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 2018

CONTENTS






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

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Dongcheng District, Beijing, 100010, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31st Floor, Tower 2, Times Square,
1 Matheson Street, Causeway Bay, Hong Kong[1]

AUTHORIZED REPRESENTATIVE

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

Ms. Mok Ming Wai
31st Floor, Tower 2, Times Square,
1 Matheson Street, Causeway Bay, Hong Kong[1]

Ms. Leung Suet Lun[3]
31st Floor, Tower 2, Times Square,
1 Matheson Street, Causeway Bay, Hong Kong[1]

JOINT COMPANY SECRETARIES

Ms. Wang Wei
Ms. Mok Ming Wai[2]
Ms. Leung Suet Lun[3]

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
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Beijing, China

PRINCIPAL BANKS

China CITIC Bank Corporation Limited
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Bank of Beijing (Beijing Aodong Branch)
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Chaoyang District, Beijing

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STOCK CODE

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INVESTOR ENQUIRIES

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1 The principal place of business of the Company in Hong Kong has been changed since May 31, 2018.

2 Ms. Mok Ming Wai resigned on September 19, 2018.

3 Ms. Leung Suet Lun was appointed on September 19, 2018.

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	**3,713,785**	3,480,415	2,682,301	2,504,965	2,243,024
Profit from operations	**429,842**	484,331	483,846	388,899	486,636
Profit before taxation	**507,605**	537,574	550,111	450,306	544,087
Income tax	**(139,322)**	(133,652)	(125,675)	(117,740)	(130,763)
Profit for the year	**368,283**	403,922	424,436	332,566	413,324
Profit attributable to:					
Equity shareholders of the Company	**241,992**	256,171	310,607	237,790	251,519
Non-controlling interests	**126,291**	147,751	113,829	94,776	161,805
Earnings per share					
Basic and diluted earnings per share (RMB)	**0.98**	1.04	1.26	0.97	1.09
Total comprehensive income for the year	**89,941**	381,750	444,780	342,537	414,021
Total comprehensive income attributable to:					
Equity shareholders of the Company	**257,496**	244,049	323,531	242,211	251,902
Non-controlling interests	**132,445**	137,701	121,249	100,326	162,119
Total non-current assets	**2,535,580**	2,350,158	1,226,332	718,626	585,962
Total current assets	**7,910,528**	7,793,433	5,723,069	4,998,375	4,765,931
Total assets	**10,446,108**	10,143,591	6,949,401	5,717,001	5,351,893
Total current liabilities	**4,310,307**	5,009,380	2,280,499	1,585,904	1,461,678
Total non-current liabilities	**1,133,940**	342,714	215,041	92,274	19,215
Total liabilities	**5,444,247**	5,352,094	2,495,540	1,678,178	1,480,893
Net Asset	**5,001,861**	4,791,497	4,453,861	4,038,823	3,871,000
Total equity attributable to the equity shareholders of the Company	**4,318,448**	4,088,704	3,911,944	3,653,440	3,467,619
Non-controlling interests	**683,413**	702,793	541,917	385,383	403,381
TOTAL EQUITY	**5,001,861**	4,791,497	4,453,861	4,038,823	3,871,000

The financial information of the Group for the years ended December 31, 2014, 2015, 2016 and 2017 was extracted from 2014, 2015, 2016 and 2017 annual reports published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.polyculture.com.cn) on April 29, 2015, April 28, 2016, April 28, 2017 and April 27, 2018 respectively. The financial information of the Group for the year ended December 31, 2018 was set forth on pages 92 to 216 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:

In May 2018, Poly Culture was included in the 10th "Top 30 Culture Enterprises" in China jointly organized by Guang Ming Daily and Economic Daily. Mr. Xu Niansha, the Chairman of Poly Culture, was named "Annual Leading Figure of Culture Industry in China in 2017".

In June 2018, Poly Film was invited to the 21st Shanghai International Film Festival and was honored as the "Film Investment Company of the Year".

In July 2018, the Poly WeDo Music Children's Chorus (保利童聲合唱團) won world championship in the Folk category in Florence International Choir Festival in Italy.

In August 2018, Poly Auction Beijing won four awards in the third "Qinghua Award" organized by the China Association of Auctioneers, including "Top Ten Enterprises" in the comprehensive category, and "Profitability Award", "Tax Creation Award" and "Scale Award" in specialized categories.

In September 2018, Poly Theatre Management won the first "China Performance Brand" award.

In October 2018, the results of the third "Top 30 and Best Performing 30 Culture Enterprises in the Capital" jointly organized by the Capital Cultural Industry Association, Guang Ming Daily and Beijing Daily were announced. Poly Culture was included in the third "Top 30 Capital Culture Enterprises". This is the third consecutive year that Poly Culture has won this honor.

In December 2018, Poly Auction Beijing successfully organized the "Poly Beijing 2018 Autumn Art Auction", achieving a turnover of RMB2.55 billion. At this point, Poly Auction's worldwide total turnover reached RMB8.3 billion for 2018, ranking the first in global Chinese artwork auctions for nine consecutive years. Among the auctioned artworks, "Two Swallows" (《雙燕》), an oil painting by Wu Guanzhong, was sold at RMB112.7 million, becoming the only oil painting sold at over RMB100 million in China this year; "Farewell Banquet at the Creek Cottage" (《溪堂讌別圖》) by Wen Zhengming was sold at RMB87.975 million, breaking the world record of auction price of Wen Zhengming's works; "Unified Country" (「江山一統」), the ocean-color Eight Diagrams exquisite rotating pen holder made for Emperor Qianlong of the Qing Dynasty, was sold at RMB48.30 million, creating a world record for the auction price of pen holders.

In December 2018, Poly Theatre Management took over the Yuhang Theatre, and Hangzhou became the 14th provincial capital in which Poly Theatre operated. At this point, Poly Theatre directly managed 64 theaters in 55 cities across the country, with 126 auditoriums housing more than 130,000 seats.

In December 2018, the "2018 Chinese Cultural Enterprise Brand Annual Meeting" was held in Beijing. Poly Culture was named "2018 Top 50 Chinese Cultural Enterprises by Brand Value".

Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual results for the year ended December 31, 2018 (the "2018 Year") of Poly Culture Group Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group").

Global political and economic environment remained complicated in 2018. The rising unilateralism, anti-globalization activities, slowing international trade and the ongoing China-US trade tension have created great uncertainties. However, China's Belt and Road Initiative and the proposal of building a community of shared future for mankind have gained global recognition. China's huge cultural market remained highly appealing to global investors and businesses. There will still be many cultural exchange activities between the east and west, and we see many opportunities in the cultural industry.

Our hard work was bearing fruits. In 2018, the Company was included in the "Top 30 Culture Enterprises" and Top 50 Cultural Enterprises by Brand Value in China. During the past year, the Company adhered to its strategy, strengthened its ability of fending off risks, and enhanced its execution, internal control and management efficiency to achieve economic benefits. We will continue to grow and become even stronger. Our leading position in the culture industry will be solidified. Our reputation and brand image will be further strengthened. Our cultural brand value will be fully recognized, and we will truly become a strong cultural enterprise.

2019 will be the first year for Poly Culture to implement the "13th Five-Year Plan". We are starting a journey to become an even stronger company! We will learn from our past experiences and reenergize ourselves to vigorously move toward the goal of "building ourselves into a flagship company in China's culture industry and a first-class cultural brand in the world"!

Last but not least, on behalf of the Board, I would like to extend my deepest appreciation to all shareholders, Board members, management and employees of the Group for the support to the Company!

Chairman
Xu Niansha

Chairman's Statement

In 2018, under the leadership of the Board, Poly Culture worked diligently and focused on implementation, successfully completing the tasks of the year and maintaining a steady growth in operating results. The Company sought breakthroughs through mergers and acquisitions domestically and abroad. With industry integration as the pivot point and a determination to innovate, the Company took a promising step towards our development goal of building a "bigger, better, and stronger Poly Culture".

"Two Swallows" (《雙燕》) by Wu Guanzhong
2018 Poly Autumn Auction, Auction price: RMB112,700,000

"Autumn of Han Palace" (《漢宮秋圖》) from the Song Dynasty
2018 Poly Spring Auction, Auction price: RMB124,200,000

I.SEGMENT BUSINESS INFORMATION

1. The three principal businesses increased steadily, consolidating our leading advantage

Art business and auction business deliberately reduced the number of auction items and adjusted the structure of auction items. In 2018, Poly Culture achieved a total auction turnover of RMB8.3 billion,

1 "Envisioning Pipaxing" (《琵琶行詩意》) by Fu Baoshi
2018 Poly Spring Auction, Auction price: RMB103,500,000

2 "Shapeless Earth" (《大地無形》) by Zao Wou-Ki
2018 Hong Kong Spring Auction, Auction price: HKD182,900,000

3 " 'Precious Article for Imperial Perusal of Qianlong' (《「乾隆御覽之寶」寶璽》) Gold-plaque Beast-shape Copper Seal"
from the Qing Dynasty
2018 Poly Spring Auction, Auction price: RMB110,975,000

continuing to lead the global auction market of Chinese artworks and further increasing its domestic market share. The auction prices of "Autumn of Han Palace" (《漢宮秋圖》) from the Song Dynasty, "Envisioning Pipaxing" (《琵琶行詩意》) by Fu Baoshi, "Two Swallows" (《雙燕》) by Wu Guanzhong, "Shapeless Earth" (《大地無形》) by Zao Wou-Ki, and the "'Precious Article for Imperial Perusal of Qianlong' Gold-plague Copper Seal" (「乾隆御覽之寶」寶璽) from the Qing Dynasty all exceeded RMB100 million.

Theatre Distribution

In 2018, Poly Theatre Management newly took over 5 theatres, 4 of which successfully opened for business during the year. Currently, the theatre line business of Poly Theatre covers 56 cities in 19 provinces, autonomous regions and municipalities across China, with 64 first-rate theatres in China under operation and management.

Poly Film opened 9 new directly-operated cinemas in 2018, increasing the number of directly-operated cinemas to 71, and achieved a box office income of RMB806 million.

2. New businesses progressed continuously with accelerated implementation and layout

Bilingual Musical Creative Arts Camp in Denmark

In terms of art education, Poly Culture, Poly Development, Poly Investment jointly established Art Education Company, and completed the consolidation of 45% of equity interests in Hele Education (和樂教育) in 2018. The first project launched by Art Education Company was Zhuhai Theatre. In terms of music education, Poly WeDo continued to expand. It had 5 campuses accommodating 1,370 students as at December 31, 2018.

Master Workshop for Musicals at University of Cincinnati (U.S.A)

In terms of cultural finance, Art Investment took aggressive actions in 2018 by launching 9 funds amounting to RMB300 million. Poly Ronghe developed rapidly and continued to provide strong support for the auction business. Poly Culture Industry Investment Fund Co., Ltd. (“Poly Culture Industry Fund”) actively supported the main businesses of Poly Culture. With its first fund amounting to over RMB100 million, it effectively played its role as a financing platform.

In terms of cultural assets operation, the synergy between culture and real estate achieved desirable results. Zhengzhou and Cixi Projects were successfully launched and Uniwalk Poly Art Space (壹方城保利藝術空間) was successfully opened for business.

3. Strengthening cultural contents to continuously enhance our overall influence

Poly Theatre Management launched over 10 original plays in 2018. It jointly or independently produced and launched plays including "Lurk" (《潛伏》), "Tomorrow" (《明天》) and "Chi Ye" (《癡爺》), and the classic Israeli play "Ghetto" (《猶太城》) and Broadway musical "Cinderella" (《灰姑娘》) in Chinese version. It also organized the first "Poly-original Parent-child Art Festival" where 5 original IP child plays including "The Little One in the Forbidden City" (《故宮裡的小不點》) and "Ancient Poems in Children's Rhymes" (《古詩童韻》) were presented.

Broadway musical "Cinderella" (《灰姑娘》) in Chinese version

The Art Centre intensified its sales efforts and burnished its corporate brand through academic promotion. By organizing the "Third Poly Stellaroemia Modern Art Exhibition" and the "Fourth Poly Stellaroemia Art Exhibition", it further enhanced its influence and resource integration capability.

Poly Film invested in the TV drama "Revelation of Family Tradition" (《家風啟示錄》) and the film "Weary Eyes of the Wandering Poet" (《詩眼倦天涯》). It accelerated the development of the "Super Cinema Entertaining Centre" business, exploring the business model of combining product consumption, entertainment, and traditional movie.

Poly Art Education

Poly WeDo organized the Master Workshop for Musicals at University of Cincinnati (U.S.A), the Culture & Music Summer Camp in Gubei Water Town, the Bilingual Musical Creative Arts Camp in Denmark and other branding events to enhance its recognition in the industry. At the "Florence International Choir Festival" (佛羅倫薩國際合唱節) in Italy, the Poly WeDo Music Children's Chorus (保利童聲合唱團) managed to defeat the adult choirs from various countries and won world championship in the Folk category.

Established in 2018, the Culture and Creativity Company co-organized the 13th China (Yiwu) Cultural Products Trade Fair, where our three main businesses, art, culture and creativity, and animation simultaneously entered the Yiwu market, receiving high commendation. "Poly National Artwork Copyright Trading Base" was officially opened, becoming China's first institution specializing in artwork copyright management. In collaboration with the Forbidden City, the Culture and Creativity Company rolled out a series of cultural and creative products. With the "Poly Box" drawing wide attention, the "Poly Cultural and Creative Business" brand began to take shape.

4. Accelerating the expansion of international business to improve the level of international operation

"Beijing's Eight-minute" cultural performance at the Pyeongchang Winter Olympics

Poly Culture participated as a main partner in London Design Biennale where it established cooperative relations with a number of British museums and art institutes. In 2018, it entered into a cooperation agreement with the Department for International Trade of the United Kingdom, which facilitated the full cooperation between the two parties in art, culture and creativity.

Poly Theatre Management successfully completed the task of providing operation support for "Beijing's Eight-minute" cultural performance at the closing ceremony of Pyeongchang Winter Olympics and Winter Paralympics. It co-produced the Chinese tour version of the opera "Madama Butterfly" (《蝴蝶夫人》) and family musical "The Perfect Little Witch" (《素敵小魔女》), etc. It also organized the second Poly International Theatre Forum which facilitated dialogues in the industry on program introduction, project production, audience cultivation, etc.

Poly Film co-organized the series events for the 2018 "French-speaking Countries' Film Festival" (法語國家影展) and the European Union Film Festival (歐盟電影展), and organized major events such as the 8th Beijing International Film Festival and the 14th Changchun Film Festival to expand its influence in the industry.

Poly North America organized 6 high-end exhibitions and 68 cultural exchange events in 2018 to assist in the collection of overseas artworks and the introduction of musical drama so as to further enhance the recognition and influence of Poly Culture domestically and abroad.

II. RESULTS ANALYSIS AND DISCUSSION

Revenue

Total revenue increased by 6.7% from RMB3,480.4 million for the year ended December 31, 2017 to RMB3,713.8 million for the year ended December 31, 2018, primarily due to the expansion of theatre and cinema networks.

The respective segment revenue of the Group in 2018 and 2017 is as follows:

	Years ended December 31,		
	2018	2017	
	RMB in millions	*RMB in millions*	*% of change*
Art Business and Auction	**1,158.0**	1,301.5	(11.0)
Performance and Theatre Management	**1,657.5**	1,372.8	20.7
Cinema Investment and Management	**876.6**	786.5	11.5

Gross profit

Gross profit increased by 5.4% from RMB1,229.3 million for the year ended December 31, 2017 to RMB1,295.3 million for the year ended December 31, 2018. Gross profit margin decreased from 35.3% for the year ended December 31, 2017 to 34.9% for the year ended December 31, 2018.

Other net income

Other net income (mainly including government grants) increased from RMB58.2 million for the year ended December 31, 2017 to RMB64.9 million for the year ended December 31, 2018.

Selling and distribution expenses

Selling and distribution expenses increased by 14.7% from RMB361.2 million for the year ended December 31, 2017 to RMB414.3 million for the year ended December 31, 2018, 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 20.5% from RMB442.0 million for the year ended December 31, 2017 to RMB532.6 million for the year ended December 31, 2018, primarily due to (i) 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; (ii) the increase in the number of cinemas we operated and theatres we managed; and (iii) the increase in impairment losses on non-current assets.

Reportable segment profit

As a result of the foregoing, reportable segment profit decreased by 11.1% from RMB699.8 million for the year ended December 31, 2017 to RMB622.0 million for the year ended December 31, 2018.

The respective reportable segment profit of the Group in 2018 and 2017 is as follows:

	Years ended December 31,		
	2018	2017	
	RMB in millions	*RMB in millions*	*% of change*
Art Business and Auction	**388.1**	496.5	(21.8)
Performance and Theatre Management	**60.2**	56.4	6.7
Cinema Investment and Management	**173.7**	146.9	18.2

Finance income

Finance income decreased by 3.5% from RMB62.3 million for the year ended December 31, 2017 to RMB60.1 million for the year ended December 31, 2018, mainly due to a decrease in interest income from consignor advances.

Finance costs

Finance costs increased by 183.0% from RMB14.7 million for the year ended December 31, 2017 to RMB41.6 million for the year ended December 31, 2018, primarily due to an increase in the average amount of bank loans and bonds.

Income tax

Income tax increased by 4.2% from RMB133.7 million for the year ended December 31, 2017 to RMB139.3 million for the year ended December 31, 2018.

Profit for the year

As a result of the foregoing, profit for the year decreased by 8.8% from RMB403.9 million for the year ended December 31, 2017 to RMB368.3 million for the year ended December 31, 2018, and net profit margin decreased from 11.6% for the year ended December 31, 2017 to 9.9% for the year ended December 31, 2018.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2018, the Group maintained a stable financial position and adequate liquidity. As at December 31, 2018, the Group's cash and cash equivalents amounted to RMB1,407.8 million (2017:RMB1,719.5 million), decreased by 18.1% as compared to that of December 31, 2017.

During the year ended December 31, 2018, the net cash outflow from operating activities amounted to RMB324.0 million (net cash outflow for the year ended December 31, 2017 was RMB678.9 million). Taking into account RMB398.0 million in net cash outflow from investing activities, and RMB410.5 million in net cash inflow from financing activities mainly arising from the increase of bank loans and issuance of bonds, there was a decrease in cash and cash equivalents of approximately RMB311.5 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 0.1% from RMB819.3 million as at December 31, 2017 to RMB820.1 million as at December 31, 2018.

Current assets and current liabilities

Primarily due to the expansion of our business, the current assets increased by 1.5% from RMB7,793.4 million as at December 31, 2017 to RMB7,910.5 million as at December 31, 2018. Current liabilities decreased by 14.0% from RMB5,009.4 million as at December 31, 2017 to RMB4,310.3 million as at December 31, 2018. The decrease of current liability is primarily due to the settlements of payables to consignors.

Inventories

Our inventories increased by 6.9% from RMB1,965.9 million as at December 31, 2017 to RMB2,101.1 million as at December 31, 2018, primarily due to the increase in inventory of artwork collections.

Consignor advances

The consignor advances increased by 9.4% from RMB883.7 million as at December 31, 2017 to RMB967.0 million as at December 31, 2018, primarily due to our efforts to attract high quality auction artworks from well-known collectors.

Deposits, prepayments and other receivables

The deposits, prepayments and other receivables increased by 25.4% from RMB1,080.0 million as at December 31, 2017 to RMB1,354.3 million as at December 31, 2018, primarily due to the increase in prepayments for auctioned artwork.

INDEBTEDNESS

As at December 31, 2018, we incurred interest-bearing borrowings of RMB3,167.4 million, which were mainly borrowed from reputable financial institutions and were unsecured. Bank loans increased from RMB1,756.5 million as at December 31, 2017 to RMB2,088.6 million as at December 31, 2018 due to the expansion of business operation. The Group issued RMB400 million and RMB300 million corporate bonds on September 7, 2018 and December 5, 2018 at coupon rates of 4.72% and 4.90% respectively, both with a term of three years, nominal value per unit of RMB100.

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 plans, 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, 2018, our maximum exposure amounted to RMB154.0 million.

As at the date of this announcement, other than disclosed in this announcement, 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 of the purchases of property, plant and equipment as well as intangible assets which amounted to RMB152.1 million and RMB132.1 million, respectively, for the years ended December 31, 2018 and 2017.

OTHER FINANCIAL INDICATORS

The ratio which is calculated by dividing the interest-bearing debts by total equity increased from 52.5% as at December 31, 2017 to 63.3% as at December 31, 2018.

EMPLOYEE REMUNERATION AND POLICY

As at December 31, 2018, the Group had 8,008 employees in total. The remuneration policy for our employees has been determined by the Remuneration and Assessment Committee of the Board taking into consideration the performance, experience and operational capacity of our employees. As at December 31, 2018, there has been no material change to our remuneration policy and training plans. The Company also adopted the H share appreciation rights incentive plan during the year. For details, please refer to the Company's announcements dated November 6, 2018 and December 21, 2018, respectively and the Company's circular dated November 9, 2018.

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)

Economic globalization has suffered setbacks, multilateralism is under attack, and the international financial market is fluctuating. In particular, the Sino-US economic and trade frictions have adversely affected the production management and market expectations of some enterprises. The Chinese economy is facing daunting challenges of restructuring pains with interlacing old and new issues and a combination of cyclical and structural problems, which bring in changes in otherwise stable economic performance, some of which are alarming. 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 market for artworks

The market 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 the contribution of the excellent management professionals. In terms of the art business and auction segment, we rely on a number of industry professionals to provide authentication and valuation of artworks services, 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 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.

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 recruitment of talent in the industry. 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 the Euro or the 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

In 2019, China's macroeconomic condition remains uncertain. Although it is growing in the long run, its "stability is subject to changes, and changes give rise to concerns". We must heighten our awareness of urgency and take measures to address risks.

In 2019, Poly Culture will continue to focus on our goal of becoming "bigger, better, and stronger". In addition to maintaining the steady expansion of existing main businesses, we will vigorously promote mergers and acquisitions domestically and abroad to consolidate the leading position of existing businesses. We will ride the general trend of integrated development in the industry by promoting the integrated development of culture and technology and tourism, and make progress while maintaining stable performance, with a view to achieving new breakthrough.

1. Stabilize growth, consolidate foundation, and maintain continuous growth in size

Art business and auction business will strengthen the research on the market condition and competitors, give full play to its overall advantages, and explore the new innovative incentive mechanism to consolidate its market leading position. In addition, it will intensify its efforts in proprietary sales. Cultural and creative business will focus on expanding off-line retail terminals as well as expanding and operating mature online e-commerce sales channels. It will properly operate the Yiwu Industrial Collaboration Centre and proactively carry out the cultural and creative project consulting business and bulk gift procurement business.

Performance and theatre management business will continue to follow up on the theatre projects in provincial capital cities and culturally-developed cities and ensure the renewal of theatres. Poly Ticketing will focus on the development and operation of platforms and accelerate the building of the integration platform.

Cinema investment and management business will strictly control operating costs, improve efficiency and promote management improvement to achieve cost reduction and efficiency improvement. On the basis of strict control of investment risks, it will take the opportunity to acquire external high-quality projects, prudently conduct capital operation, and steadily expand its size.

Art education business must ensure the proper alignment with the Poly Art Investment Platform. Poly WeDo will steadily push forward the construction of campuses outside Beijing, focusing on summer tour, parent-child music and art festival and summer camp and implementing the "teaching + exhibition and performance" model, so as to further expand its brand influence.

