourable lease interest rate of finance lease from Poly Leasing, which was lower than the interest rate of bank loans. It could convert the one-time capital expenditure in the project's preliminary stage to the annual cost expenditure after cineplex go into operation. It improves the initial cash flow of the project and lowers the fund stress of the Company so as to reduce financing cost effectively and provide effective support for Poly Film to expand the cineplex investment and construction scale quickly in the short term.

For details of the above transactions, please refer to the announcements and circulars published on the websites of the Stock Exchange for information disclosure and the Company on April 22, 2016, May 9, 2016, and June 7, 2016 respectively.

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the Company have reviewed the above Continuing Connected Transactions and confirmed that the transactions:

1. were entered into during our ordinary and usual course of business;

2. were conducted on normal commercial terms or more favorable terms; and

3. were conducted in accordance with relevant terms of the transaction agreements, and the transactions terms are fair and reasonable and in the interests of the Company's Shareholders as a whole.

CONFIRMATION FROM THE AUDITORS

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged KPMG as the international auditor of the Company to conduct a limited assurance engagement on the above Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Board confirmed that the auditor has reported the results of their procedures to the Board stating that:

a. nothing has come to the auditor's attention that causes the auditor to believe that the disclosed Continuing Connected Transactions have not been approved by the Board of Directors;

b. for transactions involving the provision of goods or services by the Group, nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

c. nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the Continuing Connected Transactions set out above, nothing has come to the auditor's attention that causes the auditor to believe that such Continuing Connected Transactions have exceeded the applied maximum aggregate annual caps for the year 2016.

RELATED PARTY TRANSACTIONS

During the Reporting Period, the Group entered into certain transactions with relevant parties deemed as the "related party" in accordance with the applicable accounting standards. Details of material related party transactions entered into by the Group during the Reporting Period are set out in Note 28 to financial statements. Other than disclosed in the paragraph headed "Connected Transactions" in this report, related party transactions disclosed in Note 28 do not constitute Connected Transactions as defined in Chapter 14A of the Listing Rules and are not exempt from the reporting, announcement and shareholders' approval requirements under the Listing Rules.

NON-COMPETING UNDERTAKING

Poly Group, the Controlling Shareholder of the Company, signed a non-competition undertaking on February 14, 2014 (the "Non-competition Undertaking"). Pursuant to the Non-competition Undertaking, Poly Group has irrevocably undertaken that it would not and will procure that its associates (except any members of our Group) would not, directly or indirectly, whether as principal or agent, either on their own account or in conjunction with or on behalf of any person, firm or company, whether inside or outside the PRC, among other things, carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition with the business of any member of our Group from time to time. Poly Group has also undertaken to our Company that, if there is any new business opportunity in the restricted business, it shall within a reasonable period of time refer such new business opportunity to our Company. Such business opportunity shall first be offered and made available to us. Poly Group shall not invest, participate, be engaged in and/or operate in such business opportunity unless the Company has declined in writing or failed to respond within thirty (30) days after being notified of such opportunity.

For details about the above-mentioned Non-competition Undertaking, please see the Company's Prospectus.

During the Reporting Period, the Company's Controlling Shareholder has complied with the Non-competing Undertaking.

Report from the Board of Directors

PRE-EMPTIVE RIGHT, SHARE OPTION ARRANGEMENTS

During the year ended December 31, 2016, Shareholders of the Company have no pre-emptive right or any share option arrangements in accordance with applicable PRC laws and the Articles.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this report, during the year ended December 31, 2016, no contracts of significance in respect of provision of services or otherwise were entered into between the Company or its subsidiaries and the Controlling Shareholder or its subsidiaries.

PUBLIC FLOAT

Based on information publicly available to the Company and so far as the Directors are aware, not less than 25% of the issued Share capital of the Company was held by the public as at the Latest Practicable Date, which was in compliance with the requirements under the Listing Rules.

MAIN RISKS AND UNCERTAINTIES

For details of analysis of main risks and uncertainties, please refer to "Management Discussion and Analysis—Risk Factors" of this report.

FUTURE DEVELOPMENT OF THE GROUP

For details of analysis of future development of the Group, please refer to "Management Discussion and Analysis—Outlooks" of this report.

SUBSEQUENT EVENT

The Board recommends to distribute a final dividend of RMB0.274 per share (tax inclusive) in cash to the Shareholders for the year ended December 31, 2016. The dividend mentioned above will be distributed on or before July 26, 2017, upon approval of shareholders at the forthcoming annual general meeting of the Company.

On March 7, 2017, Poly Film Investment Corporation Limited ("Poly Film") (the Transferee), a wholly owned subsidiary of the Company, entered into the Equity Transfer Agreement with XingX Group Company Limited ("XingX Group") and Guangdong XingX Investment Holdings Limited ("XingX Holdings")(the Transferor), pursuant to which Poly Film will acquire 100% equity interest in XingX Entertainment Co., Ltd ("XingX Entertainment") from XingX Group and XingX Holdings for a total consideration of RMB680 million payable to XingX Group and XingX Holdings. Upon completion of the acquisition, XingX Entertainment will become a wholly-owned subsidiary of the Company. Please refer to the announcement dated March 7, 2017 for more details.

Report from the Board of Directors

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. Please refer to the announcement dated March 15, 2017 for more details.

On April 18, 2017, the Company announced that it intends to issue a non-public offering of no more than 59,209,300 H Shares (hereinafter referred to as the "New H Shares" subject to the final issuance approved by the regulatory authority). The total amount of proceeds raised by the New H Shares is expected to be no more than HK$1,084 million. After deducting the relevant issuance expenses, the amount will be used by the Company to pay the minority shareholders of Beijing and the minority shareholders of Poly Auction Hong Kong for the equity transfer consideration. Of which, 35% of the equity interest in the Beijing held by the minority shareholders of the Beijing is to be transferred with a consideration of approximately RMB6,250 million, and 31.5% of the total equity interest in the Poly Auction Hong Kong held by the minority shareholders of the Poly Auction Hong Kong is to be transferred with a consideration of approximately RMB2,846 million. The above plan is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company. Investors and potential investors of the Company should therefore exercise caution when dealing in the shares of the Company.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the year ended December 31, 2016. So far as the Directors are aware, there is no material litigation or claim which are pending or threatened against the Company.

AUDIT OF ANNUAL RESULTS

The Consolidated Financial Statements of the Group for the year ended December 31, 2016, including the accounting principles and practices adopted, have been reviewed by the Audit Committee of the Board of Directors together with the external auditors of the Company.

By order of the Board of Directors
Xu Niansha
Chairman of the Board of Directors

Report from the Board of Supervisors

The current session of the Board of Supervisors was re-elected upon approval by the extraordinary general meeting of 2016 of the Company convened on December 23, 2016, and consists of three Supervisors.

In 2016, the Board of Supervisors of the Company, for the sake of long-term interests of the Company and rights and interests of Shareholders, dutifully supervised the performance of duties by Directors and senior management personnel of the Company in strict accordance with laws including PRC Company Law, regulations, rules and normative documents, the Articles, the Rules of Procedure for Meetings of the Board of Supervisors of Poly Culture Group Corporation Limited and the Listing Rules. Following is a report on the principal work during the Reporting Period:

I. MEETINGS OF THE BOARD OF SUPERVISORS

1. On March 24, 2016, the second session of the Board of Supervisors convened its sixth meeting and deliberated and approved Proposal on Work Report 2015 of the Board of Supervisors of the Company, Proposal on 2015 Annual Results Announcement of the Company, Proposal on the 2015 Annual Report of the Company, Proposal on the Financial Report of the Company for the year 2015, Proposal on the Dividend Distribution Plan of the Company for the year 2015 and Proposal on the Financial Budget of the Company for the year 2016.

2. On August 25, 2016, the second session of the Board of Supervisors convened its seventh meeting and deliberated and approved Proposal on 2016 Interim Result Announcement of the Company and Proposal on 2016 Interim Report of the Company.

II. WORK OF THE BOARD OF SUPERVISORS

1. Examine the lawful operation of the Company

During the Reporting Period, Supervisors attended all the general meetings convened by the Company, were present at all the meetings convened by the Board of Directors, and reviewed the proposals submitted to the Board of Directors. At the relevant meetings, Supervisors supervised the decision-making process regarding major issues and the performance of duties by Directors and senior management members. The Board of Supervisors holds that the decisions on major issues were made legally and that all Directors and senior management personnel of the Company are dutiful and diligent at work and strictly implement resolutions of the general meeting in the principle of legal operation and prudent decision-making, and neither violate laws, regulations or the Articles nor damage the interests of the Company and Shareholders in performing duties.

2. Examine the financial information of the Company

During the Reporting Period, the Board of Supervisors reviewed relevant financial data of the Company and its affiliates and audit reports of the Company and its affiliates provided by auditors. The Board of Supervisors opines that accounts and financial accounting of the Company and its affiliates comply with Accounting Law of the People's Republic of China, Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards, and does not find any problems regarding the aforesaid issues.

3. Strengthen building of internal control of the Company

During the Reporting Period, the Board of Supervisors participated in the building of the internal control system of the Company. The Company formulated the "Provisions on the Administration of Decision-making Rights of Significant Events of the Company" and revised the "Management System for Information Disclosure of Bonds" and the "Information Disclosure Management System for Debt Financing Instruments in the Inter-bank Bond Market". The Board of Supervisors opines that the establishments of the aforesaid internal control systems have laid a benign foundation for the Company's overall operation, formed a scientific decision-making mechanism, execution mechanism and supervisory mechanism, improved the corporate management level and enhanced the corporate risk resistance capability.

Chen Yuwen
Chairman of the Board of Supervisors

Corporate Governance Report

The Company and its subsidiaries are committed to maintaining high-level corporate governance to protect the interests of Shareholders and improve the corporate value and accountability. During the Reporting Period, the Company has adopted the Corporate Governance Code in Appendix 14 to the Listing Rules as its own corporate governance practices and complied with all the code provisions and adopted most of the recommended best practices therein.

Corporate governance practices of the Company during the Reporting Period are summarized below:

1. BOARD OF DIRECTORS

1.1 Composition of the Board of Directors

As at the date of this report, the Board of Directors comprised nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. Listed below are incumbent directors of the Company:

Name	Position
Xu Niansha	Chairman and executive Director
Zhang Xi	Vice chairman and executive Director
Jiang Yingchun	Chief executive officer and executive Director
Hu Jiaquan	Executive Director
Wang Lin	Non-executive Director
Wang Keling	Non-executive Director
Li Boqian	Independent non-executive Director
Li Xiaohui	Independent non-executive Director
Yip Wai Ming	Independent non-executive Director

Note: On the extraordinary general meeting of 2016 held on December 23, 2016, the Company completed the re-election of the third session of the Board, Mr. Hu Jiaquan and Mr. Wang Keling were appointed as executive Director and non-executive Director respectively. Meanwhile, Mr. Li Nan and Mr. Zhao Zigao were no longer as Directors due to age reason and work adjustment respectively.

During the Reporting Period, the Board of Directors has complied with the requirements of the Listing Rules on appointment of at least three independent non-executive Directors, representing at least one-third of members of the Board of Directors and at least one of whom shall have relevant professional qualifications, or accounting or relevant financial management expertise. The qualifications of the three independent non-executive Directors fully comply with Rules 3.10 (1) and (2) of the Listing Rules.

None of the independent non-executive Directors has any business or financial interests in the Company and its subsidiaries, nor do they hold any executive positions in the Company, which effectively guaranteed their independence. The Company has received from each of the independent non-executive Directors an annual confirmation of their independence as per Rule 3.13 of the Listing Rules. As at the Latest Practicable Date, the Company is of the opinion that all the independent non-executive Directors are independent as per Rule 3.13 of the Listing Rules.

The term of office of the independent non-executive Directors Mr. Li Boqian, Ms. Li Xiaohui and Mr. Yip Wai Ming shall be three years as from December 23, 2016. The term of office of the non-executive Directors Mr. Wang Lin and Mr. Wang Keling shall be three years as from December 23, 2016.

The profiles of the Directors are set out in pages 69 to 72 of this report. Members of the Board of Directors do not have any relations between each other (including financial, business, family or other material or related relations). The Board of Directors is well-balanced in structure and each of its members is knowledgeable, richly experienced and talented in the business operation and development of the Company. All the Directors understand their joint and separate responsibilities for Shareholders.

1.2 Board Meetings

The Board of Directors holds Board meetings regularly: at least four meetings per year and approximately on a quarterly basis. A notice of a regular Board meeting shall be delivered to all the Directors at least 14 days in advance for them to arrange the attendance for the meeting, with the matters to be discussed specified in agenda of the meeting.

A Board meeting shall be attended by more than half of the Directors. Directors shall personally attend the meeting. In the event that any Director is unable to attend a meeting for any reason, he may appoint another Director by a written power of attorney.

During the year ended December 31, 2016, the Board of Directors held six meetings in total, with details of the attendance of Directors as follows:

Name	Position	Meetings attended/ Meetings eligible to attend	Attendance Rate
Xu Niansha	Chairman and executive Director	6/6	100%
Zhang Xi	Vice chairman and executive Director	6/6	100%
Jiang Yingchun	Chief executive officer and executive Director	6/6	100%
Hu Jiaquan[Note 1]	Executive Director	1/1	100%
Wang Lin[Note 2]	Non-executive Director	5/6	83%
Wang Keling[Note 3]	Non-executive Director	1/1	100%
Li Boqian	Independent non-executive Director	6/6	100%
Li Xiaohui	Independent non-executive Director	6/6	100%
Yip Wai Ming[Note 4]	Independent non-executive Director	5/6	83%
Outgoing Director			
Li Nan[Note 5]	Vice chairman and executive Director	5/5	100%
Zhao Zigao[Note 6]	Non-executive Director	5/5	100%

Corporate Governance Report

Note:

1. Mr. Hu Jiaquan was appointed as an executive Director on December 23, 2016. Subsequent to his appointment, only one Board meeting was convened for the year ended December 31, 2016.

2. Mr. Wang Lin was not able to attend the ninth meeting of the second session of the Board of Directors on August 25, 2016 due to working reasons, and appointed Mr. Zhang Xi as his proxy to represent him and vote on his behalf.

3. Mr. Wang Keling was appointed as an non-executive Director on December 23, 2016. Subsequent to his appointment, only one Board meeting was convened during the year ended December 31, 2016.

4. Mr. Yip Wai Ming was not able to attend the ninth meeting of the second session of the Board of Directors on August 25, 2016 due to personal working arrangement, and appointed Ms. Li Xiaohui as his proxy to represent him and vote on his behalf.

5. Mr. Li Nan resigned as an vice chairman and executive Director of the Board of Directors on December 23, 2016.

6. Mr. Zhao Zigao resigned as an non-executive Director of the Board of Directors on December 23, 2016.

1.3 Functions and Powers Exercised by the Board of Directors and the Management

The rights and duties of the Board of Directors and the management are specified in the Articles, so as to guarantee an adequate balance and restriction mechanism for a good corporate governance and internal control of the Company.

The Board of Directors shall be responsible for determining the Company's operation plans and investment programs and the setting of its internal management organizations, formulating basic management system of the Company and hearing chief executive officer's work report and examining the work thereof.

The Board of Directors admits that it is the common responsibility of all Directors to perform the duty of corporate governance, including:

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

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

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

d) to review the Company's compliance with Corporate Governance Code and disclosure in the corporate governance report.

1.4 Chairman and Chief Executive Officer

Positions of the chairman and the chief executive officer (chief executive officer under relevant rules of the Listing Rules) of the Company are served by different persons to secure independence of their duties and accountabilities and balanced distribution of rights and authorizations. Mr. Xu Niansha serves as the chairman of the Board of Directors and Mr. Jiang Yingchun serves as the chief executive officer. The Articles defines duties of the chairman and the chief executive officer.

1.5 Directors' Appointment and Re-election

According to the Articles, Directors shall be elected at the general meeting. A Director shall serve a term of office for no longer than three years and is eligible for re-election. The Company has implemented a set of effective procedures for appointment of new Directors. The nomination of new Directors shall be first deliberated by the Nomination Committee of the Board and then submitted to the Board of Directors, subject to the approval by the general meeting.

1.6 Board Diversity Policy

The Company has adopted Board Diversity Policy of Poly Culture Group Corporation Limited (the "Policy"), which has been approved by the Board of Directors, as summarized below:

The Policy specifies that in designing the composition of the Board of Directors, Board diversity shall be considered from a number of aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. All Board members' appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board of Directors. Selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, age, culture, race and educational background, professional experience, knowledge and skills.

The Nomination Committee will disclose the composition of the Board of Directors in Corporate Governance Report every year and supervise the implementation of this Policy. The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board of Directors for examination and approval.

Corporate Governance Report

1.7 Emoluments of Directors, Supervisors and Senior Management and Five Highest Paid Individuals

Emoluments of Directors, Supervisors and senior management shall be proposed by the Remuneration and Assessment Committee based on criteria including educational background and work experience, and upon approval by the general meeting, be determined by the Board of Directors with reference to Director's experience, work performance and position as well as the market.

Details of emoluments of Directors, Supervisors, senior management and five highest paid individuals of the Company are set out in Notes 9 and 10 to the Financial Statements of this report.

During the year ended December 31, 2016, the emoluments of the senior management of the Group (not include the Directors) are within the following bands:

Bands of the emoluments	Number
HKD0 to HKD1,000,000	5
HKD1,000,001 to HKD1,500,000	1

1.8 Training for Directors

The Company submits "monthly management reports" to the Directors, to keep them posted with the latest information of the Company, the industry status and developments. The Company also collects the latest amendments to the securities laws, regulations and regulatory rules which come to its attention and submits them to the Directors, Supervisors and senior management of the Company. In addition, during the Reporting Period, Directors (namely Mr. Xu Niansha, Mr. Li Nan, Mr. Zhang, Xi, Mr. Jiang Yingchun, Mr. Wang Lin, Mr. Zhao Zigao, Mr. Li Boqian, Ms. Li Xiaohui and Mr. Yip Wai Ming) have participated in the training of Hong Kong listed companies information disclosure, connected transactions, Directors, Supervisors and Senior Management responsibilities and recent new regulatory requirements, to ensure that they continue to have comprehensive information and contribute to the Board of Directors when necessary.

1.9 Directors, Supervisors and Senior Management's Liability Insurance

The Company has bought Directors, Supervisors and senior management's liability insurance for any of the legal actions against them.

2. BOARD COMMITTEES

There are five committees under the Board of Directors, namely, Audit Committee, Nomination Committee, Remuneration and Assessment Committee, Art Committee and Strategy Committee.

2.1 Audit Committee

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.

The primary responsibilities of the Audit Committee are reviewing and supervising our financial reporting procedures, including to propose appointment or replacement of the external auditors; to oversee the Company's internal audit system and its implementation; to coordinate internal and external auditors; to review the Company's financial information and its disclosure; to examine the Company's internal monitoring system and risk management system, to audit material connected transactions, to nominate the person in charge of the internal audit department of the Company; and other matters as authorised by the Board of Directors.

During the year ended December 31, 2016, the Audit Committee held four meetings, the details of which are as follows:

Name	Position	Meetings attended/ Meetings eligible to attend	Attendance Rate
Li Xiaohui	Independent non-executive Director	4/4	100%
Yip Wai Ming	Independent non-executive Director	4/4	100%
Zhao Zigao[1]	Non-executive Director	4/4	100%
Wang Keling[2]	Non-executive Director	/	/

Note:

1. Mr. Zhao Zigao resigned as an non-executive Director and the member of the Audit Committee of the Board of Directors on December 23, 2016.

2. Mr. Wang Keling was appointed as an non-executive Director and the member of the Audit Committee of the Board of Directors on December 23, 2016. Subsequent to his appointment, no Audit Committee meeting was convened during the year ended December 31, 2016.

The Audit Committee of the Company directed and supervised the Company's internal audit department, considered and approved the appointment of the domestic and international auditors and the financial reports 2015 of the Company, and submitted the above proposals to the Board of Directors for their consideration. The Audit Committee of the Company also recognized the connected transactions of the Company in 2015.

The Audit Committee of the Company has reviewed the Company's annual results for 2016, and the financial statements for the year ended December 31, 2016 in accordance with the International Financial Reporting Standards ("IFRSs").

