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

2019

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

District A, 25/F, 1 North Street of Chaoyangmen,
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

AUTHORIZED REPRESENTATIVE

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

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

JOINT COMPANY SECRETARIES

Ms. Wang Wei
Ms. Leung Suet Lun

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
Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance
8th Floor, Prince's Building, 10 Chater Road, Central,
Hong Kong

LEGAL ADVISORS

as to Hong Kong law

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

as to PRC law

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

PRINCIPAL BANKS

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

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

H SHARE REGISTRAR

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

STOCK CODE

03636

INVESTOR ENQUIRIES

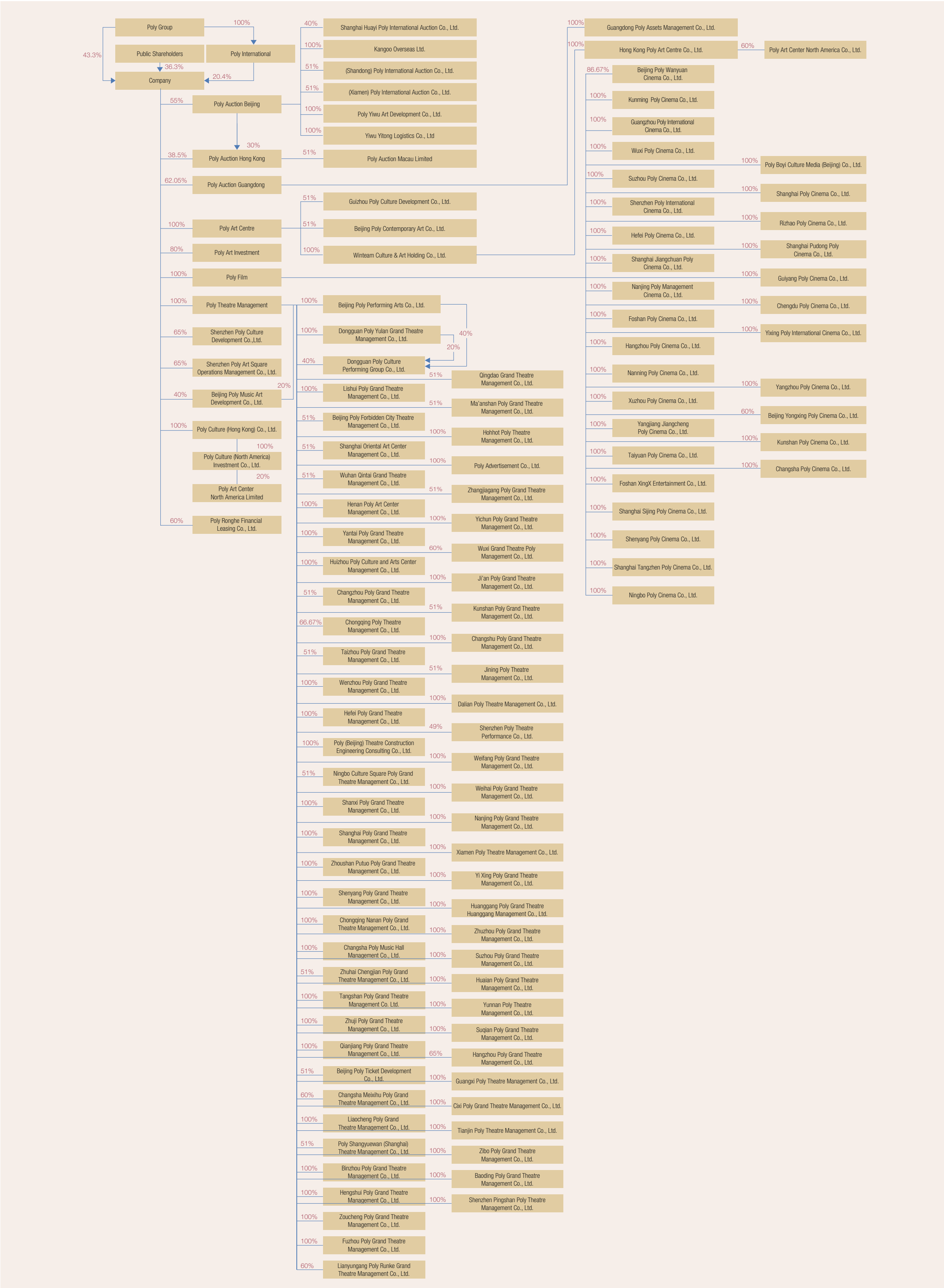
Investors' Service Line: +86 10 6408 2711
Fax: +86 10 6408 2662
Website: www.polyculture.com.cn
E-mail: IR@polyculture.com.cn