In terms of cultural finance, Art Investment will ramp up its efforts in exploring new projects, aiming to achieve breakthroughs in capital operation and external cooperation. Poly Ronghe will strengthen the research and judgment on market environment and financial environment to strictly control business risks, steadily expand the size, and strengthen the support for the art business. Poly Culture Industry Fund will proactively explore new projects and strengthen the cooperation with relevant parties to quickly grow in size.

2. Continue to improve originality, strengthen contents and expand brand influence

Poly Theatre Management will intensify its efforts in introducing high-quality works and creating original works, accelerate the construction of children's theater circuit, and properly arrange the performances for the theaters, striving to build the "Poly Parent-Child" brand. We will strengthen the communication and cooperation with Hong Kong Leisure and Cultural Services Department and Hong Kong Arts Development Council to actively explore various resources and continuously expand business cooperation channels. We will centre on the conversion of well-known IPs, the cultivation of family audience, and the creation of boutique music projects to build a bigger and stronger brand of "Presented by Poly".

Poly Art Centre will organize series events such as "Art Carnival" and "Stellaroemia" art exhibition. The Culture and Creativity Company will cooperate with museums to obtain the authorization to develop the cultural and creative product business.

Poly Film will bring in new projects to achieve the full implementation of the "Super Cinema Entertainment Center" business, thereby creating a diversified business model and improving differentiated competitiveness.

COMPOSITION OF THE BOARD OF DIRECTORS

the Board of Directors comprised four executive Directors, two non-executive Directors and three independent non-executive Directors. As of December 31, 2018, the board of directors includes the following directors:

Executive Directors

The executive Directors of the Company are Mr. Xu Niansha (chairman), Mr. Zhang Xi (vice chairman), Mr. Jiang Yingchun (chief executive officer) and Mr. Hu Jiaquan.

Non-executive Directors

The non-executive Directors of the Company are Mr. Huang Geming and Mr. Wang Keling.

Independent non-executive Directors

The independent non-executive Directors of the Company are Mr. Li Boqian, Ms. Li Xiaohui and Mr. Yip Wai Ming.

The profiles details of our Directors were set forth on pages 69 to 72 of this report.

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 (www.hkexnews.hk) and the Company (www.polyculture.com.cn).

MAIN BUSINESS

The Company is a leading diversified culture and art enterprise in China, which maintains a well-balanced structure of cultural industry with 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 and controlled subsidiaries. The Company actively develops four new businesses concurrently, namely art education，culture finance，culture tourism and operation and management of culture asset.

ANALYSIS OF KEY INDICATORS OF FINANCIAL PERFORMANCE

For details of analysis of key indicators of financial performance, please refer to "Results Analysis and Discussion" of "Management Discussion and Analysis" 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 international trade, real estate development, investment, exploitation and operation in resource field, civilian explosive materials and blasting service and financial business.

ANNUAL RESULTS

The annual results of the Group for the year ended December 31, 2018 were published on the websites of the Stock Exchange and the Company on March 22, 2019.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended December 31, 2018 are set out in Note 12 to the Financial Statements of this report.

SHARE CAPITAL

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

RESERVES

Movements in the reserves of the Company for the year ended December 31, 2018 are set out in the Consolidated Statement of Changes in Equity and Note 29 to the Financial Statements of this report, and details of reserves available for distribution to our Shareholders are set out in Note 29(e) to the Financial Statements of this report.

APPOINTMENT OF AUDITORS

For the year ended December 31, 2018, the Company continued to appoint BDO China Shu Lun Pan Certified Public Accountants LLP as the PRC auditor of the Company, and 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. the Company has not changed the auditor for the past three years.

PROFIT DISTRIBUTIONS

The Company has reviewed and approved the dividend distribution plan of the Company for the year 2017 at the 2017 annual general meeting of the Company on June 28, 2018. The Company have distributed a final cash dividend of RMB0.207 per share (tax inclusive) in an aggregate amount of approximately RMB50,987,412 (tax inclusive) for the year ended December 31, 2017 to Shareholders whose names appear on the register of members of the Company on July 10, 2018. The Board recommends to distribute a final dividend of RMB0.207 per share (tax inclusive) in cash to the shareholders for the year ended December 31, 2018. The above dividend is expected to be distributed on or before August 15, 2019 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, 2018.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2018, 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 CONTRACTS, TRANSACTIONS OR AGREEMENTS

No contracts, transactions or agreements 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 had a material interest, whether directly and indirectly, subsisted at the end of the year ended December 31, 2018 or at any time during that year.

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

Customers

The Company is always concerned about the needs of our customers, providing reliable and safe products and services to maintain our long-term business relationship with customers, and keep in touch through regular and irregular visits, telephone and e-mail. Its auction companies adhere to the concept of "boutique Poly", continuing to provide quality services to domestic and international customers and gradually establishing a set of standardized 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. In order to protect the privacy of customers, we strictly conform to the requirements of the relevant laws and regulations, and only those authorized people are allowed to dealing with clients' information.

Sales to the top five customers of the Company accounted for less than 30% of the Group's sales and the dependence on the major customers is less risky.

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.

Suppliers

The Company's main products and service providers include domestic and foreign performance groups, cinema line companies, art holders, decorating and constructor, printer and others. The Company aims to establishing long-term relationship with the suppliers and generally select the suppliers with high credibility. The audit department of the Company also makes periodic checks on the relevant purchase prices.

The group's business does not depend on any individual supplier. The purchases from the top five suppliers of the Company accounted for less than 30% of the Group's total purchases.

Investors

The Company has and always will 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, 2018 were set forth in Note 20 to the Financial Statements of this report.

EMPLOYEES REMUNERATION AND POLICIES

As at December 31, 2018, the Group had 8,008 employees in total. The remuneration policy for our employees has been determined by the Remuneration and Assessment Committee of the Board taking into consideration the performance, experience and operational capacity of our employees. As at December 31, 2018, there has been no material change to our remuneration policy and training plans. The Company also adopted the H share appreciation rights incentive plan during the year. For details, please refer to the Company's announcements dated November 6, 2018 and December 21, 2018, respectively and the Company's circular dated November 9, 2018. 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 Latest Practicable Date, the Company also adopted the H share appreciation rights incentive plan during the year. For details, please refer to the Company's announcements dated November 6, 2018 and December 21, 2018, respectively and the Company's circular dated November 9, 2018.

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

As the Group's main businesses are art business and auction, performance and theatre management and cinema investment and management, and art education, culture finance, culture tourism and operation and management of culture asset. The Group is subject to relevant PRC policies, laws and regulations, including the auction law of the People's Republic of China (《中華人民共和國拍賣法》), regulations on management of business performance (《營業性演出管理條例》) and regulations on film management (《電影管理條例》). In addition, all our business operations in the PRC are subject to the laws and regulations regarding quality, safety production, environmental protection, intellectual property and labor. Besides, any violation of those laws and regulations may result in sanctions, including warnings, penalties and remedies, which will have an adverse impact on the Group's business operation and future development.

In addition, the Group is required to obtain and maintain valid permits, licenses, approvals and certificates from various governmental authorities or institutions under relevant laws and regulations for our businesses of cultural relics auction, foreign-related performance, film projection, cultural fund. The Group must comply with the restrictions and conditions imposed by various levels of governmental agencies to maintain the Group's permits, licenses, approvals and certificates. Should the Group fail to comply with any of the regulations or meet any of the conditions required for the maintenance of the Group's permits, licenses, approvals and certificates, such permits, licenses, approvals and certificates could be temporarily suspended or even revoked, or the renewal thereof, upon expiry of their original terms, may be delayed or rejected, which could materially and adversely impact our business, financial condition and results of operations.

As an H share company incorporated in the PRC with limited liabilities and listed on the Hong Kong Stock Exchange, the Company is governed by various applicable domestic laws and regulations including the Company Law of the People's Republic of China, the Guideline on Comprehensive Risk of Central Enterprises (《中央企業全面風險指引》) promulgated by the SASAC, as well as the Listing Rules and the Securities and Futures Ordinance.

The Group has implemented internal control measures to ensure its compliance with such laws and regulations. Having reviewed the business performance of the Group, the Board is of the view that the Group has been in compliance with the requirements of relevant laws and regulations in all material respects.

DIRECTORS' AND SUPERVISORS' INDEMNITIES

At no time during the year ended December 31, 2018 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 senior management' liability insurance coverage for the Directors, Supervisors and senior management of the Group.

EQUITY-LINKED AGREEMENTS

For the year ended December 31, 2018, the Company did not enter into any equity-linked agreements.

DEBENTURES ISSUED

Pursuant to the requirements of the Company Law, the Listing Rules and the Articles, for the year ended December 31, 2018, the Company has completed the issuance of the following debentures in order to broaden the financing channels, enhance the financing capability and reduce the financing cost of the Company.

The Company has completed the issuance of 2018 corporate bonds (first tranche) (the "**First Tranche Corporate Bonds**") on September 7, 2018. The aggregate issuance amount of the First Tranche Corporate Bonds was RMB400 million with a term of three years, nominal value per unit of RMB100 and coupon rate of 4.92%. 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 September 7, 2018. After deducting issuance expenses, the proceeds raised from the First Tranche Corporate Bonds are intended to be used for repayment of borrowings from financial institutions and used as additional working capital. For details, please refer to the Company's announcement dated September 10, 2018.

The Company has completed the issuance of 2018 corporate bonds (second tranche) (the "**Second Tranche Corporate Bonds**") on December 5, 2018. The aggregate issuance amount of the Second Tranche Corporate Bonds was RMB300 million with a term of three years, nominal value per unit of RMB100 and coupon rate of 4.70%. 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 December 5, 2018. After deducting issuance expenses, the proceeds raised from the Second Tranche Corporate Bonds are intended to be used for repayment of borrowings from financial institutions and used as additional working capital. For details, please refer to the Company's announcement dated December 6, 2018.

DONATIONS

For the year ended December 31, 2018, the charity donations made by the Group amounted to approximately RMB192,000.

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.

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 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 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, 2018, 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, 2018, to the knowledge of the Directors, the interests or short positions of the following persons (which are not Directors, Supervisors or chief executives of the Company) in the Shares or underlying Shares of the Company, which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Shareholders	Type of Shares	Capacity	Number of Shares/underlying Shares held (Note 1)	Percentage of the relevant class of 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

Notes:

1. "L" stands for long positions.

2. The percentage is calculated with the number of the relevant class of Shares of the Company issued as at December 31, 2018 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, 2018, 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.

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

I. Non-exempt One-off Connected Transaction

1. Establishment of Poly Art Education Investment Company Limited

Parties

The Company, Poly Investment and Poly Real Estate

Principal Terms

(1) Date

March 26, 2018

(2) Capital Contribution

According to the Joint Venture Agreement, the registered capital of Poly Art Education Investment Company Limited is proposed to be RMB100 million, of which the Company will contribute RMB40 million, accounting for 40% of the registered capital; Poly Investment will contribute RMB20 million, accounting for 20% of the registered capital; and Poly Real Estate will contribute RMB40 million, accounting for 40% of the registered capital. Poly Art Education Investment Company Limited is proposed to be incorporated in Beijing in the PRC.

The Company, Poly Investment and Poly Real Estate will make the contribution in cash. The source of capital contributed by the Company is from its own funds.

Upon establishment, Poly Art Education Investment Company Limited will become a joint venture of the Company and will not be a subsidiary of the Company.

(3) Corporate Governance

The board of directors to be established by Poly Art Education Investment Company Limited consists of five directors, of which the Company will appoint two directors, Poly Investment will appoint one director and Poly Real Estate will appoint two directors. The senior management of Poly Art Education Investment Company Limited will be appointed by the board of directors by way of nomination by the shareholders or open recruitment.

Listing Rules Implications

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, hence 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 100% and 40.87% equity interest of Poly Investment and Poly Real Estate respectively, both Poly Investment and Poly Real Estate are Connected Persons of the Company under Chapter 14A of the Listing Rules. Therefore, the joint capital contribution by the Company, Poly Investment and Poly Real Estate to establish the New Company constitutes a Connected Transaction of the Company. As the highest applicable percentage ratio calculated in accordance with the Listing Rules is higher than 0.1% but lower than 5%, the transaction is subject to the relevant reporting and announcement requirements, but exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Transaction and its Reasons

By the joint establishment of Poly Art Education Investment Company Limited, the Company will be benefited to effectively integrate the brand influence and resource superiority of culture business and real estate business of Poly Group, organically combine the abundant domestic and overseas culture and art resources of the Company with extensive customer resources of Poly Real Estate, promote to form a multilevel layout in art education industry and develop youth art education business of the Company.

For details of the above transaction, please refer to the announcement of the Company dated March 26, 2018 and March 27, 2018.

2. Acquisition of Equity Interests

Parties

(1) the Company (as purchaser)

(2) Poly Culture Industrial Fund (as seller)

Principal Terms

(1) Date

June 1, 2018

(2) Target equity interests

15% equity interests of Zhengzhou Poly Real Estate

(3) Consideration and Payment

No more than RMB124.25 million in total (including RMB55 million, the amount of interest in Investment Fund to be subscribed by the Company, and management fees of Investment Fund of RMB1.65 million). Upon the expiration of the term of Investment Fund, the Company shall pay the Consideration within one month after the fulfillment of all the following precedent conditions.

(4) Completion

Upon the completion of industrial and commercial registration of changes in respect of Acquisition, the Company shall become the owner of the equity interests of Zhengzhou Poly Real Estate, and shall be entitled to the equity interests of Zhengzhou Poly Real Estate as well as all the rights and obligations attached thereto. After the completion of Acquisition, the Company will directly hold 15% equity interests of Zhengzhou Poly Real Estate.

Listing Rules Implications

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, hence Poly Group is the controlling shareholder of the Company and thus a Connected Person of the Company. As Poly Culture Industrial Fund is a subsidiary of Poly Group, Poly Culture Industrial Fund is also a Connected Person of the Company. Therefore, the Equity Purchase Agreement and the transactions contemplated thereunder made between the Company and Poly Culture Industrial Fund constitute a Connected Transaction of the Company. As the highest applicable percentage ratio calculated in accordance with the Listing Rules is higher than 0.1% but lower than 5%, the transaction is subject to the relevant reporting and announcement requirements, but exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Transaction and its Reasons

The Acquisition will contribute to deploy the Company's key layout in strategically integrating culture business with real estate business, in order to accelerate the development and expansion of the Company. The Equity Purchase Agreement is conducted by the Company and Poly Culture Industrial Fund on normal commercial terms, fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

For details of the above transaction, please refer to the announcement of the Company dated June 1, 2018.

3. Acquisition of Equity Interests and Debt Interests

Parties

(1) the Company (as the purchaser)

(2) Poly Culture Industrial Fund (as the vendor)

Principal Terms

(1) Date

November 6, 2018

(2) Target equity interests

20% of equity interests of Cixi Project Company held by Poly Culture Industrial Fund

(3) Target debt interests

A debt of approximately RMB34.83 million in Cixi Project Company held by Poly Culture Industrial Fund as at November 6, 2018

(4) Consideration and Payment

Approximately RMB54.83 million, of which RMB20 million of transfer consideration is for the acquisition of the target equity interests held by the vendor and approximately RMB34.83 million of transfer consideration is for the acquisition of the target debt interests held by the vendor.

The vendor has undertaken that the registered capital and shareholder's loan it provided for Cixi Project Company will remain unchanged prior to the completion of the Acquisition.

The Company will pay the consideration on a lump sum basis within 20 days upon completion of industrial and commercial registration of changes.

(5) Completion

Upon completion of industrial and commercial registration of changes in respect of the Acquisition, the Company will become the owner of the target equity interests and target debt interests of Cixi Project Company, and shall be entitled to the equity interests of Cixi Project Company and all rights and obligations attached thereto, as well as the debt interests in Cixi Project Company. Upon completion of the Acquisition, the Company will directly hold 20% of equity interests of Cixi Project Company and be entitled to debt interests of approximately RMB34.83 million in Cixi Project Company.

Listing Rules Implications

In accordance with Rule 14A.81 of the Listing Rules, a series of Connected Transactions will be aggregated and treated as if they were one transaction if they were all completed within a 12-month period or are otherwise related. On June 1, 2018, the Company entered into an Equity Acquisition Agreement with Poly Culture Industrial Fund with respect to the acquisition of 15% of equity interests in Zhengzhou Poly Real Estate. In both the aforesaid acquisition and the Acquisition, the Company's counterparty is Poly Culture Industrial Fund, and the nature of the transactions is the same. Accordingly, such transactions shall be aggregated.

In accordance with Chapter 14 of the Listing Rules, as one or more applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) of the Equity and Debt Interests Transfer Agreement and the transactions contemplated thereunder calculated after the aggregation exceed 5% but all applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company, and shall be subject to the notice and announcement requirements set out in Chapter 14 of the Listing Rules.

Poly Group directly holds 43.3% of equity interest of the Company and indirectly holds 20.4% of equity interest of the Company through Poly Southern, a subsidiary of Poly Group, hence Poly Group is a controlling Shareholder and thus a Connected Person of the Company. As Poly Culture Industrial Fund is a subsidiary of Poly Group, Poly Culture Industrial Fund is also a Connected Person of the Company. Therefore, the Equity and Debt Interests Transfer Agreement and the transactions contemplated thereunder made between the Company and Poly Culture Industrial Fund constitute Connected Transactions of the Company. As the highest applicable percentage ratio of the Equity and Debt Interests Transfer Agreement and the transactions contemplated thereunder calculated on an aggregated basis in accordance with the Listing Rules is higher than 5%, the Equity and Debt Interests Transfer Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

Transaction and its Reasons

By acquiring the equity interests of Cixi Project Company held by Poly Culture Industrial Fund, the Company will participate in the operation and management of Cixi Project Company as a shareholder, and will operate and manage relevant cultural facilities upon completion of the development of Cixi Wandi Project to establish a cluster of relics and museology industry, artwork industry and performance industry, thereby driving the concentrated development, industrial upgrade, and leap-frog development of the Company's three principal businesses. The acquisition of equity interests of Cixi Project Company will increase the Company's profits and benefit the Shareholders as a whole.

For details of the above transaction, please refer to the announcements of the Company dated November 6, 2018 and December 21, 2018, respectively, and the circular dated November 9, 2018.

II. 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 2018 (RMB Million)	Actual Transaction Amount of 2018 (RMB Million)
1.	Financial Services Agreement	Financial Services Agreement (as the service provider)	the maximum daily deposit balance: 900 the maximum daily lending balance: 600	depositing services: 707.22 credit lending services: 150.00 settlement services: / miscellaneous financial services: /
2.	General Services Framework Agreement	Poly Group (as the service receiver)	32.35	5.71
3.	Commodities Sale and Purchase Framework Agreement	Poly Group (as the purchaser)	20.65	5.28
4.	Property Lease Framework Agreement	Poly Group (as the lessor	78.37	36.64
5.	Cinema Box Office Income Sharing Framework Agreement	Poly Group	516.50	256.82
6.	Finance Lease Framework Agreement	Poly Leasing (as the lessor)	413	3.41

- For the above-mentioned No.1 non-exempt Continuing Connected Transaction, its annual caps from 2018 to 2020 have been approved by the annual general meeting of 2017 convened on June 28, 2018;

- For the above-mentioned No.2 to No.3 non-exempt Continuing Connected Transactions, its annual caps from 2017 to 2019 have been approved by the Board of Directors;

- For the above-mentioned No.4 non-exempt Continuing Connected Transaction, its annual caps from 2017 to 2019 have been approved by the Board of Directors;

- For the above-mentioned No.5 non-exempt Continuing Connected Transaction, its annual caps from 2017 to 2019 have been approved by the first extraordinary general meeting of 2016 convened on December 23, 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 convened on June 7, 2016.

1. Financial Services Agreement

Parties

Poly Finance (as the service provider) and the Company (as the service receiver)

Principal Terms

The Company and Poly Finance entered into the Financial Services Agreement on October 23, 2017, pursuant to which Poly Finance agreed to provide deposit services, credit lending services, settlement services and miscellaneous financial services for the Group. The principal terms of the Financial Services Agreement are as follows:

(1) the financial services to be provided by Poly Finance to the Group include deposit services, credit lending services, settlement services and miscellaneous financial services. 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;

(2) Conditional upon the compliance with the New 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; and

(3) The term of the New Financial Services Agreement is three years (i.e. from January 1, 2018 to December 31, 2020).

Listing Rules Implications

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, hence Poly Group is a controlling shareholder and thus a Connected Person of the Company. Poly Finance is owned as to 94.18% by Poly Group and its associates, and is therefore a Connected Person of the Company. Accordingly, the transactions contemplated under the Financial Services Agreement constitute Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in relation to the proposed annual caps of deposit services under the Financial Services Agreement calculated in accordance with the Listing Rules is higher than 5%, the provision of deposit services by Poly Finance to the Group is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of credit lending services under the Financial Services Agreement, as it constitutes financial assistance provided by a Connected Person to the Group, and the credit lending services are in the ordinary and usual course of business of the Company and on normal commercial terms, and are not secured by any assets of the Group, therefore, according to Rule 14A.90 of the Listing Rules, the credit lending services that Poly Finance proposes to provide to the Group are exempt from the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of settlement services and miscellaneous financial services under the Financial Services Agreement, each of applicable percentage ratio of the proposed annual caps calculated in accordance with the Listing Rules is, or is expected to be, below the de minimis threshold as stipulated in Chapter 14A of the Listing Rules. Therefore, the settlement services and the miscellaneous financial services to be provided by Poly Finance to the Group are exempt from the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will comply with the reporting, announcement, annual review 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

(1) The interest rate for deposit services provided by Poly Finance is not lower than independent domestic major state-owned commercial banks in China. The Group may increase interest rates of deposits and decrease finance costs;

(2) As an internal financial institution of Poly Group, Poly Finance has more convenient and efficient communication with the Group than other independent domestic major state-owned commercial banks in China. The relevant service terms are more beneficial to the Group and the capital risk is low;

(3) Poly Finance is supervised by the China Banking Regulatory Commission, with good risk control and standardized management. The security level of the settlement system has reached the level of independent domestic major state-owned commercial banks in China and can ensure the safety of the Group's funds;

(4) Currently, the monetary capital of the Group has been deposited in several banks, the deposit arrangement with Poly Financial is beneficial in reduction of the Group's deposit risk;

(5) The deposit service provided by Poly Finance has no restrictions on the flow of deposits. The Group can adopt different periods of cash deposits to ensure a flexible cash flow;

(6) Poly Finance commits to provide a preferential interest rate for its group loans, which is not higher than the interest rate of similar loans offered by independent domestic major state-owned commercial banks in China over the same period. The Group has a minimum loan interest rate to reduce the financing costs when the funds are available;

(7) The loan terms of Poly Finance are much better than those of independent domestic major state-owned commercial banks in China. As the internal financial institution of Poly Group, Poly Finance has a better understanding of the Group's operating characteristics and is able to design a specialized and personalized credit service program for the Group;

(8) The terms of credit lending services provided by Poly Finance are more flexible and the Group is not obliged to use credit lending services; and

(9) The settlement service provided by Poly Finance is free which can reduce the financial cost of the Group.

For details of the above transactions, please refer to the announcements dated October 23, 2017 and June 28, 2018, respectively, and the circulars dated November 10, 2017 and May 14, 2018, respectively.

2. General Services Framework Agreement

Parties

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

Principal Terms

The Company renewed the General Services Framework Agreement with Poly Group on October 17, 2016, pursuant to which the Company from time to time provides Poly Group and/or its associates with certain types of services, mainly including exhibition service, theatre management activity 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 January 1, 2017 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's length negotiations.