2.2 Nomination Committee

The Nomination Committee of the Company consists of three Directors: Mr. Li Boqian (independent non-executive Director), Ms. Li Xiaohui (independent non-executive Director) and Mr. Wang Keling (non-executive Director). Mr. Li Boqian currently serves as the chairman of the Nomination Committee.

The primary responsibilities of the Company's Nomination Committee are preparing the procedures and criteria for determining the candidates for the Directors and senior management of the Company and conducting preliminary review on their qualifications and credentials, including proposing to the Board on its size and composition in accordance with the Company's operating results, assets and shareholding structure; reviewing the procedures and criteria for determining the candidates for the Directors and chief executive officer of the Company and making proposals to the Board of Directors; and looking widely for the qualified candidates for the Directors.

During the year ended December 31, 2016, the Nomination Committee held one meeting on March 14, 2016, the details of which are as follows:

Name	Position	Meetings attended/ Meetings eligible to attend	Attendance Rate
Li Boqian	Independent non-executive Director	1/1	100%
Li Xiaohui	Independent non-executive Director	1/1	100%
Zhang Xi[1]	Executive Director	1/1	100%
Wang Keling[2]	Non-Executive Director	/	/

Note:

1. Mr. Zhang Xi resigned as the member of the Nomination Committee of the Board of Directors on December 23, 2016.

2. Mr. Wang Keling was appointed as an non-executive Director and the member of the Nomination Committee of the Board of Directors on December 23, 2016. Subsequent to his appointment, no Nomination Committee meeting was convened during the year ended December 31, 2016.

2.3 Remuneration and Assessment Committee

The Remuneration and Assessment Committee consists of three Directors: Mr. Yip Wai Ming (independent non-executive Director), Ms. Li Xiaohui (independent non-executive Director) and Mr. Zhang Xi (executive Director). Mr. Yip Wai Ming currently serves as the chairman of the Remuneration and Assessment Committee.

The Company has adopted the model recommended by the Remuneration and Assessment Committee to the Board of Directors to determine the remuneration packages of executive Directors and senior management.

The primary responsibilities of the Remuneration and Assessment Committee are formulating the criteria for and conducting assessment on the Directors and senior management as well as determining and reviewing the remuneration policies and plans for the Directors and senior management, including formulating remuneration plans and proposals in accordance with the terms of reference of the Directors and senior management and the importance of their positions as well as the remuneration benchmarks for the relevant positions in other comparable companies; the remuneration plans and proposals include, but not limited to criteria, procedures and main assessment system for performance assessment, main proposals and regulations on award and punishment; reviewing the performance of the Directors and senior management and conducting annual assessment on their performance and results; supervising the implementation of the remuneration policies of the Company; and other matters that the Board of Directors has authorized it to deal with.

During the year ended December 31, 2016, the Remuneration and Assessment Committee held one meeting on March 14, 2016, the details of which are as follows:

Name	Position	Meetings attended/ Meetings eligible to attend	Attendance Rate
Yip Wai Ming	Independent non-executive Director	1/1	100%
Li Xiaohui	Independent non-executive Director	1/1	100%
Jiang Yingchun[1]	Executive Director	1/1	100%
Zhang Xi[2]	Executive Director	/	/

Note:

1. Mr. Jiang Yingchun resigned as the member of the Remuneration and Assessment Committee of the Board of Directors on December 23, 2016.

2. Mr. Zhang Xi was appointed as the member of the Remuneration and Assessment Committee of the Board of Directors on December 23, 2016. Subsequent to his appointment, no Remuneration and Assessment Committee meeting was convened during the year ended December 31, 2016.

2.4 Art Committee

The Art Committee of the Company consists of three Directors: Mr. Zhang Xi (executive Director), Mr. Jiang Yingchun (executive Director) and Mr. Li Boqian (independent non-executive Director). Mr. Zhang Xi currently serves as the chairman of the Art Committee.

The primary responsibilities of the Art Committee are: conducting research and making proposals on the plans for investments and operation of the Company in culture and arts; conducting research and making proposals on important projects which involve culture and arts and need to be approved by the Board of Directors pursuant to the Articles; conducting research and making proposals on important investment projects of significant international influence; conducting research and making proposals on the projects for which the management consider necessary to obtain the opinions of the Art Committee; presenting suggestions and proposals directly to the Board of Directors if the Art Committee consider it necessary; and other matters that the Board of Directors has authorized it to deal with.

No meeting of the Art Committee was convened for the year ended December 31, 2016.

2.5 Strategy Committee

The Strategy Committee of the Company consists of five Directors: Mr. Xu Niansha (executive Director), Mr. Zhang Xi (executive Director), Mr. Wang Lin (non-executive Director), Mr. Jiang Yingchun (executive Director) and Ms. Li Xiaohui (Independent non-executive Director). Mr. Xu Niansha currently serves as the chairman of the Strategy Committee.

The primary duties of the Strategy Committee are: to consider and make recommendations on the strategic plan for the Company's long-term development; to consider and make recommendations on the material investments and financing plans, subject to the Board of Directors' approval, in accordance with the Articles; to consider and make recommendations on material capital operation and asset operating projects, which are subject to the Board of Directors' approval, in accordance with the Articles; to consider and make recommendations on other material matters that will affect the development of the Company; to review the implementation of above matters; and other matters that the Board of Directors has authorized it to deal with.

During the year ended December 31, 2016, the Strategy Committee held one meeting on March 21, 2016, the details of which are as follows:

Name	Position	Meetings attended/ Meetings eligible to attend	Attendance Rate
Xu Niansha	Executive Director	1/1	100%
Zhang Xi	Executive Director	1/1	100%
Jiang Yingchun	Executive Director	1/1	100%
Wang Lin	Non-executive Director	1/1	100%
Li Nan[1]	Executive Director	1/1	100%
Li Xiaohui[2]	Independent non-executive Director	/	/

Note:

1. Mr. Li Nan resigned as a non-executive Director and the member of the Strategy Committee of the Board of Directors on December 23, 2016.

2. Ms. Li Xiaohui was appointed as the member of the Strategy Committee of the Board of Directors on December 23, 2016. Subsequent to her appointment, no Strategy Committee meeting was convened during the year ended December 31, 2016.

3. DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors has confirmed its responsibility for preparing annual financial statements of the Company for the year ended December 31, 2016.

The Board of Directors is responsible for submitting a well-defined assessment on the annual and interim reports, stock price sensitive information, and other matters that need to be disclosed according to the Listing Rules and other regulatory provisions. The management has provided relevant and necessary explanation and information to the Board of Directors so that the Board of Directors could make informed assessment on the financial data and position of the Company for examination and approval.

The Company does not face any significant uncertainty likely to give rise to the significant doubt of the Company's capability of sustained operations.

4. COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules 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 during the Reporting Period.

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.

5. JOINT COMPANY SECRETARIES

In 2016, Mr. Chen Peng was the secretary to the Board of Directors and the joint secretary of the Company, who was responsible for advising the Board on corporate governance matters and ensuring compliance with the Board's policies and procedures as well as compliance with relevant laws and regulations. In order to maintain good corporate governance practices and to ensure compliance with the Listing Rules and applicable laws, the Company has also appointed Ms. Yung Mei Yee as the joint company secretary of the Company to assist Mr. Chen Peng in the performance of his duties as the company secretary.

The joint company secretary Ms. Yung Mei Yee resigned from her position on March 24, 2016. On the same day, the Board of Directors approved to appoint Ms. Mok Ming Wai, the director of KCS Hong Kong Limited (凱譽香港有限公司), a company secretarial services provider, as the joint company secretary of the Company to assist Mr. Chen Peng in performing his duties as a company secretary of the Company. Mr. Chen Peng and Ms. Mok Ming Wai participated in not less than 15 hours of relevant professional trainings in 2016 in accordance with Rule 3.29 of the Listing Rules.

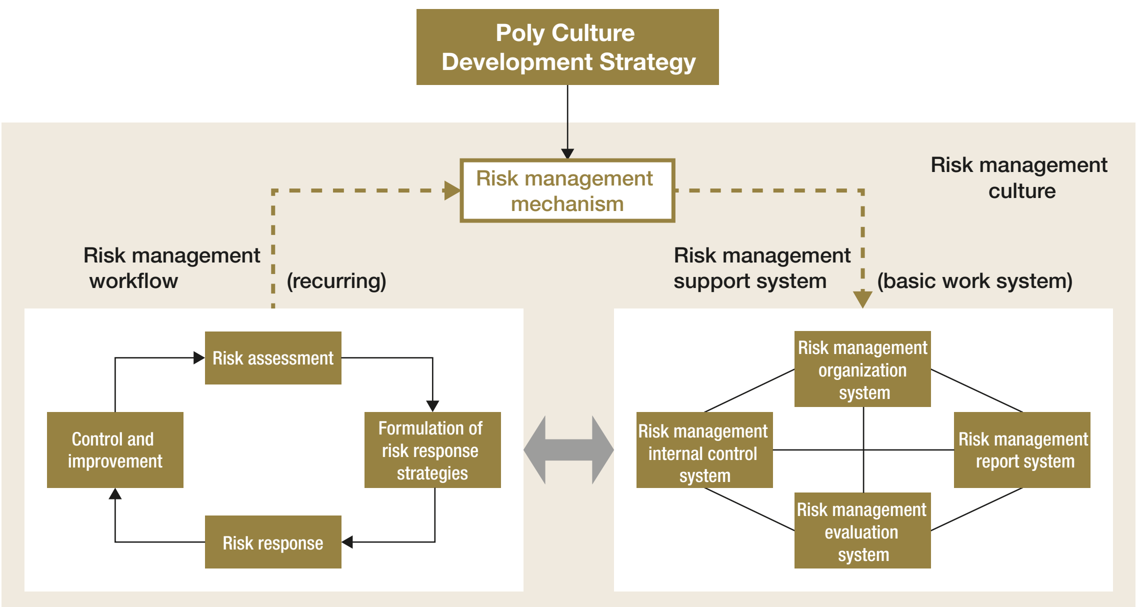
Due to work adjustment, Mr. Chen Peng resigned from his position as the joint company secretary of the Company on January 6, 2017. On the same day, the Board of Directors approved to appoint Ms. Wang Wei as the joint company secretary of the Company. Ms. Mok Ming Wai will continue to serve as the joint 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.

The joint company secretaries of the Company proposed to participate in relevant professional trainings in 2017 to meet the requirements of Rule 3.29 of the Listing Rules.

6. INTERNAL CONTROL AND RISK MANAGEMENT

The Company has prepared the "Comprehensive Risk Management Manual" which was considered and approved by the third meeting of the second session of the Board. Its aims are to enhance the risk management level of the Company through the establishment and operation of the systematic risk management mechanism (i.e., the comprehensive risk management system), in order to prevent, resolve, and reasonably undertake or exploit the risks faced by the Company to promote sustained, healthy and stable development for the Company.

The Company's comprehensive risk management mechanism mainly comprises four main components: risk management strategies, risk management assurance system, risk management workflow and risk management culture (see below). The four main components are interdependent, interactive and interrelated. They ensure the operation of the Company's comprehensive risk management functions.

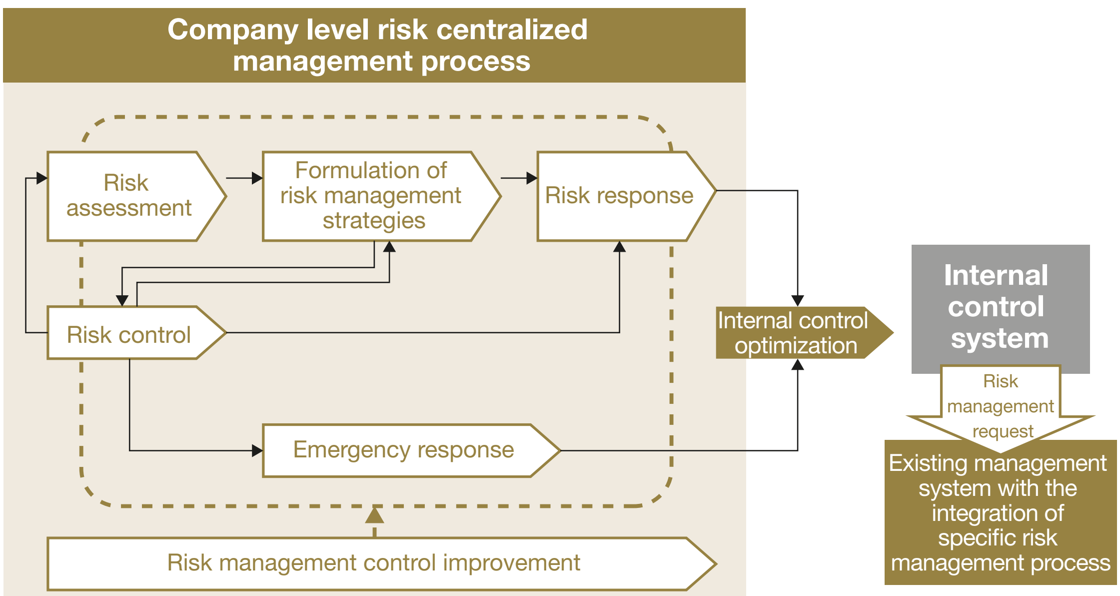


The Company's comprehensive risk management organization is divided into four-tiers, namely risk management decision-making body, comprehensive risk management leading team, risk management executive body and risk management supervisory body, where the risk management executive body is further divided into risk centralized management function department and specific risk management department.

The Board of Directors of the Company is the ultimate decision-making body of Poly Culture in respect of risk management. Comprehensive risk management team shall be responsible for the management and decision-making of the Company's risk management matters and the provision of guidance and coordination to risk centralized management function department, specific risk management department under the authorization of the Board of Directors of the Company. The enterprise development department is the risk centralized management function department of Poly Culture, it carries out risk centralized management functions, and is responsible for the centralized management of risk, the organization and arrangement of the Company's cross-divisional and other risk management activities. Specific risk management departments are established under the Company and its subsidiaries to, on one hand, participate in cross-divisional and other relevant risk management activities at subsidiary level under the organization and coordination by the risk centralized management function department and, on the other hand, carry out corresponding specific risk management assessments and follow-up measures during the department's operations and management activities.

The audit and supervision department is the risk management supervisory body of Poly Culture, which is responsible for the supervision and inspection of the general operation of the comprehensive risk management of Poly Culture.

The Company refines its risk management process framework by dividing it into risk centralized management process and specific risk management process. (as below)

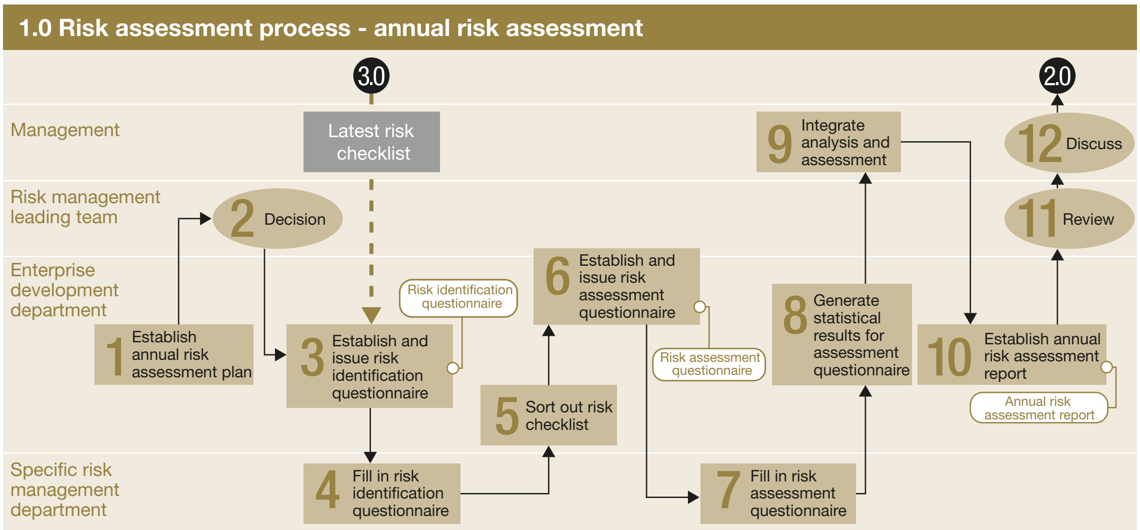


Risk management process framework

The Company oversees the improvement of six processes under the risk centralized management process, namely risk assessment, formulation of risk management strategies, risk response, risk control, risk contingency and risk management supervision. Specific risk management process shall always be integrated into the existing management mechanism, with the relevant management systems and procedural documents of each functional departments and procedures as the main vehicle for implementation.

Corporate Governance Report

The Company has established a risk assessment mechanism (see below) to carry out a comprehensive risk assessment for the risks faced by the Company on an annual basis. The Company will formulate risk management strategies and implement risk responses for significant risks identified during the annual risk assessment, which should be prioritized.



The Company has established a comprehensive risk management evaluation mechanism to continuously monitor and evaluate the efficiency and effectiveness of risk management. The Company plan to conduct a comprehensive risk management evaluation on an annual basis, to evaluate the implementation and completion of risk management tasks of the subsidiaries and to improve and enhance the comprehensive risk management of the Company according to the evaluation results.

Based on the overall operation of the comprehensive risk management mechanism, the Company conducts risk management supervision and evaluation on a regular basis and makes risk management supervision and evaluation report. The Company commences risk management enhancement pursuant to the advice on improving risk management stated in the report. The audit and supervision department keeps track of the progress of the improvement in risk management and make adjustments to the plans as needed in a timely manner.

The Company prepares annual report on Annual Comprehensive Risk Management and the Specialized Risk Management Report on an annual basis. On the basis of in-depth investigation and distribution of risk assessment surveys, the Company identified the potential risks of the whole year item by item, and rearrange their orders with respect to their importance to explore in-depth the causes of risk and estimate the impact of the risks for the formulation of corresponding solutions and responses to ensure smooth and stable business operations throughout the year, and to minimize the adverse effects brought by the potential risks. Based on the results of the report, the Company will actively formulate responses and pay close attention to the implementation of the plans to ensure that all potential risks are within the controllable range and no major losses will be incurred due to the potential risks throughout the year.

The Directors understand that the Board is responsible for maintaining a sufficient internal control system to safeguard the investments by the Shareholders and the assets of the Company as well as to review the effectiveness of the system on an annual basis. The risk control functions assumed by the Board of Directors are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group communicates with relevant parties in a timely manner for the identified significant internal control deficiency, and carefully assesses the potential risks. The controlling department are responsible for rectification measures, and approval from the supervisor level must be obtained prior to the implementation. Supervisor level and internal control audit department are to monitor the implementation status to ensure the deficiency is resolved and monitored timely and properly. The Audit Committee assists the Board of Directors in fulfilling its supervision and corporate governance responsibilities, covering the finance, operations, compliance, risk management and internal control of the Company. The Board of Directors has reviewed the effectiveness of the Company's internal control system and considered the internal control system effective and adequate.

- The Company is aware of its obligations under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately after such information and/or the subject of a decision comes to our attention unless it falls within the Safe Harbor set out in the SFO;

- The Company conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Stock Exchange in 2008 respectively; and

- The Company has established and implemented procedures for responding to external enquiries about the Group's affairs. Senior management of the Company is identified and authorized to act as the Company's spokesperson and responds to enquiries in allocated areas of issues.

7. AUDITOR'S REMUNERATION

For the year ended December 31, 2016, the remuneration to external auditor in respect of its audit and audit-related services and non-audit services were RMB4.68 million and RMB0.5 million, respectively.