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	**3,845,673**	3,713,785	3,480,415	2,682,301	2,504,965
Profit from operations	**249,760**	429,842	484,331	483,846	388,899
Profit before taxation	**236,895**	507,605	537,574	550,111	450,306
Income tax	**(108,947)**	(139,322)	(133,652)	(125,675)	(117,740)
Profit for the year	**127,948**	368,283	403,922	424,436	332,566
Profit attributable to:					
Equity shareholders of the Company	**49,719**	241,992	256,171	310,607	237,790
Non-controlling interests	**78,229**	126,291	147,751	113,829	94,776
Earnings per share					
Basic and diluted earnings per share (RMB)	**0.2**	0.98	1.04	1.26	0.97
Total comprehensive income for the year	**122,984**	89,941	381,750	444,780	342,537
Total comprehensive income attributable to:					
Equity shareholders of the Company	**40,757**	257,496	244,049	323,531	242,211
Non-controlling interests	**82,227**	132,445	137,701	121,249	100,326
Total non-current assets	**3,161,856**	2,535,580	2,350,158	1,226,332	718,626
Total current assets	**10,429,806**	7,910,528	7,793,433	5,723,069	4,998,375
Total assets	**13,591,662**	10,446,108	10,143,591	6,949,401	5,717,001
Total current liabilities	**6,813,058**	4,310,307	5,009,380	2,280,499	1,585,904
Total non-current liabilities	**1,858,626**	1,133,940	342,714	215,041	92,274
Total liabilities	**8,671,684**	5,444,247	5,352,094	2,495,540	1,678,178
Net assets	**4,919,978**	5,001,861	4,791,497	4,453,861	4,038,823
Total equity attributable to the equity shareholders of the Company	**4,245,635**	4,318,448	4,088,704	3,911,944	3,653,440
Non-controlling interests	**674,343**	683,413	702,793	541,917	385,383
TOTAL EQUITY	**4,919,978**	5,001,861	4,791,497	4,453,861	4,038,823

The financial information of the Group for the years ended December 31, 2015, 2016, 2017 and 2018 was extracted from 2015, 2016, 2017 and 2018 annual reports published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.polyculture.com.cn) on April 28, 2016, April 28, 2017, April 27, 2018 and April 29, 2019, respectively. The financial information of the Group for the year ended December 31, 2019 was set forth on pages 82 to 189 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 April 2019, Poly Auction Beijing won the awards of "2019 Brand Influence Auction Company of the Year"; the "More Sublime When Looking Up: Chinese Classical Paintings & Calligraphy Evening Sale" won "2019 Special Auction of the Year for Brand Value"; and Jiang Yingchun, General Manager of Poly Culture and Chairman of Poly Auction Beijing, won "Men of Auction of the Year" at the 2019 Art World Summit • Awarding Ceremony of the Fourth Artwork Market Value Chart (2019藝勢峰會暨第四屆藝術市場價值榜) jointly held by Beijing Business and Beijing Association of Auctioneers.

In May 2019, Poly Culture was included in the 11th "Top 30 Culture Enterprises" in China jointly organized by Guang Ming Daily and Economic Daily.