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 transactions under the General Services Framework Agreement entered into between the Company and Poly Group constitute the Continuing Connected Transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio of the annual cap of the General Services Framework Agreement entered into between the Company and Poly Group calculated in accordance with the Listing Rules 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.

Transaction and its Reasons

(1) Poly Group is engaged in the business of real estate development and conducts promotion activities for high-end real estate projects by hosting art appreciation activities from time to time. Poly Art Centre, a wholly-owned subsidiary of the Company, is engaged in exhibition undertakings and organization of art communication activities. While Poly Group and its subsidiaries are promoting their sales and marketing activities all over the country, Poly Art Centre's services in holding exhibitions and providing selected exhibits are needed, which will enhance the market influence of Poly Group. In the meantime, Poly Art Centre can also earn profits therefrom. Poly Group is also dedicated to the integration of real estate and culture by means of the introduction of some cultural elements, like Poly Theatre, in order to enhance the cultural content and commercial value and complement each other's benefit with Poly Culture. Thus, Poly Theatre Management, a wholly-owned subsidiary of the Company, also provides relevant theatre management service for Poly Group.

(2) The above mentioned provision of service by the Company to Poly Group has been and will be conducted in line with the market practice in order to exert the strength and advantage of both the Company and Poly Group.

For details of the above transactions, please refer to the announcements of the Company dated October 17, 2016.

3. ***Commodities Sale and Purchase Framework Agreement***

Parties

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

Principal Terms

The Company renewed the Commodities Sale and Purchase Framework Agreement with Poly Group on October 17, 2016, pursuant to which the Company will 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 January 1, 2017 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 under the Commodities Sale and Purchase Framework Agreement will be determined through arm-length negotiations by parties thereto by reference to market price.

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 transactions under the New Commodities Sale and Purchase Framework Agreement entered into between the Company and Poly Group constitute the Continuing Connected Transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the annual cap of 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.

Transaction and its Reasons

(1) It is the Company's ordinary and usual course of business to sell art products and theatre tickets. There is a need for Poly Group and/or its associates to purchase theatre tickets for marketing promotion from time to time, and/or purchase art products for interior decoration of their office building from time to time.

(2) With continuing expansion of the business scale of Poly Group, the demand in art products and theatre tickets of Poly Group has exceeded the original anticipation.

(3) The above-mentioned provision of commodities sale and purchase services by the Company to Poly Group has been and will be conducted in line with the market practice and can exert the strength and advantage from both the Company and Poly Group.

For details of the above transactions, please refer to the announcement dated October 17, 2016.

4. Property Lease Framework Agreement

Parties

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

Principal Terms

The Company 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

(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 after December 31, 2016 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.

Transaction and its Reasons

The Group has been leasing and using the above properties for its business operation for a long period. Any relocation may cause unnecessary disruption to our business operation and incur unnecessary costs.

The Directors of the Company are of the view that maintaining long-term and stable property lease is of great importance to the operation of the cinema investment and theatre management business of the Group, and 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, the Directors of the Company 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 October 17, 2016.

5. ***Cinema Box Office Income Sharing Framework Agreement***

Parties

Poly Group and the Company

Principal Terms

The Company entered into the Cinema Box Office Income Sharing Framework Agreement with Poly Group on October 17, 2016, according to which Poly Group and/or its associates will provide new film prints for the Group and the Group will then arrange movie screening in cinemas of the Group. 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. 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 January 1, 2017, 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 the Group and our Group will then arrange movie screening in our cinemas. The 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 annual caps of the Cinema Box Office Income Sharing Framework Agreement in 2017, 2018 and 2019 were approved by the first 2016 extraordinary general meeting of the Company on December 23, 2016.

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 transactions under the Cinema Box Office Income Sharing Framework Agreement between the Company and Poly Group constitute Continuing Connected Transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the proposed annual caps for 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.

Transaction and its Reasons

According to the changes in the average sharing level of the movie screening industry in China, Poly Wanhe Cinema Circuit will adjust the sharing percentage with cinemas under the Company every three to five years, and enter into New Cinema Box Office Income Sharing Framework Agreements. Pursuant to such agreements, Poly Wanhe Cinema Circuit will provide the Group with new film prints and encryption keys, which the Group will then arrange to be screened in cinemas of the Group. After the renewal of the Cinema Box Office Income Sharing Framework Agreement, the Directors expect that, taking into consideration the long-term good business relationship between Poly Wanhe Cinema Circuit and cinemas of the Group since the date of formal commencement of business, and the fact that the sharing percentages offered by Poly Wanhe Cinema Circuit is more favourable than the average market sharing percentage, it is in the Company's long-term interest that the Company continue to maintain relationship with Poly Wanhe Cinema Circuit. Any cessation of such corporation will cause unnecessary disruption to the movie screening operation of cinemas of the Group, incurring significant business losses to the Company.

For details of the above transactions, please refer to the Prospectus of the Company and the announcements published on October 17, 2016 and December 23, 2016 and the circular published on November 4, 2016.

6. Finance Lease Framework Agreement

Parties

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

Principal Terms

(1) Date

April 22, 2016

(2) Terms of agreement

The Finance Lease Framework Agreement shall become effective upon the approval of the 2015 annual general meeting (June 7, 2016) and up to December 31, 2023.

(3) 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.

(4) 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**")

(5) 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's (or its renewal agreement's) 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.

(6) Guarantees

Poly Film provides full amount guarantees for the finance leases of Poly Film's subsidiary under the Finance Lease Framework Agreement.

(7) History figures

No historical figures of Poly Film are available for the transactions under the Finance Lease Framework Agreement.

(8) 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 is the Company's Controlling Shareholder, 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.

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 published on April 22, 2016 and June 7, 2016 and the circular published on May 9, 2016.

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;

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 2018.

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 33 to financial statements. Other than disclosed in the paragraph headed "Connected Transactions" in this report, related party transactions disclosed in Note 33 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. During the Reporting Period, the Company has complied with the provisions in Chapter 14A of the Listing Rules.

THE RIGHTS AND INTERESTS OF THE DIRECTOR IN THE COMPETITIVE BUSINESS

In the Reporting Period, no Directors and their associates have any competitive interests in any business that constitutes or may constitute competition directly or indirectly with the business of the Group (except for the disclosure in this report.)

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 which, 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.

During the Reporting Period, the Controlling Shareholder of the Company has complied with the Non-competition Undertaking.

PRE-EMPTIVE RIGHT, SHARE OPTION ARRANGEMENTS

During the year ended December 31, 2018, 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, 2018, no contracts of significance in respect of provision of services or otherwise was 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 the section headed "Risk Factors" of "Management Discussion and Analysis" of this report.

FUTURE DEVELOPMENT OF THE GROUP

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

THE GRANT OF THE H SHARE APPRECIATION RIGHTS

The H Share Appreciation Rights Incentive Plan and the proposed Initial Grant of the Company have been considered and approved at the Extraordinary General Meeting of 2018. On December 21, 2018, the Company has granted 4,926,320 H Share Appreciation Rights (corresponding to 4,926,320 underlying H Shares) to the following 77 Incentive Recipients, including 4 Directors, 4 members of senior management, 37 members of middle management of the Company and members of senior management of subsidiaries, and 32 key management and technical personnel. The H Share Appreciation Rights Incentive Plan of the Company does not involve the grant of options on the new shares or other new securities of the Company or any of its subsidiaries, and therefore is not required to comply with the requirements under Chapter 17 of the Listing Rules. For details, please refer to the Company's announcement dated December 21, 2018.

SUBSEQUENT EVENT

The Board recommends to distribute a final dividend of RMB0.172 per share (tax inclusive) in cash to the shareholders for the year ended December 31, 2018. The dividend mentioned above will be distributed before the end of August 15, 2019 upon approval of Shareholders at the 2018 annual general meeting of the Company.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the year ended December 31, 2018. 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, 2018, 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

In 2018, 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 26, 2018, the third session of the Board of Supervisors convened its fourth meeting and deliberated and approved Proposal on Work Report 2017 of the Board of Supervisors of the Company, Proposal on 2017 Annual Results Announcement of the Company, Proposal on the 2017 Annual Report of the Company, Proposal on the Financial Report of the Company for the year 2017, Proposal on the Dividend Distribution Plan of the Company for the year 2017 and Proposal on the Financial Budget of the Company for the year 2018.

2. On August 15, 2018 the third session of the Board of Supervisors convened its fifth meeting and deliberated and approved Proposal on 2018 Interim Result Announcement of the Company and Proposal on 2018 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 opines that the decisions on major issues were made legally and that all Directors and senior management members 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 subsidiaries 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 the Accounting Law of the People's Republic of China, the PRC Accounting Standards for Business Enterprises and the 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 to participate in the work of the construction of internal control system of the company, cooperate with other departments, actively sort, tidy up and improve various systems, documents, rectify the defects, and participate in the successful completion of the inspection work of regulatory agencies such as Poly Group and SASAC.

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
Huang Geming	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

During the Reporting Period, the Board of Directors has complied with the requirement 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 of the Company fully comply with Rules 3.10 (1) and (2) of the Listing Rules.

None of the independent non-executive Directors of the Company 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 Mr. Li Boqian, Ms. Li Xiaohui and Mr. Yip Wai Ming, who are the independent non-executive Directors of the Company will last for a period of three years with effect from December 23, 2016. The term of Mr. Wang Keling, who is a non-executive Director of the Company will last for a period of three years with effect from December 23, 2016. The term of Mr. Huang Geming, who is a non-executive Director of the Company, was effective from June 28, 2018 and will end upon the expiry of the third session of the Board of Directors.

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 several responsibilities for Shareholders of the Company.

1.2 Board Meetings

The Board of Directors holds Board meetings on a regular basis: at least four meetings per year and essentially 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 or she may appoint another Director by a written power of attorney.

During the year ended December 31, 2018, 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	Executive Director	6/6	100%
Wang Lin[1]	Non-executive Director	1/2	50%
Huang Geming[2]	Non-executive Director	4/4	100%
Wang Keling[3]	Non-executive Director	5/6	83%
Li Boqian[4]	Independent non-executive Director	5/6	83%
Li Xiaohui	Independent non-executive Director	6/6	100%
Yip Wai Ming	Independent non-executive Director	6/6	100%

Notes:

1. Mr. Wang Lin was not able to attend the fifth meeting of the third session of the Board of Directors on March 26, 2018, and appointed Mr. Zhang Xi as his proxy to represent him and vote on his behalf. Mr. Wang Lin resigned as executive Director of the Company on June 28, 2018. From January 1, 2018 to the date of his resignation, the company held two board meetings.

2. Mr. Huang Geming was appointed as the non-executive Director of the company on June 28, 2018. Since the date of its appointment, as of December 31, 2018, the company has held four board meetings.

3. Mr. Wang Keling was not able to attend the sixth meeting of the third session of the Board of Directors on August 15, 2018 due to other work commitment, and appointed Mr. Zhang Xi as his proxy to represent him and vote on his behalf.

4. Mr. Li Boqian was not able to attend the third meeting of the fifth session of the Board of Directors on March 26, 2018 due to other work commitment, and appointed Ms. Li Xiaohui as his proxy to represent him and vote on his behalf.

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 review and monitor the training of Directors and senior management and sustainable development;

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

e) 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 define duties of the chairman and the chief executive officer.

1.5 Directors' Appointment and Re-election

According to the Articles, Directors (including non-executive 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 their recommendations 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 (the "**Policy**") of Poly Culture Group Corporation Limited, 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' appointment 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, educational background, professional experience, knowledge and skills.

Gender	Male	Female	
	89%	11%	
Age	55 years old or below	56-60 years old	61 years old or above
	56%	33%	11%
Identity	Non-executive Director	Independent non-executive Director	Executive Director
	22%	33%	44%
Directors (number of companies) of other public listed companies (outside the group)	0	1 to 3	4 or above
	78%	11%	11%

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 the Policy, as appropriate, to ensure the effectiveness of the 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.

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, 2018, the emoluments of the senior management of the Group (not include the Directors of the Company) are within the following bands:

Bands of the emoluments	Number
HKD0 to HKD1,000,000	2
HKD1,000,001 to HKD2,000,000	1
HKD2,000,001 to HKD2,500,000	3

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, all Directors (namely Mr. Xu Niansha, Mr. Zhang Xi, Mr. Jiang Yingchun, Mr. Hu Jiaquan, Mr. Huang Geming, Mr. Wang Keling, 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, the responsibilities of the Directors, Supervisors and senior management and the 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 their possible legal action.

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 and the risk management system, to audit material Connected Transactions; to nominate the person in charge of the internal audit department of the Company; to examine the authenticity and impartiality of the interim and annual financial statements of the company, to discuss the nature and scope of the audit with the external auditor before starting the audit, and to discuss its conclusions and suggestions with the auditor after the audit process and the completion of the audit; and other matters as authorized by the Board of Directors of the Company. The Audit Committee has an annual assessment of the internal control and financial monitoring system, the risk management system, the scope of the work of the external auditor and the important matters employed by the external auditor, and the effectiveness of the arrangement of the employees' attention to possible misconduct, so that the board can inspect the overall financial situation of the group and protect its assets. After each meeting, the chairman of the Audit Committee summarizes the work of the committee, with focusing on the concerns and recommending recommendations to the board of directors.

During the year ended December 31, 2018, the Audit Committee held four meetings, attendance of which is 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%
Wang Keling	Non-executive Director	4/4	100%

The Audit Committee directed and supervised the Company's internal audit department, considered and approved the appointment of the domestic and international auditors and the Financial Reports 2017 of the Company, and submitted the above proposals to the Board of Directors for their consideration. The Audit Committee of the Company also confirmed the Connected Transactions in 2017.

The Audit Committee has reviewed the Company's Annual Results for 2018, and the Financial Statements for the year ended December 31, 2018 in accordance with the International Financial Reporting Standards (the "IFRSs").

2.2 Nomination Committee

The Nomination Committee 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 make proposals to the Board of Directors; and conducting a wide search for the qualified candidates for the Directors.

When assessing the composition of the Board of Directors, the Nomination Committee takes into account a number of categories described in the Board Diversify Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee will discuss and get the measurement of board diversification, if necessary, recommend it to the Board of Directors.

The Nomination Committee will take into account the character, qualification, experience, independence and other cooperation strategies of the Board before making recommendations to the Board of Directors, and the necessary conditions for the diversification of the Board of Directors (if appropriate).

During the year ended December 31, 2018, the Nomination Committee held one meeting on December 17, 2018, attendance of which is 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%
Wang Keling	Non-Executive Director	1/1	100%

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, 2018, the Remuneration and Assessment Committee held three meetings, attendance of which are as follows:

Name	Position	Meetings attended/ Meetings eligible to attend	Attendance Rate
Yip Wai Ming	Independent non-executive Director	3/3	100%
Li Xiaohui	Independent non-executive Director	3/3	100%
Zhang Xi	Executive Director	3/3	100%

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 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, 2018.

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. Huang Geming (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 project, 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.

No meeting of the Strategy Committee was convened for the year ended December 31, 2018.

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, 2018.

The Board of Directors is responsible for submitting a well-defined assessment on the interim and annual 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

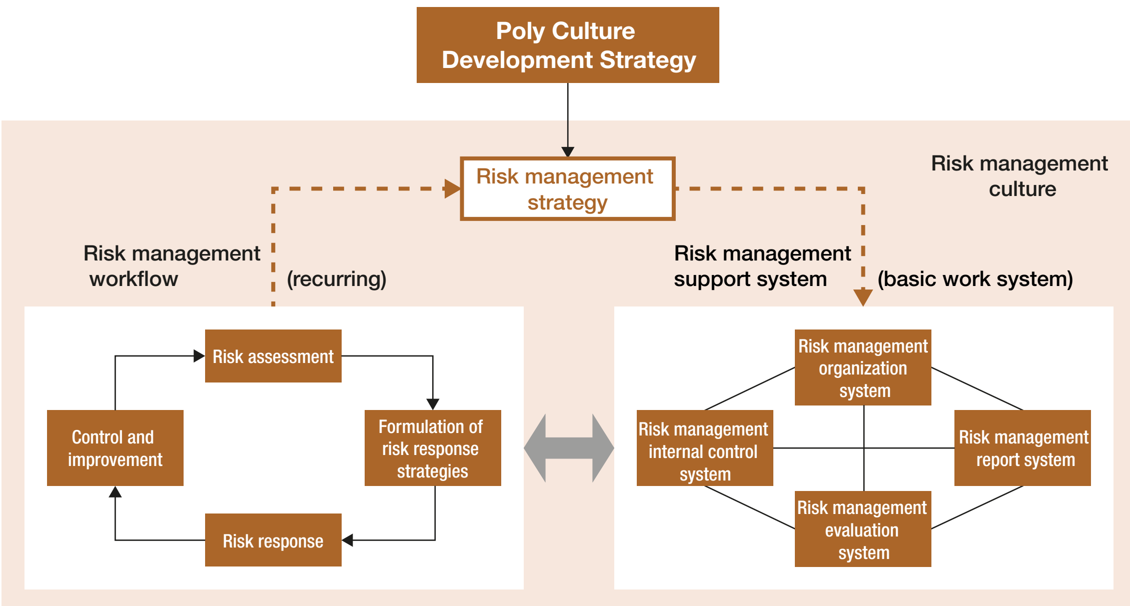
In 2018, Ms. Wang Wei was responsible for advising the Board on corporate governance matters and ensuring compliance with the Board's policies and procedures as well as compliance with relevant laws and regulations. In order to maintain good corporate governance practices and to ensure compliance with the Listing Rules and applicable laws, the Company has also appointed Ms. Mok Ming Wai, the director of TMF Hong Kong Limited (達盟香港有限公司), a company secretarial services provider, as the joint company secretary of the Company to assist Ms. Wang Wei in the performance of her duties as the company secretary. Ms. Mok Ming Wai has tendered her resignation as a joint company secretary, an authorised representative and the agent for service of process in Hong Kong of the Company for work reallocation effective, Ms. Leung Suet Lun, a manager of the listing services department of TMF Hong Kong Limited, has been appointed in replacement of Ms. Mok Ming Wai as a joint company secretary, an authorized representative and an agent for service of process in Hong Kong of the Company effective from September 19, 2018. Ms. Wang Wei is the primary corporate contact person of the Company.

Ms. Wang Wei, Ms. Mok Ming Wai and Ms. Leung Suet Lun participated in not less than 15 hours of relevant professional trainings in 2018 in accordance with Rule 3.29 of the Listing Rules. The joint company secretary is intend to participate in relevant trainings in 2019, to ensure the compliance with 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.

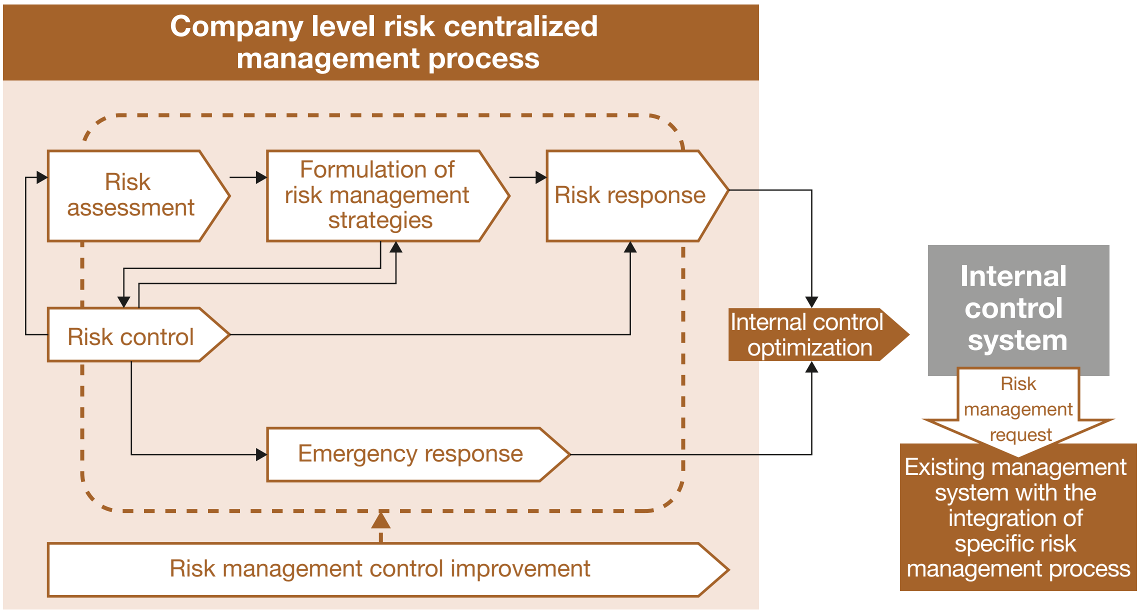


The Company's comprehensive risk management organization is divided into four-tiers, namely risk management decision-making body, comprehensive risk management leading team, risk management executive body and risk management supervisory body, where the risk management executive body is further divided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

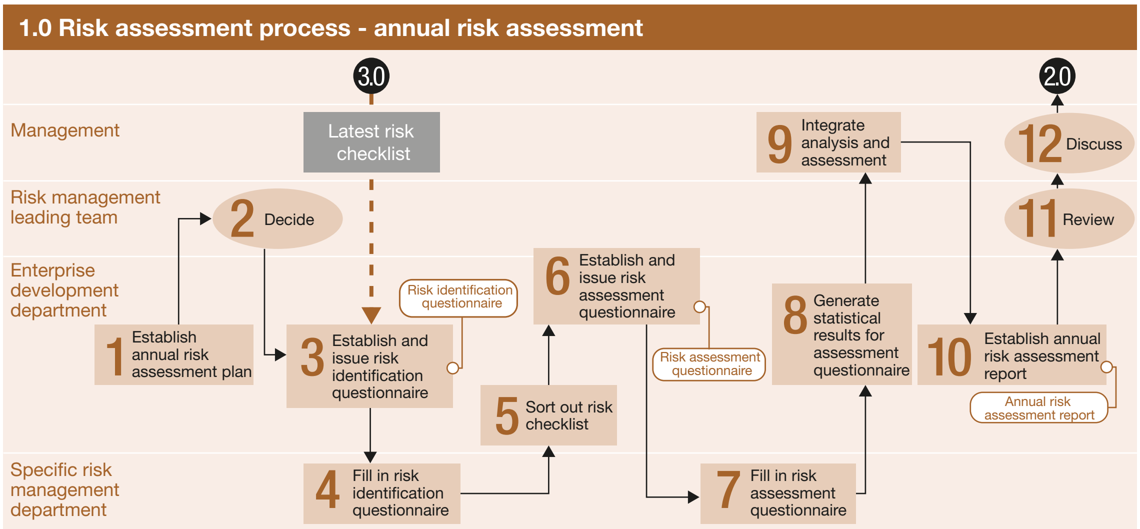
The Company refines its risk management process framework by dividing it into risk centralized management process and specific risk management process (as below).



Framework of Risk Management Process of the Company

The risk centralized management process contains six links, namely risk assessment, formulation of risk management strategies, risk response, risk control, risk contingency and risk management supervision and improvement. 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.

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 compiles 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 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 of the Company 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 Audit Committee assisted the board of directors in reviewing the internal control system of our company and Affiliated Companies's financial monitoring, operation monitoring, compliance monitoring and risk management during the reporting period, and found no major problems or major errors in the company's internal control. The Board believes that the company's current monitoring system is effective and that the internal control and risk management system is effective and sufficient.

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

- 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 Hong Kong 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.