Corporate Governance Report

8. GENERAL MEETINGS

During the year ended December 31, 2016, the Company convened two general meetings, as detailed below:

Date	Venue	Meetings
June 7, 2016	Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing	Annual general meeting of 2015
December 23, 2016	Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing	Extraordinary general meeting of 2016

Attendance by Directors:

Name	Position	Meetings attended/ Meetings eligible to attend	Attendance Rate
Xu Niansha[1]	Chairman and executive Director	0/2	0%
Zhang Xi[2]	Vice chairman and executive Director	1/2	50%
Jiang Yingchun	Chief executive officer and executive Director	2/2	100%
Hu Jiaquan[3]	Executive Director	/	/
Wang Lin	Non-executive Director	2/2	100%
Wang Keling[4]	Non-executive Director	/	/
Li Boqian	Independent non-executive Director	2/2	100%
Li Xiaohui	Independent non-executive Director	2/2	100%
Yip Wai Ming[5]	Independent non-executive Director	1/2	50%
Outgoing Director			
Li Nan	Vice chairman and executive Director	2/2	100%
Zhao Zigao[6]	Non-executive Director	0/2	0%

Note:

1. Mr. Xu Niansha was not able to attend the annual general meeting of 2015 on June 7, 2016 and the extraordinary general meeting of 2016 on December 23, 2016 due to working reasons.

2. Mr. Zhang Xi was not able to attend the extraordinary general meeting of 2015 on June 7, 2016 due to working reasons.

3. Mr. Hu Jiaquan was appointed on December 23, 2016. Subsequent to his appointment, no general meeting was convened for the year ended December 31, 2016.

4. Mr. Wang Keling was appointed on December 23, 2016. Subsequent to his appointment, no general meeting was convened for the year ended December 31, 2016.

5. Mr. Yip Wai Ming was not able to attend the annual general meeting of 2015 on June 7, 2016 due to personal working reasons.

6. Mr. Zhao Zigao was not able to attend the annual general meeting of 2015 on June 7, 2016 and the extraordinary general meeting of 2016 on December 23, 2016 due to working reasons.

9. COMMUNICATIONS WITH SHAREHOLDERS

The Company continuously attaches great importance to maintaining and developing investor relations for a long time, enhances transparency of the corporate information by promptly and effectively releasing the corporate information to the public, and has established effective channels for the Company to communicate with the investors.

9.1 Shareholders' Rights

Where the Company convenes a general meeting, a notice of the meeting in written form or in electronic form (by publishing announcement on, including but not limited to, the websites of the Stock Exchange's for information disclosure and the Company's) shall be given not less than 45 days before the date of the meeting to notify all of the Shareholders in the Shareholders' register of the matters to be considered and the date and venue of the meeting to be held. Any Shareholder intending to attend the meeting shall deliver to the Company a written reply showing his/her intention to attend at least 20 days before the meeting.

Shareholder(s) holding more than 10% of the Company's shares, individually or jointly, shall have the right to request the Board of Directors in writing to convene an extraordinary general meeting or a class general meeting. The Board of Directors shall provide its written feedback on agreeing or disagreeing to convene an extraordinary general meeting or a class general meeting within 10 days after receiving the proposal in accordance with the provisions of laws, administrative regulations and the Articles.

If the Board of Directors agrees to convene an extraordinary general meeting or a class general meeting, a notice of general meeting shall be issued within five days after the resolution of the Board of Directors meeting is made. The changes to the original proposal in the notice shall be subject to consent of the Shareholders who make the said proposal.

If the Board of Directors disagrees to convene an extraordinary general meeting or a class general meeting or fails to make any feedback within 10 days after receiving the proposal, Shareholder(s) holding more than 10% of the Company's shares, individually or jointly, shall have the right to request the Board of Supervisors in writing to convene an extraordinary general meeting or a class general meeting.

According to the Articles, Shareholders who individually or collectively hold more than 3% of the Shares may submit a proposal to the Board in writing 10 days before the date of the general meeting. The Board shall notify other Shareholders within two days upon the receipt of the proposal and include it for consideration at the general meeting. The written proposal shall be addressed to the Board.

9.2 Inquiry and Communication of Shareholders

The Company releases its announcements, financial data and other relevant data on its website www.polyculture.com.cn, which serves as a channel facilitating effective communication. The Shareholders may send any inquiry in writing to the Company's principal place of business in Hong Kong. The Company will properly handle all inquiries in time.

The Board of Directors welcomes suggestions from Shareholders, and encourages Shareholders to attend general meetings to directly express misgivings that they may have to the Board of Directors and the management. Usually, the chairman of the Board of Directors and the chairmen of respective committees would attend annual general meetings and other general meetings to answer questions put forward by Shareholders.

Detailed voting procedure and resolutions voted on are set out in the Shareholders' circulars before the general meetings.

10. INVESTOR RELATIONS

The Company considers it crucial to provide investors with accurate information in a timely manner and maintain communication with investors through effective communication channels, with an aim to enhance mutual understanding between investors and the Company and improve the transparency of the Company's information disclosure.

In accordance with the Listing Rules, the Company shall duly disseminate its corporate information via various channels. Such channels include annual reports, announcements and Company website. After formal announcement of its results in accordance with the Listing Rules, the Company will arrange for meetings during which the management will answer questions from investors. The Company will meet overseas investors and facilitate communication with them through analysts' conferences and roadshows.

11. ARTICLES OF ASSOCIATION AND AMENDMENTS

The Articles took effect on the Listing Date. During the year ended December 31, 2016, there has not been a significant change in the Articles.

The Articles are available on the websites of the Stock Exchange and the Company.

Profile of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Xu Niansha, aged 60, joined the Company in December 2014 and has been the chairman of the Company since then. Mr. Xu has been the chairman of Poly Group since May 2013. Mr. Xu has also been an executive of Straco Corporation Limited (新加坡星雅集團) and a member of the 12th national committee of the Chinese People's Political Consultative Conference. Mr. Xu has successively served as the general manager of Huahai Real Estate Development Corporation (華海房地產開發公司), the chairman and the general manager of China Ocean Aviation Group Limited (中國海洋航空集團公司), the vice chairman of China National Machinery Industry Corporation (中國機械工業集團有限公司), the vice chairman of CITIC Offshore Helicopter Co., Ltd. (中信海洋直升機股份有限公司) and other positions. Mr. Xu obtained a doctoral degree in law and a doctoral degree in economics. Mr. Xu was granted the qualification of senior engineer in professor level.

Mr. Zhang Xi, aged 54, joined the Company in December 2014 and has been an executive Director of the Company since then. Mr. Zhang has been the vice chairman of the Company since December 2016. Mr. Zhang has been the vice general manager of Poly Group since September 2014. Mr. Zhang has also been the chairman of Beijing New Poly Plaza Real Estate Development Co., Ltd. (新保利大廈房地產開發公司), an director of Poly Permanent Union Holding Group Limited (保利久聯控股集團有限責任公司), an director of Guizhou Jiulian Industrial Explosive Materials Development Co., Ltd. (貴州久聯民爆器材發展股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 002037) and the curator of Poly Art Museum (保利藝術博物館). Mr. Zhang joined Poly Group since 1996 and successively served as the project manager of finance department of Poly Group, the chief accountant of Poly Plaza Co., Ltd. (保利大廈有限公司), the vice general manager and the general manager of Poly Finance Co., Ltd. (保利財務有限公司), the assistant to general manager of Poly Group and the chairman of Poly Energy Holdings Co., Ltd. (保利能源控股有限公司). Mr. Zhang served as the vice general manager and the chief accountant of Poly Real Estate Group Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 600048). Mr. Zhang obtained a bachelor's degree in economics and was granted the qualification of senior accountant.

Mr. Jiang Yingchun, aged 48, joined the Company in December 2001, and is an executive Director and Chief Executive Officer of the Company. Mr. Jiang served as assistant to general manager from December 2001 to February 2007, and vice general manager from February 2007 to November 2010. Mr. Jiang has been the Chief Executive Officer and an executive Director since December 2010. Mr. Jiang is currently the chairman of Poly Auction Beijing, chairman of Poly Auction Hong Kong, chairman of Poly Art Centre, Poly Theatre Management, the chairman of Poly Film, the Chairman of Poly Music Art and a director of North America Company. Mr. Jiang holds a bachelor's degree in History majoring in archaeology and qualification of editor.

Mr. Hu Jiaquan, aged 56, joined the Company in May 2016 and has been the deputy secretary of the party committee and the secretary of the Discipline and Inspection Commission of the Company. Mr. Hu was appointed as an executive Director of the Company on 23 December 2016. Mr. Hu served as the chief accountant and deputy manager of Poly Construction Development Company (保利建設開發總公司), the chief accountant and the vice general manager of Beijing New Poly Plaza Real Estate Development Co., Ltd. (新保利大廈房地產開發公司), the executive vice general manager of Poly (Beijing) Real Estate Development Co., Ltd. (保利（北京）房地產開發有限公司), the general manager of Poly (Baotou) Real Estate Development Co., Ltd. (保利（包頭）房地產開發有限公司) and other positions. Mr. Hu holds a bachelor's degree in economics.

Profile of Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Wang Lin, aged 53, joined the Company in March 2013 and has been a non-executive Director since then. Mr. Wang also serves as the vice general manager of Poly Group, a director and the general manager of Poly International Co., Ltd., the chairman of Poly Mining Investment Co., Ltd., and the chairman of Sino Africa Investment and Development Co., Ltd. (中非投資發展有限公司). Mr. Wang holds a master's degree in literature and qualification as a lecturer.

Mr. Wang Keling, aged 52, joined the Company in December 2016 and has been the non-executive Director since then. Mr. Wang also serves as a director of the Human Resource Management Centre and the director of the human resources department of Poly Group. Mr. Wang served as the vice general manager of Poly Energy Holdings Limited, the deputy director of the administrative affairs office of the Poly Group, the director of the human resources department and other positions. Mr. Wang holds a master's degree in military science and was granted the qualification of engineer.

Independent non-executive Directors

Mr. Li Boqian, aged 80, joined the Company in December 2013 and has been an independent non-executive Director since then. Mr. Li has been a teacher in Archaeology Department of Peking University since 1961 and has been a professor and doctoral tutor of School of Archaeology and Museology of Peking University since 1990 and 1996, respectively. Mr. Li holds a bachelor's degree in Archaeology.

Ms. Li Xiaohui, aged 49, joined the Company in December 2010 and has been an independent non-executive Director since then. Ms. Li has served as a professor and doctoral tutor of the School of Accountancy of the Central University of Finance and Economics and a member of the Professional Technology Consultancy Committee of the Association of Registered Accountants of the PRC (中國註冊會計師協會專業技術諮詢委員會) since January 2007. Ms. Li is currently an independent non-executive director of Kailuan Energy Chemical Co., Ltd. (開深能源化工股份有限公司), Bank of Beijing Co., Ltd. (北京銀行股份有限公司), China U-Ton Holdings Limited (中國優通控股有限公司) and Fangda Carbon New Material Technology Co., Ltd. (方大炭素新材料科技股份有限公司). Ms. Li holds a doctoral degree in Economics.

Mr. Yip Wai Ming, aged 51, joined the Company in December 2013 and has been an independent non-executive Director since then. Mr. Yip is currently an independent non-executive director of Ju Teng International Holdings Limited (巨騰國際控股有限公司), Pax Global Technology Limited (百富環球科技有限公司), Far East Horizon Limited (遠東宏信有限公司) and Yida China Holdings Limited (億達中國控股有限公司). Mr. Yip is a member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Chinese Institute of Certified Public Accountants. Mr. Yip holds a bachelor's degree in social sciences and a bachelor's degree in law.

SUPERVISORS

Mr. Chen Yuwen, aged 52, joined the Company in December 2016 and has been the chairman of the Board of Supervisors since then. Mr. Chen also serves as a director of the Discipline and Supervision Office and the director of the Inspection Office of Poly Group, part-time supervisor of the Supervisory Committee for the State-owned Enterprise (國有企業監事會), a supervisor of Poly International Holdings Co., Ltd., a supervisor of Poly Energy Holdings Limited and other positions. Mr. Chen served as the audit officer of Poly Group, the deputy director and the director of the audit and supervision department of Poly Group and other positions. Mr. Chen holds a bachelor's degree in economics and was granted the qualification of accountant.

Profile of Directors, Supervisors and Senior Management

Mr. Huang Geming, aged 49, joined the Company in December 2016 and has been the supervisor since then. Mr. Huang also serves as the assistant to the general manager of Poly Group, the vice general manager of Poly International Holdings Co., Ltd., the vice general manager of Poly Investment Holdings Co., Ltd. (保利投資控股有限公司), and the chairman of Poly Automobile Co., Ltd. (保利汽車有限公司) and other positions. Mr. Huang served as the vice general manager, the director, the general manager of Poly Energy Holdings Limited and other positions. Mr. Huang holds a bachelor's degree in engineering and a bachelor's degree in economics.

Mr. Wang Fuqiang, aged 47, joined the Company in January 2011 as an audit officer of the Company. He has been the employee representative supervisor since December 2016. Mr. Wang holds a college degree in accounting. He was granted the qualification of certified accountant and he holds the title of accountant.

SENIOR MANAGEMENT

Mr. Ren Wei, aged 57, joined the Company in August 2000 and has been the vice president of the Company since April 2013. Mr. Ren also serves as the chairman of the North American Company and a director of Poly Theatre Management. Mr. Ren holds a master's equivalent degree in enterprise management.

Mr. Zhou You, aged 56, joined the Company in 2003 and has been the vice president of the Company since January 2003. Mr. Zhou also serves as a director of Poly Theatre Management and Beijing Poly Music Art. Mr. Zhou holds a bachelor's degree in literary editing and qualification as an editor.

Mr. Liu Debin, aged 44, joined the Company in March 2011 and has been the vice president since March 2013. Mr. Liu also serves as a director and general manager of Poly Film and a director of Company. Mr. Liu holds a bachelor's degree in Industrial accounting and qualification as a senior economist.

Ms. Wang Wei, aged 49, joined the Company in June 2010 and has been the chief financial officer since April 2013. She has been the joint secretary and the secretary to the Board of Directors since January 2017 and has been the vice president of the Company since March 2016. Ms. Wang also serves as the chairman of Poly Auction Guangdong and Poly Ronghe Financial Leasing, a director of Poly Theatre Management, a director of Poly Auction Beijing, a director of Poly Auction Hong Kong and a director of the North American Company. Ms. Wang holds a bachelor's degree in technology of foreign trade and qualification as a senior accountant.

Mr. Guo Wenpeng, aged 47, joined the Company in 2003 and has served as the vice general manager since August 2015. Mr. Guo also serves as the director and general manager of Poly Theatre Management and a director of Beijing Poly Music Art. Mr. Guo has obtained a master's degree in economics.

Mr. Liu Shibin, aged 43, joined the Company in 2012 and has served as the chief financial officer since February 2017. Mr. Liu Shibin also serves as the chairman of Poly Art Investment, a director of Beijing Poly Auction, a director of Poly Auction Hong Kong, a director of Poly Auction Guangdong and a director of Poly Art Center. Mr. Liu obtains a master's degree in economics and holds qualification as a senior accountant.

Mr. Chen Peng, aged 37, joined the Company in September 2002 and has been the secretary to the Board of Directors from December 2010 up to January 2017. Mr. Chen is also a director of Poly Auction, Poly Art Centre and Poly Film and a supervisor of Poly Theatre Management and Poly Art Investment. Mr. Chen holds a bachelor's degree in chrematistics and qualification as an accountant.

Profile of Directors, Supervisors and Senior Management

APPOINTMENT OR DISMISSAL OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DIRECTORS

Directors

On December 23, 2016, the election of the third session of the Board of Directors of the Company was completed at the extraordinary general meeting of 2016 of the Company. Mr. Xu Niansha, Mr. Zhang Xi, Mr. Jiang Yingchun, Mr. Hu Jiaquan, Mr. Wang Lin, Mr. Wang Keling, Mr. Li Boqian, Ms. Li Xiaohui and Mr. Yip Wai Ming were appointed as the Directors of the third session of the Board of Directors of the Company, with effect from the date of approval by the shareholders' general meeting for a term of three years. The Directors may be re-elected after the expiry of their terms of office. Since the establishment of the new session of the Board of Directors, Mr. Li Nan and Mr. Zhao Zigao ceased to serve as Directors of the Company due to age reason and work adjustment, respectively.

Supervisors

On December 23, 2016, the election of the third session of the Board of Supervisors of the Company was completed at the extraordinary general meeting of 2016 of the Company. Mr. Chen Yuwen and Mr. Huang Geming were appointed as the shareholder supervisors of the third session of the Board of Supervisors of the Company, with effect from the date of approval by the shareholders' general meeting for a term of three years. The Supervisors may be re-elected after the expiry of their terms of office. Since the establishment of the new session of the Board of Supervisors, Mr. Liu Juncai and Mr. Liu Jianmin ceased to serve as Supervisors of the Company due to work adjustment. Through democratic election procedures at the employee representative meeting, Mr. Wang Fuqiang was appointed as the employee representative supervisor of the third session of the Board of Supervisors of the Company for a term of three years, subject to re-election after the expiry of his term of office. Since the establishment of the new session of the Board of Supervisors, Mr. Guo Jianwei ceased to serve as employee representative supervisor of the Company due to work adjustment.

Senior Management

On March 24, 2016, the Board of Directors of the Company approved to appoint Ms. Mok Ming Wai as the joint company secretary, authorised representative and agent for service of process in Hong Kong of the Company. Before that, Ms. Yung Mei Yee has resigned from her position as the joint company secretary, authorised representative and agent for service of process in Hong Kong. The resignation came into effect when the new joint company secretary started to serve. The Company was granted a revised waiver from strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules and in relation to the eligibility of Mr. Chen Peng to act as the joint company secretary of the Company by the Stock Exchange for a period from March 24, 2016 to March 5, 2017.

On December 23, 2016, the Board of Directors of the Company approved to continue to appoint Mr. Jiang Yingchun as the Chief Executive Officer of the Company for a term of three years with effect from December 23, 2016.

On January 6, 2017, the Board of Directors of the Company approved to appoint Ms. Wang Wei as the joint company secretary of the Company. Before that, Mr. Chen Peng has resigned from his position as the joint company secretary of the Company. The resignation came into effect when the new joint company secretary started to serve. The Company was granted a new waiver from strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules and in relation to the eligibility of Ms. Wang Wei to act as the joint company secretary of the Company by the Stock Exchange for a period from January 6, 2017 to January 5, 2020.

ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Principles of reporting

This Environmental, Social and Governance Report (also referred as “ESG Report”) is prepared in accordance with the Environmental, Social, and Governance Reporting Guide published in December 2015 by the Stock Exchange of Hong Kong Limited.

Reporting period

From January 1, 2016 to December 31, 2016.

Reporting scope

Including Poly Culture and its subsidiaries

Data sources

The ESG Report authentically reflects the ESG activities carried out by us. The report adopts the information and data in the official documents and statistics reports of the Company and its subsidiaries.

Communication and exchange with stakeholders

Communication and engagement with stakeholders is the foundation of corporate sustainability. We identified the principal stakeholders of the Group in accordance with the features of the industry and our operations, including shareholders, customers, employees, suppliers and partners. In the meantime, we have established a good and stable communication model with stakeholders through various channels.

Key Issues Identification

The ESG Report discloses information which is in compliance with the materiality principle for the preparation of ESG report in the Environmental, Social, and Governance Reporting Guide to ensure the content disclosed can both reflect the strategic priorities of the Company and the concerns of key stakeholders (shareholders, customers, employees, suppliers and partners, etc.). We conducted a specific survey on the key stakeholders of the Group and identified the main concerns of the internal and external stakeholders, including work safety, use of resources, development and training, etc.

ENERGY SAVING AND ENVIRONMENT

The Company has learnt to promote and strictly complied with the national significant laws and regulations, such as the Environmental Protection Law of the People’s Republic of China, the Power Conservation Law of the People’s Republic of China, in relation to environmental protection as well as energy saving and reduction in emission, insisted on the concept of scientific and green development, effectively saved resources, and simplified processes, so as to create values for the corporate.

The Company has actively advocated saving, green, and low-carbon production and office style, implemented paperless office, established and used the office automation system, promoted re-use of paper in office, and collected used paper for recycling. Meetings are convened through video and telephone meeting equipment to effectively save resources and reduce the emission of carbon and operating costs resulting from flights.

Environmental, Social, and Governance Report

We highly value the energy saving and environmental protection program, which can help slow down the climate changes through energy conservation, emission reduction and greenhouse gas reduction, and enhance efficiency and conserve energy and resources consumed through effective management of the energy and resources including water, electricity and paper used in our operations.