In July 2019, Poly WeDo Music Children's Chorus (保利童聲合唱團) won the Grant Championship, Gold Award, and the Organizing Committee Trophy at the 7th Singapore International Chinese Choral Festival.

In September 2019, Poly Auction Beijing won four awards in the fourth "Qinghua Award" organized by the China Association of Auctioneers, including "Top Ten Enterprises of the Year", "Best Tax Creation of the Year", "Best Profitability of the Year" and "Largest Scale of the Year".

In December 2019, Poly Theatre Management took over Qidong Grand Theatre (啟東大劇院). At this point, the Poly Theatre directly managed 68 theatres in 60 cities of 21 provinces, autonomous regions and municipalities, with over 130 auditoriums housing more than 130,000 seats.

In December 2019, Poly Auction Beijing successfully organized the "Poly Beijing 2019 Autumn Art Auction", achieving a turnover of RMB3.356 billion. At this point, Poly Auction's total turnover for 2019 was RMB8.6 billion worldwide, continuing to lead the global Chinese artwork auction market. An imperial tailoring magnificent globular vase with blue underglaze and red dragon in sea of clouds from Yongzheng Period of Qing Dynasty (清雍正御製青花釉裡紅雲海騰龍大天球瓶) was sold for RMB147.2 million, breaking the record for auction price of global porcelain auctions in the Spring of 2019.






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, 2019 (the "2019 Year") of Poly Culture Group Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group").

International and domestic situation remained complicated in 2019. Unilateralism and trade protectionism were intensified and the trade negotiation between China and the US experienced ups and downs. Domestically, GDP growth lowered to 6.1%, market demands were sluggish and the overall growth momentum of the cultural industry slowed down. Faced with the "New Normal" of macro-economy and cultural industry development, the Group improved mechanism and enhanced management to lay a solid foundation for future development; meanwhile, it focused on main businesses, sought innovation and made satisfactory progress in new businesses such as cultural tourism. It was again included in the "Top 30 Culture Enterprises in China".

The outbreak of COVID-19 in the beginning of 2020 brought about more uncertainties to the operating environment of the Group. The Group has resolutely executed the deployment and requirements of the state in fighting against the epidemic, closely monitored the epidemic trend and strictly implemented epidemic prevention and control measures. Meanwhile, we will come up with innovative ideas, start on-line resumption of work and production to lay a solid foundation for subsequent resumption of work. We are confident of the victory against the difficulties and expect a bright future.

2020 is the decisive year for building a moderately well-off society in an all-round way and the closing year for the "13th Five-Year Plan". It also marks the 20th anniversary of Poly Culture. We will ride the historical cycle and make great strides forward by judicially evaluating the situation while effectively controlling risks, making unremitting efforts to expand, strengthen, and improve Poly Culture.

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

In 2019, under the leadership of the Board, Poly Culture operated its businesses prudently. Centring on the key annual tasks, it laid a solid foundation for future development by enhancing systems and improving management. In addition to developing the principal businesses, the Company endeavored to innovate, achieving desirable growth for cultural tourism and other new businesses, and was once again named "Top 30 Cultural Enterprises of China".

I. SEGMENT BUSINESS INFORMATION

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

Art business and auction business

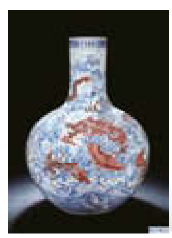
Against the market pressure, Poly Culture strengthened its artwork collection and marketing efforts, adjusted the structure of auctioned items, and united internal forces and worked with partners to achieve an auction turnover of RMB8.6 billion in total for the year 2019, continuing to lead the global auction market of Chinese artworks.

"The Iris and Orchid House" (《芝蘭室圖》) by Wang Meng
2019 Poly Autumn Auction, Auction price: RMB146,050,000

Poly Auction Beijing strengthened management internally and enhanced brand externally. Its spring and autumn auction turnovers increased over the same period of last year. In particular, the turnover of antiques and works of art hit record high twice for the sector. Five works, including an imperial tailoring magnificent globular vase with blue underglaze and red dragon in sea of clouds from Yongzheng Period of Qing Dynasty (清雍正御製青花釉裡紅雲海騰龍大天球瓶) and a painting work named "Numerous Mountains and Rivers (《萬水千山》)" by Li Keran, were sold for more than RMB100 million.