The Company has established relevant information disclosure management system to clarify the basic principles, contents, management procedures and confidentiality measures of information disclosure. These systems clarify the process of publishing insider information, and require relevant responsible personnel to verify its authenticity, accuracy and integrity, and ensure that the information is absolutely confidential. If confidentiality cannot be maintained or information has been leaked, it will be disclosed in time.

7. AUDITOR'S REMUNERATION

For the year ended December 31, 2018, the remuneration to external auditors in respect of their annual audit services was RMB4.2 million. There was no non-audit services fee.

8. GENERAL MEETINGS

During the year ended December 31, 2018, the Company convened three general meetings, as detailed below:

Date	Venue	Meetings
June 28, 2018	Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing	Annual General Meeting of 2017
June 28, 2018	Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing	The First Class Meeting of H Shareholders in 2018
December 21, 2018	Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing	The First Extraordinary General Meeting of 2018

Attendance by Directors:

Name	Position	Meetings attended/ Meetings eligible to attend	Attendance Rate
Xu Niansha[1]	Chairman and executive Director	0/3	0%
Zhang Xi	Vice chairman and executive Director	3/3	100%
Jiang Yingchun	Chief Executive Officer and executive Director	3/3	100%
Hu Jiaquan	Executive Director	3/3	100%
Wang Lin[2]	Non-executive Director	0/2	0%
Huang Geming[3]	Non-executive Director	1/1	100%
Wang Keling	Non-executive Director	3/3	100%
Li Boqian[4]	Independent non-executive Director	2/3	67%
Li Xiaohui[5]	Independent non-executive Director	0/3	0%
Yip Wai Ming[6]	Independent non-executive Director	0/3	0%

Notes:

1. Mr. Xu Niansha was not able to attend the Annual General Meeting of 2017, The First Class Meeting of H Shareholders in 2018 on June 28, 2018 and the First Extraordinary General Meeting of 2018 on December 21, 2018 due to other work arrangements.

2. Mr. Wang Lin was not able to attend the Annual General Meeting of 2017, The First Class Meeting of H Shareholders in 2018 on June 28, 2018. Mr. Wang Lin resigned as non-executive Director of the Company on June 28, 2018. From January 1, 2018 to the date of his resignation, the Company held two general meetings.

3. Mr. Huang Geming was appointed non-executive Director of the Company on June 28, 2018. From the date of its appointment to December 31, 2018, the Company held one general meeting.

4. Mr. Li Boqian was not able to attend the First Extraordinary General Meeting of 2018 on December 21, 2018 due to other work arrangements.

5. Ms. Li Xiaohui was not able to attend the Annual General Meeting of 2017, The First Class Meeting of H Shareholders in 2018 on June 28, 2018 and the First Extraordinary General Meeting of 2018 on December 21, 2018 due to other work arrangements.

6. Mr. Yip Wai Ming was not able to attend the Annual General Meeting of 2017, The First Class Meeting of H Shareholders in 2018 on June 28, 2018 and the First Extraordinary General Meeting of 2018 on December 21, 2018 due to other work arrangements.

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 for information disclosure and the Company) 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 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' conference and roadshows.

11. ARTICLES OF ASSOCIATION

During the year ended December 31, 2018, there was no change in the Articles.

DIRECTORS

Executive Directors

Mr. Xu Niansha, aged 62, joined the Company in December 2014 and has been the chairman of the Company since then. Mr. Xu has been the chairman and the secretary of the party committee of Poly Group since May 2013. Mr. Xu has also been a member of the 13th 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 56, 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 and the secretary of the party committee and the deputy director of the Management Committee of China Silk corporation (中國中絲集團有限公司), the chairman of Beijing New Poly Plaza Real Estate Development Co., Ltd. (北京新保利大廈房地產開發公司), a director of Poly Permanent Union Holding Group Limited (保利久聯控股集團有限責任公司), a 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. (保利房地產（集團）股份有限公司) (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 50, joined the Company in December 2001, and has been an executive Director and the general manager 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, Poly Auction Hong Kong, Poly Art Centre and Poly Culture North America Investment Corporation Limited. Mr. Jiang holds a bachelor's degree in History majoring in archaeology and qualification of editor.

Mr. Hu Jiaquan, aged 57, joined the Company in May 2016 and has been the executive Director and deputy general manager of the Company. Mr. Hu served as the chief accountant 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), as well as the deputy secretary of the party committee and the secretary of the Discipline and Inspection Commission of Poly Culture Group Corporation Limited. Mr. Hu holds a bachelor's degree in economics.

Profile of Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Huang Geming, aged 51, joined the Company in December 2016 and is now a director of the Company. Mr. Huang also serves as the assistant to the general manager of Poly Group, the vice general manager of Poly International Holdings Co., Ltd. and other positions. Mr. Huang served as the vice general manager, the director, the general manager of Poly Energy Holdings Limited, the director and the vice general manager of Poly Investment Holdings Co., Ltd. and the supervisor of Poly Culture Group Corporation Limited. Mr. Huang holds a bachelor's degree in engineering and a bachelor's degree in economics.

Mr. Wang Keling, aged 54, joined the Company in December 2016 and has been the non-executive Director since then. Mr. Wang also serves as a director and deputy secretary of the party committee of Sinolight Corp (中國輕工集團有限公司). 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 82, 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 51, 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 since January 2007 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). Ms. Li is currently an independent non-executive director of Kailuan Energy Chemical Co., Limited (開灤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 54, 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), Yida China Holdings Limited (億達中國控股有限公司) and Pantronics Holdings Limited (桐成控股有限公司). 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 science and a bachelor's degree in law.

SUPERVISORS

Mr. Chen Yuwen, aged 54, 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 of Poly Group, and a supervisor of Poly International Holdings Co., Ltd. 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, the part-time supervisor of the State-owned Enterprise Supervisory Committee, and other positions. Mr. Chen holds a bachelor's degree in economics and was granted the qualification of accountant.

Mr. Hou Hongxiang, aged 43, joined the Company in June 2018 and has been the supervisor of the Company. Mr. Hou also serves as the vice general manager of Poly International Holdings Co., Ltd. and the chairman of Surpass Commercial Corp., Ltd. (華越商業有限公司). Mr. Hou served as the manager and deputy director of enterprise development department, the deputy head of general office, the secretary to the board, the head of board office and other positions in Poly Group. Mr. Hou holds a doctoral degree in management and he is a senior economist.

Mr. Wang Fuqiang, aged 49, joined the Company in January 2011 as an audit officer of the Company. 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. Li Weiqiang, aged 47, joined the Company in 2002 and was appointed as the executive vice general manager of the Company in December 2018. Mr. Li also serves as the secretary to the board and the head of board office in Poly Group, a director of Straco Corporation Limited (新加坡星雅集團), the chairman of Poly Film, Beijing Poly Music Art, and Poly Art Education, and a director of Poly Theatre. Mr. Li has served as the manager of the general planning department, manager of the enterprise development department, deputy director, and director in Poly Group and Director of Poly Strategy Research Institute. Mr. Li holds a doctoral degree in management and is a senior economist.

Mr. Xu Pei, aged 53, joined the Company in November 2018 and has been the deputy secretary of the party committee, the secretary of the Discipline and Inspection Commission and the chairman of the labour union of the Company. Mr. Xu also serves as the secretary for the office of the party committee and provisional secretary of the party committee of Poly Group, and a director at Poly Southern Group Co., Ltd.. Mr. Xu served as the deputy director and director at the party group work department, director at the party group work office and chairman of office labour union at Poly Group. Mr. Xu holds a doctoral degree in management and has been granted the qualification of senior engineer and senior policy advisor.

Mr. Zhou You, aged 58, 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.

Ms. Wang Wei, aged 51, joined the Company in June 2010 and has been the chief accountant since March 2013. She has been the vice general manager of the Company since March 2016, and has been the joint Company secretary and the secretary to the Board of Directors since January 2017. Ms. Wang also serves as the chairman of Poly Ronghe Financial Leasing and Poly Culture Industrial Fund, a director of Poly Theatre Management, a director of Poly Auction Hong Kong, a director of the North American Company, as well as the general manager and a director of Poly Auction Beijing. Ms. Wang holds a bachelor's degree in engineering and qualification as a senior accountant.

Mr. Guo Wenpeng, aged 49, joined the Company in 2003 and has served as the vice general manager since August 2015. Mr. Guo also serves as the chairman and general manager of Poly Theatre Management, and a director of Poly Film, Beijing Poly Music Art and Poly Art Education. Mr. Guo has obtained a master's degree in economics.

Mr. Liu Shibin, aged 45, joined the Company in 2012 and has served as the chief accountant since March 2017. Mr. Liu 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, a director of Poly Art Center, a director of Poly Film and a director and the general manager of Poly Culture Industrial Fund. Mr. Liu obtains a master's degree in economics and holds qualification as a senior accountant.

APPOINTMENT OR DISMISSAL OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On June 28, 2018, the Company has passed a resolution at the general meeting to approve (i) Mr. Wang Lin's resignation as a non-executive Director and a member of the Strategy Committee due to personal work arrangements, with effect from the date of the annual general meeting for 2017; (ii) appointment of Mr. Huang Geming as a non-executive Director of the third session of the Board of Directors and a member of the Strategy Committee, with effect from the date of the annual general meeting for 2017, and Mr. Huang Geming's resignation as a shareholder supervisor since his appointment as a non-executive director on the annual general meeting for 2017, and (iii) appointment of Mr. Hou Hongxiang as a shareholder supervisor of the third session of the Board of Supervisors of the Company, with effect from the date of the annual general meeting for 2017.

Ms. Mok Ming Wai resigned from her positions as the joint company secretary, authorized representative and agent for services of process in Hong Kong of the Company due to work adjustments, with effect from September 19, 2018. Ms. Leung Suet Lun has been appointed in replacement of Ms. Mok Ming Wai as the joint company secretary, authorized representative and an agent for services of process in Hong Kong of the Company, with effect from September 19, 2018.

On December 21, 2018, the Board of Directors passed a resolution to appoint Mr. Li Weiqiang as the executive vice general manager of the Company and Mr. Hu Jiaquan as the vice general manager of the Company, and approve Mr. Liu Debin's resignation as the deputy general manager of the Company.

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, 2018 to December 31, 2018

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.

Environment

The Company has learnt to promote and strictly complied with relevant laws and regulations regarding environmental protection, energy conservation and emission reduction (including but not limited to The Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》),The Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), The Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), The Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), insisted on the concept of scientific and green development, effectively saved resources, and simplified processes, so as to create values for the enterprise.

Waste Emission

In view of its business nature, the main non-hazardous wastes of the Company include used daily office supplies and daily necessities. We try to recycle the wastes and deliver the non-recyclable wastes to Municipal Sanitation Department to dispose in the way of landfill or incineration, and thus cannot count the amount. During the Reporting Period, the Company is not aware of any significant hazards caused by any hazardous wastes and packaging materials used in any manufactured products and there is also no significant emission of waste gas or waste water.

In order to ensure maximum control of wastes and proper disposal of them, and to reduce waste pollution to the Company and its' surroundings, we implement the following measures:

Actively propose economical, green and low-carbon production and office mode, promote paperless office, establish and use OA office system, advocate to reuse of office paper, collect waste paper for recycling. The wastes in the office area and the business premises are handled by the departments themselves who are responsible for centralize storage and handling, and the cleaning is carried out by the cleaners.

Advocate staffs to change bad consumption pattern and living habits to put an end to waste. The wastes in the canteen area should be managed uniformly and handled rationally by the canteen.

The responsible department of Company organizes regular safety training to enhance the staff's work skills and safety awareness.

Greenhouse gas emission

The Company aims at reducing the energy and water consumption to reduce the greenhouse gas ("GHG") emissions including those due to electricity purchased from power companies and water consumption. During the Reporting Period, 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 the financial year 2018 amounted to 113.8 thousand tons of carbon dioxide.

Use of Resources

The main energy consumption of the Company is electricity and water. During the Reporting Period, the energy consumption of the Company was as follows:

Energy consumption	Unit	Quantity
Electricity	kwh/year	117,590,619
Area of operating buildings	square meter (m^2)	4,412,339
Energy intensity of operating buildings	kwh/m^2/year	26.65
Water	m^3/year	179,585

Note: Some of the Group's theaters and offices are located in an integrated commercial complex and the energy consumption cannot be individually calculated.

To reduce energy consumption and increase energy efficiency, we implement the following measures:

The Company's lighting facilities use energy-saving equipment as much as possible to adjust and control the air-conditioning operating temperature in each office area, and strictly manage power-consuming equipment to reduce the waste of power resources.

The Company puts up slogans such as saving electricity and saving water in the office area to improve the awareness of energy conservation among employees and customers.

The Company suggests that our employees go out on foot or by public transportation and encourages our employees to travel in economy class to reduce carbon emissions.

All of the Company's business premises implemented the environmental and fire protection inspection policies strictly in compliance with national requirements in order to prevent the occurrence of environmental and safety issues at the source.

Through the above measures, we effectively manage the use of resources such as water and electricity in our operations, fully reuse recyclable waste, and reduce the amount of paper used for printing, to further save resources and protect the environment, and reduce the greenhouse effect.

Environment and natural resources

Most of our offices are located in the business areas of cities, which are not belong to forest resource area, thus without material impact to the environment and natural resources. The Company uses water from the urban water supply system mainly for normal office use, which does not involve production process, thus no substantial impact on rivers, lakes, groundwater and glaciers will be exerted.

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 during the Reporting Period. 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 the financial year 2018.

Staff grouping

For the year ended December 31, 2018, the Group has 8,008 employees in total.

By employment type		
Full-time	Headcounts	7,507
Part-time	Headcounts	501
By gender		
Male	Headcounts	3,989
Female	Headcounts	4,019
By age		
Below 30	Headcounts	4,599
30-50	Headcounts	2,910
50 or above	Headcounts	499
By region		
Beijing	Headcounts	878
Other regions of the Mainland China	Headcounts	7,058
Hong Kong, Macau, and Taiwan regions	Headcounts	56
Other regions	Headcounts	16

Number of employee turnover

For the year ended December 31, 2018, the number of loss in the Group's employees was 2,317, representing a turnover ratio of 28.9%. 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	Headcounts	1,208
Female	Headcounts	1,109
By age		
Below 30	Headcounts	1,560
30-50	Headcounts	695
50 or above	Headcounts	62
By region		
Beijing	Headcounts	141
Other regions of the Mainland China	Headcounts	2,170
Hong Kong, Macau, and Taiwan regions	Headcounts	1
Other regions	Headcounts	5

Number of newly hired employees

For the year ended December 31, 2018, the number of the Group's newly hired employees was 3,266.

By gender		
Male	Headcounts	1,536
Female	Headcounts	1,730
By age		
Below 30	Headcounts	2,406
30-50	Headcounts	711
50 or above	Headcounts	149
By region		
Beijing	Headcounts	201
Other regions of the Mainland China	Headcounts	3,034
Hong Kong, Macau, and Taiwan regions	Headcounts	26
Other regions	Headcounts	5

Staff training

For the year ended December 31, 2018, a number of 7,531 employees in total joined the training.

By gender		
Male	Headcounts	3,770
Female	Headcounts	3,761
By duty		
Senior management officers	Headcounts	191
Mid-level management officers	Headcounts	668
Other	Headcounts	6,664

For the year ended December 31, 2018, by gender and duty, the average hours of each employee's training completed:

By gender		
Male	Average hours	86.77
Female	Average hours	89.72
By duty		
Senior management officers	Average hours	47.98
Mid-level management officers	Average hours	54.44
Other	Average hours	86.72

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).

WORK SAFETY

The cinemas and theatres operated by the Company are crowded locations where the pressure of work safety maintenance is higher. The Company has built and improved the work safety management system based on its business characteristics by setting up the Safety Committee, Emergency Rescue Leading Group for Work Safety Accidents, Traffic Safety Committee, Internet Security and Informatization Leading Group and other organs for strict and standardized management, so as to strengthen the awareness of work safety and ensure operational safety.

As at December 31, 2018, the Group has set up 120 safety committees, appointed nearly 1,000 safety management personnel, organized 2,061 safety education and training sessions and conducted 871 emergency drills participated by a total of 74,012 employees on a cumulative basis. The Company has managed to implement the system to promote the sustainable and safe development of the Company. No work safety accident occurred during the year.

ANTI-CORRUPTION

For the year ended December 31, 2018, the Group was not involved in any case of corruption. It 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 noncompliance with the management system.

SOCIAL RESPONSIBILITIES

Awards

In May 2018, Poly Culture was included in the 10th “Top 30 Culture Enterprises” in China jointly organized by Guang Ming Daily and Economic Daily. Mr. Xu Niansha, the Chairman of Poly Culture, was named “Annual Leading Figure of Culture Industry in China in 2017”.

In May 2018, Nanjing Poly Grand Theatre Management Corporation Limited was named the Top 15 Active Large Second and Third-Tier Performance Venues in China for 2017, the Top 15 Active Large Performance Venues in East China for 2017, and the Top 20 Active Integrated Performance Venues in China for 2017 by DAO LUE Center for Culture Industry Research (道略演藝產業研究中心).

In June 2018, Poly Film was invited to the 21st Shanghai International Film Festival and was honored as the “Film Investment Company of the Year”.

In July 2018, the Poly WeDo Music Children’s Chorus (保利WeDo童聲合唱團) won gold and silver medals in Florence International Choir Festival in Italy.

In August 2018, Poly Auction Beijing won four awards in the third “Qinghua Award” organized by the China Association of Auctioneers, including “Top Ten Enterprises” in the comprehensive category, and “Profitability Award”, “Tax Creation Award” and “Scale Award” in specialized categories.

In September 2018, Poly Theatre Management won the first “China Performance Brand” award.

In October 2018, the results of the third “Top 30 and Best Performing 30 Culture Enterprises in the Capital” jointly organized by the Capital Cultural Industry Association, Guang Ming Daily and Beijing Daily were announced. Poly Culture was selected as the third “Top 30 Capital Culture Enterprises”. This is the third consecutive year that Poly Culture has won this honor.

In December 2018, the “2018 Chinese Cultural Enterprise Brand Annual Meeting” was held in Beijing. Poly Culture was named “2018 Top 50 Chinese Cultural Enterprises by Brand Value”.

Youth Development

In July 2018, Beijing Poly Music Art Development Corporation Limited hosted "Playing with Masters Concert", in which famous domestic musicians and performance groups performed together with Poly WeDo students. The event reflected the big success accomplished by Poly Culture in music education for youth.

In November 2018, Yichun Poly Grand Theatre hosted the First "Poly Cup" Richard Clayderman Young Pianist Qualification Competition for 2019 in Western Jiangxi, where young people competed and made friends in the competition. 10 young pianists performed together with world-renowned pianist Richard Clayderman. This event allowed young people to have close communications with artists, promoted cultural education and created positive social effects. It enhanced the cultural services in cities and provided more ways for arts communication.

Social Welfare

In March 2018, Nanjing Poly Grand Theatre Management Corporation Limited hosted the 76th Poly Art Class – "Fun in Peking Opera" in the Cultural Center of Jianye District, Nanjing, with the goal of promoting Peking Opera. The event described the sophisticated Peking Opera art to the public in plain language, helping them understand the history and art characteristics of Peking Opera.

In May 2018, Baise XingX Cinema Corporation Limited joined hands with Baise Disabled Persons' Federation to hold a free film watching event to celebrate the upcoming June 1 Children's Day. 34 special angels, who were hearing-impaired children, and their parents were invited to watch films in the event. Moreover, gifts were given to these children in the event.

In July 2018, Henan Theatre Company planned and hosted 30 charitable performances, 22 free charitable art lectures and 40 charitable art trainings themed on "Going into the Hall of Art". These activities helped the public appreciate arts and received warm response from the public.

In December 2018, Shanghai Poly Grand Theatre held the Charitable Culture Week, and distributed 2,200 free tickets on Jiading Cultural Cloud Platform. In addition, Shanghai Poly Grand Theatre launched 21 quality-oriented educational activities on three stages, benefiting 30,000 students. Moreover, 12 "Walking Through in Three Hundred Years of Music" concerts were held, 12 "Monthly Shows" were staged, and 14 charitable shows for citizens were presented on 13 stages, with 3,300 free tickets being distributed on Jiading Cultural Cloud Platform, and over 11,000 persons being received.

Cultural Exchange

In January 2018, Poly WeDo, the high-end music education brand under Poly Culture, was showcased on the NASDAQ display at New York's Times Square in the US as a member of the China Brand Innovation and Development Project. Poly WeDo was selected by CCTV's channel of finance and economics to be a member of the China Brand Innovation and Development Project. This represents a national media's recognition of Poly WeDo's education quality and brand reputation.

From February to May 2018, "Style of Ceramic Capital – Vancouver Exhibition of Yixing Purple Sands Art" was hosted in Vancouver Poly Art Gallery. The exhibition is the largest show of Yixing purple sands art ever held abroad, with the most exhibiting artists, and the best and the widest variety of exhibits. Over 300 masterpieces of purple sands artworks by about 200 famous contemporary purple sands artists (including 10 national-level masters such as Mr. Gu Shaopei), were exhibited. During the exhibition period that exceeded three months, Vancouver Poly Art Gallery held multiple salons, appreciation sessions, VIP special events and other cultural exchange activities on purple sands arts.

In March 2018, Poly Film joined hands with Embassy of France in China for the first time to launch the 2018 "French-Speaking Countries' Film Festival". Movies that were displayed in the event were played in Poly International Cinema exclusively. Movie fans were able to enjoy great French-speaking movies and appreciate French culture in some cinemas of Poly International Cinema in Beijing, Shanghai and Guangzhou.

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 92 to 216, which comprise the consolidated statement of financial position as at December 31, 2018, 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, 2018 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.

KEY AUDIT MATTERS *(Continued)*

Assessing the net realisable value of art inventories

Refer to note 19 to the consolidated financial statements and the accounting policies in note 2(m).

The Key Audit Matter	How the matter was addressed in our audit
Art inventories comprise antiques, works of art, calligraphy, paintings and sculptures. As at December 31, 2018, the balance of art inventories was RMB2.02 billion, which represented 96% 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 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.	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 properly approved; • 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;

KEY AUDIT MATTERS *(Continued)*

Assessing the net realisable value of art inventories *(Continued)*

Refer to note 19 to the consolidated financial statements and the accounting policies in note 2(m).

The Key Audit Matter	How the matter was addressed in our audit
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.	• obtaining, on a sample basis, the valuation reports for art inventories issued by the external art experts as at December 31, 2018, 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 2018 with their recorded carrying values as at December 31, 2017 and the prices achieved from the sales of art inventories after December 31, 2018 (where available), on a sample basis, to assess the accuracy of management's process for making provisions for art inventories.

KEY AUDIT MATTERS *(Continued)*

Allowances for impairment of prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements

Refer to notes 18, 21 and 22 to the consolidated financial statements and the accounting policies in note 2(i).

The Key Audit Matter

As at December 31, 2018, the total balance of prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements was RMB3.88 billion, which represented 37% of the total assets of the Group as at that date.

Prepayments for auctioned works of art

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.

How the matter was addressed in our audit

Our audit procedures to assess the allowance 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;
- obtaining the full list of the receivables and loans, and checking whether the receivables and loans are collateralised by artworks on a sample basis;
- assessing, on a sample basis, whether the collateral held was in good condition by attending the physical count of collateral at the year end;
- making inquiries of management about the factors they considered in estimating the cash flows recoverable from the foreclosure on the collateral;

KEY AUDIT MATTERS *(Continued)*

Allowances for impairment of prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements *(Continued)*

Refer to notes 18, 21 and 22 to the consolidated financial statements and the accounting policies in note 2(i).