The Company uses water from the urban water supply system mainly for normal office use. As our operation does not involve production process, no substantial impact on rivers, lakes, groundwater and glaciers will be exerted. We have enhanced employees' and customers' awareness of water conservation through publicity and education.

The Company used environmental-friendly materials and solutions instead of purely wooden products for the decoration of cinemas and procure decoration and construction materials in nearby regions to reduce the energy consumption from transportation.

The Company suggests our employees go out on foot or by public transportation and drive as few times as possible and change bad consumption pattern and lifestyle to avoid wasting.

Energy consumption	**Unit**	**Quantity**
Electricity	kwh/year	62,994,792
Area of operating buildings	square meter (m^2)	2,600,127
Energy intensity of operating buildings	kwh/m^2/year	24.23
Water	m^3/year	132,384

Note: Some of the Group's theaters and offices are in a comprehensive business and energy consumption cannot be calculated separately.

Greenhouse gas emission

In FY2016, the energy consumed by us was mainly purchased electricity and water. Pursuant to the Baseline Emission Factors for Regional Power Grids in China promulgated by the Department of Climate Change under the National Development and Reform Commission of the PRC, the indirect greenhouse gas emission in FY2016 amounted to 66 thousand tons of carbon dioxide.

Hazardous wastes

In view of its business nature, the Company is not aware of any significant generation of any hazardous waste and any packaging material used for finished products.

STAFF POLICY

The Company has established good staff training system to facilitate their career development and improve their work-life balance, and will explore and construct a middle to long-term incentive mechanism, striving to create a good environment for innovative development and growth sharing.

The Group strictly complies with the laws and regulations such as the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Social Insurance Law of the People's Republic of China, and has formulated the "Regulation on the Management of Labour Contract for Poly Culture Group Corporation Limited" and the "Code of Conduct for Poly Culture Group Corporation Limited" in accordance with the laws and the practical conditions of the Company, covering aspects such as recruitment and employment, labour relations management, work time attendance and leave management, reward and punishment management, and remuneration and welfare. At the same time, the Group respects the protection of the legitimate rights and interests of employees, constantly improves the employment management system and establishes a good supervision and protection system on the rights and interests of employees.

We strive to build a comfortable and healthy working and living environment to promote employees' physical and mental health. Strictly abiding by the Labour Law of the People's Republic of China, the Prevention and Control of Occupational Diseases Law of the People's Republic of China and relevant local regulations, the Company and the domestic entities mentioned in the report constantly improve the employees' health management and organize health checkups for employees. Its subsidiaries also formulate the corresponding requirements and measures for implementation to ensure employees' physical and mental well-being.

We have strictly prohibited child labor and any form of forced labors. We also respect the rights of all employees to freely join in associations or labor unions. We have not involved in child labor, forced labor and discrimination cases in FY2016.

Staff grouping

As of 31 December 2016, the Group has 6,025 employees in total.

By employment type		
Full-time	6,023	Headcounts
Part-time	2	Headcounts
By gender		
Male	3,537	Headcounts
Female	2,488	Headcounts
By age		
Below 30	2,664	Headcounts
30-50	3,184	Headcounts
50 or above	177	Headcounts
By region		
Beijing	806	Headcounts
Other regions of the Mainland China	5,148	Headcounts
Hong Kong, Macau, and Taiwan regions	62	Headcounts
Other regions	9	Headcounts

Environmental, Social, and Governance Report

Number of employee turnover

For the year ended 31 December 2016, the number of loss in the Group's employees was 1,651, represents a turnover ratio of 27%. The mobility of the services and security personnel employed by theaters and studios is relatively high mainly due to the nature of the Group's business.

By gender		
Male	924	Headcounts
Female	727	Headcounts
By age		
Below 30	1,372	Headcounts
30-50	273	Headcounts
50 or above	6	Headcounts
By region		
Beijing	151	Headcounts
Other regions of the Mainland China	1,484	Headcounts
Hong Kong, Macau, and Taiwan regions	16	Headcounts
Other regions	0	Headcounts

Number of newly hired employees

For the year ended 31 December 2016, the number of the Group's newly hired employees was 2,212. The mobility of the services and security personnel employed by theaters and studies is relatively high mainly due to the nature of the Group's business.

By gender		
Male	1,252	Headcounts
Female	960	Headcounts
By age		
Below 30	1,347	Headcounts
30-50	821	Headcounts
50 or above	44	Headcounts
By region		
Beijing	276	Headcounts
Other regions of the Mainland China	1,911	Headcounts
Hong Kong, Macau, and Taiwan regions	15	Headcounts
Other regions	10	Headcounts

Staff training

For the year ended 31 December 2016, a number of 4,869 employees in total joined the training.

By gender		
Male	2,960	Headcounts
Female	1,909	Headcounts
By duty		
Senior management officers	142	Headcounts
Mid-level management officers	770	Headcounts
Other	3,952	Headcounts

For the year ended 31 December 2016, by gender and duty, the average hours of each employee's training completed:

By gender		
Male	27.11	Average hours
Female	28.59	Average hours
By duty		
Senior management officers	13.83	Average hours
Mid-level management officers	22.84	Average hours
Other	34.63	Average hours

Occupational health and safety

On one hand, the Company has arranged annual health check and health and safety education courses for staff to minimize their health risks. On the other hand, the company has strived to create a safe and protected work environment for all its staff, strictly carried out the regulatory authority's decisions and arrangements in relation to strengthening the work safety, actively implemented various measures of work safety. The Company recorded zero accident in relation to work safety during the year.

	Number of person	Percentage
Injury at work		
Lost days due to work injury	0	N/A
Number of work-related fatalities	0	N/A

SUPPLY CHAIN MANAGEMENT AND PRODUCT LIABILITIES

The Company's main products and services providers include domestic and foreign performing groups, cinema circuit companies, artworks owners, the decoration and construction parties, printers, and others. The Company strives to establish good and long-term cooperative relationships with suppliers and usually chooses suppliers with higher reputation. The Company's audit department also regularly reviews relevant procurement prices (including social responsibilities of the suppliers).

Due to the nature of the Group's business, product liabilities do not apply to the Group.

WORK SAFETY

The cinemas and theatres operated by the Company are crowded locations where the pressure of work safety maintenance is higher. The Company strictly complies with the Copyright Law of the People's Republic of China and the Fire Service Regulations of the People's Republic of China. It has also formulated the Emergency Provisions for Poly Culture Group Corporation Limited and has strictly standardized management, strengthened awareness of work safety, and adopted measures, such as establishing safety committees at various levels, building up rules and systems, and conducting safety spot checks and fire drills, to ensure operating safety.

Environmental, Social, and Governance Report

For the year ended 31 December 2016, enterprises at various levels have set up approximately a hundred safety committees, deployed over 600 full-time and part-time safety management staff, established safety management systems and over 70 emergency plans, and amended and perfected various types of systems and over 60 plans. The Company has managed to promote the sustainable and safe development of the enterprises with the systems as the basis and implementation as a method of protection. The Company recorded zero accident in relation to work safety during the year.

ANTI-CORRUPTION

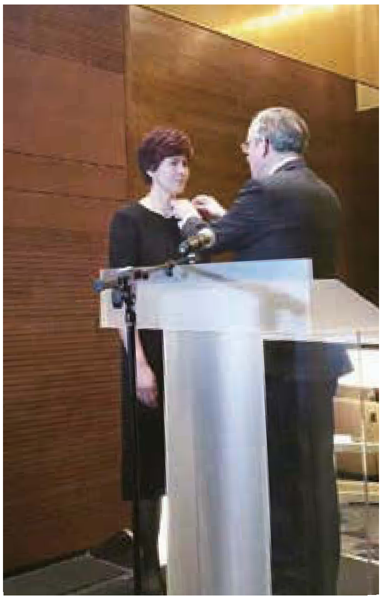
During the year ended 31 December 2016, the Group were not involved in any case of corruption. The Group strictly complies with the Criminal Law of the People's Republic of China and has formulated an anti-money laundering system. It also values the staff training on company management system and anti-corruption training and takes a series of disciplinary actions, including warning, penalty, demotion, or dismissal, in light of any non-compliance with the management system.

SOCIAL RESPONSIBILITIES

Awards

In January 2016, "The Art Market Value List" of 2015 Beijing Auction Season and the Blue Book of 2015 Auction Industry, hosted by Beijing Auction Industry Association, were announced in Beijing. Poly Auction Beijing won three awards for "The Most Influential Auction Company of the Year", "Special Academic Auction of the Year" and "Annual Auction Figure".

In March 2016, French Embassy in China held a grand award ceremony. On behalf of the Minister of French Ministry of Culture, the French ambassador to China, Gu Shan, awarded Xu Jian, the general manager of Beijing Poly Forbidden City Theatre Company, as the French Literature and Art Knight. Starting from 2005, Beijing Poly Forbidden City Theatre Company coordinated closely with French artists in culture communication and corporation. It has invited more than 100 musical groups and musicians, offering more than 230 fantastic performances. Beijing Zhongshan Park Music Hall, as well as Poly Theatre has become the window of China-French culture communication, forming a bridge for the friendship of two countries' people.



On behalf of the Minister of French Ministry of Culture, the French ambassador to China Gu Shan, awarded Xu Jian, the general manager of Beijing Poly Forbidden City Theatre Company, as the French Literature and Art Knight.

In April 2016, Qingdao Grand Theatre was awarded as one of the 2015 Top 15 Chinese Theatres of Comprehensive Vitality and one of the Top 10 Chinese Concert Halls of Comprehensive Vitality by Dao Lue Center for Culture Industry Research (道略演藝產業研究中心). During the last five years, Qingdao Grand Theatre held more than 300 public performances and public speeches, benefiting citizens up to 196,000. In 2016, the outstanding management team of the Qingdao Grand Theatre launched art brands of Annual Exhibition of International Drama and the Season of Urban Comedy with great success. Qingdao Grand Theatre also plans to organize a series of public cultural performances and activities surpassing their achievements last year. These performances and activities contribute greatly to the construction of Culture Qingdao and enrich the cultural lives of the citizens, winning favorable comments and praise from all sectors and citizens in Qingdao.

Environmental, Social, and Governance Report

In May 2016, Poly Culture was listed in the eighth “Top 30 Cultural Enterprises in China”, being reelected for eight consecutive years since the launch of this award in 2008.

In June 2016, Shanghai Culture Enterprise Development Forum selected and awarded excellent enterprises and entrepreneurs in Shanghai cultural industry. Shanghai Oriental Art Center Management Co., Ltd. was awarded as one of the first session of Top 10 Shanghai Cultural Enterprises hosted by Propaganda Department of Communist Party of China Shanghai municipal committee and other units.

In 2016, the theatre company received the honorary titles of “2015 Top Ten Chinese Performing Arts Institutions”, “Top Five Dance Institution”, “Top Five Chinese Children’s Theaters” (中國兒童劇機構五強), “Top ten Box Office of Chinese Children’s Drama” (中國兒童劇票房十強), and “Top ten Box Office of Chinese New Children’s Drama” (中國新創兒童劇票房十強).

On August 23, 2016, the Ministry of Commerce, the Ministry of Culture, relevant departments of the State Administration of Cultural Heritage, and the China Auctioneers Association jointly published the “Global Chinese Art Auction Market Report 2015” and the first Chinese Cultural Relics Artwork Auction Ranking (首屆中國文物藝術品拍賣排行榜) in Beijing. Poly Auction Beijing was awarded “Top ten Enterprise of the Year”, “Market Share Award of the Year”, “Profitability Award of the Year”, and “Social Contribution Award of the Year”. Poly Auction Hong Kong was awarded “Cross-border Market Exploration Award”.

On December 16, 2016, Capital Culture Industry Association, Guang Ming Daily and Beijing Daily News Press jointly held the announcement of the results of the second year’s “Top 30 Capital Cultural Enterprises in China”. Poly Culture Group Corporation Limited was listed in the second session of “Top 30 Capital Cultural Enterprises in China”, which was the second year Poly Culture receiving this honor.

Youth Development

In March 2016, Beijing Poly Music Art Development Corporation Limited, a subsidiary of Poly Culture, held “Grow with Poly, Approvement with Masters – WeDo Opening Ceremony Concert”. The first batch of trainees of Poly WeDo Chambers Orchestra performed together with nationwide famous musicians and groups, witnessing the great achievements of Poly Culture’s devotion to teenagers’ music education.

In March 2016, Poly Culture, together with China Theatre Association, held cross-strait four-region drama lectures with the theme “Times, Environment, Context, Dramatist”. More than 20 famous dramatists from mainland, Hong Kong, Macau and Taipei talked with focus on how to build good drama ecology environment, seek drama talents actively, expand the perspective of drama creation widely and stick to drama quality firmly. They aimed to create a larger stage relying on recourses from the four regions across the straights, and keep promoting the popularization of drama, as well as the participation of audience and marketization. They also aimed to carry out more international corporations, build an international stage and enable the Chinese drama to go global.

Social Assistance

In May 2016, Poly Culture North American Investment Corporation Limited donated 4,600 Canadian dollars in total (equivalent to approximately RMB23,000) through Canadian Red Cross to Canada Alberta Mike Castle, the region that suffered serious forest fires, aiming to help through hard times together.

Environmental, Social, and Governance Report

In June 2016, Poly Theatre Management, together with The National Ballet of China donated more than RMB100,000 in the press conference of opening premiere in memory of the 95th anniversary of the Communist Party's founding, The Red Detachment of Women, of Huai'an Grand Theatre and the "6.23 Yancheng Storm" Disaster Resistance Donation Ceremony, aiming to help to rebuild campus in destroyed areas of Yancheng, Jiangsu Province and go through hard times together.

In November 2016, Poly International Cinema, Beiyuan Central Mall, under Poly Film, the Chaoyang District government, and Sohu.com jointly organized a public welfare activity "Delivering Love" as a charity fundraiser at the cinema to have raised approximately RMB50,000, which was delivered to the home of a Leukemia child patient named Wang Yixuan. Poly Beijing Dongba Cinema under Poly Film organized a flea market fundraiser & Poly Delivering Love as a donation event for Tianrui Rehabilitation Service Center, the organizer of the "Guardian Angel 1+1" activity of the Chaoyang District Disabled service project. The charity event aimed at helping disabled people fit into the society, self-actualize, and let more people to understand and care for this special group of people.

In March 2016, Poly Auction Hong Kong first became auction partner at the charity dinner amfAR, and raised USD480,000, which is to be used for the research and study of AIDs project. In November, the Trade of Jewelry and Goods Department of Poly Auction Hong Kong participated in the 90th anniversary dinner of the Hong Kong Society for the Protection of Children, and raised donation of approximately HKD300,000.

Cultural Go-global

In 2016, Poly Auction Beijing, Poly Auction Hong Kong, Poly Art Center, Poly Art Museum hosted several spring auction art exhibitions, national treasure exhibition of the Summer Palace, art boutique exhibition and academic lectures including "Old Summer Palace's Nation Treasure Exhibition", "Poly Stellaroemia Cutting-edge Art Exhibition", "Old Summer Palace's National Treasure, Southern and Northern Dynasties Stone Exhibition and Patriotism Educational Activities Series Exhibition" "Distant Mountains and Green (遠山晚翠) – Longquan Celadon Exhibition" and "Silk Road – Guo Dikang, the Worldwide Outstanding Chinese Artist, Painting Exhibition" and so on. They created a good space of visiting and learning for the local art lovers, attracting more than 500 thousand Chinese and Foreign art lovers and collectors.

In November 2016, Poly Culture North American Investment Corporation Limited invited the world-renowned China Philharmonic Orchestra to perform a world class symphony concert at a low price for the audience in Vancouver. The performers were led by the well-known command master in the world Yu Long. The Pianist was Wang Yalun. The performance was of an exceptional high quality over the recent few decades and a contribution made to the cultural exchange between China and Canada.

In November 2016, the Vancouver Poly Art Museum, jointly established by Poly Art Center and the North America company, was officially opened to the public. To celebrate the opening, Poly Art Museum brought a total of 42 items of Cultural relics, such as the Old Summer Palace bronze heads and Qianlong royal precious cultural relics, for the first time to the American continent.

Independent Auditor's Report

TO THE SHAREHOLDERS OF
Poly Culture Group Corporation Limited
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Poly Culture Group Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 89 to 172, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent Auditor's Report

ASSESSING THE NET REALISABLE VALUE OF ART INVENTORIES

Refer to note 16 to the consolidated financial statements and the accounting policies on page 106.

The Key Audit Matter	How the matter was addressed in our audit
Art inventories comprise antiquities, works of art, Chinese calligraphy, paintings and sculptures. As at December 31, 2016, the balance of art inventories was RMB1.70 billion, which represented 98% of the total inventories of the Group as at that date. Art inventories are measured at the lower of cost and net realisable value. The art market has been affected by the slowdown of growth of the Chinese economy and domestic art sales have fluctuated in recent years. Accordingly, there is a greater risk that the cost of art inventories held by the Group at the reporting date may be greater than the corresponding net realisable value. Due to the uniqueness and special nature of art inventories, management engages external art experts to assess and evaluate the market value of art inventories to determine their net realisable values at the reporting date. We identified the assessment of the net realisable value of art inventories as a key audit matter because the judgement exercised by management in determining an appropriate level of inventory provisions involves the estimation of the market value of art inventories, which can be inherently uncertain, and because the impact on the consolidated financial statements could be material.	Our audit procedures to assess the net realisable value of art inventories included the following: • obtaining an understanding of recent market trends for art inventories by inspecting recent auction prices and other publicly available information and making enquiries of sales representatives in the auction division. We applied the information obtained from the procedures above to evaluate the assumptions made by management in the determination of provisions for art inventories; • assessing, on a sample basis, whether the external art experts engaged by the Group followed the requirements and procedures as instructed by the Group and whether their appointment had been approved by the General Manager; • assessing the external art experts' experience, qualifications and credentials by inspecting the Group's records and information in the public domain; • making inquiries of the external art experts, on a sample basis, about the factors they considered in their valuations and assessing the valuations by considering market trends, the key factors considered by the external art experts and recent market prices for similar art inventories; • obtaining the valuation reports for art inventories issued by the external art experts as at December 31, 2016, comparing the item number, artist's name (where relevant) and initial cost of all items in the valuation reports with the Group's inventory records and comparing the valuation amount for all art inventories with the respective carrying values to assess whether provisions had been made when required; • assessing, on a sample basis, whether there were any losses or damage to art inventories by attending the inventory count at the year end with the assistance of the external art experts; and • comparing the prices achieved from the sales of art inventories during 2016 with their recorded carrying values as at December 31, 2015 and the prices achieved from the sales of art inventories after December 31, 2016 (where available) to assess the accuracy of management's process for making provisions for art inventories.

PROVISION FOR IMPAIRMENT OF PREPAYMENTS FOR AUCTIONED WORKS OF ART, CONSIGNOR ADVANCES AND LOANS GRANTED UNDER FINANCING ARRANGEMENTS

Refer to notes 15, 18 and 19 to the consolidated financial statements and the accounting policies on page 103.