"Universal Spring" (《萬有同春》)
by Dong Gao
2019 Poly Autumn Auction,
Auction price: RMB58,075,000

"Numerous Mountains and Rivers" (《萬水千山》)
by Li Keran
2019 Poly Autumn Auction,
Auction price: RMB207,000,000



An imperial tailoring magnificent globular vase with blue underglaze and red dragon in sea of clouds from Yongzheng Period of Qing Dynasty (清雍正御製青花釉裡紅雲海騰龍大天球瓶) 2019 Poly Spring Auction, Auction price: RMB147,200,000

"Jade Memory – Exhibition of Art Treasures from the Qing Dynasty" (萃錦囊懷—清代藝術珍寶展)

Poly Art Centre persevered with culture and art promotion, organizing 13 major exhibitions and 4 art classes in 2019. "Zhang Daqian's 120th Anniversary Exhibition (張大千誕辰一百二十周年紀念展)", the "Jade Memory – Exhibition of Art Treasures from the Qing Dynasty (萃錦囊懷—清代藝術珍寶展)" jointly organized with Prince Gong Mansion, and the "Fourth Poly Stellaroemia Modern Art Exhibition" tour drew wide attention.

Performance and theatre management business

Poly Theatre Management newly took over 7 theatres in 2019, 6 of which completed their opening premieres. The theatre line business of Poly Theatre covered 60 cities in 21 provinces, autonomous regions and municipalities across China, operates and manages 68 first-rate theatres in China, and completed 10,000 performances throughout the year. In 2019, Poly Theatre Management introduced world famous shows such as "An American in Paris (《一個美國人在巴黎》)" and "Matilda (《瑪蒂爾達》)"; jointly produced the play "Faust (《浮士德》)", created the original magic show "Sky Wheel – The Origin (《摩天輪·起源》)", and jointly created the original musical "The Heads of the Twelve Chinese Zodiac Statues (《十二生肖之獸首傳奇》)" with Poly Art Museum; and partnered Hunan TV to create the nationwide tour of "Super Vocal (《聲入人心》)" concert, reaping social and economic benefits at the same time. The original drama "Duan Jin (《斷金》)" toured in Australia and Canada and received widespread acclaims. For the "Poly Ticketing Marketing System", the WeChat ticketing service and mobile APP were launched to achieve synchronous management of the theatre end and the audience end.


"Duan Jin"(《斷金》)


"Super Vocal"(《聲入人心》)

"Faust"(《浮士德》)

Cinema investment management business

Poly Film vigorously reduced cost and improved efficiency, and comprehensively strengthened investment management and control, thereby effectively reducing operating risks. In 2019, Poly Film opened 2 directly-operated cinemas, increasing the number of its directly-operated cinemas to 73. Its box office income amounted to RMB820 million, representing a year-on-year increase of 1.7%.

2. New businesses progressed continuously with accelerated implementation and layout

the Eighth Aiqin Cup (愛琴杯) & the Third International Violoncello Competition in 2019

In terms of art education, the art education centres of Poly Art Education Investment Company Limited ("Art Education Company") in Zhuhai Grand Theatre and Changsha Meixihu Poly Grand Theatre operated well. The first campus of "Poly-RAD School of Dance" was opened in Shanghai Shipyard 1862 Grand Theatre. Poly WeDo continued to improve its education system, with a focus on enhancing the operation of existing campuses and boosting brand reputation. It hosted the Eighth Aiqin Cup (愛琴杯) & the Third International Violoncello Competition in 2019. The Children's Chorus won the grand championship in the Seventh Singapore International Chinese Choral Competition.

In terms of cultural finance, Poly Art Investment took aggressive actions in 2019 by launching 6 funds. Poly Ronghe developed rapidly and continued to provide strong support for the auction business.