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. Loans granted under financing arrangements The Group also grants term loans secured by works of art. Loans granted generally represent 20% to 50% of the collateral's estimated value.	• obtaining, on a sample basis, the valuation reports for works of art held as collateral at the year end, which were prepared by art experts, for the receivables and 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 art experts engaged by management to value the collateral by reading their credentials, which were provided by management or extracted from publicly available information; • inquiring of the art experts about the factors they considered in their valuations and assessing the valuations by considering market trends, the key factors considered by the art experts and recent market prices for similar antiquities or works of art;

KEY AUDIT MATTERS *(Continued)*

Allowances for impairment of prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements *(Continued)*

Refer to notes 18, 21 and 22 to the consolidated financial statements and the accounting policies in note 2(i).

The Key Audit Matter	How the matter was addressed in our audit
Management has applied IFRS 9 – Financial instruments since January 1, 2018 and conducted an assessment of expected credit losses relating to the prepayments for auctioned works of art, consignor advances and loans. The Group considers that the credit risk arising from these receivables and loans is significantly mitigated by the value of art works held as collateral at December 31, 2018 and December 31, 2017. The Group appointed art experts to assess and evaluate the market value of the collateral held so to determine if the amount of allowance made is adequate. We identified allowance 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 loss allowances for these receivables and loans involves the estimation of the market value of art collateral, which can be inherently uncertain.	• evaluating, on a sample basis, management's assessment of the value of any collateral held by comparing management's assessments with the valuation reports from the art experts, evaluating the means of realisation of collateral and the cash flows recoverable from collateral, and comparing the carrying value of the receivables and loans with the value of collateral on a sample basis; • comparing actual losses and new allowances made during the current year with receivable and loan balances as at December 31, 2017 to assess the adequacy of management's expected credit loss assessment process; and • comparing, on a sample basis, the subsequent settlement of the receivable and loan balances as at December 31, 2018 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.

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

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

As part of an audit in accordance with HKSAs, we exercise professional 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.

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

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.

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 22, 2019

Consolidated Statement of Profit or Loss

for the year ended December 31, 2018
(Expressed in Renminbi ("RMB"))

	Note	2018 RMB'000	2017 (Note) RMB'000
Revenue	4	**3,713,785**	3,480,415
Cost of sales		**(2,418,456)**	(2,251,160)
Gross profit		**1,295,329**	1,229,255
Other net income	6	**64,885**	58,229
Changes in fair value of equity securities not held for trading		**16,548**	–
Selling and distribution expenses		**(414,284)**	(361,164)
Administrative expenses		**(532,636)**	(441,989)
Profit from operations		**429,842**	484,331
Finance income		**60,061**	62,313
Finance costs	7 (a)	**(41,567)**	(14,747)
Share of profits less losses of associates		**51,049**	(637)
Share of profits less losses of joint ventures		**8,220**	6,314
Profit before taxation	7	**507,605**	537,574
Income tax	8	**(139,322)**	(133,652)
Profit for the year		**368,283**	403,922
Attributable to:			
Equity shareholders of the Company		**241,992**	256,171
Non-controlling interests		**126,291**	147,751
Profit for the year		**368,283**	403,922
Earnings per share			
Basic and diluted earnings per share (RMB)	11 (a)	**0.98**	1.04

Note: The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 100 to 216 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 29(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended December 31, 2018
(Expressed in Renminbi ("RMB"))

	Note	2018 RMB'000	2017 (Note) RMB'000
Profit for the year		**368,283**	403,922
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside the PRC		**21,658**	(22,172)
Total comprehensive income for the year		**389,941**	381,750
Attributable to:			
Equity shareholders of the Company		**257,496**	244,049
Non-controlling interests		**132,445**	137,701
Total comprehensive income for the year		**389,941**	381,750

Note: The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 100 to 216 form part of these financial statements.

Consolidated Statement of Financial Position

at December 31, 2018
(Expressed in Renminbi ("RMB"))

	Note	2018 RMB'000	2017 (Note) RMB'000
Non-current assets			
Property, plant and equipment	12	**820,094**	819,305
Intangible assets	13	**31,806**	31,251
Goodwill	14	**161,892**	173,380
Long-term prepayments		**2,827**	3,053
Interest in associates	16	**242,384**	17,307
Interest in joint ventures	17	**516,273**	508,053
Other financial assets	18	**725,335**	763,688
Deferred tax assets	28 (b)	**34,969**	34,121
		2,535,580	2,350,158
Current assets			
Inventories	19	**2,101,117**	1,965,855
Trade receivables	20	**328,682**	187,949
Consignor advances	21	**967,041**	883,727
Deposits, prepayments and other receivables	22	**1,354,274**	1,080,039
Current tax assets		**23,788**	22,497
Other financial assets	18	**1,622,932**	1,708,113
Restricted cash		**11,278**	139,494
Deposits with original maturities over three months		**93,611**	86,255
Cash and cash equivalents	23	**1,407,805**	1,719,504
		7,910,528	7,793,433
Current liabilities			
Trade and other payables	25	**1,625,018**	2,697,213
Contract liabilities	27	**497,448**	–
Interest-bearing borrowings	24	**2,109,372**	2,217,733
Current taxation	28 (a)	**78,469**	94,434
		4,310,307	5,009,380
Net current assets		**3,600,221**	2,784,053
Total assets less current liabilities		**6,135,801**	5,134,211

Note: The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 100 to 216 form part of these financial statements.

Consolidated Statement of Financial Position

at December 31, 2018
(Expressed in Renminbi ("RMB"))

	Note	2018 RMB'000	2017 (Note) RMB'000
Non-current liabilities			
Trade and other payables	25	**43,975**	31,562
Deferred revenue		**14,332**	4,331
Interest-bearing borrowings	24	**1,058,039**	300,000
Deferred tax liabilities	28 (b)	**17,594**	6,821
		1,133,940	342,714
NET ASSETS		**5,001,861**	4,791,497
CAPITAL AND RESERVES			
Share capital	29 (c)	**246,316**	246,316
Reserves		**4,072,132**	3,842,388
Total equity attributable to equity shareholders of the Company		**4,318,448**	4,088,704
Non-controlling interests		**683,413**	702,793
TOTAL EQUITY		**5,001,861**	4,791,497

Note: The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

Approved and authorised for issue by the board of directors on March 22, 2019.

Jiang Yingchun
Director

Liu Shibin
Authorised non-director

The notes on pages 100 to 216 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended December 31, 2018
(Expressed in Renminbi ("RMB"))

	Attributable to equity shareholders of the Company								
	Share Capital RMB'000 note 29(c)	Share premium RMB'000 note 29(d)(ii)	Capital reserve RMB'000 note 29(d)(i)	PRC statutory reserve RMB'000 note 29(d)(iii)	Retained profits RMB'000	Exchange reserve RMB'000 note 29(d)(iv)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2017	246,316	1,982,448	(4,472)	126,639	1,544,858	16,155	3,911,944	541,917	4,453,861
Changes in equity for 2017:									
Profit for the year	–	–	–	–	256,171	–	256,171	147,751	403,922
Other comprehensive income	–	–	–	–	–	(12,122)	(12,122)	(10,050)	(22,172)
Total comprehensive income	–	–	–	–	256,171	(12,122)	244,049	137,701	381,750
Appropriation of reserve	–	–	–	1,068	(1,068)	–	–	–	–
Capital contributions from non-controlling equity owners	–	–	202	–	–	–	202	25,638	25,840
Business combination	–	–	–	–	–	–	–	12,736	12,736
Dividends approved in respect of the previous year (note 29(b))	–	–	–	–	(67,491)	–	(67,491)	–	(67,491)
Dividends declared by subsidiaries to non-controlling equity owners	–	–	–	–	–	–	–	(15,199)	(15,199)
Balance at December 31, 2017	246,316	1,982,448	(4,270)	127,707	1,732,470	4,033	4,088,704	702,793	4,791,497

The notes on pages 100 to 216 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended December 31, 2018
(Expressed in Renminbi ("RMB"))

	Attributable to equity shareholders of the Company								
	Share Capital RMB'000 note 29(c)	Share premium RMB'000 note 29(d)(ii)	Capital reserve RMB'000 note 29(d)(i)	PRC statutory reserve RMB'000 note 29(d)(iii)	Retained profits RMB'000	Exchange reserve RMB'000 note 29(d)(iv)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at December 31, 2017 (Note)	246,316	1,982,448	(4,270)	127,707	1,732,470	4,033	4,088,704	702,793	4,791,497
Impact on initial application of IFRS 9	-	-	-	-	23,235	-	23,235	-	23,235
Balance at January 1, 2018	246,316	1,982,448	(4,270)	127,707	1,755,705	4,033	4,111,939	702,793	4,814,732
Changes in equity for 2018:									
Profit for the year	-	-	-	-	241,992	-	241,992	126,291	368,283
Other comprehensive income	-	-	-	-	-	15,504	15,504	6,154	21,658
Total comprehensive income	-	-	-	-	241,992	15,504	257,496	132,445	389,941
Appropriation of reserve	-	-	-	30,654	(30,654)	-	-	-	-
Capital contributions from non-controlling equity owners	-	-	-	-	-	-	-	5,428	5,428
Dividends approved in respect of the previous year (note 29(b))	-	-	-	-	(50,987)	-	(50,987)	-	(50,987)
Dividends declared by subsidiaries to non-controlling equity owners	-	-	-	-	-	-	-	(157,253)	(157,253)
Balance at December 31, 2018	246,316	1,982,448	(4,270)	158,361	1,916,056	19,537	4,318,448	683,413	5,001,861

Note: The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 100 to 216 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended December 31, 2018
(Expressed in Renminbi ("RMB"))

	Note	2018 RMB'000	2017 (Note) RMB'000
Operating activities			
Cash used in from operations	23 (b)	**(171,701)**	(568,356)
Tax paid	28 (a)		
– PRC income tax paid		**(130,261)**	(89,094)
– Other regions tax paid		**(22,062)**	(21,454)
Net cash used in operating activities		**(324,024)**	(678,904)
Investing activities			
Payment for the purchase of property, plant and equipment		**(152,054)**	(132,148)
Payment for consignor advances		**(83,314)**	(93,216)
Addition of deposit with maturity over three months		**(7,356)**	(10,942)
Investments in joint ventures, associates		**(174,027)**	(15,000)
Cash consideration paid for acquisition of subsidiaries, net of cash acquired		**(17,369)**	(604,672)
Proceeds from disposal of property, plant and equipment		**557**	743
Dividends received from associates		**142**	9,649
Dividends received from available-for-sale equity securities	6	**–**	2,219
Dividends received from equity securities not held for trading	6	**2,938**	–
Interest received		**32,495**	47,640
Net cash used in investing activities		**(397,988)**	(795,727)

Note: The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 100 to 216 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended December 31, 2018
(Expressed in Renminbi ("RMB"))

	Note	2018 RMB'000	2017 (Note) RMB'000
Financing activities			
Capital contributions from non-controlling equity owners of subsidiaries		**5,428**	25,840
Proceeds from bank loans	23 (c)	**2,351,664**	2,120,911
Repayment of bank loans	23 (c)	**(2,018,827)**	(919,087)
Proceeds from issue of bond	23 (c)	**700,000**	300,000
Proceeds from issue of debentures	23 (c)	**–**	300,000
Repayment of debentures	23 (c)	**(300,000)**	–
Proceeds from borrowings from joint ventures	23 (c)	**15,590**	–
Proceeds from borrowings from related party	23 (c)	**–**	100,000
Repayment of borrowings from related party	23 (c)	**(100,000)**	–
Proceeds from borrowings from associate	23 (c)	**20,000**	–
Repayments of borrowings from associate	23 (c)	**(18,000)**	–
Dividends paid by subsidiaries to non-controlling equity owners		**(156,946)**	(13,739)
Dividends paid to equity shareholders of the Company	29 (b)	**(50,987)**	(67,491)
Borrowing costs paid	23 (c)	**(37,401)**	(25,284)
Net cash generated from financing activities		**410,521**	1,821,150
Net (decrease)/increase in cash and cash equivalents		**(311,491)**	346,519
Cash and cash equivalents at January 1	23 (a)	**1,719,504**	1,371,586
Effect of foreign exchange rate changes		**(208)**	1,399
Cash and cash equivalents at December 31	23 (a)	**1,407,805**	1,719,504

Note: The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 100 to 216 form part of these financial statements.

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. 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, 2018 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 other equity investments and 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(h)).

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.

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 new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at January 1, 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at January 1, 2018. Therefore, comparative information continues to be reported under IAS 39.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(i) *IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (Continued)*

The following table summarises the impact of transition to IFRS 9 on retained earnings and reserves and the related tax impact at January 1, 2018.

	RMB'000
Retained earnings	
Transferred from fair value reserve (recycling) relating to financial assets now measured at FVPL	30,981
Related tax	(7,746)
Net increase in retained earnings at January 1, 2018	**23,235**

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. **Classification of financial assets and financial liabilities**

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (Continued)

a. Classification of financial assets and financial liabilities *(Continued)*

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

	IAS 39 carrying amount at December 31, 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	**IFRS 9 carrying amount at January 1, 2018 RMB'000**
Financial assets carried at amortised cost				
Cash and cash equivalents	1,719,504	–	–	**1,719,504**
Trade receivables	187,949	–	–	**187,949**
Consignor advances	883,727	–	–	**883,727**
Restricted cash	139,494	–	–	**139,494**
Deposits with original maturities over three months	86,255	–	–	**86,255**
Loans granted under financing arrangements	2,350,966	–	–	**2,350,966**
Loans to a joint venture	9,000	–	–	**9,000**
Deposits and other receivables	1,008,262	–	–	**1,008,262**
	6,385,157	–	–	**6,385,157**
Financial assets carried at FVPL				
Equity securities not held for trading(note (i))	–	111,835	30,981	**142,816**
	–	111,835	30,981	**142,816**
Financial assets classified as available-for-sale under IAS 39 (note (i))	111,835	(111,835)	–	**-**

Notes:

(i) Under IAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under IFRS 9, unless they are eligible for and designated at FVOCI by the Group.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (Continued)

a. Classification of financial assets and financial liabilities *(Continued)*

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in notes 2(l)(i), (o), (p) and (q).

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts (see note 2(l)(ii)). The initial application of IFRS 9 has no impact on the carrying amounts of all financial liabilities (including financial guarantee contracts) at January 1, 2018.

b. Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade receivables, consignor advances, restricted cash, deposits with original maturities over three months, loans granted under financing arrangements, loans to an associate, deposits, other receivables and trade receivables); and

– financial guarantee contracts issued (see note 2(l)(ii)).

For further details on the Group's accounting policy for accounting for credit losses, see note 2(l)(i) and (ii).

The Group assessed the ECLs of financial assets measured at amortised cost as at January 1, 2018. There was no significant change to the loss allowance for these financial assets of the Group as at January 1, 2018.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(i) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation *(Continued)*

c. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at January 1, 2018 (the date of initial application of IFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(ii) IFRS 15, Revenue from contracts with customers (Continued)

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2018. Therefore, comparative information has not been restated and continues to be reported under IASs 11 and 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before January 1, 2018.

The adoption of IFRS 15 did not have a material impact on the consolidated financial statements except for presentation of contract liabilities.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2(w)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 2(n)).

To reflect these changes in presentation, the Group has made the following adjustments at January 1, 2018, as a result of the adoption of IFRS 15:

(i) "Receipts in advance" amounting to RMB532,160,000, which was previously included in Trade and other payables (note 25) are now included under contract liabilities (note 27).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(ii) *IFRS 15, Revenue from contracts with customers* *(Continued)*

b. Disclosure of the estimated impact on the amounts reported in respect of the year ended December 31, 2018 as a result of the adoption of IFRS 15 on January 1, 2018.

The following tables summarise the estimated impact of adoption of IFRS 15 on the Group's consolidated financial statements for the year ended December 31, 2018, by comparing the amounts reported under IFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under IAS 18 and IAS 11 if those superseded standards had continued to apply to 2018 instead of IFRS 15. These tables show only those line items impacted by the adoption of IFRS 15:

	Amounts reported in accordance with IFRS 15 (A) RMB'000	**Hypothetical amounts under IASs18 and 11** (B) RMB'000	**Difference: Estimated impact of adoption of IFRS 15 on 2018** (A)-(B) RMB'000
Line items in the consolidated statement of financial position as at December 31, 2018 impacted by the adoption of IFRS 15:			
Trade and other payables	1,668,993	2,166,441	(497,448)
Contract liabilities	497,448	–	497,448

The significant differences arise as a result of the changes in accounting policies described above.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

(iii) IFRIC 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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 (r) or (s) 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(h)) 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(l)(iii)), 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into associate or joint venture that forms part of the Group's equity investment. 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(h) and note 2(l)). 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 any other 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(h)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 2(l)), 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) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquire; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(l)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 30(f). These investments are subsequently accounted for as follows, depending on their classification.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other investments in equity securities *(Continued)*

(A) Policy applicable from January 1, 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(w) Others (iii)).

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(w) Others (ii).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other investments in equity securities *(Continued)*

(B) Policy applicable prior to January 1, 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 2 (w) Others (ii) and (iii), respectively.

(i) Property, plant and equipment

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

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(y)).

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) 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.

(j) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(y)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(l)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Intangible assets (other than goodwill) *(Continued)*

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	Software	5 years
–	Right to use the brands	5 – 10 years

Both the period and method of amortisation are reviewed annually.

(k) 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

– 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and Impairment of assets

(i) Credit losses from financial instruments and contract assets

(A) Policy applicable from January 1, 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, restricted cash, deposits with original maturities over three months, trade receivables, consignor advances, loans granted under financing arrangements, loans to an associate and a joint venture, deposits and other receivables);

– contract assets as defined in IFRS 15 (see note 2(n));

Financial assets measured at fair value, including equity securities measured at FVPL, is not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and Impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from January 1, 2018 *(Continued)*

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and Impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from January 1, 2018 *(Continued)*

Significant increases in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and Impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets (Continued)

(A) Policy applicable from January 1, 2018 *(Continued)*

Basis of calculation of interest income

Interest income recognised in accordance with note 2(w) Others (iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

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

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

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and Impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets *(Continued)*

(B) Policy applicable prior to January 1, 2018

Prior to January 1, 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and Impairment of assets *(Continued)*

(i) Credit losses from financial instruments and contract assets *(Continued)*

(B) Policy applicable prior to January 1, 2018 *(Continued)*

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

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and Impairment of assets *(Continued)*

(ii) Credit losses from 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.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. 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.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(A) Policy applicable from January 1, 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(l)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and Impairment of assets *(Continued)*

(ii) Credit losses from financial guarantees issued (Continued)

(B) Policy applicable prior to January 1, 2018

Prior to January 1, 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in "trade and other payables" in respect of the guarantee.

(iii) Impairment of other non-current 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;
- prepayments;
- intangible assets;
- goodwill; 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. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– 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).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and Impairment of assets *(Continued)*

(iii) Impairment of other non-current assets (Continued)

– 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).

– 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.

(iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on HKSE, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2 (l)(i) and 2 (l)(ii)).

Impairment losses recognised in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) 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 realisable 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.

The Group take advantage of practical expedient in paragraph 94 of IFRS 15 and recognise the incremental cost of obtaining a contract as an expense if the amortisation period of the asset is less than one year.

(n) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(w)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(l)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(o)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(w)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(o)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(w)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(n)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(l)(i)).

(p) Consignor advances

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

(q) 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(l).

(r) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(y)).

(s) 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(l)(ii), 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) 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.

(iii) Share-based payment arrangement

Cash-settled share-based payment transactions

The Company operates a share appreciation rights ("SARs") plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employee (including directors) of the Group are entitled to a future cash payment (rather than an equity instrument) ("cash-settled transactions"), based on the increase in the entity's share price from a specified level over a specified period of time. The Company recognised the services received, and a liability to pay for those services, as the employees render services.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any change in fair value recognised in profit or loss for the year.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) 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.

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 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax *(Continued)*

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

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.

(v) Provisions and contingent liabilities

Provisions are recognised when the Group 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Revenue recognition and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business. Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are 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 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)*

(w) Revenue recognition and other income *(Continued)*

Performance and theatre management *(Continued)*

(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) 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.

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 attaching 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Revenue recognition and other income *(Continued)*

Others *(Continued)*

(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 under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(l)(i)).

(x) 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 transaction date is the date on which the company initially recognises such non-monetary assets or liabilities.

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)*

(y) 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.

(z) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Related parties *(Continued)*

(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.

(aa) 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 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) 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.

(ii) Impairment losses for bad and doubtful debts

The Group estimates impairment losses for expected credit losses (ELC) on bad and doubtful debts. ECLs on financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

(iii) 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.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

(a) Critical accounting judgements in applying the Group's accounting policies *(Continued)*

(iv) 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.

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 AND SEGMENT REPORTING

(a) 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.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue *(Continued)*

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
– Revenue from art business and auction	**1,151,444**	1,301,530
– Revenue from performance and theatre management	**1,655,881**	1,370,861
– Revenue from cinema investment and management	**858,972**	771,604
– Revenue from other services	**28,249**	19,575
	3,694,546	3,463,570
Revenue from rental services		
– Revenue from performance and theatre management	**1,616**	1,963
– Revenue from cinema investment and management	**17,623**	14,882
	3,713,785	3,480,415

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11 (see note 2(c)(ii)).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 5 (a) and 5 (c) respectively.

The Group has applied the practical expedient in paragraph 121 of IFRS 15 and therefore the information about remaining performance obligations is not disclosed for contracts that have an original expected duration of one year or less and also for those performance obligations which are regarded as satisfied as invoiced.

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) 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 antiques, modern and contemporary calligraphy and painting, ancient calligraphy and painting, oil painting and sculpture and other cultural relics and artwork. It also provides artwork investment consultation and other services, earns interest income and 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.

5 SEGMENT REPORTING

(a) Segment results, assets and liabilities

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

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

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

Segment profit represents revenue less cost of sales, and includes selling and distribution expenses and administrative expenses directly attributable to the segment. Items that are not specifically attributable to individual segments, such as unallocated head office and corporate other net income/(losses), share of profits less losses of associates, share of profits less losses of joint ventures, changes in fair value of equity securities not held for trading, impairment losses on non-current assets, depreciation and amortisation, 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.

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, 2018 and 2017 is set out below:

	Year ended December 31, 2018			
	Art business and auction RMB'000	Performance and theatre management RMB'000	Cinema investment and management RMB'000	Total RMB'000
Disaggregated by timing of revenue recognition				
Point in time	911,126	1,657,497	772,184	3,340,807
Over time	240,318	–	104,411	344,729
Revenue from external customers	1,151,444	1,657,497	876,595	3,685,536
Inter-segment revenue	6,534	–	–	6,534
Reportable segment revenue	1,157,978	1,657,497	876,595	3,692,070
Reportable segment profit	388,128	60,150	173,684	621,962
Depreciation and amortisation	(12,084)	(8,249)	(133,553)	(153,886)
Finance income	58,366	11,776	621	70,763
Finance costs	(90,798)	(40)	(23,842)	(114,680)
Impairment of				
– property, plant and equipment	–	–	(20,037)	(20,037)
– intangible assets	–	–	(2,412)	(2,412)
– goodwill	–	–	(11,488)	(11,488)
Reportable segment assets	7,157,463	790,314	1,301,106	9,248,883
Reportable segment liabilities	5,354,619	443,831	1,415,953	7,214,403

5 SEGMENT REPORTING *(Continued)*

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

	Year ended December 31, 2017			
	Art business and theatre RMB'000 (Note)	Performance and theatre management RMB'000 (Note)	Cinema investment and management RMB'000 (Note)	Total RMB'000 (Note)
Disaggregated by timing of revenue recognition				
Point in time	1,132,153	1,372,824	720,752	3,225,729
Over time	169,377	–	65,734	235,111
Revenue from external customers	1,301,530	1,372,824	786,486	3,460,840
Inter-segment revenue	–	–	–	–
Reportable segment revenue	1,301,530	1,372,824	786,486	3,460,840
Reportable segment profit	496,471	56,389	146,935	699,795
Depreciation and amortisation	(12,872)	(7,289)	(114,045)	(134,206)
Finance income	57,082	10,783	950	68,815
Finance costs	(68,020)	–	(27,381)	(95,401)
Reportable segment assets	7,492,024	733,653	1,302,238	9,527,915
Reportable segment liabilities	5,592,974	417,159	1,384,521	7,394,654

Note (i): The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated (see note 2(c)(ii)).