The Key Audit Matter	How the matter was addressed in our audit
As at December 31, 2016, the total balance of prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements was RMB2.26 billion, which represented 33% of the total assets of the Group as at that date. <u>Prepayments for auctioned works of art</u> Prepayments for auctioned works of art represent the amounts advanced to sellers of works of art who have a good credit record or have a long-term business relationship with the Group. Amounts may be advanced to sellers prior to receiving full payment of the auction purchase prices from the relevant buyers using the related auctioned works of art as collateral. The prepayments granted generally represent 40% to 60% of the collateral's auction price.	Our audit procedures to assess the provision for impairment of prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls over the approval, monitoring and collection of prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements; • assessing, on a sample basis, whether the collateral held was in good condition by attending the physical count of collateral at the year end; • discussing with management their assessment of doubtful receivables and assessing whether the receivables had been included in the appropriate ageing category in the ageing report by comparing the details of individual receivables, on a sample basis, with contracts and relevant bank transfer documentation; • assessing the categorisation of loans granted under financing arrangements in the loans ageing report by comparing details of a sample of loans with the underlying loan agreements;

PROVISION FOR IMPAIRMENT OF PREPAYMENTS FOR AUCTIONED WORKS OF ART, CONSIGNOR ADVANCES AND LOANS GRANTED UNDER FINANCING ARRANGEMENTS *(Continued)*

The Key Audit Matter	How the matter was addressed in our audit
Consignor advances The Group provides certain qualified collectors and art dealers with advances secured by works of art which are held by the Group as collateral. If the work of art is sold in auction, the proceeds received from the buyer, after deducting commission, advances, interest and relevant taxes will be paid to the consignor. If the secured work of art remains unsold, the consignor will be required to repay the advance together with interest before the work of art is returned to the consignor. The advances granted generally do not exceed 30% of the collateral's estimated value. At the year end, management conducted an impairment assessment of prepayments for auctioned works of art and consignor advances (collectively "the receivables" hereinafter), to access the recoverability of the receivables. Management reviewed long aged receivables and those individually greater than RMB5 million for potential impairment. Management assessed potential impairment of receivables by engaging external art experts to assess and evaluate the market value of the collateral held to determine if any impairment was required as at the reporting date.	• obtaining the valuation reports for works of art held as collateral at the year end, which were prepared by external art experts, for long aged receivables and overdue loans and comparing the collateral item number and the artist's name (where relevant) in the valuation reports with the collateral list maintained by the Group; • assessing the qualifications, experience and reputation of the external art experts engaged by management to value the collateral by inspecting their credentials, which were provided by management or were extracted from publicly available information; • inquiring of the external art experts about the factors they considered in their valuations and assessing the valuations by considering market trends, the key factors considered by the external art experts and recent market prices for similar antiquities or works of art;

PROVISION FOR IMPAIRMENT OF PREPAYMENTS FOR AUCTIONED WORKS OF ART, CONSIGNOR ADVANCES AND LOANS GRANTED UNDER FINANCING ARRANGEMENTS *(Continued)*

The Key Audit Matter	How the matter was addressed in our audit
Loans granted under financing arrangements The Group also grants term loans secured by works of art. The recoverability of these loans is reviewed by management with reference to the credit-worthiness and financial strength of the borrowers and the latest market value of the related works of art held as collateral. Loans granted generally represent 50% to 80% of the collateral's estimated value. As at the year end, management conducted an impairment assessment of overdue loans. This was performed by engaging external art experts to assess and evaluate the market value of the collateral held to determine if any impairment was required as at the reporting date. We identified provision for impairment of prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements as a key audit matter because of its significance to the consolidated financial statements and because the judgement exercised by management in determining an appropriate level of impairment provisions for receivables and loans involves the estimation of the market value of art collateral, which can be inherently uncertain.	• evaluating the provision for impairment made by management for individual balances of the receivables and loans with reference to the value of collateral held, historical and post year-end payment records and through inspection of correspondence with debtors to identify any disputes and repayment arrangements agreed with debtors; • comparing actual losses and new provisions made during the current year with receivable and loan balances as at December 31, 2015 to assess the reliability of management's impairment assessment process; and • comparing, on a sample basis, the subsequent settlement of the receivable and loan balances as at December 31, 2016 with bank statements and relevant underlying documentation.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yeung Ka Chun.

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

March 31, 2017

Consolidated Statement of Profit or Loss

for the year ended December 31, 2016
(Expressed in Renminbi ("RMB"))

	Note	2016 RMB'000	2015 RMB'000
Revenue	4	**2,682,301**	2,504,965
Cost of sales		**(1,687,045)**	(1,548,610)
Gross profit		**995,256**	956,355
Other revenue	6	**55,563**	22,994
Other net income	6	**99,388**	36,241
Selling and distribution expenses		**(319,187)**	(288,482)
Administrative expenses		**(347,174)**	(338,209)
Profit from operations		**483,846**	388,899
Finance income		**81,698**	79,012
Finance costs	7(a)	**(10,703)**	(5,094)
Share of profits less losses of associates		**(2,616)**	(6,615)
Share of losses of joint ventures		**(2,114)**	(5,896)
Profit before taxation	7	**550,111**	450,306
Income tax	8	**(125,675)**	(117,740)
Profit for the year		**424,436**	332,566
Attributable to:			
Equity shareholders of the Company		**310,607**	237,790
Non-controlling interests		**113,829**	94,776
Profit for the year		**424,436**	332,566
Earnings per share			
Basic and diluted earnings per share (RMB)	11	**1.26**	0.97

The notes on pages 97 to 172 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 24(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended December 31, 2016
(Expressed in Renminbi ("RMB"))

	Note	2016 RMB'000	2015 RMB'000
Profit for the year		**424,436**	332,566
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside the PRC		**20,344**	9,971
Total comprehensive income for the year		**444,780**	342,537
Attributable to:			
Equity shareholders of the Company		**323,531**	242,211
Non-controlling interests		**121,249**	100,326
Total comprehensive income for the year		**444,780**	342,537

The notes on pages 97 to 172 form part of these financial statements.

Consolidated Statement of Financial Position

at December 31, 2016
(Expressed in Renminbi ("RMB"))

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	12	**665,005**	596,564
Long-term prepayments		**3,278**	3,504
Interest in associates		**10,096**	4,211
Interest in joint ventures	14	**34,710**	32,533
Other financial assets	15	**493,147**	69,741
Deferred tax assets	23(b)	**20,096**	12,073
		1,226,332	718,626
Current assets			
Inventories	16	**1,739,166**	1,661,343
Trade receivables	17	**119,296**	148,106
Consignor advances	18	**790,511**	1,027,364
Deposits, prepayments and other receivables	19	**840,404**	675,182
Restricted cash		**146,055**	1,000
Deposits with original maturities over three months		**75,313**	70,112
Other financial assets	15	**626,003**	–
Current tax assets		**14,735**	–
Cash and cash equivalents	20	**1,371,586**	1,415,268
		5,723,069	4,998,375
Current liabilities			
Bank loans	21	**400,618**	25,133
Trade and other payables	22	**1,823,672**	1,497,782
Current taxation	23(a)	**56,209**	62,989
		2,280,499	1,585,904
Net current assets		**3,442,570**	3,412,471
Total assets less current liabilities		**4,668,902**	4,131,097

The notes on pages 97 to 172 form part of these financial statements.

Consolidated Statement of Financial Position

at December 31, 2016
(Expressed in Renminbi ("RMB"))

	Note	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Bank loans	21	**174,119**	67,822
Deferred revenue		**14,531**	2,665
Deferred tax liabilities	23(b)	**–**	199
Trade and other payables	22	**26,391**	21,588
		215,041	92,274
NET ASSETS		**4,453,861**	4,038,823
CAPITAL AND RESERVES			
Share capital	24(c)	**246,316**	246,316
Reserves		**3,665,628**	3,407,124
Total equity attributable to equity shareholders of the Company		**3,911,944**	3,653,440
Non-controlling interests		**541,917**	385,383
TOTAL EQUITY		**4,453,861**	4,038,823

Approved and authorised for issue by the board of directors on March 31, 2017.

Jiang Yingchun
Director

Liu Shibin
Authorised Non-director

The notes on pages 97 to 172 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended December 31, 2016
(Expressed in Renminbi ("RMB"))

	Attributable to equity shareholders of the Company								
	Share Capital RMB'000 note 24(c)	Share premium RMB'000 note 24(d)(ii)	Capital reserve RMB'000 note 24(d)(i)	PRC statutory reserve RMB'000 note 24(d)(iii)	Retained profits RMB'000	Exchange reserve RMB'000 note 24(d)(iv)	Total RMB'000	Non–controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2015	246,316	1,982,448	(3,996)	77,493	1,166,548	(1,190)	3,467,619	403,381	3,871,000
Changes in equity for 2015:									
Profit for the year	–	–	–	–	237,790	–	237,790	94,776	332,566
Other comprehensive income	–	–	–	–	–	4,421	4,421	5,550	9,971
Total comprehensive income	–	–	–	–	237,790	4,421	242,211	100,326	342,537
Acquisition of non-controlling interests	–	–	(476)	–	–	–	(476)	476	–
Appropriation of reserve	–	–	–	24,097	(24,097)	–	–	–	–
Capital contributions from non-controlling equity owners	–	–	–	–	–	–	–	13,180	13,180
Dividends approved in respect of the previous year	–	–	–	–	(55,914)	–	(55,914)	–	(55,914)
Dividends declared by subsidiaries to non-controlling equity owners	–	–	–	–	–	–	–	(131,980)	(131,980)
Balance at December 31, 2015 and 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

The notes on pages 97 to 172 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended December 31, 2016
(Expressed in Renminbi ("RMB"))

	Attributable to equity shareholders of the Company								
	Share Capital	Share premium	Capital reserve	PRC statutory reserve	Retained profits	Exchange reserve	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	note 24(c)	note 24(d)(ii)	note 24(d)(i)	note 24(d)(iii)		note 24(d)(iv)			
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 2016:									
Profit for the year	-	-	-	-	310,607	-	310,607	113,829	424,436
Other comprehensive income	-	-	-	-	-	12,924	12,924	7,420	20,344
Total comprehensive income	-	-	-	-	310,607	12,924	323,531	121,249	444,780
Appropriation of reserve	-	-	-	25,049	(25,049)	-	-	-	-
Capital contributions from non-controlling equity owners	-	-	-	-	-	-	-	111,350	111,350
Dividends approved in respect of the previous year	-	-	-	-	(65,027)	-	(65,027)	-	(65,027)
Dividends declared by subsidiaries to non-controlling equity owners	-	-	-	-	-	-	-	(76,065)	(76,065)
Balance at December 31, 2016	**246,316**	**1,982,448**	**(4,472)**	**126,639**	**1,544,858**	**16,155**	**3,911,944**	**541,917**	**4,453,861**

The notes on pages 97 to 172 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended December 31, 2016
(Expressed in Renminbi ("RMB"))

	Note	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Profit before taxation		**550,111**	450,306
Adjustments for:			
Depreciation	7(c)	**108,144**	87,561
Net loss on disposal of property, plant and equipment	6	**207**	64
Net gain on disposal of other financial assets	6	**–**	(400)
Impairment (recovery)/losses on trade receivables	7(c)	**(14,721)**	16,159
Impairment losses/(recovery) on deposits, prepayments and other receivables	7(c)	**731**	(310)
Impairment loss on interest in a joint venture	7(c)	**5,709**	–
Gain on disposal of interest in a joint venture	6	**(80,000)**	–
Interest earned from consignor advances		**(75,299)**	(66,123)
Net foreign exchange (gain)/loss		**(2,284)**	2,385
Finance costs	7(a)	**10,703**	5,094
Amortisation of deferred revenue		**(27,228)**	(895)
Share of profits less losses of associates		**2,616**	6,615
Share of losses of joint ventures		**2,114**	5,896
Changes in working capital:			
Increase in inventories		**(77,823)**	(192,534)
Decrease/(Increase) in trade receivables		**43,531**	(15,164)
Increase in loans granted under financing arrangements		**(914,638)**	(66,550)
(Increase)/decrease in deposits, prepayments and other receivables		**(176,582)**	28,754
Decrease in long-term prepayments		**226**	302
Increase in restricted cash		**(145,055)**	(1,000)
Increase in trade and other payables		**426,502**	185,519
Cash (used in)/generated from operations		**(363,036)**	445,679
Tax paid	23(a)		
– PRC income tax paid		**(125,311)**	(92,346)
– Other regions tax paid		**(15,163)**	(38,757)
Net cash (used in)/generated from operating activities		**(503,510)**	314,576

The notes on pages 97 to 172 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended December 31, 2016
(Expressed in Renminbi ("RMB"))

	Note	**2016** **RMB'000**	2015 RMB'000
Cash flows from investing activities			
Payment for the purchase of property, plant and equipment		**(178,897)**	(134,717)
Repayment/(payment) for consignor advances		**236,853**	(142,541)
Gain on disposal of interest in a joint venture		**80,000**	–
Disposal of other financial assets		**–**	500
Addition of deposit with maturity over three months		**(5,201)**	(40,312)
Investments in joint ventures, associates and available-for-sale-equity securities		**(128,383)**	(17,400)
Proceeds from disposal of property, plant and equipment		**68**	356
Interest received		**71,191**	54,593
Net cash generated from/(used in) investing activities		**75,631**	(279,521)
Cash flows from financing activities			
Capital contributions from non-controlling equity owners of subsidiaries		**111,350**	13,180
Proceeds from bank loans		**1,048,283**	290,493
Repayment of bank loans		**(591,391)**	(300,534)
Dividends paid by subsidiaries to non-controlling equity owners		**(110,850)**	(98,830)
Dividends paid to equity shareholders of the Company		**(65,027)**	(55,914)
Borrowing costs paid		**(10,249)**	(5,094)
Net cash generated from/(used in) financing activities		**382,116**	(156,699)
Net decrease in cash and cash equivalents		**(45,763)**	(121,644)
Cash and cash equivalents at January 1	20	**1,415,268**	1,536,301
Effect of foreign exchange rate changes		**2,081**	611
Cash and cash equivalents at December 31	20	**1,371,586**	1,415,268

The notes on pages 97 to 172 form part of these financial statements.

Notes to the Financial Statements

(Expressed in 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") 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 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board (the "IASB") and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on HKSE. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2016 comprise the Group and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the available-for-sale equity securities are stated at their fair value as explained in the accounting policies as set out below (see note 2(g)).

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

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

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

(d) Functional and presentation currency

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

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Subsidiaries and non-controlling interests *(Continued)*

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statements of financial position in accordance with notes 2(n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2(f)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(j)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(f) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Associates and joint ventures *(Continued)*

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 2(j)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. (see note 2(j)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Property, plant and equipment *(Continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Leasehold improvements are depreciated over the shorter of the unexpired term of lease and their estimated useful lives	
– Land, buildings and structures	30 years
– Equipment	3-10 years
– Motor vehicles	3-10 years
– Furniture, fixtures and others	3-10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease and

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Leased assets *(Continued)*

(i) Classification of assets leased to the Group (Continued)

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(j) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(f)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(j)(ii).

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against the respective receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– prepayments; and

– investments in subsidiaries, associates and joint ventures in the Company's statement of financial position

If any such indication exists, the asset's recoverable amount is estimated.

– **Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– **Recognition of impairment losses**

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– **Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(k) Inventories

Inventories mainly consist of works of art owned by the Art business. Inventories are carried at the lower of cost and management's estimate of net realizable value.

Cost is valued on a specific identification basis for works of art.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. Inventories are available for immediate sale. Ultimate timing of the sale is hard to predict given the unique nature of each art piece and the cyclicality of the global art market.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Consignor advances

Consignor advances are recognised initially at fair value less allowance for impairment of doubtful debts (see note 2(j)). It represents financing provided to art collectors prior to their works of art being auctioned off, secured by works of art.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Company issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Art business and auction

(i) Revenue from auction service

Auction service revenue is generally recognised upon settlement of consideration with purchasers and/or sellers and when the related services are provided. Auction service revenue includes buyer premium and seller side commission which are based on a percentage of auction sales.

Interest income earned from consignor advances and loans granted under financial arrangement is recognised as it accrues using the effective interest method.

(ii) Revenue from art business

Revenue from art business is recognised in the period in which the sale is completed, title to the property passes to the purchaser and services have been rendered. The carrying value of art business' inventory sold during the period is recorded as cost of inventories.

(iii) Revenue from investment consultation

Revenue from consultation service is recognised when services have been rendered.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

Performance and theatre management

(i) Revenue from show performance

Income from show performance is recognised when the services have been rendered to the audiences.

(ii) Rendering of theatre management service

Revenue from theatre management is recognised upon the fulfilment of service based on the service contract terms over a period of time. Contracts are generally signed with government agencies relating to theatre management services provided by the Group.

(iii) Rendering of design and consultation services

Revenue from design and consultation services rendered is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Revenue from other services rendered is recognised upon the delivery or performance of the services.

(iv) Rental income – theatre rental

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Cinema investment and management

(i) Movie box office takings

Income from box office takings is recognised when the services have been rendered to the audiences.

Income from gift voucher purchase is recognised when customers exchange for goods or services or upon expiry.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition *(Continued)*

Others

(i) Government grants

Government grants are recognised initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(ii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations which have a functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those polices and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements.

(a) Valuation of artworks inventory

Valuation of artworks inventory is subjective and the net realisable value fluctuates over time. Management relies on the valuation opinion of specialists who consider a number of factors including 1) recent transactions for comparable works of art and 2) supply and demand and current economic environment. Due to the subjectivity involved in estimating the realisable value, if the artwork market deteriorates and the overall economic condition were to deteriorate, actual write-offs would be higher than estimated.

For the work of art held as collateral not included in inventory, if the artwork market were to deteriorate, actual impairment losses on prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements would be higher than estimated.

3 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING THE GROUP'S ACCOUNTING POLICIES *(Continued)*

(b) Impairment losses for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual impairment losses would be higher than estimated.

(c) Impairment losses of non-current assets

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, long-term prepayments, investments in associates and joint ventures and unquoted equity investment, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling price and amount of operating costs.

(d) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires a significant level of judgment exercised by the directors. Any changes in such assumptions and judgments would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

(e) Income tax

The Group is subject to income tax in various jurisdictions. Judgement is required in determining the provision for income tax. There are transactions during the ordinary course of business, for which calculation of the ultimate tax determination is uncertain. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Recognition of deferred tax depends on the management's expectation of future taxable profit that will be available. The outcome of their actual utilisation may be different.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

3 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING THE GROUP'S ACCOUNTING POLICIES *(Continued)*

(f) Contingent liabilities

Management judgment is required in the area of contingent liabilities' particularly in assessing the outcome of possible obligations arising from the transactions as detailed in note 27. Management reassesses the likelihood of the outcome of these possible obligations at each end of the reporting period. Where a change in the probability that an outflow of economic resources will be required to settle the obligation, a provision will be recognised in the period in which such determination is made.