In terms of cultural tourism, Poly Culture joined forces with Digital Domain and other companies to create immersive premium night tour projects, as a focal point for achieving breakthroughs. In 2019, it launched events such as the "Lantern Festival Night at Forbidden City (紫禁城上元之夜)", the "Chengdu Music Grand Show · Chengdu Art Music Festival (成都音樂盛典 · 成都ART音樂節)" and "Dreamland of Ice and Fire – Light and Shadow Show at Shougang Tower (冰火鑄夢—首鋼高塔光影秀)", arousing strong reaction of the public.

In terms of cultural assets operation, the synergy between culture and real estate achieved desirable results. Zhengzhou and Cixi Projects progressed steadily.

"Dreamland of Ice and Fire – Light and Shadow Show at Shougang Tower" (冰火鑄夢—首鋼高塔光影秀)

II. RESULTS ANALYSIS AND DISCUSSION

Revenue

Total revenue increased by 3.6% from RMB3,713.8 million for the year ended December 31, 2018 to RMB3,845.7 million for the year ended December 31, 2019, primarily due to the expansion of theatre networks.

The respective segment revenue of the Group in 2019 and 2018 is as follows:

	Years ended December 31,		
	2019	2018	
	RMB in millions	*RMB in millions*	*% of change*
Art Business and Auction	**986.0**	1,158.0	(14.9)
Performance and Theatre Management	**1,989.4**	1,657.5	20.0
Cinema Investment and Management	**836.4**	876.6	(4.6)

Gross profit

Gross profit increased by 1.8% from RMB1,295.3 million for the year ended December 31, 2018 to RMB1,319.2 million for the year ended December 31, 2019. Gross profit margin decreased from 34.9% for the year ended December 31, 2018 to 34.3% for the year ended December 31, 2019.

Other net income

Other net income (mainly including government grants) decreased from RMB64.9 million for the year ended December 31, 2018 to RMB61.4 million for the year ended December 31, 2019.

Selling and distribution expenses

Selling and distribution expenses increased by 10.1% from RMB414.3 million for the year ended December 31, 2018 to RMB456.2 million for the year ended December 31, 2019, 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 theatres we managed.

Administrative expenses

Administrative expenses increased by 31.1% from RMB532.6 million for the year ended December 31, 2018 to RMB698.2 million for the year ended December 31, 2019, 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 the increase in the number of theatres we managed; and (ii) the increase in impairment losses on non-current assets.

Reportable segment profit

As a result of the foregoing, reportable segment profit decreased by 5.2% from RMB622.0 million for the year ended December 31, 2018 to RMB589.4 million for the year ended December 31, 2019.

The respective reportable segment profit of the Group in 2019 and 2018 is as follows:

	Years ended December 31,		
	2019	2018	
	RMB in millions	*RMB in millions*	*% of change*
Art Business and Auction	**310.6**	388.1	(20.0)
Performance and Theatre Management	**78.2**	60.2	29.9
Cinema Investment and Management	**200.6**	173.7	15.5

Finance income

Finance income increased by 49.9% from RMB60.1 million for the year ended December 31, 2018 to RMB90.1 million for the year ended December 31, 2019, mainly due to an increase in interest income from consignor advances.

Finance costs

Finance costs increased by 257.2% from RMB41.6 million for the year ended December 31, 2018 to RMB148.6 million for the year ended December 31, 2019, primarily due to (i) the increase in the average amount of bank loans and debentures; and (ii) the impact on initial application of IFRS 16.

Income tax

Income tax decreased by 21.8% from RMB139.3 million for the year ended December 31, 2018 to RMB108.9 million for the year ended December 31, 2019, primarily due to decrease in taxable income caused by the decrease in the profit.