Note (ii): There was no individual customer that represents more than 10 percent of the Group's revenue during the year ended December 31, 2018 and 2017.

5 SEGMENT REPORTING *(Continued)*

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

	2018 **RMB'000**	2017 RMB'000
Revenue		
Reportable segment revenue	**3,692,070**	3,460,840
Elimination of inter-segment revenue	**(6,534)**	–
Revenue from other services	**28,249**	19,575
Consolidated revenue	**3,713,785**	3,480,415
Profit		
Reportable segment profit	**621,962**	699,795
Revenue from other services	**28,249**	19,575
Unallocated head office and corporate other net income/(losses)	**30,806**	(42,595)
Share of profits less losses of associates	**51,049**	(637)
Share of profits less losses of joint ventures	**8,220**	6,314
Changes in fair value of equity securities not held for trading	**16,548**	–
Impairment losses on non-current assets	**(33,937)**	–
Depreciation and amortisation	**(155,882)**	(135,200)
Finance income	**60,061**	62,313
Finance costs	**(41,567)**	(14,747)
Unallocated head office and corporate expenses	**(77,904)**	(57,244)
Consolidated profit before taxation	**507,605**	537,574

5 SEGMENT REPORTING *(Continued)*

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

	2018 RMB'000	2017 RMB'000
Assets		
Reportable segment assets	**9,248,883**	9,527,915
Elimination of inter-segment receivables	**(3,119,411)**	(2,824,401)
Available-for-sale equity securities	**–**	111,835
Equity securities not held for trading	**159,364**	–
Interests in associates	**242,384**	17,307
Interests in joint ventures	**516,273**	508,053
Deferred tax assets	**34,969**	34,121
Unallocated head office and corporate assets	**3,363,646**	2,768,761
Consolidated total assets	**10,446,108**	10,143,591
Liabilities		
Reportable segment liabilities	**7,214,403**	7,394,654
Elimination of inter-segment payables	**(3,119,411)**	(2,824,401)
Current taxation	**78,469**	94,434
Deferred tax liabilities	**17,594**	6,821
Unallocated head office and corporate liabilities	**1,253,192**	680,586
Consolidated total liabilities	**5,444,247**	5,352,094

5 SEGMENT REPORTING *(Continued)*

(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 financial instruments and deferred tax assets is presented based on the geographical location of the assets.

	Revenue from external customers		**Non-current assets**	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Mainland China	**3,402,595**	3,120,097	**1,763,463**	1,541,960
Others	**311,190**	360,318	**11,813**	10,389
	3,713,785	3,480,415	**1,775,276**	1,552,349

6 OTHER NET INCOME

	2018 RMB'000	2017 RMB'000
Government grants	**59,454**	59,117
Dividend income from available-for-sale equity securities	**–**	2,219
Dividend income from equity securities not held for trading	**2,938**	–
Net foreign exchange loss	**(5,547)**	(18,435)
Net loss on disposal of property, plant and equipment	**(332)**	(511)
Others	**8,372**	15,839
	64,885	58,229

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2018 RMB'000	2017 RMB'000
Interest expenses	**42,901**	15,328
Less: interest expense capitalised into property, plant and equipment	**1,334**	581
	41,567	14,747

The borrowing costs have been capitalised at a rate of 4.76% per annum (2017: 4.19%).

(b) Staff costs

	2018 RMB'000	2017 RMB'000
Salaries, wages and other benefits	**681,712**	581,870
Contributions to defined contribution retirement plans (note)	**78,639**	63,406
Share-based payment arrangement (note 26)	**149**	–
	760,500	645,276

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 13% 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.

7 PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	2018 RMB'000	2017 (Note) RMB'000
Depreciation (note 12)	**153,419**	133,676
Amortisation (note 13)	**2,463**	1,524
Impairment losses/(reversal)		
– trade receivables (note 30(a))	**666**	(2,234)
– deposits, prepayments and other receivables	**(56)**	(4,279)
– property, plant and equipment (note 12)	**20,037**	–
– intangible assets (note 13)	**2,412**	–
– goodwill (note 14)	**11,488**	–
Auditors' remuneration		
– audit and audit-related services	**4,200**	4,200
– non-audit services	**–**	720
Operating lease charges: minimum lease payments	**225,118**	201,291

Note: The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2018 **RMB'000**	2017 RMB'000
Current tax – PRC corporate income tax		
Provision for the year	**112,257**	114,828
Under-provision in respect of prior years	**4,546**	370
	116,803	115,198
Current tax – Other regions		
Provision for the year	**19,555**	33,648
Over-provision in respect of prior years	**–**	(73)
	19,555	33,575
Deferred tax		
Origination and reversal of temporary differences	**2,964**	(15,121)
	139,322	133,652

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

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	**507,605**	537,574
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned (note)	**116,697**	123,237
Tax effect of non-deductible expenses	**1,747**	2,935
Tax effect of non-taxable income	**(15,552)**	(1,974)
Tax effect of unused tax losses not recognised	**33,995**	14,962
Tax effect of temporary differences not recognised	**8,514**	(324)
Tax effect of use of tax losses in prior years	**(10,625)**	(5,481)
Under-provision in respect of prior years	**4,546**	297
Actual tax expense	**139,322**	133,652

Note:

The Company and its PRC subsidiaries are mainly subject to standard PRC corporate income tax rate of 25% (2017: 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, 2018				
	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	–	509	1,484	105	2,098
Mr. Hu Jiaquan	–	504	1,347	105	1,956
Non-executive directors					
Mr. Wang Lin (note i)	–	–	–	–	–
Mr. Wang Keling	–	–	–	–	–
Mr. Huang Geming (note ii)	–	–	–	–	–
Independent non-executive directors					
Mr. Li Boqian	121	–	–	–	121
Mr. Yip Wai Ming	121	–	–	–	121
Ms. Li Xiaohui	121	–	–	–	121
Supervisor					
Mr. Wang Fuqiang	–	299	330	83	712
Mr. Chen Yuwen	–	–	–	–	–
Mr. Hou Hongxiang (note iii)	–	–	–	–	–
	363	1,312	3,161	293	5,129

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

	Year ended December 31, 2017				
	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	–	503	1,056	103	1,662
Mr. Hu Jiaquan	–	491	362	96	949
Non-executive directors					
Mr. Wang Lin	–	–	–	–	–
Mr. Wang Keling	–	–	–	–	–
Independent non-executive directors					
Mr. Li Boqian	121	–	–	–	121
Mr. Yip Wai Ming	121	–	–	–	121
Ms. Li Xiaohui	121	–	–	–	121
Supervisor					
Mr. Wang Fuqiang	–	293	320	77	690
Mr. Chen Yuwen	–	–	–	–	–
Mr. Huang Geming	–	–	–	–	–
	363	1,287	1,738	276	3,664

Notes:

i: Mr. Wang Lin tendered his resignation as the non-executive director of the Company with effect from June 28, 2018.

ii: Mr. Huang Geming was appointed as the non-executive director of the Company with effect from June 28, 2018.

iii: Mr. Hou Hongxiang was appointed as the supervisor on June 28, 2018, when the term of office of supervisor Mr. Huang Geming expired.

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.

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, 2018 and 2017 are set forth below:

	2018 Number of individuals	2017 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:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	**8,119**	6,438
Discretionary bonuses	**8,130**	7,123
Contributions to defined contribution retirement plans	**312**	372
	16,561	13,933

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

	2018 Number of Individuals	2017 Number of individuals
HKD2,000,001 to HKD2,500,000	**–**	1
HKD2,500,001 to HKD3,000,000	**–**	1
HKD3,000,001 to HKD3,500,000	**3**	1
HKD3,500,001 to HKD4,000,000	**1**	–
HKD4,000,001 to HKD4,500,000	**–**	2
HKD5,000,001 to HKD5,500,000	**1**	–

For the years ended December 31, 2018 and 2017, 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.

(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 RMB241,992,000 for the year ended December 31, 2018 (2017: RMB256,171,000) and the weighted average number of ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018 **No. of shares**	2017 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 2018 and 2017. Accordingly, diluted earnings per share is the same as the basic earnings per share.

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Land, buildings and structures RMB'000	Equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At January 1, 2017	524,534	44,016	269,717	42,536	56,726	84,808	1,022,337
Additions	26,927	–	2,693	6,715	4,505	142,537	183,377
Business combination	86,075	–	26,576	–	4,162	16,392	133,205
Transfer from construction in progress	72,275	–	40,095	–	2,698	(115,068)	–
Disposals	–	–	(2,237)	(2,573)	(441)	–	(5,251)
At December 31, 2017	709,811	44,016	336,844	46,678	67,650	128,669	1,333,668
Additions	15,294	–	1,817	5,349	6,996	145,680	175,136
Transfer from construction in progress	125,243	–	85,240	–	2,390	(212,873)	–
Disposals	(496)	–	(1,356)	(1,600)	(1,624)	–	(5,076)
At December 31, 2018	849,852	44,016	422,545	50,427	75,412	61,476	1,503,728
Accumulated depreciation:							
At January 1, 2017	(169,059)	(13,700)	(122,252)	(21,365)	(30,956)	–	(357,332)
Charge for the year	(72,579)	(1,394)	(48,314)	(4,017)	(7,372)	–	(133,676)
Business combination	(14,274)	–	(11,743)	–	(2,293)	–	(28,310)
Written back on disposals	–	–	2,226	2,316	413	–	4,955
At December 31, 2017	(255,912)	(15,094)	(180,083)	(23,066)	(40,208)	–	(514,363)
Charge for the year	(83,129)	(1,394)	(55,279)	(4,442)	(9,175)	–	(153,419)
Written back on disposals	481	–	1,141	1,363	1,200	–	4,185
At December 31, 2018	(338,560)	(16,488)	(234,221)	(26,145)	(48,183)	–	(663,597)
Impairment:							
At January 1, 2017 and December 31, 2017	–	–	–	–	–	–	–
Impairment losses recognised	(16,165)	–	(3,852)	–	(20)	–	(20,037)
At December 31, 2018	(16,165)	–	(3,852)	–	(20)	–	(20,037)
Net book value:							
At December 31, 2018	495,127	27,528	184,472	24,282	27,209	61,476	820,094
At December 31, 2017	453,899	28,922	156,761	23,612	27,442	128,669	819,305

Note: The Group determines whether there are indicators for impairment of property, plant and equipment at the end of each reporting period. For the year ended December 31, 2018, there are dispute of lease terms between three cinemas and the lessor, which lead to these cinemas not under normal operation. The Group assessed the recoverable amounts of those property, plant and equipment of these subsidiaries and as a result the carry amount of those of property, plant and equipment was written down to their recoverable amount of RMB1,715,000. An impairment loss of RMB20,037,000 was recognised as "Administrative expenses". The estimates of recoverable amount of leasehold improvement, equipment and furniture, fixture and others were based on the fair values of the relevant fixed assets less costs of disposal, using market comparison approach by reference to recent sales price of similar assets within the same industry.

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

13 INTANGIBLE ASSETS

	Software RMB'000	Right to use the brands RMB'000	Total RMB'000
Cost:			
At January 1, 2017	–	–	–
Additions	4,000	–	4,000
Business combination	–	28,775	28,775
At December 31, 2017	4,000	28,775	32,775
Additions	5,430	–	5,430
At December 31, 2018	9,430	28,775	38,205
Accumulated amortisation and impairment:			
At January 1, 2017	–	–	–
Charge for the year	(33)	(1,491)	(1,524)
At December 31, 2017	(33)	(1,491)	(1,524)
Charge for the year	(435)	(2,028)	(2,463)
At December 31, 2018	(468)	(3,519)	(3,987)
Impairment:			
At January 1, 2017 and December 31, 2017	–	–	–
Impairment losses recognised	–	(2,412)	(2,412)
At December 31, 2018	–	(2,412)	(2,412)
Net book value:			
At December 31, 2018	8,962	22,844	31,806
At December 31, 2017	3,967	27,284	31,251

Note: The Group determines whether there are indicators for impairment of intangible assets at the end of each reporting period. For the year ended December 31, 2018, there are dispute of lease terms between one cinema and the lessor, which lead to the cinema not under normal operation. The right to use the brands and the related goodwill (note 14) were raised from acquisition of Xingxing Entertainment in 2017. The Group assessed the recoverable amounts of the intangible assets and goodwill were written down to their recoverable amount of zero. An impairment loss of RMB2,412,000 and RMB11,488,000 (note 14) were recognised as "Administrative expenses".

The amortisation charge for the year is included in "Administrative expenses" in the consolidated statement of profit or loss.

14 GOODWILL

	RMB'000
Cost:	
At January 1, 2017, December 31, 2017 and December 31, 2018	173,380
Accumulated impairment losses:	
At January 1, 2017, December 31, 2017 and January 1, 2018	–
Impairment loss	(11,488)
At December 31, 2018	(11,488)
Carrying amount:	
At December 31, 2018	161,892
At December 31, 2017	173,380

Impairment testing on goodwill

For the purposes of impairment testing, goodwill has been allocated to the cash-generating units ("CGUs") of the related segments as follows:

	2018 **RMB'000**	2017 RMB'000
Cinema investment and management:		
– XingX Entertainment	**161,892**	173,380

The recoverable amounts of these CGUs have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3%. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using discount rates ranging from 12.3% to 17.0%. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. Except for CGU in the case of impairment in accordance with note 13, no impairment loss was recognised during the year ended December 31, 2018.

15 INVESTMENTS IN SUBSIDIARIES

	Company	
	2018	2017
	RMB'000	RMB'000
Unlisted shares, at cost	**940,220**	885,220
Less: impairment loss	**–**	–
	940,220	885,220

As at December 31, 2018, the subsidiaries of the Company are listed as follows:

			Proportion of ownership interest			
Name of company	**Place and date of incorporation and operation**	**Paid up capital/ registered capital**	**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	RMB100,000,000	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	RMB25,000,000	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	RMB2,000,000	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	RMB15,000,000	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	RMB2,000,000	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	RMB3,000,000	51%	–	51%	Theatre operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
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	RMB2,000,000	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	RMB3,000,000	100%	–	100%	Art center operation management
Yantai Poly Grand Theatre Management Corporation Limited 煙臺市保利大劇院管理有限公司	The PRC May 19, 2009	RMB3,000,000	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	RMB2,000,000	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	RMB2,000,000	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	RMB6,000,000	66.67%	–	66.67%	Theatre operation management
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	RMB2,000,000	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	RMB2,000,000	100%	–	100%	Theatre operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
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	RMB2,000,000	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	RMB3,000,000	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	RMB3,921,600	51%	–	51%	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	RMB2,000,000	100%	–	100%	Theatre operation management
Qingdao Grand Theatre Management Corporation Limited 青島大劇院管理有限公司	The PRC August 27, 2010	RMB10,000,000	51%	–	51%	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	RMB3,000,000	100%	–	100%	Theatre operation management
Poly Advertisement Corporation Limited 保利廣告有限公司	The PRC May 16, 2001	RMB1,000,000	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	RMB3,000,000	51%	–	51%	Theatre operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
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	RMB3,000,000	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	RMB5,000,000	60%	–	60%	Theatre operation management
Yingkou Bayuquan Poly Grand Theatre Management Corporation Limited 營口市鮁魚圈區保利大劇院管理有限公司	The PRC May 16, 2012	RMB3,000,000	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	RMB2,000,000	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	RMB3,000,000	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	RMB2,000,000	100%	–	100%	Theatre operation management
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	RMB2,000,000	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	RMB3,000,000	51%	–	51%	Theatre operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
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	RMB3,000,000	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	RMB3,000,000	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	RMB3,000,000	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	RMB3,000,000	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	RMB3,000,000	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	RMB3,000,000	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	RMB3,000,000	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	RMB3,000,000	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	RMB3,000,000	100%	–	100%	Theatre operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
Xiamen Poly Theatre Management Corporation Limited 廈門保利劇院管理有限公司	The PRC June 20, 2014	RMB3,000,000	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	RMB5,000,000	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 06, 2015	RMB3,000,000	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	RMB3,000,000	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 August 27, 2015	RMB3,000,000	100%	–	100%	Theatre operation management
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	RMB5,000,000	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 04, 2016	RMB3,000,000	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	RMB3,000,000	100%	–	100%	Theatre operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
Zhuzhou Poly Grand Theatre Management Corporation Limited 株洲保利大劇院管理有限公司	The PRC September 02, 2016	RMB3,000,000	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	RMB19,100,000	51%	–	51%	Ticket agency
Suzhou Poly Grand Theatre Management Corporation Limited 蘇州保利大劇院管理有限公司	The PRC January 11, 2017	RMB3,000,000	100%	–	100%	Theatre operation management
Zhuji Poly Grand Theatre Management Corporation Limited 諸暨保利大劇院管理有限公司	The PRC January 13, 2017	RMB3,000,000	100%	–	100%	Theatre operation management
Changsha meixihu Poly Grand Theatre Management Corporation Limited 長沙梅溪湖保利大劇院管理有限公司	The PRC April 17, 2017	RMB3,000,000	60%	–	60%	Theatre operation management
Qianjiang Poly Grand Theatre Management Corporation Limited 潛江保利大劇院管理有限公司	The PRC February 13, 2017	RMB3,000,000	100%	–	100%	Theatre operation management
Liaocheng Poly Grand Theatre Management Corporation Limited 聊城市保利大劇院管理有限公司	The PRC June 5, 2017	RMB2,000,000	100%	–	100%	Theatre operation management
Guangxi Poly Theatre Management Corporation Limited 廣西保利劇院管理有限公司	The PRC May 3, 2017	RMB3,000,000	100%	–	100%	Theatre operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
Tianjin Poly Theatre Management Corporation Limited 天津保利劇院管理有限公司	The PRC November 14, 2017	RMB8,000,000	100%	–	100%	Theatre operation management
Poly Shangyuewan (Shanghai) Theatre Management Corporation Limited 保利尚悅灣 (上海) 劇院管理有限公司	The PRC November 7, 2017	RMB15,000,000	51%	–	51%	Theatre operation management
Cixi Poly Grand Theatre Management Corporation Limited 慈溪保利大劇院管理有限公司	The PRC October 20, 2017	RMB3,000,000	100%	–	100%	Theatre operation management
Bingzhou Poly Grand Theatre Management Corporation Limited 濱州保利大劇院管理有限公司	The PRC January 23, 2018	RMB3,000,000	100%	–	100%	Theatre operation management
Hengshui Poly Grand Theatre Management Corporation Limited 衡水市保利大劇院管理有限公司	The PRC April 20, 2018	RMB3,000,000	100%	–	100%	Theatre operation management
Zoucheng Poly Theatre Management Corporation Limited 鄒城保利劇院管理有限公司	The PRC May 11, 2018	RMB3,000,000	100%	–	100%	Theatre operation management
Fuzhou Poly Theatre Management Corporation Limited 福州保利劇院管理有限公司	The PRC August 2, 2018	RMB5,000,000	100%	–	100%	Theatre operation management
Lianyungang Poly Runke Grand Theatre Management Corporation Limited 連雲港保利潤科大劇院管理有限公司	The PRC December 27, 2017	RMB3,000,000	60%	–	60%	Theatre operation management
Beijing Poly International Auction Corporation Limited 北京保利國際拍賣有限公司	The PRC July 14, 2005	RMB10,000,000	55%	55%	–	Auction business

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
Xiamen Poly International Auction Corporation Limited 保利(廈門)國際拍賣有限公司	The PRC July 31, 2014	RMB10,000,000	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 06, 2015	RMB10,000,000	28.05%	–	51%	Auction business
Kangoo overseas Ltd. 康高有限責任公司	British Virgin Islands February 22, 2002	1 share of US$1 each	55%	–	100%	Auction agency of overseas art collection
Shanghai Huayi Poly International Auction Corporation Limited ("Shanghai Huayi") (note ii) 保利華誼(上海)拍賣有限公司	The PRC January 1, 2017	RMB10,000,000	22%	–	40%	Auction business
Yiwu Yitong Logistics Corporation Limited 義烏藝通物流有限公司	The PRC July 24, 2018	RMB10,000,000	55%	–	100%	Cargo transportation business; art exchange activities
Yiwu Poly Art Development Corporation Limited 保利義烏藝術發展有限公司	The PRC July 24, 2018	RMB10,000,000	55%	–	100%	Auction business
Poly Auction Guangdong Corporation Limited 廣東保利拍賣有限公司	The PRC November 20, 2003	RMB30,000,000	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	RMB10,000,000	62.05%	–	100%	Asset management, acquisition, disposition, restructuring and related consulting business services (except for financial trust and management)
Beijing Poly Art Centre Corporation Limited ("Poly Art Centre") 北京保利藝術中心有限公司	The PRC March 16, 2007	RMB300,000,000	100%	100%	–	Sale of cultural relics and artworks (except for auction)
Beijing Poly Contemporary Art Corporation Limited 北京保利當代藝術有限公司	The PRC January 24, 2014	RMB10,000,000	51%	–	51%	Art investment management and consulting

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
Guizhou Poly Culture Development Corporation Limited 貴州保利文化發展有限公司	The PRC April 10, 2014	RMB2,000,000	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	50,000 shares of US$1 each	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	100 shares of CA$1 each	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	50,000 shares of US$1 each	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	RMB10,000,000	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	70,000,000 shares of HK$1 each	55%	38.50%	30%	Auction business
Poly Auction Macau Limited 保利澳門拍賣有限公司	Macau December 18, 2015	MOP0/ MOP20,000,000	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	RMB300,000,000	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	RMB1,500,000	86.67%	–	86.67%	Cinema operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
Poly Boyi Culture Media (Beijing) Corporation Limited 保利博藝文化傳媒(北京)有限公司	The PRC December 15, 1984	RMB960,000	100%	–	100%	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	RMB2,000,000	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	RMB2,000,000	100%	–	100%	Cinema operation management
Wuxi Poly Cinema Corporation Limited 無錫保利影院有限公司	The PRC August 1, 2012	RMB500,000	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	RMB500,000	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	RMB500,000	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	RMB1,000,000	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	RMB1,000,000	100%	–	100%	Cinema operation management
Nanjing Poly Cinema Corporation Limited 南京保利影城有限公司	The PRC April 10, 2014	RMB1,000,000	100%	–	100%	Cinema operation management
Shanghai Jiangchuan Poly Cinema Corporation Limited 上海江川保利影城有限公司	The PRC June 5, 2014	RMB1,000,000	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	RMB1,000,000	100%	–	100%	Cinema operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
Foshan Poly Cinema Corporation Limited 佛山保利影城有限公司	The PRC October 23, 2014	RMB1,000,000	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	RMB1,000,000	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	RMB1,000,000	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	RMB1,000,000	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, 2016	RMB1,000,000	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	RMB70,000,000	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	RMB1,000,000	100%	–	100%	Cinema operation management
Hangzhou Poly Cinema Corporation Limited 杭州保利影城有限公司	The PRC January 25, 2016	RMB1,000,000	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 04, 2016	RMB1,000,000	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	RMB1,000,000	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	RMB1,000,000	100%	–	100%	Cinema operation management
Kunshan Poly Cinema Corporation Limited 昆山保利影城有限公司	The PRC January 3, 2017	RMB1,000,000	100%	–	100%	Cinema operation management
Foshan XingX Entertainment Corporation Limited 佛山市星星文化傳播有限公司	The PRC December 24, 2008	RMB30,000,000	100%	–	100%	Cinema operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