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 year is as follows:

	2016 **RMB'000**	2015 RMB'000
Revenue from art business and auction	**878,846**	905,696
Revenue from performance and theatre management	**1,162,412**	973,478
Revenue from cinema investment and management	**631,010**	597,536
Revenue from other services	**10,033**	28,255
	2,682,301	2,504,965

Notes to the Financial Statements

(Expressed in 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:

– Art business and auction: including auction, buy and sell 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 joint ventures and associates, other financial assets, 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 income, share of profits less losses of associates, share of 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.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

5 SEGMENT REPORTING *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

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 years ended December 31, 2016 and 2015 is set out below:

	Year ended December 31, 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	878,846	1,162,412	631,010	2,672,268
Inter-segment revenue	13,059	–	–	13,059
Reportable segment revenue	891,905	1,162,412	631,010	2,685,327
Reportable segment profit	318,177	46,923	129,146	494,246
Depreciation	(9,928)	(6,995)	(89,103)	(106,026)
Finance income	77,290	9,720	1,276	88,286
Finance costs	(87,491)	–	(6,364)	(93,855)
Reportable segment assets	4,248,745	611,757	899,422	5,759,924
Reportable segment liabilities	3,741,301	351,405	617,200	4,709,906

	Year ended December 31, 2015			
	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	905,696	973,478	597,536	2,476,710
Inter-segment revenue	26,321	–	–	26,321
Reportable segment revenue	932,017	973,478	597,536	2,503,031
Reportable segment profit	307,971	40,732	104,372	453,075
Depreciation	(7,859)	(6,625)	(72,054)	(86,538)
Finance income	71,726	10,710	614	83,050
Finance costs	(93,939)	–	(4,914)	(98,853)
Reportable segment assets	4,141,268	538,918	750,461	5,430,647
Reportable segment liabilities	2,935,950	292,924	504,523	3,733,397

Note: There was no individual customer that represents more than 10 percent of the Group's revenue during the years ended December 31, 2016 and 2015. Further details of concentration of credit risk arising from the Group's customers are set out in note 25(a).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

5 SEGMENT REPORTING *(Continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2016 RMB'000	2015 RMB'000
Revenue		
Reportable segment revenue	**2,685,327**	2,503,031
Elimination of inter-segment revenue	**(13,059)**	(26,321)
Revenue from other services	**10,033**	28,255
Consolidated revenue	**2,682,301**	2,504,965
Profit		
Reportable segment profit	**494,246**	453,075
Revenue from other services	**10,033**	28,255
Unallocated head office and corporate other revenue and other net income	**48,966**	59,644
Share of profits less losses of associates	**(2,616)**	(6,615)
Share of losses of joint ventures	**(2,114)**	(5,896)
Net gain on disposal of other financial assets	**–**	400
Gain on disposal of interest in a joint venture	**80,000**	–
Depreciation	**(108,144)**	(87,561)
Finance income	**81,698**	79,012
Finance costs	**(10,703)**	(5,094)
Unallocated head office and corporate expenses	**(41,255)**	(64,914)
Consolidated profit before taxation	**550,111**	450,306

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

5 SEGMENT REPORTING *(Continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities *(Continued)*

	2016 RMB'000	2015 RMB'000
Assets		
Reportable segment assets	**5,759,924**	5,430,647
Elimination of inter-segment receivables	**(2,320,495)**	(2,229,756)
Other financial assets	**1,119,150**	69,741
Interests in associates	**10,096**	4,211
Interests in joint ventures	**34,710**	32,533
Deferred tax assets	**20,096**	12,073
Unallocated head office and corporate assets	**2,325,920**	2,397,552
Consolidated total assets	**6,949,401**	5,717,001
Liabilities		
Reportable segment liabilities	**4,709,906**	3,733,397
Elimination of inter-segment payables	**(2,320,495)**	(2,229,756)
Current taxation	**56,209**	62,989
Deferred tax liabilities	**–**	199
Unallocated head office and corporate liabilities	**49,920**	111,349
Consolidated total liabilities	**2,495,540**	1,678,178

(c) Geographic information

The Group's operations are mainly located in the 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	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Mainland China	**2,420,282**	2,302,111	**878,647**	630,971
Others	**262,019**	202,854	**327,589**	75,582
	2,682,301	2,504,965	**1,206,236**	706,553

6 OTHER REVENUE AND OTHER NET INCOME

	2016 RMB'000	2015 RMB'000
Other revenue		
Government grants	**47,142**	19,591
Others	**8,421**	3,403
	55,563	22,994
Other net income		
Net foreign exchange gain	**19,595**	35,905
Net gain on disposal of other financial asset	**–**	400
Gain on disposal of interest in a joint venture (note)	**80,000**	–
Net loss on disposal of property, plant and equipment	**(207)**	(64)
	99,388	36,241

Note: In November 2016, the Company sold its 50% equity interest held in Beijing Poly Huayi Media and Culture Co., Ltd. (hereinafter referred to as "Poly Huayi"), which is a joint venture of the Group. The Group holds the investment in Poly Huayi since November 2003. As Poly Huayi had continued to sustain operating losses, the Group has fully provided impairment losses on this investment since the end of 2007. As a result, the Group recognised the gain of RMB80 million relating to the disposal of the interest in Poly Huayi in 2016 upon the disposal.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

7 PROFIT BEFORE TAXATION

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

(a) Finance costs

	2016 RMB'000	2015 RMB'000
Interest expenses	**11,357**	5,471
Less: interest expense capitalised into property, plant and equipment	**654**	377
	10,703	5,094

The borrowing costs have been capitalised at a rate of 3.92% per annum (2015: 4.59%).

(b) Staff costs

	2016 RMB'000	2015 RMB'000
Salaries, wages and other benefits	**495,734**	408,704
Contributions to defined contribution retirement plans (note)	**50,764**	45,108
	546,498	453,812

Note:

Pursuant to the relevant labour rules and regulations in the PRC, the Company and its PRC subsidiaries participated in defined contribution retirement schemes (the "PRC Schemes") organised by the relevant local government authorities for its employees. The Group is required to make contributions to the PRC Schemes at 14% to 20% of average basic salaries of the employees in the cities where the Group operates. The local government authorities are responsible for the entire pension obligations payable to retired employees.

In addition, the Company and some of its PRC subsidiaries have implemented a supplementary defined contribution retirement scheme for the staffs on the voluntary basis. Under the scheme, the Company and its PRC subsidiaries are required to make contributions to the PRC Schemes at 5% of average basic salaries of the employees in the cities where the Group operates.

The Group has no other material obligation to make payments in respect of pension benefits associated with these schemes other than the annual contributions and supplementary retirement plan described above.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

7 PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	2016 **RMB'000**	2015 RMB'000
Depreciation (note 12)	**108,144**	87,561
Impairment (recovery)/losses		
– trade receivables (note 17(b))	**(14,721)**	16,159
– deposits, prepayments and other receivables (note 19)	**731**	(310)
– interest in a joint venture	**5,709**	–
Auditors' remuneration		
– audit and audit-related services	**4,678**	3,800
– non-audit services	**500**	–
Operating lease charges: minimum lease payments	**163,797**	174,146

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2016 **RMB'000**	2015 RMB'000
Current tax (Note 23(a))		
Provision for the year	**132,046**	118,794
Under/(over)-provision in respect of prior years	**1,648**	(579)
	133,694	118,215
Deferred tax (Note 23(b))		
Origination and reversal of temporary differences	**(8,019)**	(475)
	125,675	117,740

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016	2015
	RMB'000	RMB'000
Profit before taxation	**550,111**	450,306
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned (note)	**128,502**	110,756
Tax effect of non-deductible expenses	**3,947**	2,230
Tax effect of non-taxable (income)/losses	**(14,505)**	2,229
Tax effect of unused tax losses not recognised	**8,119**	1,877
Tax effect of temporary differences not recognised	**(602)**	1,727
Tax effect of use of tax losses in prior years	**(1,434)**	(500)
Under/(over)-provision in respect of prior years	**1,648**	(579)
Actual tax expense	**125,675**	117,740

Note:

The Company and its PRC subsidiaries are subject to standard PRC corporate income tax rate of 25% (2015: 25%).

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 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended December 31, 2016				
	Directors' and supervisors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Xu Niansha	–	–	–	–	–
Mr. Zhang Xi	–	–	–	–	–
Mr. Jiang Yingchun	–	498	383	100	981
Mr. Li Nan (note (i))	–	450	362	94	906
Mr. Hu Jiaquan (note (ii))	–	–	–	–	–
Non-executive directors					
Mr. Wang Lin	–	–	–	–	–
Mr. Zhao Zigao (note (iii))	–	–	–	–	–
Mr. Wang Keling (note (iv))	–	–	–	–	–
Independent non-executive directors					
Mr. Li Boqian	134	–	–	–	134
Mr. Yip Wai Ming	134	–	–	–	134
Ms. Li Xiaohui	134	–	–	–	134
Supervisor					
Mr. Guo Jianwei (note (v))	–	576	400	79	1,055
Mr. Liu Juncai (note (v))	–	–	–	–	–
Mr. Liu Jianmin (note (v))	–	–	–	–	–
	402	1,524	1,145	273	3,344

Note i: Mr. Li Nan tendered his resignation as the executive director of the Company with effect from December 23, 2016.

Note ii: Mr. Hu Jiaquan was appointed as the executive director of the Company with effect from December 23, 2016.

Note iii: Mr. Zhao Zigao tendered his resignation as the non-executive director of the Company with effect from December 23, 2016.

Note iv: Mr. Wang Keling was appointed as the non-executive director of the Company with effect from December 23, 2016.

Note v: Mr. Wang Fuqiang, Mr. Chen Yuwen and Mr. Huang Geming were appointed as the supervisor on December 23, 2016, when the term of office of the supervisors Mr. Guo Jianwei, Mr. Liu Juncai and Mr. Liu Jianmin expired.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(Continued)*

	Year ended December 31, 2015				
	Directors' and supervisors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Xu Niansha	–	–	–	–	–
Mr. Zhang Xi	–	–	–	–	–
Mr. Jiang Yingchun	–	535	600	94	1,229
Mr. Li Nan	–	465	549	88	1,102
Non-executive directors					
Mr. Wang Lin	–	–	–	–	–
Mr. Zhao Zigao	–	–	–	–	–
Independent non-executive directors					
Mr. Li Boqian	126	–	–	–	126
Mr. Yip Wai Ming	126	–	–	–	126
Ms. Li Xiaohui	126	–	–	–	126
Supervisor					
Mr. Guo Jianwei	–	330	150	25	505
Mr. Liu Juncai	–	–	–	–	–
Mr. Liu Jianmin	–	–	–	–	–
	378	1,330	1,299	207	3,214

No emoluments were paid by the Group to the directors during the year in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals for the years ended December 31, 2016 and 2015 are set forth below:

	2016 Number of individuals	2015 Number of individuals
Non-directors	**5**	5

The emoluments of the directors are disclosed in note 9. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other emoluments	**4,168**	4,779
Discretionary bonuses	**6,544**	5,051
Contributions to defined contribution retirement plans	**273**	62
	10,985	9,892

The emoluments of the above individuals with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
HKD1,500,001 to HKD2,000,000	**2**	2
HKD2,000,001 to HKD2,500,000	**2**	2
HKD4,000,001 to HKD4,500,000	**1**	1

For the years ended December 31, 2016 and 2015, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

11 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 RMB310,607,000 for the year ended December 31, 2016 (2015: RMB237,790,000) and the weighted average number of ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2016 **No. of shares**	2015 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 December 31	**246,316,000**	246,316,000

(b) Diluted earnings per share

The Company did not have any potential dilutive shares throughout the years of 2016 and 2015. Accordingly, diluted earnings per share is the same as the basic earnings per share.

12 PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements	Land, buildings and structures	Equipment	Motor vehicles	Furniture, fixtures and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At January 1, 2015	343,787	44,016	190,053	35,632	32,667	66,195	712,350
Additions	24,135	–	3,192	4,518	13,173	95,924	140,942
Transfer from construction in progress	70,731	–	35,384	–	2,579	(108,694)	–
Disposals	–	–	(1,860)	(879)	(1,556)	–	(4,295)
At December 31, 2015	438,653	44,016	226,769	39,271	46,863	53,425	848,997
Additions	19,318	–	8,478	4,174	5,202	139,688	176,860
Transfer from construction in progress	66,812	–	35,748	–	5,745	(108,305)	–
Disposals	(249)	–	(1,278)	(909)	(1,084)	–	(3,520)
At December 31, 2016	**524,534**	**44,016**	**269,717**	**42,536**	**56,726**	**84,808**	**1,022,337**
Accumulated depreciation:							
At January 1, 2015	(68,629)	(10,895)	(53,539)	(15,332)	(20,352)	–	(168,747)
Charge for the year	(44,062)	(1,413)	(32,469)	(3,624)	(5,993)	–	(87,561)
Written back on disposals	–	–	1,836	544	1,495	–	3,875
At December 31, 2015	(112,691)	(12,308)	(84,172)	(18,412)	(24,850)	–	(252,433)
Charge for the year	(56,476)	(1,392)	(39,332)	(3,786)	(7,158)	–	(108,144)
Written back on disposals	108	–	1,252	833	1,052	–	3,245
At December 31, 2016	**(169,059)**	**(13,700)**	**(122,252)**	**(21,365)**	**(30,956)**	**–**	**(357,332)**
Net book value:							
At December 31, 2016	**355,475**	**30,316**	**147,465**	**21,171**	**25,770**	**84,808**	**665,005**
At December 31, 2015	325,962	31,708	142,597	20,859	22,013	53,425	596,564

Construction in progress mainly represents cinemas under construction which are not ready for its intended use at the end of the reporting period.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and others RMB'000	Total RMB'000
Cost:				
At January 1, 2015	4,005	3,373	3,677	11,055
Additions	–	–	662	662
At December 31, 2015	4,005	3,373	4,339	11,717
Additions	–	–	209	209
Disposals	–	–	(39)	(39)
At December 31, 2016	**4,005**	**3,373**	**4,509**	**11,887**
Accumulated depreciation:				
At January 1, 2015	(2,756)	(1,645)	(3,108)	(7,509)
Charge for the year	(554)	(257)	(195)	(1,006)
At December 31, 2015	(3,310)	(1,902)	(3,303)	(8,515)
Charge for the year	(554)	(257)	(183)	(994)
Written back on disposals	–	–	37	37
At December 31, 2016	**(3,864)**	**(2,159)**	**(3,449)**	**(9,472)**
Net book value:				
At December 31, 2016	**141**	**1,214**	**1,060**	**2,415**
At December 31, 2015	695	1,471	1,036	3,202

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2016	2015
	RMB'000	RMB'000
Unlisted shares, at cost	**785,220**	665,220
Less: impairment loss	**–**	–
	785,220	665,220

As at December 31, 2016, the subsidiaries of the Company are listed as follows:

Name of company	Place and date of incorporation and operation	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Beijing Poly Theatre Management Corporation Limited ("Beijing Poly Theatre") 北京保利劇院管理有限公司	The PRC October 10, 2003	100%	100%	–	Theatre operation management
Beijing Poly Performing Arts Corporation Limited 北京保利演出有限公司	The PRC April 24, 2008	100%	–	100%	Theatre performance and agent services
Beijing Poly Forbidden City Theatre Management Corporation Limited 北京保利紫禁城劇院管理有限公司	The PRC May 10, 2004	51%	–	51%	Theatre operation management
Shanghai Oriental Art Center Management Corporation Limited 上海東方藝術中心管理有限公司	The PRC March 31, 2004	51%	–	51%	Art center operation management
Dongguan Poly Yulan Grand Theatre Management Corporation Limited 東莞市保利玉蘭大劇院管理有限公司	The PRC November 24, 2005	100%	–	100%	Theatre operation management
Wuhan Qintai Grand Theatre Management Corporation Limited 武漢琴台大劇院管理有限公司	The PRC June 22, 2007	51%	–	51%	Theatre operation management
Shenzhen Poly Theatre Performance Corporation Limited (Note i) 深圳市保利劇院演出經營有限公司	The PRC August 15, 2007	49%	–	49%	Theatre operation management
Henan Poly Art Center Management Corporation Limited 河南保利藝術中心管理有限公司	The PRC September 12, 2008	100%	–	100%	Art center operation management
Yantai Poly Grand Theatre Management Corporation Limited 煙台市保利大劇院管理有限公司	The PRC May 19, 2009	100%	–	100%	Theatre operation management
Huizhou Poly Culture and Arts Center Management Corporation Limited 惠州市保利文化藝術中心管理有限公司	The PRC May 20, 2009	100%	–	100%	Art center operation management
Changzhou Poly Grand Theatre Management Corporation Limited 常州市保利大劇院管理有限公司	The PRC May 26, 2009	51%	–	51%	Theatre operation management
Chongqing Poly Theatre Management Corporation Limited 重慶市保利劇院管理有限公司	The PRC July 20, 2009	66.67%	–	66.67%	Theatre operation management

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Taizhou Poly Grand Theatre Management Corporation Limited 泰州市保利大劇院管理有限公司	The PRC July 31, 2009	51%	–	51%	Theatre operation management
Wenzhou Poly Grand Theatre Management Corporation Limited 溫州保利大劇院管理有限公司	The PRC September 9, 2009	100%	–	100%	Theatre operation management
Hefei Poly Grand Theatre Management Corporation Limited 合肥保利大劇院管理有限公司	The PRC September 28, 2009	100%	–	100%	Theatre operation management
Poly (Beijing) Theatre Construction Engineering Consulting Corporation Limited 保利(北京)劇院建設工程諮詢有限公司	The PRC October 28, 2002	100%	–	100%	Engineering and technology management consulting
Ma'anshan Poly Grand Theatre Management Corporation Limited 馬鞍山市保利大劇院管理有限公司	The PRC July 22, 2010	100%	–	100%	Theatre operation management
Lishui Poly Grand Theatre Management Corporation Limited 麗水保利大劇院管理有限公司	The PRC December 29, 2010	100%	–	100%	Theatre operation management
Qingdao Poly Grand Theatre Management Corporation Limited 青島保利大劇院管理有限公司	The PRC August 27, 2010	100%	–	100%	Theatre operation management
Hohhot Poly Theatre Management Corporation Limited 呼和浩特保利劇院管理有限公司	The PRC March 14, 2011	100%	–	100%	Theatre operation management
Poly Advertisement Corporation Limited 保利廣告有限公司	The PRC May 16, 2001	100%	–	100%	Advertisement agency
Zhangjiagang Poly Grand Theatre Management Corporation Limited 張家港市保利大劇院管理有限公司	The PRC October 8, 2011	51%	–	51%	Theatre operation management
Yichun Poly Grand Theatre Management Corporation Limited 宜春市保利大劇院管理有限公司	The PRC December 22, 2011	100%	–	100%	Theatre operation management
Wuxi Grand Theatre Poly Management Corporation Limited 無錫大劇院保利管理有限公司	The PRC January 17, 2012	60%	–	60%	Theatre operation management
Yingkou Bayuquan Poly Grand Theatre Management Corporation Limited 營口市鰲魚圈區保利大劇院管理有限公司	The PRC May 16, 2012	100%	–	100%	Theatre operation management
Dongguan Poly Culture Performing Group Corporation Limited 東莞保利文化演藝團有限公司	The PRC April 20, 2012	100%	–	100%	Performance and brokerage
Kunshan Poly Grand Theatre Management Corporation Limited 昆山市保利大劇院管理有限公司	The PRC July 19, 2012	51%	–	51%	Theatre operation management
Ji'an Poly Grand Theatre Management Corporation Limited 吉安市保利大劇院管理有限公司	The PRC August 3, 2012	100%	–	100%	Theatre operation management

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Changshu Poly Grand Theatre Management Corporation Limited 常熟市保利大劇院管理有限公司	The PRC November 19, 2012	100%	–	100%	Theatre operation management
Ningbo Culture Square Poly Grand Theatre Management Corporation Limited 寧波文化廣場保利大劇院管理有限公司	The PRC January 14, 2013	51%	–	51%	Theatre operation management
Handan Poly Grand Theatre Management Corporation Limited 邯鄲市保利大劇院管理有限公司	The PRC January 14, 2013	51%	–	51%	Theatre operation management
Dalian Poly Theatre Management Corporation Limited 大連保利劇院管理有限公司	The PRC February 16, 2013	100%	–	100%	Theatre operation management
Shanxi Poly Grand Theatre Management Corporation Limited 山西保利大劇院管理有限公司	The PRC May 31, 2013	100%	–	100%	Theatre operation management
Shanghai Poly Grand Theatre Management Corporation Limited 上海保利大劇院管理有限公司	The PRC August 8, 2013	100%	–	100%	Theatre operation management
Weifang Poly Grand Theatre Management Corporation Limited 濰坊市保利大劇院管理有限公司	The PRC August 30, 2013	100%	–	100%	Theatre operation management
Zhoushan Putuo Poly Grand Theatre Management Corporation Limited 舟山市普陀區保利大劇院管理有限公司	The PRC November 21, 2013	100%	–	100%	Theatre operation management
Weihai Poly Grand Theatre Management Corporation Limited 威海市保利大劇院管理有限公司	The PRC December 2, 2013	100%	–	100%	Theatre operation management
Nanjing Poly Grand Theatre Management Corporation Limited 南京保利大劇院管理有限公司	The PRC March 26, 2014	100%	–	100%	Theatre operation management
Yi Xing Poly Grand Theatre Management Corporation Limited 宜興市保利大劇院管理有限公司	The PRC April 17, 2014	100%	–	100%	Theatre operation management
Xiamen Poly Theatre Management Corporation Limited 廈門保利劇院管理有限公司	The PRC June 20, 2014	100%	–	100%	Theatre operation management
Shenyang Poly Grand Theatre Management Corporation Limited 瀋陽保利大劇院管理有限公司	The PRC October 27, 2014	100%	–	100%	Theatre operation management
Huanggang Poly Grand Theatre Management Corporation Limited 黃岡保利大劇院管理有限公司	The PRC March 6, 2015	100%	–	100%	Theatre operation management
Chongqing Nan'an Poly Theatre Management Corporation Limited 重慶市南岸區保利劇院管理有限公司	The PRC March 27, 2015	100%	–	100%	Theatre operation management
Changsha Poly concert hall Management Corporation Limited 長沙保利音樂廳管理有限公司	The PRC July 28, 2015	100%	–	100%	Theatre operation management

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Zhuhai Chengjian Poly Grand Theatre Management Corporation Limited 珠海城建保利大劇院管理有限公司	The PRC November 27, 2015	51%	–	51%	Theatre operation management
Tangshan Poly Grand Theatre Management Corporation Limited 唐山市保利大劇院管理有限公司	The PRC April 4, 2016	100%	–	100%	Theatre operation management
Huaian Poly Grand Theatre Management Corporation Limited 淮安市保利大劇院管理有限公司	The PRC April 27, 2016	100%	–	100%	Theatre operation management
Zhuzhou Poly Grand Theatre Management Corporation Limited 株洲保利大劇院管理有限公司	The PRC September 2, 2016	100%	–	100%	Theatre operation management
Beijing Poly Ticket Development Corporation Limited 北京保利票務發展有限公司	The PRC November 23, 2016	51%	–	51%	Ticket agency
Beijing Poly International Auction Corporation Limited 北京保利國際拍賣有限公司	The PRC July 14, 2005	55%	55%	–	Auction Business
Xiamen Poly International Auction Corporation Limited 保利(廈門)國際拍賣有限公司	The PRC July 31, 2014	28.05%	–	51%	Auction Business
Shandong Poly International Auction Corporation Limited 保利(山東)國際拍賣有限公司	The PRC January 6, 2015	28.05%	–	51%	Auction Business
Kangoo overseas Ltd. 康高有限責任公司	British Virgin Islands February 22, 2002	55%	–	100%	Auction agency of overseas art collection
Poly Auction Guangdong Corporation Limited 廣東保利拍賣有限公司	The PRC November 20, 2003	62.05%	62.05%	–	Auction of moveable property, real estate, intangible assets and artworks
Guangdong Poly Assets Management Corporation Limited 廣東保利資產管理有限公司	The PRC December 24, 2010	62.05%	–	100%	Asset management, acquisition, disposition, restructuring and related consulting business services (except for financial trust and management)
Beijing Poly Art Center Corporation Limited 北京保利藝術中心有限公司	The PRC March 16, 2007	100%	100%	–	Sale of cultural relics and artworks (except for auction)

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Beijing Poly Contemporary Art Corporation Limited 北京保利當代藝術有限公司	The PRC January 24, 2014	51%	–	51%	Art investment management and consulting
Guizhou Poly Culture Development Corporation Limited 貴州保利文化發展有限公司	The PRC April 10, 2014	51%	–	51%	Art investment management and consulting
Winteam Culture & Art Holding Corporation Limited 聯勝文化藝術控股有限公司	British Virgin Islands December 12, 2014	100%	–	100%	Art consulting
Poly Art Center North America Limited 保利藝術中心北美公司	Canada Vancouver October 27, 2016	80%	–	80%	Art Exhibition
Hong Kong Poly Art Centre Corporation Limited 香港保利藝術中心有限公司	Hong Kong December 30, 2014	100%	–	100%	Sale of cultural relics and artworks (except for auction)
Beijing Poly Art Investment Management Corporation Limited 北京保利藝術投資管理有限公司	The PRC July 29, 2010	80%	80%	–	Art investment management and consulting
Poly Auction (Hong Kong) Limited 保利香港拍賣有限公司	Hong Kong October 30, 2012	55%	38.50%	30%	Auction business
Poly Auction Macau Limited 保利澳門拍賣有限公司	Macau December 18, 2015	28.05%	–	51%	Auction business
Poly Film Investment Corporation Limited ("Poly Film") 保利影業投資有限公司	The PRC August 19, 2002	100%	100%	–	Entertainment content production, promotion, and distribution; film screening, snacks retailing (limited to branches of business)
Beijing Poly Wanyuan Cinema Corporation Limited 北京保利萬源影城有限公司	The PRC November 11, 2008	86.67%	–	86.67%	Cinema operation management
Poly Photography Art (Beijing) Corporation Limited 保利攝影影像藝術(北京)有限公司	The PRC December 15, 1984	59.17%	–	59.17%	Photography related services
Guangzhou Poly International Cinema Corporation Limited 廣州保利國際影城有限公司	The PRC December 9, 2011	100%	–	100%	Cinema operation management
Shanghai Poly Cinema Corporation Limited 上海保利影城有限公司	The PRC August 24, 2012	100%	–	100%	Cinema operation management

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

		Proportion of ownership interest			
Name of company	Place and date of incorporation and operation	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Wuxi Poly Cinema Corporation Limited 無錫保利影院有限公司	The PRC August 1, 2012	100%	–	100%	Organisation, planning and Organising cultural and art exchange activities; cinema operation management
Rizhao Poly Cinema Corporation Limited 日照市保利影城有限公司	The PRC November 16, 2012	100%	–	100%	Cinema operation management
Shenzhen Poly International Cinema Corporation Limited 深圳市保利國際影城有限公司	The PRC May 17, 2013	100%	–	100%	Cinema operation management
Shanghai Pudong Poly Cinema Corporation Limited 上海浦東保利影城有限公司	The PRC December 6, 2013	100%	–	100%	Cinema operation management
Guiyang Poly Cinema Corporation Limited 貴陽保利影城有限公司	The PRC April 4, 2014	100%	–	100%	Cinema operation management
Nanjing Poly Cinema Corporation Limited 南京保利影城管理有限公司	The PRC April 10, 2014	100%	–	100%	Cinema operation management
Shanghai Jiangchuan Poly Cinema Corporation Limited 上海江川保利影城管理有限公司	The PRC June 5, 2014	100%	–	100%	Cinema operation management
Chengdu Poly Cinema Corporation Limited 成都保利影城有限公司	The PRC July 30, 2014	100%	–	100%	Cinema operation management
Foshan Poly Cinema Corporation Limited 佛山保利影城有限公司	The PRC October 23, 2014	100%	–	100%	Cinema operation management
Kunming Poly Cinema Corporation Limited 昆明保利影城有限公司	The PRC April 24, 2014	100%	–	100%	Cinema operation management
Suzhou Poly Cinema Corporation Limited 蘇州保利影城有限公司	The PRC January 7, 2015	100%	–	100%	Cinema operation management
Hefei Poly Cinema Corporation Limited 合肥保利影城有限公司	The PRC July 6, 2015	100%	–	100%	Cinema operation management
Yixing Poly International Cinema Corporation Limited 宜興保利國際影城有限公司	The PRC November 16, 2015	100%	–	100%	Cinema operation management
Beijing Yongxing Poly Cinema Corporation Limited 北京保利永興影城有限公司	The PRC February 3, 2016	60%	–	60%	Cinema operation management
Yangzhou Poly Cinema Corporation Limited 揚州保利影城有限公司	The PRC April 27, 2016	100%	–	100%	Cinema operation management

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

		Proportion of ownership interest			
Name of company	**Place and date of incorporation and operation**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Hangzhou Poly Cinema Corporation Limited 杭州保利影城有限公司	The PRC January 25, 2016	100%	–	100%	Cinema operation management
Yangjiang Jiangcheng Poly Cinema Corporation Limited 陽江市江城區保利影城有限公司	The PRC July 4, 2016	100%	–	100%	Cinema operation management
Xuzhou Poly Cinema Corporation Limited 徐州保利影城有限公司	The PRC June 27, 2016	100%	–	100%	Cinema operation management
Nanning Poly Cinema Corporation Limited 南寧保利影城有限公司	The PRC June 20, 2016	100%	–	100%	Cinema operation management
Poly Culture Hong Kong Corporation Limited 保利文化香港有限公司	Hong Kong May 12, 2015	100%	100%	–	Art business and cultural related activities
Poly Culture North America Investment Corporation Limited 保利文化北美投資有限公司	Canada May 1, 2015	100%	–	100%	Art business, financing and cultural related activities
Shenzhen Poly Art Plaza Management Corporation Limited 深圳保利藝術廣場運營管理有限公司	The PRC August 20, 2015	65%	65%	–	Consulting and business operation management
Shenzhen Poly Culture Development Corporation Limited 深圳保利文化發展有限公司	The PRC October 12, 2015	65%	65%	–	Consulting and business operation management
Beijing Poly Music Art Development Corporation Limited 北京保利音樂藝術發展有限公司	The PRC August 7, 2015	60%	40%	20%	Organising cultural exchange activities; music and dance training; musical instruments and stationery sales; performance brokerage
Poly Ronghe Financial Leasing Corporation Limited 保利融禾融資租賃有限公司	The PRC May 26, 2016	60%	60%	–	Financing and leasing business

The English translation of the company names for entities established in the PRC is for reference only. The official names of the companies established in the PRC are in Chinese.

Note i: The Company agreed with the shareholder who held in total 45% of ownership and voting power of Shenzhen Poly Theatre Performance Corporation Limited, that shareholder would follow the vote of the Company on all key decision making including but not limited to financial and operational decisions. Hence, the Company had control over Shenzhen Poly Theatre Performance Corporation Limited and classified its investment in Shenzhen Poly Theatre Performance Corporation Limited as investments in subsidiaries.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following table lists out the information relating to Beijing Poly International Auction Corporation Limited, the subsidiary of the Group, which has material non-controlling interest (NCI). The summarised financial information presented below represents the financial statements of Beijing Poly International Auction Corporation Limited before any inter-group elimination with other subsidiaries of the Group.

	2016 **RMB'000**	2015 RMB'000
NCI percentage	**45%**	45%
Current assets	**1,756,878**	2,266,619
Non-current assets	**80,153**	60,678
Current liabilities	**(1,335,233)**	(1,786,070)
Net assets	**501,798**	541,227
Carrying amount of NCI	**225,809**	249,935
Revenue	**484,323**	499,650
Profit for the year	**124,118**	143,379
Total comprehensive income	**124,118**	143,375
Profit allocated to NCI	**55,853**	66,334
Dividend paid to NCI	**67,500**	92,450
Cash flows generated from operating activities	**91,921**	76,063
Cash flows generated from/(used in) investing activities	**302,881**	(10,041)
Cash flows (used in)/generated from financing activities	**(480,807)**	122,795

14 INTEREST IN JOINT VENTURES

	Group		**Company**	
	2016 **RMB'000**	2015 RMB'000	**2016** **RMB'000**	2015 RMB'000
Unlisted shares, at cost	**50,000**	100,000	**35,000**	85,000
Share of net assets	**(15,290)**	(67,467)	**(8,291)**	(66,385)
Total	**34,710**	32,533	**26,709**	18,615

14 INTEREST IN JOINT VENTURES *(Continued)*

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	Proportion of ownership interest: Held by the Company	Principal activities
Shenzhen Hua Xi culture Plaza Investment Development Corporation Limited (note (i)) 深圳華熙文化廣場投資發展有限公司	Incorporated	The PRC	50%	50%	Investment holding
Guilin Poly Culture Investment Development Corporation Limited ("Guilin Poly") 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 Baoxin Property Corporation Limited ("Anyang Baoxin") (note (ii)) 安陽保鑫置業有限公司	Incorporated	The PRC	25%	–	Real estate development and sales

Note:

(i) Shenzhen Huaxi Culture Investment development Corporation Limited ("Shenzhen Huaxi") was founded in April 20, 2016 with a registered capital RMB20 million. The main business of Shenzhen Huaxi is culture investment and consulting services.

(ii) On July 14, 2016, the name of this company changed from "Anyang Poly Yuetai Property Corporation Limited" to "Anyang Baoxin Property Corporation Limited".

Summarised financial information of Shenzhen Huaxi, Guilin Poly and Anyang Baoxin, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2016 RMB'000	2015 RMB'000
Losses for the year	**(4,645)**	(11,792)
Total comprehensive loss for the year	**(4,645)**	(11,792)

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

15 OTHER FINANCIAL ASSETS

Group

	2016 RMB'000	2015 RMB'000
Available-for-sale-equity securities:		
– Unlisted (note (i))	**109,883**	–
Loans granted under financing arrangements (note (ii))		
– Within 1 year or on demand	**626,003**	69,741
– After 1 year but within 2 years	**383,264**	–
	1,119,150	69,741

Company

	2016 RMB'000	2015 RMB'000
Available-for-sale-equity securities:		
– Unlisted (note (i))	**109,883**	–

Notes:

(i) The Company entered into an agreement with Poly Finance Company Limited ("Poly Finance"), a related party, and acquire 5% of Poly Finance equity interest in 2016 by cash injection.

(ii) Poly Culture North America investment Corporation Limited and Poly Ronghe Financial Leasing Corporation Limited granted term loans to third parties secured by works of art which bear interest from 9% to 15% per annum.

16 INVENTORIES

(a) Inventories in the statement of financial position comprise:

	2016 RMB'000	2015 RMB'000
Antiques, works of art	**1,242,053**	1,185,232
Chinese calligraphy and painting	**428,759**	437,257
Oil painting and sculptures	**29,161**	29,161
Small value items for resale	**9,841**	7,412
Low value materials	**490**	402
Drama rights	**1,048**	1,879
Film production	**27,814**	–
	1,739,166	1,661,343

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

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	**91,067**	145,211

17 TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables for sale of goods and rendering of services due from:		
– related parties	**3,401**	2,135
– third parties	**122,306**	167,936
	125,707	170,071
Less: allowance for doubtful debts	**6,411**	21,965
	119,296	148,106

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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

17 TRADE RECEIVABLES *(Continued)*

(a) Aging analysis

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

	2016	2015
	RMB'000	RMB'000
Within 1 month	**43,709**	51,394
1 to 3 months	**18,606**	4,415
3 to 6 months	**2,259**	6,292
6 to 12 months	**8,453**	11,545
Over 1 year	**46,269**	74,460
	119,296	148,106

Trade receivables are generally due immediately without credit or within a credit period of two months. Further details on the Group's credit policy are set out in note 25(a).

(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 (see note 2(j)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2016	2015
	RMB'000	RMB'000
At January 1	**21,965**	5,806
Impairment loss recognised	**1,887**	16,605
Reversal of impairment loss	**(16,608)**	(446)
Write-off of uncollectible receivables	**(833)**	–
At December 31	**6,411**	21,965

17 TRADE RECEIVABLES *(Continued)*

(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:

	2016	2015
	RMB'000	RMB'000
Neither past due nor impaired	**27,197**	10,818
1 to 3 months past due	**1,831**	683
3 to 12 months past due	**1,592**	4,540
More than 12 months past due	**29,829**	32,528
Amounts past due	**33,252**	37,751
	60,449	48,569

Receivables that were past due but not impaired relate to a wide range of customers for whom there was 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.

18 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 December 31, 2016, 17.7% of the consignor advances was due from the largest debtor related to art business and auction (2015: 7.9%).

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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Group

	2016	2015
	RMB'000	RMB'000
Prepayments for auctioned artwork	**459,275**	451,656
Receivables for auctioned artwork	**5,574**	5,323
Prepayments for purchase of inventories	**56,280**	10,149
Prepayments for performance	**27,186**	25,257
Rental deposits	**17,523**	17,501
Guarantee deposits	**47,891**	32,126
Interest receivables from consignor advances on auction artwork	**70,741**	66,632
Advances to staff for business related activities	**16,109**	12,111
Investment deposits	**30,000**	–
Prepayments for film production	**46,134**	–
Others	**66,624**	56,629
	843,337	677,384
Less: allowance for doubtful debts	**2,933**	2,202
	840,404	675,182

Company

	2016	2015
	RMB'000	RMB'000
Amounts due from subsidiaries	**2,144,553**	2,077,245
Amounts due from other related parties	**32,525**	2,420
Others	**1,544**	1,635
	2,178,622	2,081,300
Less: allowance for doubtful debts	**5,304**	5,304
	2,173,318	2,075,996

19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

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 (note 2(j)(i)).

The movement in the allowance for doubtful debts during the year, is as follows:

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
At January 1	**2,202**	2,512	**5,304**	5,304
Impairment loss recognised	**751**	14	**–**	–
Reversal of impairment loss	**(20)**	(324)	**–**	–
At December 31	**2,933**	2,202	**5,304**	5,304

20 CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**1,371,586**	1,415,268	**90,492**	306,191

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

21 BANK LOANS

(a) The analysis of the carrying amount of bank loans of the Group is as follows:

Group

	2016 RMB'000	2015 RMB'000
Bank loans		
– Unsecured	**574,737**	92,955

(b) The interest rates per annum on bank loans are as follows:

	2016 %	2015 %
Bank loans		
– Fixed rate loans	**3.92**	1.85-3.29
– Variable rate loans	**1-month HIBOR plus 0.620%-3-month USD LIBOR plus 1.500%**	3-month USD LIBOR plus 1.500%

(c) At 31 December 2016, the bank loans were repayable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year or on demand	**400,618**	25,133
After 1 year but within 2 years	**174,119**	67,822
	574,737	92,955

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

22 TRADE AND OTHER PAYABLES

Group

	2016 RMB'000	2015 RMB'000
Current		
Trade payables to		
– related parties	**70,147**	75,089
– third parties	**162,658**	190,292
	232,805	265,381
Interest payables		
– related parties	**8,497**	8,497
– third parties	**454**	–
Payables for staff related costs	**41,654**	32,322
Payables for other taxes and surcharges (note)	**39,165**	37,822
Dividends payables	**65**	34,850
Other accruals and payables		
– related parties	**17,097**	5,001
– third parties	**1,026,372**	815,786
Financial liabilities measured at amortised cost	**1,366,109**	1,199,659
Receipts in advance		
– related parties	**1,179**	833
– third parties	**456,384**	297,290
	457,563	298,123
	1,823,672	1,497,782
Non-current		
Payable for purchase of equipment		
– related parties	**441**	–
– third parties	**25,950**	21,588
	26,391	21,588

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

22 TRADE AND OTHER PAYABLES *(Continued)*

Company

	2016 RMB'000	2015 RMB'000
Interest payables		
– related parties	**8,497**	8,497
Payables for staff related costs	**5,075**	732
Payables for other taxes and surcharges (note)	**1,617**	2,111
Other accruals and payables		
– related parties	**943**	4,924
– third parties	**22,494**	22,687
	38,626	38,951

As at December 31, 2016, all current trade and other payables of the Group and the Company 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.