			Proportion of ownership interest			
Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
Hubei XingX Hongji Cinema Corporation Limited ("Hubei XingX") 湖北星星宏基影城有限公司	The PRC September 11, 2012	RMB10,000,000	55%	–	55%	Cinema operation management
Dongguan XingX Cinema Corporation Limited 東莞星星影城有限公司	The PRC August 5, 2013	RMB22,800,000/ RMB30,000,000	100%	–	100%	Cinema operation management
Yueyang XingX Happy Cinema Management Corporation Limited 岳陽星星歡樂影城管理諮詢有限公司	The PRC August 30, 2012	RMB6,000,000	100%	–	100%	Cinema operation management
Nanning XingX Cinema Investment & Management Corporation Limited 南寧星星影城投資管理有限公司	The PRC January 27, 2014	RMB15,000,000	100%	–	100%	Cinema operation management
Taizhou XingX Cinema Corporation Limited 台州星星影城有限公司	The PRC February 3, 2015	RMB2,000,000	100%	–	100%	Cinema operation management
Fushun XingX Cinema Corporation Limited 撫順星星影城有限公司	The PRC September 21, 2015	RMB1,000,000	100%	–	100%	Cinema operation management
Shijiazhuang XingX Cinema Corporation Limited 石家莊星星影城有限公司	The PRC October 16, 2015	RMB3,000,000	100%	–	100%	Cinema operation management
Xuzhou XingX Cinema Corporation Limited 徐州星星影城有限公司	The PRC August 6, 2015	RMB2,000,000	100%	–	100%	Cinema operation management
Xinyu XingX Cinema Corporation Limited 新余星星影城有限公司	The PRC October 16, 2015	RMB1,000,000	100%	–	100%	Cinema operation management
Tangshan XingX Cinema Corporation Limited 唐山星星影城有限公司	The PRC February 29, 2016	RMB3,000,000	100%	–	100%	Cinema operation management
Baise XingX Cinema Corporation Limited 百色星星影城有限公司	The PRC January 25, 2016	RMB1,000,000	100%	–	100%	Cinema operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
Taiyuan Poly Cinema Corporation Limited 太原保利影城有限公司	The PRC June 21, 2017	RMB1,000,000	100%	–	100%	Cinema operation management
Changsha Poly Cinema Corporation Limited 長沙保利影城有限公司	The PRC August 23, 2017	RMB1,000,000	100%	–	100%	Cinema operation management
Shenyang Poly Cinema Corporation Limited 瀋陽保利影城有限公司	The PRC September 29, 2017	RMB1,000,000	100%	–	100%	Cinema operation management
Shanghai Sijing Poly Cinema Corporation Limited 上海泗涇保利影城有限公司	The PRC May 7, 2018	RMB1,000,000	100%	–	100%	Cinema operation management
Shanghai Tangzhen Poly Cinema Corporation Limited 上海唐鎮保利影城有限公司	The PRC October 24, 2018	RMB1,000,000	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	70,000 shares of HK$1 each	100%	100%	–	Art business and cultural related activities
Poly Culture North America Investment Corporation Limited ("Poly North America") 保利文化北美投資有限公司	Canada May 1, 2015	100 shares of CA$1 each	100%	–	100%	Art business 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	RMB2,000,000	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	RMB2,000,000	65%	65%	–	Consulting and business operation management

(Expressed in RMB unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation and operation	Paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activities
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	RMB12,000,000	60%	40%	20%	Organising cultural exchange activities; music and dance training; musical instruments and stationery sales; performance brokerage
Poly Ronghe Financial Leasing Corporation Limited ("Poly Ronghe") 保利融禾融資租賃有限公司	The PRC May 26, 2016	RMB200,000,000	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.

Notes:

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.

ii: The Company agreed with the shareholder who held in total 60% of ownership and voting power of Shanghai Huayi, 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 Shanghai Huayi classified its investment in Shanghai Huayi as investments in subsidiaries.

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

	2018 **RMB'000**	2017 RMB'000
NCI percentage	**45%**	45%
Current assets	**2,231,987**	2,459,667
Non-current assets	**73,840**	81,055
Current liabilities	**(1,843,780)**	(1,937,777)
Non-current liabilities	**(4,729)**	–
Net assets	**457,318**	602,945
Carrying amount of NCI	**205,793**	271,325
Revenue	**440,803**	410,821
Profit for the year	**104,374**	111,976
Total comprehensive income	**104,374**	111,976
Profit allocated to NCI	**46,968**	50,389
Dividend paid to NCI	**112,500**	–
Cash flows (used in)/generated from operating activities	**(185,663)**	157,850
Cash flows generated from/(used in) investing activities	**119,082**	(286,489)
Cash flows (used in)/generated from financing activities	**(265,765)**	223,506

16 INTEREST IN ASSOCIATES

The following list contains only the particulars of material associate, all of which are unlisted corporate entities whose quoted market price is not available:

				Proportion of ownership interest			
Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Yixing Chengdong Cultural Tourism Investment Development Corporation Limited. ("Yixing Chengdong") (note) 宜興城東文化旅遊投資開發有限責任公司	Incorporated	The PRC	RMB10,000,000	50%	50%	–	Real estate development

Note: The Company established Yixing Chengdong with Rongsheng Real Estate Development Co., Ltd. in 2014.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

16 INTEREST IN ASSOCIATES *(Continued)*

Summarised financial information of the material associates, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Yixing Chengdong	
	2018	2017
	RMB'000	RMB'000
Gross amounts of the associates'		
Current assets	**886,157**	1,389,670
Non-current assets	**385**	596
Current liabilities	**775,764**	1,411,958
Non-current liabilities	**–**	–
Equity	**110,778**	(21,692)
Revenue	**857,753**	–
Profit from continuing operations	**132,470**	(9,455)
Other comprehensive income	**–**	–
Total comprehensive income	**132,470**	(9,455)
Dividend received from the associate	**–**	–
Reconciled to the group's interests in the associates		
Gross amounts of net assets of the associate	**110,778**	(21,692)
Group's effective interest	**50%**	50%
Group's share of net assets of the associate	**55,389**	(10,846)
Goodwill	**–**	–
Carrying amount in the consolidated financial statements	**55,389**	–

Share of profits less losses of associates in 2018 is RMB51,049,000, which mainly attributes to the share of profit of Yixing Chengdong.

16 INTEREST IN ASSOCIATES *(Continued)*

Aggregate information of associates that are not individually material:

	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**186,995**	17,307
Aggregate amounts of the group's share of those associates'		
Profit from continuing operations	**(4,340)**	(637)
Other comprehensive income	**–**	–
Total comprehensive income	**(4,340)**	(637)

17 INTEREST IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Unlisted shares, at cost	**529,926**	529,926
Share of profits, net of dividends	**(13,653)**	(21,873)
Total	**516,273**	508,053

(Expressed in RMB unless otherwise indicated)

17 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 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 桂林保利文化投資發展有限公司	Incorporated	The PRC	50%	50%	Culture investment and consulting services
Anyang Bao Xin Property Corporation Limited 安陽保鑫置業有限公司	Incorporated	The PRC	25%	–	Real estate development and sales
Beijing Eastern Poly Culture and Art Corporation Limited ("Eastern Poly") (note (i)) 北京東方保利文化藝術有限公司	Incorporated	The PRC	64%	–	Culture consulting services
Wuhan Xijie XingX TianDi Cinema Corporation Limited (note (ii)) 武漢希傑星星天地影城有限公司	Incorporated	The PRC	51%	–	Cinema operation management
Xijie XingX (Tianjin) International Cinema Corporation Limited (note (ii)) 希傑星星 (天津) 國際影城有限公司	Incorporated	The PRC	51%	–	Cinema operation management
Beijing Xijie XingX International Cinema Corporation Limited (note (ii)) 北京希傑星星國際影城有限公司	Incorporated	The PRC	51%	–	Cinema operation management
Xijie XingX (Fushun) Cinema Corporation Limited (note (ii)) 希傑星星 (撫順) 影城有限公司	Incorporated	The PRC	51%	–	Cinema operation management
Xijie XingX (Shanghai) Cinema Corporation Limited (note (ii)) 希傑星星 (上海) 影城有限公司	Incorporated	The PRC	51%	–	Cinema operation management
Zhongshan Xijie XingX Cinema Corporation Limited (note (ii)) 中山希傑星星影城有限公司	Incorporated	The PRC	51%	–	Cinema operation management
Changsha Xijie XingX Cinema Corporation Limited (note (ii)) 長沙希傑星星影城有限公司	Incorporated	The PRC	51%	–	Cinema operation management
Nanjing XingX Rongsheng Cinema Corporation Limited (note (ii)) 南京星星榮盛影城有限公司	Incorporated	The PRC	60%	–	Cinema operation management
Foshan XingX Xijie Cinema Corporation Limited (note (ii)) 佛山星星希傑影城有限公司	Incorporated	The PRC	80%	–	Cinema operation management

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.

17 INTEREST IN JOINT VENTURES *(Continued)*

Notes:

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

ii The joint venture was acquired through the acquisition of XingX Entertainment. In accordance with agreements between the investors, the investors exercise joint control over the entities.

Summarised financial information of joint ventures, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2018	2017
	RMB'000	RMB'000
Profit from continuing operations	**19,899**	15,793
Total comprehensive income for the year	**19,899**	15,793

18 OTHER FINANCIAL ASSETS

	Notes	December 31, 2018 RMB'000	January 1, 2018 RMB'000	December 31, 2017 RMB'000
Current				
Financial assets measured at amortised cost				
– Loans granted under financing arrangements	(ii)			
– Within 1 year or on demand		**1,569,685**	1,699,113	1,699,113
– Loans to an associate		**41,247**	–	–
– Loans to a joint venture		**12,000**	9,000	9,000
		1,622,932	1,708,113	1,708,113
Non-current				
Available-for-sale equity securities:		**–**	–	111,835
Financial assets measured at amortised cost				
– Loans granted under financing arrangements	(ii)			
– After 1 year but within 2 years		**565,971**	651,853	651,853
Financial assets measured at FVPL				
– Equity securities not held for trading	(i)	**159,364**	142,816	–
		725,335	794,669	763,688
		2,348,267	2,502,782	2,471,801

Notes:

(i) In 2016, The Company entered into a Capital Increase Agreement with Poly Finance Company Limited ("Poly Finance"), a related party, to acquire 5% of Poly Finance equity interest by cash injection. Unlisted equity securities were reclassified to financial assets measured at FVPL upon the initial application of IFRS 9 at January 1, 2018 (see note 2(c)(i)).

(ii) Poly North America and Poly Ronghe granted term loans to third parties secured by works of art which bear interest from 6.8% to 15% per annum.

19 INVENTORIES

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

	2018 RMB'000	2017 RMB'000
Antiques, works of art	**1,564,367**	1,430,111
Calligraphy, painting and sculptures	**459,386**	449,933
Small value items for resale	**8,033**	9,450
Low value materials	**3,258**	565
Drama rights	**12,517**	8,796
Film production	**53,556**	67,000
	2,101,117	1,965,855

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

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**158,074**	329,878

20 TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables for sale of goods and rendering of services, net of credit loss allowance, due from		
– related parties	**3,088**	2,949
– third parties	**325,594**	185,000
Financial assets measured at amortised cost	**328,682**	187,949

All trade receivables (net of credit loss allowance) of the Group are expected to be recovered within one year.

20 TRADE RECEIVABLES *(Continued)*

Ageing analysis

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

	2018	2017
	RMB'000	RMB'000
Within 1 month	**78,770**	85,525
1 to 3 months	**18,777**	26,294
3 to 6 months	**36,312**	4,825
6 to 12 months	**94,078**	26,054
Over 1 year	**100,745**	45,251
	328,682	187,949

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 30(a).

21 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, 2018, 10.9% of the consignor advances was due from the largest debtor related to art business and auction (2017: 19.9%).

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

22 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepayments for auctioned artwork	**774,458**	704,704
Receivables for auctioned artwork	**55,012**	23,574
Rental deposits	**24,631**	23,666
Guarantee deposits	**53,419**	54,580
Interest receivables from consignor advances on auction artwork	**89,437**	76,319
Advances to staff for business related activities	**13,445**	15,915
Investment deposit	**30,000**	30,000
Investment in film production	**89,125**	21,100
Others	**71,705**	60,009
Financial assets measured at amortised cost	**1,201,232**	1,009,867
Prepayments for purchase of inventories	**104,020**	26,394
Prepayments for performance	**31,596**	25,724
Others	**18,969**	19,659
	154,585	71,777
	1,355,817	1,081,644
Less: allowance for doubtful debts (note)	**1,543**	1,605
Deposits, prepayments and other receivables, net of loss allowance	**1,354,274**	1,080,039

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

	2018 RMB'000	2017 RMB'000
At January 1	**1,605**	2,933
Impairment loss recognised	**103**	263
Business combination	**–**	2,951
Reversal of impairment loss	**(159)**	(4,542)
Uncollectible amounts written off	**(6)**	–
At December 31	**1,543**	1,605

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

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

	2018	2017
	RMB'000	RMB'000
Cash at bank and on hand	**1,407,805**	1,719,504

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2018 RMB'000	2017 RMB'000
Profit before taxation		**507,605**	537,574
Adjustments for:			
Depreciation and amortisation	7 (c)	**155,882**	135,200
Net loss on disposal of property, plant and equipment	6	**332**	511
Impairment loss/(reversal) on trade receivables	7 (c)	**666**	(2,234)
Impairment loss/(reversal) on deposits, prepayments and other receivables	7 (c)	**(56)**	(4,279)
Impairment loss on property, plant and equipment	7 (c)	**20,037**	–
Impairment loss of goodwill	7 (c)	**11,488**	–
Impairment loss of Intangible assets	7 (c)	**2,412**	–
Interest earned from consignor advances		**(46,891)**	(53,218)
Net foreign exchange loss/(gain)		**69**	(675)
Finance costs	7 (a)	**41,567**	14,747
Amortisation of deferred revenue		**(17,139)**	(37,151)
Share of profits less losses of associates		**(51,049)**	637
Share of profits less losses of joint ventures		**(8,220)**	(6,314)
Dividend income from available-for-sale equity securities	6	**–**	(2,219)
Dividend income from equity securities not held for trading	6	**(2,938)**	–
Changes in fair value of equity securities not held for trading	6	**(16,548)**	–
Changes in working capital:			
Increase in inventories		**(135,262)**	(149,849)
Decrease/(increase) in trade receivables		**141,400**	(25,059)
Decrease/(increase) in loans granted under financing arrangements		**218,561**	(1,399,555)
Increase in deposits, prepayments and other receivables		**(595,554)**	(289,936)
Decrease in long-term prepayments		**226**	226
Decrease in restricted cash		**128,216**	6,561
Increase in contract liabilities		**497,448**	–
(Decrease)/increase in trade and other payables		**(1,023,953)**	706,677
Cash used in operations		**(171,701)**	(568,356)

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities:

	Bank loans RMB'000 (Note 24)	Borrowings from joint ventures RMB'000 (Note 24)	Bonds RMB'000 (Note 24)	Debentures RMB'000 (Note 24)	Borrowings from related party RMB'000 (Note 24)	Borrowings from associate RMB'000 (Note 24)	Interest payable RMB'000 (Note 25)	Total RMB'000
At January 1, 2018	1,756,533	61,200	300,000	300,000	100,000	-	25,106	2,542,839
Changes from financing cash flows:								
Proceeds from bank loans	2,351,664	-	-	-	-	-	-	2,351,664
Repayment of bank loans	(2,018,827)	-	-	-	-	-	-	(2,018,827)
Proceeds from issue of bond	-	-	700,000	-	-	-	-	700,000
Repayment of issue of debentures	-	-	-	(300,000)	-	-	-	(300,000)
Repayment of borrowings from related party	-	-	-	-	(100,000)	-	-	(100,000)
Proceeds from borrowings from joint ventures	-	15,590	-	-	-	-	-	15,590
Proceeds from borrowings from associate	-	-	-	-	-	20,000	-	20,000
Repayment of borrowings from associate	-	-	-	-	-	(18,000)	-	(18,000)
Borrowing costs paid	-	-	-	-	-	-	(37,401)	(37,401)
Total changes from financing cash flows	332,837	15,590	700,000	(300,000)	(100,000)	2,000	(37,401)	613,026
Other changes:								
Effect of foreign exchange rate changes	(749)	-	-	-	-	-	-	(749)
Cost of sales	-	-	-	-	-	-	(255)	(255)
Interest expenses (note 7(a))	-	-	-	-	-	-	41,567	41,567
Capitalised borrowing costs (note 7(a))	-	-	-	-	-	-	1,334	1,334
Total other changes	(749)	-	-	-	-	-	42,646	41,897
At December 31, 2018	2,088,621	76,790	1,000,000	-	-	2,000	30,351	3,197,762

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(c) Reconciliation of liabilities arising from financing activities: *(Continued)*

	Bank loans RMB'000 (Note 24)	Borrowings from joint ventures RMB'000 (Note 24)	Bonds RMB'000 (Note 24)	Debentures RMB'000 (Note 24)	Borrowings from related party RMB'000 (Note 24)	Interest payable RMB'000 (Note 25)	Total RMB'000
At January 1, 2017	574,737	–	–	–	–	8,951	583,688
Changes from financing cash flows:							
Proceeds from bank loans	2,120,911	–	–	–	–	–	2,120,911
Repayment of bank loans	(919,087)	–	–	–	–	–	(919,087)
Proceeds from issue of bond	–	–	300,000	–	–	–	300,000
Proceeds from issue of debentures	–	–	–	300,000	–	–	300,000
Proceeds from borrowings from related party	–	–	–	–	100,000	–	100,000
Borrowing costs paid	–	–	–	–	–	(25,284)	(25,284)
Total changes from financing cash flows	1,201,824	–	300,000	300,000	100,000	(25,284)	1,876,540
Other changes:							
Effect of foreign exchange rate changes	(20,028)	–	–	–	–	–	(20,028)
Business combination	–	61,200	–	–	–	2,159	63,359
Cost of sales	–	–	–	–	–	23,371	23,371
Interest expenses (note 7(a))	–	–	–	–	–	15,328	15,328
Capitalised borrowing costs (note 7(a))	–	–	–	–	–	581	581
Total other changes	(20,028)	61,200	–	–	–	41,439	82,611
At December 31, 2017	1,756,533	61,200	300,000	300,000	100,000	25,106	2,542,839

24 INTEREST-BEARING BORROWINGS

(a) The analysis of the carrying amount of interest-bearing borrowings of the Group is as follows:

	2018 RMB'000	2017 RMB'000
Current Interest-bearing borrowings		
Bank loans		
– Unsecured	**2,030,582**	1,756,533
Borrowings from joint ventures (note (i))	**76,790**	61,200
Borrowings from associates(note (ii))	**2,000**	–
Debentures (note (iii))	**–**	300,000
Borrowings from related party (note (iv))	**–**	100,000
	2,109,372	2,217,733
Non-current Interest-bearing borrowings		
Bonds (note (v))	**1,000,000**	300,000
Bank loans		
– Unsecured	**58,039**	–
	1,058,039	300,000
	3,167,411	2,517,733

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

Notes:

(i) The borrowings from joint ventures bear interest at 2.40% and 3.20% per annum, are unsecured and repayable in 2019.

(ii) The borrowings from associates bear interest at variable-rate between 0% and 8% per annum, are unsecured and repayable in 2019.

(iii) On September 15, 2017, the Company issued short-term debentures with an aggregate principal amount of RMB300 million with a term of 365 days (the maturity date being September 15, 2018), nominal value per unit of RMB100 and coupon rate of 4.84% per annum. The Company repaid all the short-term debentures in 2018.

(iv) On December 27, 2017, the Group entered into a receivables factoring agreement with Poly Financial Leasing Co.,Ltd. ("Poly Leasing") and transferred certain receivables to Poly Leasing. The Group retained substantially all risks and rewards of the transferred receivables, and accordingly, it continues to recognise the full carrying amounts of transferred receivables and the associated liabilities which were the borrowings from related party. As at December 31, 2017, the carrying amounts of the transferred receivables not derecognised and the borrowings from related party were RMB112,166,667 and RMB100,000,000 respectively. The term of borrowings from related party is 10 months, bearing interest at 6% per annum. The Group repaid all such borrowings to Poly Leasing in 2018.

(v) On September 7, 2018 and December 5, 2018, the Company issued corporate bonds with an aggregate principal amount of RMB400 million and RMB300 million with a term of three years, nominal value per unit of RMB100 and coupon rate of 4.92% and 4.70% per annum respectively.

24 INTEREST-BEARING BORROWINGS *(Continued)*

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

	2018 %	2017 %
Fixed-rate borrowings		
– Bank loans	**4.57 – 5.67**	3.92 – 4.79
– Borrowings from joint ventures	**2.40-3.20**	2.40 – 3.20
– Bonds	**4.70-4.92**	4.80
– Debentures	**–**	4.84
– Borrowings from related party	**–**	6.00
Variable-rate borrowings		
– Bank loans	**1-month HIBOR +1.75% – one-year benchmark lending rate with floating rate upwards by 25%**	3-month USD LIBOR+1.10% – one-year benchmark lending rate
– Borrowings from associates	**0%-8%**	–

(c) At December 31, 2018, the interest-bearing borrowings were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year or on demand	**2,109,372**	2,217,733
After 1 year but within 2 years	**358,039**	–
After 2 years but within 3 years	**700,000**	300,000
	3,167,411	2,517,733

25 TRADE AND OTHER PAYABLES

	December 31, 2018 RMB'000	January 1, 2018 RMB'000	December 31, 2017 RMB'000
Current			
Trade payables to			
– related parties	**75,827**	76,427	76,427
– third parties	**245,678**	219,499	219,499
	321,505	295,926	295,926
Interest payables			
– related parties	**8,497**	8,815	8,815
– third parties	**21,854**	16,291	16,291
Payables for staff related costs	**49,876**	37,351	37,351
Payables for other taxes and surcharges	**72,046**	63,797	41,723
Dividends payable	**307**	–	–
Other accruals and payables			
– related parties	**10,531**	7,178	7,178
– third parties	**1,114,854**	1,707,344	1,707,344
Financial liabilities measured at amortised cost	**1,599,470**	2,136,702	2,114,628
Receipts in advance			
– related parties	**20,000**	20,000	21,664
– third parties	**5,548**	8,351	560,921
	25,548	28,351	582,585
	1,625,018	2,165,053	2,697,213
Non-current			
Payable for purchase of equipment			
– related parties	**1,603**	2,693	2,693
– third parties	**42,372**	28,869	28,869
	43,975	31,562	31,562

As at December 31, 2018, all current trade and other payables of the Group are expected to be settled within one year or are repayable on demand.