23 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents:

Group

	2016 RMB'000	2015 RMB'000
Tax payable at January 1	**62,989**	75,877
Provision for the year (note 8(a))	**132,046**	118,794
Under/(over)-provision in respect of prior years (note 8(a))	**1,648**	(579)
Income tax paid	**(140,474)**	(131,103)
Tax payable at December 31	**56,209**	62,989

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

23 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(Continued)

(a) Current taxation in the statement of financial position represents: *(Continued)*

Company

	2016 RMB'000	2015 RMB'000
Tax payable at January 1	**19,959**	2,434
Provision for the year	**29,883**	30,748
Under-provision in respect of prior years	**1,846**	–
Income tax paid	**(35,004)**	(13,223)
Tax payable at December 31	**16,684**	19,959

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax (liabilities)/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Provision for impairment of assets RMB'000	Tax losses RMB'000	Accrued expense RMB'000	Interest income RMB'000	Others RMB'000	Depreciation allowance in excess of the related depreciation RMB'000	Exchange difference on translation of financial statements RMB'000	Total RMB'000
At January 1, 2015	1,735	4,030	4,451	(906)	2,288	(187)	–	11,411
Credited/(charged) to profit or loss	3,289	229	(4,306)	906	357	–	–	475
Charged to reserves	–	–	–	–	–	–	(12)	(12)
At December 31, 2015	5,024	4,259	145	–	2,645	(187)	(12)	11,874
(Charged)/credited to profit or loss	(3,256)	5,655	262	–	5,171	187	–	8,019
Credited to reserves	–	–	–	–	–	–	203	203
At December 31, 2016	**1,768**	**9,914**	**407**	**-**	**7,816**	**-**	**191**	**20,096**

Note: Deferred tax assets in respect of unused tax losses are related to subsidiaries that were established in recent years. They are now progressing to their normal operating stage and are deriving profits. Accordingly, it is considered probable that sufficient taxable profits will be available in the future to utilise these unused tax losses before they expire.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

23 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(Continued)

(b) Deferred tax assets and liabilities recognised: *(Continued)*

(ii) Reconciliation to the statement of consolidated financial position

	2016	2015
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**20,096**	12,073
Net deferred tax liabilities recognised in the consolidated statement of financial position	**–**	(199)
	20,096	11,874

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the Group has not recognised deferred tax assets in respect of unused tax losses of RMB40,514,000 as at December 31, 2016 (2015: RMB10,489,000), as it is not probable that future taxable profits against which the losses or the temporary differences can be utilised will be available in the relevant tax jurisdictions and entities. As of December 31, 2016, the unused tax losses of RMB840,000, RMB1,293,000, RMB4,086,000, RMB6,296,000 and RMB27,999,000 will expire at the end of the year 2017, 2018, 2019, 2020 and 2021, respectively.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	Share capital RMB'000	Share premium RMB'000	PRC statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at January 1, 2015		246,316	1,982,448	77,493	519,688	2,825,945
Changes in equity for 2015:						
Total comprehensive income for the year		–	–	–	240,972	240,972
Appropriation of reserve		–	–	24,097	(24,097)	–
Dividends approved in respect of the previous year	24(b)	–	–	–	(55,914)	(55,914)
Balance at December 31, 2015 and January 1, 2016		246,316	1,982,448	101,590	680,649	3,011,003
Changes in equity for 2016:						
Total comprehensive income for the year		**–**	**–**	**–**	**250,489**	**250,489**
Appropriation of reserve		**–**	**–**	**25,049**	**(25,049)**	**–**
Dividends approved in respect of the previous year	24(b)	**–**	**–**	**–**	**(65,027)**	**(65,027)**
Balance at December 31, 2016		**246,316**	**1,982,448**	**126,639**	**841,062**	**3,196,465**

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2016 RMB'000	2015 RMB'000
Final dividend proposed after the end of the reporting period of RMB0.274 per ordinary share (2015: RMB0.264 per ordinary share)	**67,491**	65,027

The final dividend proposed after the end of the reporting period has not been 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 and paid during the year:

	2016 RMB'000	2015 RMB'000
Dividend in respect of the previous financial year, approved and paid during the year, of RMB0.264 per ordinary share (2015: RMB0.227 per ordinary share)	**65,027**	55,914

(c) Share capital

Issued share capital

	2016		2015	
	No, of shares '000	RMB'000	No, of shares '000	RMB'000
Ordinary shares, issued and fully paid:				
At January 1/ At December 31	**246,316**	**246,316**	246,316	246,316

24 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Nature and purpose of reserves

(i) Capital reserve

Capital reserve mainly represents contributions from equity shareholders, and the difference between the considerations of acquisition or disposal of equity interests from/to non-controlling equity owners and the carrying amount of the proportionate net assets.

(ii) 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.

(iii) PRC statutory reserve

The subsidiaries in the PRC are required to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity shareholders. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the Company and is non-distributable other than in liquidation.

(iv) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations that have functional currency other than the RMB which are dealt with in accordance with the accounting policies as set out in note 2(u).

(e) Distributability of reserves

Under the Company Law of the PRC and the Company's Articles of Association, net profit after tax as reported in the statutory financial statements prepared in accordance with the accounting rules and regulations of the PRC can only be distributed as dividends after allowances have been made for the following:

(i) Making up prior years' cumulative losses, if any;

(ii) Allocations to the statutory reserve as set out in note 24(d)(iii) above; and

(iii) Allocations to the discretionary common reserve if approved by the shareholders.

After the listing of the Company's shares on HKSE, in accordance with the Articles of Association of the Company, the net profit after tax of the Company for the purpose of dividends payment will be the lower of (i) the net profit determined in accordance with the accounting rules and regulations of the PRC; and (ii) the net profit determined in accordance with IFRSs.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to financing at a reasonable costs.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at December 31, 2016 was 35.91% (2015: 29.35%).

There were no changes in the Group's approach to capital management during the years ended December 31, 2016 and 2015. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below:

(a) Credit risk

The Group's credit risk is primarily attributable to cash at bank and on hand, trade receivables, consignor advances, deposits, prepayments and other receivables and loans granted under financing arrangements. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Substantially all of the Group's cash at bank are deposited in state-owned/controlled PRC banks, which the directors assessed the credit risk to be insignificant.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

In respect of trade and bills receivables, consignor advances, deposits, prepayments and other receivables and loans granted under financing arrangements, credit evaluations are performed on major customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. For consignor advances and loans granted under financing arrangements, the evaluations also focus on the overall trend of artwork market, and moreover, the relevant artworks will be pledged to the Group until the settlement of the consignor advances and loans. The Group generally requires customers to settle trade receivables in accordance with contracted terms and other debts in accordance with agreements. Credit terms may be granted to customers, depending on the nature of business.

At the end of the reporting period, the Group has certain concentration of credit risk. The receivables or loans granted under financing arrangements from the five largest debtors at December 31, 2016 represented 22% of the total trade and bills receivables, other receivables and loans granted under financing arrangements (December 31, 2015: 16%), while 9% of the total trade and bills receivables, other receivables and loans granted under financing arrangements were due from the largest single debtor (December 31, 2015: 5%).

Except for the financial guarantees given by the Company as set out in note 27(a), the Group and the Company does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 27(a).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables, consignor advances, deposits, prepayments, other receivables and loans granted under financing arrangements are set out in notes 15, 17, 18 and 19, respectively.

(b) Liquidity risk

The Group's objective is to ensure continuity of sufficient funding and flexibility by utilising a variety of bank and other borrowings with debt maturities spreading over a range of periods, thereby ensuring that the Group's outstanding borrowing obligation is not exposed to excessive repayment risk in any one year.

The Company is responsible for the Group's overall cash management and the raising of borrowings to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2016 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**	**Carrying amount at 31 Dec RMB'000**
Bank loans (note 21)	**401,204**	**175,002**	**–**	**–**	**576,206**	**574,737**
Trade and other payables measured at amortised costs (note 22)	**1,366,109**	**12,060**	**14,331**	**–**	**1,392,500**	**1,392,500**
	1,767,313	**187,062**	**14,331**	**–**	**1,968,706**	**1,967,237**

	2015 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at 31 Dec RMB'000
Bank loans (note 21)	26,759	68,807	–	–	95,566	92,955
Trade and other payables measured at amortised costs (note 22)	1,199,659	7,909	13,679	–	1,221,247	1,221,247
	1,226,418	76,716	13,679	–	1,316,813	1,314,202

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The following table details the profile of the Group's and the Company's net borrowings (interest-bearing financial liabilities less interest-bearing financial assets) at the end of the reporting period. The detailed interest rates of the Group's borrowings are disclosed in note 21.

Group

	2016 **RMB'000**	2015 RMB'000
Floating rate financial assets:		
Other financial assets	**394,299**	–
Fixed rate borrowings:		
Bank loans	**(141,368)**	(80,618)
Floating rate borrowings:		
Bank loans	**(433,369)**	(12,337)
Total borrowings	**(574,737)**	(92,955)
Net borrowings	**(180,438)**	(92,955)
Fixed rate borrowings as a percentage of total borrowings	**24.60%**	86.73%

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At December 31, 2016, it is estimated that a general increase of 100 basis points in interest rates of net floating borrowings, with all other variables held constant, the Group's profit after tax and retained profits would have decreased by RMB333,000 (2015: RMB123,000). Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at the end of the reporting period. The impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash at bank and in hand that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars ("USD") and Hong Kong dollars ("HKD").

(i) Recognised assets and liabilities

In respect of cash at bank and in hand, receivables and payables denominated in foreign currencies, the Group considers that the net exposure to foreign currency risk is insignificant. The Group did not hedge its foreign currency exposure.

RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands and the Group may not be able to pay dividends in foreign currencies to its equity shareholders.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(ii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the statement of financial position date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

Group

	Exposure to foreign currencies (expressed in RMB)	
	2016	2015
	RMB'000	RMB'000
Other financial assets		
– in USD	**397,768**	69,741
Cash and cash equivalents		
– in USD	**11,989**	1,963
– in HKD	**59,397**	176,552
Trade and other Receivables		
– in USD	**69**	–
– in HKD	**94,793**	–
Trade and other payables		
– in HKD	**(1,256)**	(425)
– in USD	**(1,561)**	–
Bank loans		
– in USD	**(384,618)**	(67,822)
Net exposure	**176,581**	180,009

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(iii) Sensitivity analysis

The followings are the related foreign currency exchange rates to RMB during the years ended December 31, 2016 and 2015:

	Average rate		Reporting date spot rate	
	2016	2015	**2016**	2015
HKD	**0.8662**	0.8134	**0.8945**	0.8378
USD	**6.7153**	6.3063	**6.937**	6.4936

A 5% strengthening of RMB against the following currency as at December 31, 2016 would have decreased the net profit after tax and equity by the amounts shown below. Other components of equity would not be affected by the strengthening of RMB against foreign currency.

Group

	2016	2015
	RMB'000	RMB'000
HKD	**5,735**	6,605
USD	**875**	146

A 5% weakening of RMB against the above currency as at December 31, 2016 would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the Group's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next reporting period. The analysis is performed on the same basis for 2015.

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair values

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 December 31, 2016.

(f) Estimation of fair values

The fair values of interest-bearing borrowings and receivables are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

26 COMMITMENTS

(a) Commitments for the acquisition of property, plant and equipment, purchase of performances, leasehold improvements for cinema investment and management outstanding at December 31, 2016 not provided for in the financial statements were as follows:

Group

	2016	2015
	RMB'000	RMB'000
Contracted for	**133,874**	74,047
Authorised but not contracted for	**1,060,734**	969,120
	1,194,608	1,043,167

(b) At December 31, 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Group

	2016	2015
	RMB'000	RMB'000
Within 1 year	**130,099**	110,079
After 1 year but within 5 years	**401,972**	343,393
After 5 years	**806,922**	651,110
	1,338,993	1,104,582

The Group leases certain buildings through non-cancellable operating leases. Typically, leases are negotiated and rentals are fixed for lease term.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

27 CONTINGENT ASSETS AND LIABILITIES

(a) Financial guarantees issued

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

Company

	2016 RMB'000	2015 RMB'000
Financial guarantees to banks for subsidiaries	**474,737**	92,955

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 financing trust plan for certain subsidiaries, the Group is obliged to fund the difference if the expected proceeds from the sale of trust assets 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 is as follows:

Group

	2016 RMB'000	2015 RMB'000
Trust related	**163,059**	21,000

(c) 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 December 31, 2016. After consulting the legal professional advice, the Group's management believes that such litigation will not have a significant financial impact on the Group.

28 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 years ended December 31, 2016 and 2015:

28 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Company's directors.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9, and certain of the highest paid employees as disclosed in note 10, is as follows:

	2016	2015
	RMB'000	RMB'000
Short-term employee benefits	**6,082**	7,222
Post-employment benefits	**734**	604
	6,816	7,826

Total remuneration was included in "staff costs" (see note 7(b)).

(b) Name and relationship with related parties

During the years ended December 31, 2016 and 2015, 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	Associate 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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

28 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) 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:

	2016 **RMB'000**	2015 RMB'000
Sales to		
Poly Group and its affiliates	**7,134**	5,967
Service provided to		
Poly Group and its affiliates	**920**	10,473
Receiving Service (note (iii))		
Poly Group and its affiliates	**206,510**	209,580
Rental from (note (iv))		
Poly Group and its affiliates	**29,564**	34,463
Interest income from		
Poly Group and its affiliates	**3,663**	3,514
Property management services (note (v))		
Poly Group and its affiliates	**8,464**	10,255
Borrowings from (note (vi))		
Shengjing Poly	**7,000**	–
Repayment of loans		
Eastern Poly	**–**	5,000
Borrowing costs to		
Shengjing Poly	**109**	233
Interest expenses (note (vii))		
Poly Group and its affiliates	**7**	–

28 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) 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) Beijing Poly Art Centre Corporation Limited did not pay any rent to Poly Group for its use of office space for the year ended December 31, 2016 and 2015.

(v) Property management services are for the purpose of office premises, cinema operation, theatre operation, auction business operation and ancillary service.

(vi) Borrowings from Shengjing Poly refers to the entrusted loans, which was recognised in trade and other payables, of RMB7 million from Shengjing Poly.

(vii) Interest expenses refers to the finance lease interests which is paid by Poly Film to Poly Leasing.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

28 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Outstanding balances, including commitment, with related parties

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

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents (note)		
Poly Group and its affiliates	**381,310**	469,316
Deposits with original maturities over three months (note)		
Poly Group and its affiliates	**53,800**	30,100
Trade receivables		
Poly Group and its affiliates	**3,401**	2,135
Deposits, prepayments and other receivables		
Poly Group and its affiliates	**50,119**	22,134
Trade and other payables		
Poly Group and its affiliates	**97,361**	89,420

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 are ranged from 1.035% to 3.3% according to the period of deposits.

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of note 28(c) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Report from the Board of Directors.

29 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2016

(Expressed in RMB)

	Note	**2016 RMB'000**	2015 RMB'000
Non-current assets			
Property, plant and equipment	12	**2,415**	3,202
Investments in subsidiaries	13	**785,220**	665,220
Interest in associates		**3,738**	601
Interest in joint ventures	14	**26,709**	18,615
Other financial assets	15	**109,883**	–
		927,965	687,638
Current assets			
Trade receivables		**–**	88
Deposits, prepayments and other receivables	19	**2,173,318**	2,075,996
Cash and cash equivalents	20	**90,492**	306,191
Restricted cash		**61,000**	–
		2,324,810	2,382,275
Current liabilities			
Trade and other payables	22	**38,626**	38,951
Current taxation	23(a)	**16,684**	19,959
		55,310	58,910
Net current assets		**2,269,500**	2,323,365

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

29 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2016 *(Continued)*

(Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Total assets less current liabilities		**3,197,465**	3,011,003
Non-current liabilities			
Deferred revenue		**1,000**	–
		1,000	–
NET ASSETS		**3,196,465**	3,011,003
CAPITAL AND RESERVES	24		
Share capital		**246,316**	246,316
Reserves		**2,950,149**	2,764,687
TOTAL EQUITY		**3,196,465**	3,011,003

Approved and authorised for issue by the board of directors on March 31, 2017.

Jiang Yingchun
Director

Liu Shibin
Authorised Non-director

30 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 24(b)(i).

On March 7, 2017, the Group issued an announcement that Poly Film entered into an Equity Transfer Agreement with XingX Group and XingX Holdings, pursuant to which Poly Film will acquire 100% equity interest in XingX Entertainment from XingX Group and XingX Holdings with a total consideration of RMB680 million. Upon completion of the acquisition, XingX Entertainment will become a wholly-owned subsidiary of Poly Film. The group is in the process of determining the initial accounting for the transaction.

The Group has completed the issuance of 2017 corporate bonds (first tranche) (the "Corporate Bonds") on 15 March 2017. The aggregate issuance amount of the Corporate Bonds was RMB300 million with a term of three years, and coupon rate of 4.80%.

31 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.

32 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At December 31, 2016, the directors of the Company consider its parent and ultimate holding company to be Poly Group Corporation Limited, which is a state-owned enterprise established in the PRC. The parent company does not produce financial statements available for public use.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2016

Up to the date of issue of the financial statements, the IASB has issued a few amendments and new standards and interpretations which are not yet effective for the year ended December 31, 2016 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

	Effective for Accounting periods beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	January 1, 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	January 1, 2017
IFRS 9, *Financial instruments*	January 1, 2018
IFRS 15, *Revenue from contracts with customers*	January 1, 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	January 1, 2018
IFRS 16, *Leases*	January 1, 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2016 *(Continued)*

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement.* IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(i) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI).

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of IFRS 9.

(ii) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognized. Instead, an entity is required to recognize and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2016 *(Continued)*

IFRS 16, Leases

As disclosed in note 2(i), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group mainly enters into certain leases as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognize and measure a lease liability at the present value of the minimum future lease payments and will recognize a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognizing rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognized on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group’s accounting as a lessee of leases for offices and operation which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 26(b), at December 31, 2016 the Group’s future minimum lease payments under non-cancellable operating leases amount to RMB1,338,993,000 which includes payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognized as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

Definitions

"Articles"	the Articles of Association of the Company
"Board" or "Board of Directors"	the board of directors of the Company
"Board of Supervisors"	the board of supervisors of the Company
"Companies Ordinance"	the old Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and new Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company", "Poly Culture" or "we", "us", "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
"Connected Person(s)"	has the meaning ascribed to it under the Listing Rules
"Connected Transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Continuing Connected Transaction(s)"	has the meaning ascribed to it under the Listing Rules
"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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"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
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group"	the Company and its Subsidiaries

Definitions

"H Shares"	overseas listed foreign shares in our ordinary share capital, with a nominal value of RMB1.00 each
"HK$" or "Hong Kong dollars" or "HK dollars" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"International Accounting Standards"	International Accounting Standards and its notes
"Latest Practicable Date"	April 24, 2017, being the latest practicable date for the inclusion of certain information in this report prior to its publication
"Listing Date"	March 6, 2014
"Jiulian Development"	Guizhou Jiulian Industrial Explosive Material Development Co.,Ltd. (貴州久聯民爆器材發展股份有限公司), a joint stock company with limited liability incorporated in the PRC, the shares of which are listed on the Shenzhen Stock Exchange with the stock code of 002037
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Listing"	listing of the H Shares 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
"MOF"	Ministry of Finance of the PRC
"Poverty Alleviation Fund"	the Central State-owned Enterprises Poverty Regional Industrial Investment Fund Co., Ltd. (中央企業貧困地區產業投資基金股份有限公司)
"North American Company"	Poly Culture (North America) Investment Company
"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 Auction Guangdong"	Poly Auction Guangdong Corporation Limited (廣東保利拍賣有限公司)

Definitions

“Poly Auction Hong Kong”	Poly Auction Hong Kong (保利香港拍賣有限公司)
"Poly Auction Macau”	Poly Auction Macau (保利澳門拍賣有限公司)
“Poly Film”	Poly Film Investment Corporation Limited (保利影業投資有限公司)
“Poly Leasing”	Poly Financial Leasing Co., Ltd. (保利融資租賃有限公司), a subsidiary of Poly Group
“Poly Energy”	Poly Energy Holdings Limited (保利能源控股有限公司)
“Poly Finance”	Poly Finance Company Limited (保利財務有限公司)
“Financial Leasing Company”	Poly Ronghe Financial Leasing Company (保利融禾融資租賃有限公司)
“Poly Group”	China Poly Group Corporation, a state-owned company incorporated in the PRC and our Controlling Shareholder, and (when the context requires) including its subsidiaries
“Poly Fund Management Company”	Poly (Tianjin) Equity Investment Fund Management Co., Ltd., a limited liability company incorporated in the PRC
“Poly International”	Poly International Holdings Co., Ltd. (保利國際控股有限公司), a limited liability company incorporated in the PRC
“Poly Limin Fund”	Poly Limin (Tianjin) Equity Investment Fund Limited Partnership (Limited Partnership)
“Poly Property”	Poly Property Group Co., Limited, a company incorporated in Hong Kong, with limited liability whose shares are listed on The Stock Exchange of Hong Kong Limited under the stock code 0119
“Poly Real Estate”	Poly Real Estate Group Co., Ltd. (保利房地產（集團）股份有限公司)
“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)
“Poly Wanhe Cinema Circuit”	Chongqing Poly Wanhe Cinema Circuit Co., Ltd. (重慶保利萬和電影院線有限責任公司), a company incorporated on July 26, 2005 in the PRC and a then subsidiary of the Company before being disposed to Poly Group in 2013; where applicable, it also refers to the cinema circuit managed by Chongqing Poly Wanhe Cinema Circuit Co., Ltd

Definitions

"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
"Prospectus"	the prospectus published by the Company on February 24, 2014
"Reporting Period"	the period from January 1, 2016 to December 31, 2016
"RMB" or "Renminbi"	the lawful currency of the PRC
"SASAC"	State-Owned Assets Supervision and Administration Commission of the State Council of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"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)
"State Council"	State Council of the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Associate(s)"	has the meaning ascribed to it under the Listing Rules
"Subsidiary(ies)"	has the meaning as defined in Article 2 of the Companies Ordinance
"Supervisor(s)"	supervisor(s) of the Company
"U.S." or "United States"	the United States of America, its territories, possessions and all areas subject to its jurisdiction
"US$" or "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States

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

www.polyculture.com.cn