26 SHARE-BASED PAYMENT ARRANGEMENTS

The Company's "H Share Appreciation Rights Incentive Plan and the Initial Grant" ("the Scheme") was approved by the 2018 first extraordinary general meeting of the Company on December 21, 2018. Pursuant to the Scheme, 4,926,320 units of SARs were granted to 77 employees of the Group at the exercise price of HK$9.82 per unit on December 21, 2018, with valid period of 10 years since granted. No shares will be issued under the Scheme. Upon exercise of the SARs, a recipient will receive an amount of cash equal to the difference between the market share price of the relevant H Share and the exercise price. Upon the satisfaction of certain performance conditions, the total numbers of SARs exercisable will not exceed 34%, 67% and 100%, respectively, of the total SARs granted to the respective eligible participants, since the first trading day after the second, third and fourth anniversary from the grant date. The exercise price, expected period, expected volatility of the share price, expected dividend yield, the risk free rate and market price are used as the key inputs into the model for the SARs with reference to the Scheme's provisions and the Company's H Share's historical trading information. The fair value of the liability for SARs as at December 31, 2018 was RMB149,000 (December 31, 2017: Nil).

27 CONTRACT LIABILITIES

	Note	**December 31, 2018 RMB'000**	January 1, 2018 RMB'000	December 31, 2017 RMB'000
Receipts in advance				
– Billings in advance of theatre and cinema performance	(ii)	**281,170**	279,630	–
– Bills in advance of art business	(ii)	**138,709**	158,953	–
Others		**77,569**	93,577	–
		497,448	532,160	–

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at January 1, 2018.

(ii) Upon the adoption of IFRS 15, amounts previously included as "Receipts in advance" under "Trade and other payables" (note 25) were reclassified to contract liabilities (see note 2(c)(ii)).

Contract liabilities primarily arises from relates to the considerations received from customers before the Group satisfying performance obligations. It would be recognised as revenue upon the rendering of services. The contract liability balance as at January 1, 2018 was mainly recognised as revenue during the year.

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2018 RMB'000	2017 RMB'000
Tax payable at January 1	**94,434**	56,209
Provision for the year (note 8(a))	**131,812**	148,476
Under-provision in respect of prior years (note 8(a))	**4,546**	297
Income tax paid	**(152,323)**	(110,548)
Tax payable at December 31	**78,469**	94,434

(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:	Credit loss: allowance RMB'000	Tax losses RMB'000	Accrued expense RMB'000	Others RMB'000	Exchange difference on translation of financial statements RMB'000	Right to use the brands RMB'000	Changes in fair value though profit or loss (Note) RMB'000	Total RMB'000
At January 1, 2017	1,768	9,914	407	7,816	191	–	–	20,096
(Charged)/credited to profit or loss	(551)	3,629	(302)	11,972	–	373	–	15,121
Charged to reserves	–	–	–	–	(723)	–	–	(723)
Business combination	–	–	–	–	–	(7,194)	–	(7,194)
At December 31, 2017	1,217	13,543	105	19,788	(532)	(6,821)	–	27,300
Impact on initial application of IFRS 9	–	–	–	–	–	–	(7,746)	(7,746)
At January 1, 2018	1,217	13,543	105	19,788	(532)	(6,821)	(7,746)	19,554
Credited/(charged) to profit or loss	117	(2,616)	173	2,389	–	1,110	(4,137)	(2,964)
Charged to reserves	–	–	–	–	785	–	–	785
At December 31, 2018	1,334	10,927	278	22,177	253	(5,711)	(11,883)	17,375

Note: Upon the initial application of IFRS 9, the Group has recognised deferred tax liabilities on the changes in fair value though profit or loss under the ECL model (see note 2(c)(i)).

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

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

(ii) Reconciliation to the statement of consolidated financial position

	2018	2017
	RMB'000	RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**34,969**	34,121
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(17,594)**	(6,821)
	17,375	27,300

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(u), the Group has not recognised deferred tax assets in respect of unused tax losses of RMB235,155,000 as at December 31, 2018 (2017: RMB149,706,000), 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, 2018, the unused tax losses of RMB8,856,000, RMB46,822,000, RMB24,409,000, RMB32,860,000 and RMB122,208,000 will expire at the end of the year 2019, 2020, 2021, 2022 and 2023, respectively.

29 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, 2017		246,316	1,982,448	126,639	841,062	3,196,465
Changes in equity for 2017:						
Total comprehensive income for the year		–	–	–	10,680	10,680
Appropriation of reserve		–	–	1,068	(1,068)	–
Dividends approved in respect of the previous year	29 (b)	–	–	–	(67,491)	(67,491)
Balance at December 31, 2017 (note)		246,316	1,982,448	127,707	783,183	3,139,654
Impact on initial application of IFRS 9		–	–	–	23,235	23,235
Balance at January 1, 2018		246,316	1,982,448	127,707	806,418	3,162,889
Changes in equity for 2018:						
Total comprehensive income for the year		–	–	–	306,543	306,543
Appropriation of reserve		–	–	30,654	(30,654)	–
Dividends approved in respect of the previous year	29 (b)	–	–	–	(50,987)	(50,987)
Balance at December 31, 2018		246,316	1,982,448	158,361	1,031,320	3,418,445

Note: The Group, including the Company, has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

29 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

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

	2018 RMB'000	2017 RMB'000
Final dividend proposed after the end of the reporting period of RMB0.172 per ordinary share (2017: RMB0.207 per ordinary share)	**42,366**	50,987

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:

	2018 RMB'000	2017 RMB'000
Dividend in respect of the previous financial year, approved and paid during the year, of RMB0.207 per ordinary share (2017: RMB0.274 per ordinary share)	**50,987**	67,491

(c) Share capital

Issued share capital

	2018 No, of shares '000	2018 RMB'000	2017 No, of shares '000	2017 RMB'000
Ordinary shares, issued and fully paid:				
At January 1/ December 31	**246,316**	**246,316**	246,316	246,316

(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.

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(iii) PRC statutory reserve

The subsidiaries in the PRC are required to appropriate 10% of its after-tax profit to the general reserve fund as determined in accordance with the PRC accounting rules and regulations. 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(x).

(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 29(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.

(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, 2018 was 52.12% (2017: 52.77%).

There were no changes in the Group's approach to capital management during the years ended December 31, 2018 and 2017. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30 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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables, consignor advances, prepayments for auctioned works of art and loans granted under financing arrangements. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions for which the Group considers to have low credit risk. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Except for the financial guarantees given by the Company as set out in note 32(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 32(a).

(i) Trade receivables

Trade receivables mainly contains trade receivables from performance and theatre management, cinema investment and management and art business and auction.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 6% (2017: 11%) and 19% (2017: 26%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. 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. Trade receivables are generally due within 0-60 days from the date of billing. Normally, for trade receivables from performance and theatre management and cinema investment and management, the Group does not obtain collateral from customers. For trade receivables from art business and auction, the Group obtains collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix according to different segments.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(i) Trade receivables *(Continued)*

(a) The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables from performance and theatre management and cinema investment and management as at December 31, 2018:

	Expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Less than 1 year	0.4%-1%	68,092	(2,435)
1-2 years	8%-20%	6,271	(1,243)
2-3 years	14%-40%	916	(365)
3-4 years	30%-78%	204	(63)
4-5 years	61%-92%	225	(140)
More than 5 years	85%-99%	737	(641)
		76,445	(4,887)

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

(b) For trade receivables from art business and auction, normally, the Group obtains collateral from customers. The Group considers that the credit risk arising from these receivables is significantly mitigated by the value of art works held as collateral. The fair value of the art works was approached by using market comparison approach by reference to recent auction price of similar art works.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(i) Trade receivables *(Continued)*

Comparative information under IAS 39

Prior to January 1, 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(l)(i) – policy applicable prior to January 1, 2018). At December 31, 2017, trade receivables of RMB72,674,000 were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	78,808
1 to 3 months past due	7,008
3 to 12 months past due	–
More than 12 months past due	29,459
Amounts past due	36,467
	115,275

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.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 RMB'000	2017 RMB'000
Balance at December 31, 2017 under IAS 39	**4,220**	
Impact on initial application of IFRS 9 (note 2(c)(i))	**–**	
Balance at January 1	**4,220**	6,411
Impairment loss recognised	**1,825**	1,790
Impairment losses due to changes in exchange rate	**1**	–
Business combination	**–**	43
Reversal of impairment loss	**(1,159)**	(4,024)
At December 31	**4,887**	4,220

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(ii) Credit risk arising from prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements

Prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements (collectively "the receivables" hereinafter) are fully secured by works of art which are held by the Group as collateral. The maximum exposure to credit risk in respect of the receivables at the end of the reporting period, without taking into account the collateral, are disclosed in note 18, 21 and 22. The Group considers that the credit risk arising from the receivables is significantly mitigated by works of art held as collateral, with reference to the estimated market value of works of art at December 31, 2018 and December 31, 2017.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables, prepayments for auctioned works of art, consignor advances, deposits, and loans granted under financing arrangements are set out in notes 18, 20, 21 and 22, 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.

30 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:

	2018 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 24)	**2,067,782**	**61,061**	**-**	**-**	**2,128,843**	**2,088,621**
Borrowings from joint ventures (note 24)	**78,086**	**-**	**-**	**-**	**78,086**	**76,790**
Borrowings from associates (note 24)	**2,075**	**-**	**-**	**-**	**2,075**	**2,000**
Bonds (note 24)	**-**	**317,319**	**794,135**	**-**	**1,111,454**	**1,000,000**
Trade and other payables measured at amortised costs (note 25)	**1,599,470**	**17,789**	**26,186**	**-**	**1,643,445**	**1,643,445**
	3,747,413	**396,169**	**820,321**	**-**	**4,963,903**	**4,810,856**

	2017 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 24)	1,781,430	–	–	–	1,781,430	1,756,533
Borrowings from joint ventures (note 24)	62,275	–	–	–	62,275	61,200
Bonds (note 24)	–	–	343,200	–	343,200	300,000
Debentures (note 24)	310,263	–	–	–	310,263	300,000
Borrowings from related party (note 24)	105,934	–	–	–	105,934	100,000
Trade and other payables measured at amortised costs (note 25)	2,114,628	12,672	18,890	–	2,146,190	2,146,190
	4,374,530	12,672	362,090	–	4,749,292	4,663,923

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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 24.

Group

	2018 **RMB'000**	2017 RMB'000
Floating rate financial assets:		
Other financial assets	**174,172**	313,129
Fixed rate borrowings:		
Bank loans	**(1,048,000)**	(688,000)
Borrowings from joint ventures	**(76,790)**	(61,200)
Bonds	**(1,000,000)**	(300,000)
Debentures	**–**	(300,000)
Borrowings from related party	**–**	(100,000)
Floating rate borrowings:		
Bank loans	**(1,040,621)**	(1,068,533)
Borrowings from associates	**(2,000)**	–
Total borrowings	**(3,167,411)**	(2,517,733)
Net borrowings	**(2,993,239)**	(2,204,604)
Fixed rate borrowings as a percentage of total borrowings	**67.08%**	57.56%

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At December 31, 2018, 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 RMB6,954,000 (2017: RMB5,936,000). 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"), Hong Kong dollars ("HKD") and Canada Dollars ("CAD").

(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.

(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.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(ii) Exposure to currency risk (Continued)

Group

	Exposure to foreign currencies (expressed in RMB)	
	2018	2017
	RMB'000	RMB'000
Other financial assets		
– in USD	**246,200**	337,818
Cash and cash equivalents		
– in USD	**34,230**	16,915
– in HKD	**8,541**	5,997
– in CAD	**650**	412
Trade and other receivables		
– in USD	**487**	–
– in HKD	**191,453**	87,747
– in CAD	**353**	1,654
Trade and other payables		
– in HKD	**(241,244)**	(36,157)
– in USD	**(17,707)**	(1,307)
– in CAD	**–**	(35,002)
Bank loans		
– in USD	**(61,769)**	(297,306)
Net exposure	**161,194**	80,771

(iii) Sensitivity analysis

Group

	2018	2017
	RMB'000	RMB'000
HKD	**(1,403)**	2,160
USD	**7,451**	2,088
CAD	**40**	(1,233)

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(iii) Sensitivity analysis (Continued)

A 5% weakening of RMB against the above currency as at December 31, 2018 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 2017.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs

The fair value of unlisted equity instruments is determined based on our share of the fair value of the individual asset and liability of the investee, which are mainly monetary assets and monetary liabilities.

During the years ended December 31, 2017 and 2018, all unlisted equity securities are belong to Level 3, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

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

The carrying amounts of the Group's financial assets and liabilities carried at amortised cost were not materially different from their fair values as at December 31, 2017 and 2018.

31 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, 2018 not provided for in the financial statements were as follows:

Group

	2018 **RMB'000**	2017 RMB'000
Contracted for	**59,226**	120,401
Authorised but not contracted for	**805,875**	938,933
	865,101	1,059,334

(b) At December 31, 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Group

	2018 **RMB'000**	2017 RMB'000
Within 1 year	**200,654**	181,358
After 1 year but within 5 years	**613,715**	497,247
After 5 years	**993,610**	898,711
	1,807,979	1,577,316

The Group leases certain buildings through non-cancellable operating leases. Typically, leases are negotiated and rentals are fixed for lease term.

32 CONTINGENT ASSETS AND LIABILITIES

(a) Financial guarantees issued

As at the end of the reporting period, the Company issued financial guarantees to banks and other financial institutions in respect of the Interest-bearing borrowings granted to the Company's subsidiaries as follows:

Company

	2018 RMB'000	2017 RMB'000
Financial guarantees to banks and other financial institutions for subsidiaries	**1,818,621**	1,723,222

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

(b) Contingent liabilities

As an investment consultant of artwork trust plan for certain subsidiaries, the Group is obliged to fund the difference if the expected proceeds from the sale of trust 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

	2018 RMB'000	2017 RMB'000
Trust related	**154,000**	328,108

(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, 2018. After consulting the legal professional advice, the Group's management believes that such litigation will not have a significant financial impact on the Group.

33 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, 2018 and 2017:

(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:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	**10,356**	8,947
Post-employment benefits	**650**	786
	11,006	9,733

Total remuneration was included in "staff costs" (see note 7(b)).

33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Name and relationship with related parties

During the years ended December 31, 2018 and 2017, 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 (note (i)) 中國保利集團公司附屬公司	Under common control
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
Cixi Poly Jinchen Culture development Co., Ltd. ("Cixi Poly") 慈溪保利錦辰文化發展有限公司	Associate of the Group
Poly Culture Industry Investment Fund Co., Ltd. ("Poly Investment Fund") 保利文化產業基金管理有限公司	Associate of the Group
Beijing Eastern Poly Culture and Art Corporation Limited ("Eastern Poly") 北京東方保利文化藝術有限公司	Joint venture of the Group
Beijing Xijie XingX International Cinema Corporation Limited ("Joint ventures") 北京希傑星星國際影城有限公司	Joint venture of the Group
Xijie XingX (Tianjin) International Cinema Corporation Limited ("Joint ventures") 希傑星星 (天津) 國際影城有限公司	Joint venture of the Group
Xijie XingX (Fushun) Cinema Corporation Limited ("Joint ventures") 希傑星星 (撫順) 影城有限公司	Joint venture of the Group
Xijie XingX (Shanghai) Cinema Corporation Limited ("Joint ventures") 希傑星星 (上海) 影城有限公司	Joint venture of the Group
Zhongshan Xijie XingX Cinema Corporation Limited "Joint ventures") 中山希傑星星影城有限公司	Joint venture of the Group
Wuhan Xijie XingX Tiandi Cinema Corporation Limited ("Joint ventures") 武漢希傑星星天地影城有限公司	Joint venture of the Group

33 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:

	2018 RMB'000	2017 RMB'000
Sales to		
Poly Group and its affiliates	**5,276**	5,595
Service provided to		
Poly Group and its affiliates	**5,708**	930
Receiving Service from (note (iii))		
Poly Group and its affiliates	**256,890**	223,632
Receiving Service from		
Associates	**469**	–
Rental from		
Poly Group and its affiliates	**31,402**	29,581
Rental from		
Eastern Poly	**333**	–
Interest income from		
Poly Group and its affiliates	**3,656**	4,481
Interest income from		
Eastern Poly	**485**	–
Property management services (note (iv))		
Poly Group and its affiliates	**4,905**	8,378
Borrowing from (note (v))		
Poly Group and its affiliates	**150,000**	250,000
Borrowings from		
Poly Investment Fund	**20,000**	–

33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Significant transactions with related parties *(Continued)*

	2018 RMB'000	2017 RMB'000
Borrowings from (note (vi))		
Joint ventures	**15,590**	61,200
Borrowing costs to		
Poly Group and its affiliates	**11,273**	3,925
Borrowing costs to		
Joint ventures	**2,002**	1,434
Borrowing costs to		
Poly Investment Fund	**82**	–
Borrowing costs to		
Shengjing Poly	**–**	218
Repayment of loans		
Poly Group and its affiliates	**250,000**	–
Repayment of loans (note (vii))		
Poly Investment Fund	**18,000**	–
Repayment of loans		
Shengjing Poly	**–**	7,000
Loans to		
Joint ventures	**41,247**	–
Loans to (note (viii))		
Eastern Poly	**3,000**	7,000
Interest expenses(note (ix))		
Poly Group and its affiliates	**97**	37

33 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) Property management services are for the purpose of office premises, cinema operation, theatre operation, auction business operation and ancillary service.

(v) Borrowings from Poly Group and its affiliates refers to the loans, which was recognised in interest-bearing borrowings, of RMB150 million from Poly Finance.

(vi) Borrowings from Joint ventures refers to the loans, which was recognised in interest-bearing borrowings.

(vii) Repayment of loans to Poly Investment Fund refers to the entrusted loan, which was recognised in trade and other payables.

(viii) Loans to Eastern Poly refers to the entrusted loan, which was recognised in current other financial assets.

(ix) Interest expenses refers to the finance lease interests which is paid by Poly Film to Poly Financial Leasing Corporation Limited.

33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Outstanding balances, including commitment, with related parties

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

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents (note)		
Poly Group and its affiliates	**329,622**	73,962
Deposits with original maturities over three months (note)		
Poly Group and its affiliates	**51,584**	56,108
Trade receivables (note 20)		
Poly Group and its affiliates	**3,088**	2,949
Deposits, prepayments and other receivables		
Poly Group and its affiliates	**49,765**	50,009
Deposits, prepayments and other receivables		
Joint ventures	**3,821**	–
Deposits, prepayments and other receivables		
Associates	**380**	–
Loans to		
Joint ventures	**12,000**	9,000
Loans to		
Associates	**41,247**	–
Trade and other payables		
Poly Group and its affiliates	**96,158**	116,777
Trade and other payables		
Associates	**20,300**	–
Contract liabilities		
Poly Group and its affiliates	**730**	–
Interest-bearing borrowings		
Poly Group and its affiliates	**150,000**	250,000
Interest-bearing borrowings (note 24(a))		
Joint ventures	**76,790**	61,200
Interest-bearing borrowings (note 24(a))		
Associates	**2,000**	–

33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Outstanding balances, including commitment, with related parties *(Continued)*

Note:

The Board announces that on June 28, 2018, 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 RMB0.9 billion and the maximum daily lending balance for credit lending services is RMB0.6 billion. The interest rates of Poly Finance are ranged from 1.035% to 4.06% according to the period of bank deposits.

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of note 33(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.

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2018

(Expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		**1,798**	1,974
Investments in subsidiaries	15	**940,220**	885,220
Interest in associates		**126,423**	15,352
Interest in joint ventures		**26,163**	26,244
Other financial assets		**157,412**	109,883
		1,252,016	1,038,673
Current assets			
Trade receivables		**6,926**	3,587
Deposits, prepayments and other receivables		**2,927,687**	2,706,510
Other financial assets		**41,247**	–
Current tax assets		**–**	4,141
Restricted cash		**–**	–
Cash and cash equivalents		**393,926**	57,702
		3,369,786	2,771,940
Current liabilities			
Interest-bearing borrowings		**100,000**	300,000
Trade and other payables		**84,188**	70,959
Contract Liabilities		**–**	–
Current taxation		**7,287**	–
		191,475	370,959

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2018 *(Continued)*

(Expressed in RMB)

	Note	**2018**	2017
		RMB'000	RMB'000
Net current assets		**3,178,311**	2,400,981
Total assets less current liabilities		**4,430,327**	3,439,654
Non-current liabilities			
Deferred tax liabilities		**11,882**	–
Deferred revenue		**–**	–
Interest-bearing borrowings		**1,000,000**	300,000
		1,011,882	300,000
NET ASSETS		**3,418,445**	3,139,654
CAPITAL AND RESERVES	29		
Share capital		**246,316**	246,316
Reserves		**3,172,129**	2,893,338
TOTAL EQUITY		**3,418,445**	3,139,654

Approved and authorised for issue by the board of directors on March 22, 2019.

Jiang Yingchun
Director

Liu Shibin
Authorised non-director

(Expressed in RMB unless otherwise indicated)

35 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 29(b)(i).

On March 22, 2019, the Company and Digital Domain Holdings Limited ("Digital Domain") entered into the Shares Subscription Agreement, pursuant to which the Company has conditionally agreed to subscribe for 5,323,600,000 shares of Digital Domain at the Subscription Price of HK$0.104 per Subscription Share. Upon the completion of the Subscription, the Company will directly hold 16.61% of the total number of enlarged issued shares of Digital Domain.

36 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

37 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At December 31, 2018, 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.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	January 1, 2019
IFRIC 23, *Uncertainty over income tax treatments*	January 1, 2019
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IAS 28, *Long-term interest in associates and joint ventures*	January 1, 2019

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018 *(Continued)*

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending June 30, 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

IFRS 16, Leases

As disclosed in note 2(k), 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 enters into some leases as the lessor and others 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 recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise 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 recognising 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 recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment 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.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018 *(Continued)*

IFRS 16, Leases *(Continued)*

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019 and will not restate the comparative information. As disclosed in note 31(b), at December 31, 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB1,807,979,000, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of IFRS 16, certain of the lease commitments will be recognised as the opening balances of lease liabilities and the corresponding right-of-use assets as at January 1, 2019, after taking account the effects of discounting.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

“Art Education Company“	Poly Art Education Investment Company Limited
“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
“Hong Kong 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 15, 2019, being the latest practicable date for the inclusion of certain information in this report prior to its publication
"Listing Date"	March 6, 2014
"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
"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 Co., Ltd. (廣東保利拍賣有限公司)
"Poly Auction Hong Kong"	Poly Auction Hong Kong Co., Ltd. (保利香港拍賣有限公司)
"Poly Film"	Poly Film Investment Co., Ltd. (保利影業投資有限公司)
"Poly Leasing"	Poly Financial Leasing Company Limited (保利融資租賃有限公司)
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)

"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 Investment"	Poly Investment Holdings Company Limited (保利投資控股有限公司) a limited liability company incorporated in the PRC on August 13, 2013
"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 Development"	Poly Developments and Holdings Group Co., Ltd.
"Poly Ronghe"	Poly Ronghe Financial Leasing Company (保利融禾融資租賃有限公司), a non wholly-owned subsidiary of the Company, with 80% of its equity interest held by the Company and its associates and 20% of its equity interest held by an independent third party
"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
"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, 2018 to December 31, 2018

Definitions

"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 the Domestic Shares and the H Shares
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary(ies)"	has the meaning as defined in Section 2 of the Companies Ordinance
"Supervisor(s)"	supervisor(s) of the Company
"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

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