Profit for the year

As a result of the foregoing, profit for the year decreased by 65.3% from RMB368.3 million for the year ended December 31, 2018 to RMB127.9 million for the year ended December 31, 2019, and net profit margin decreased from 9.9% for the year ended December 31, 2018 to 3.3% for the year ended December 31, 2019.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2019, the Group maintained a stable financial position and adequate liquidity. As at December 31, 2019, the Group's cash and cash equivalents amounted to RMB1,151.2 million (2018: RMB1,407.8 million), decreased by 18.2% as compared to that of December 31, 2018.

During the year ended December 31, 2019, the net cash used in operating activities amounted to RMB424.9 million, representing an increase of RMB100.9 million as compared with RMB324.0 million for the year ended December 31, 2018. The net cash used in investing activities amounted to RMB1,125.8 million, representing an increase of RMB727.8 million as compared with RMB398.0 million for the year ended December 31, 2018. The increase was primarily contributed to the granting of consignor advances and investment payment in Digital Domain Holdings Limited. The net cash inflow from financing activities of the Group was RMB1,296.0 million, which representing an increase of RMB885.5 million as compared with RMB410.5 million for the year ended December 31, 2018, which mainly arising from the increase of bank loans and issuance of debentures. The decrease in cash and cash equivalents was approximately RMB256.6 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 decreased by 17.8% from RMB820.1 million as at December 31, 2018 to RMB674.0 million as at December 31, 2019. The main reason of the decrease is that the property, plant and equipment classified as financing leases under IAS 17 at December 31, 2018 are recognized as right-of-use assets due to the application of IFRS 16 from January 1, 2019.

Current assets and current liabilities

Primarily due to the expansion of our art business and auction business, the current assets increased by 31.8% from RMB7,910.5 million as at December 31, 2018 to RMB10,429.8 million as at December 31, 2019. Current liabilities increased by 58.1% from RMB4,310.3 million as at December 31, 2018 to RMB6,813.1 million as at December 31, 2019. The increase of current liability is primarily due to the increase of interest-bearing borrowings.

Inventories

Our inventories increased by 6.9% from RMB2,101.1 million as at December 31, 2018 to RMB2,246.6 million as at December 31, 2019, primarily due to the increase in artwork collections.

Consignor advances

The consignor advances increased by 73.2% from RMB967.0 million as at December 31, 2018 to RMB1,674.5 million as at December 31, 2019, 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 51.9% from RMB1,354.3 million as at December 31, 2018 to RMB2,056.7 million as at December 31, 2019, primarily due to the increase in prepayments for auctioned artwork.

INDEBTEDNESS

As at December 31, 2019, we incurred interest-bearing borrowings of RMB4,842.4 million, which were mainly borrowed from reputable financial institutions and were unsecured. Bank loans increased from RMB2,088.6 million as at December 31, 2018 to RMB3,351.1 million as at December 31, 2019 due to the expansion of business operation. On September 25, 2019, the Group issued debentures with an aggregate principal amount of RMB200 million with a term of 270 days (the maturity date being June 21, 2020), nominal value per unit of RMB100 and coupon rate of 3.48% per annum.

Under artwork financing trust plans, we are obliged to fund the difference between the total expected monetary trust property and the aggregate amount of the principal of trust, expected return as agreed in the trust plan, applicable taxes and other incurred costs (exclusive of our expected incentive fees) if the borrower and its guarantor fail to repay such amounts. As at December 31, 2019, our maximum exposure amounted to RMB52.0 million.

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

CAPITAL EXPENDITURE

Our capital expenditures primarily comprised of the purchases of property, plant and equipment, intangible assets which amounted to RMB96.9 million and RMB152.1 million, respectively, for the years ended December 31, 2019 and 2018.

OTHER FINANCIAL INDICATORS

Our debt-to-equity ratio which is calculated by dividing the interest-bearing debts by total equity increased from 63.3% as at December 31, 2018 to 98.4% as at December 31, 2019, primarily due to an increase in the amount of bank loans.

EMPLOYEE REMUNERATION AND POLICY

As at December 31, 2019, the Group had 8,418 employees in total. The remuneration policy for our employees has been determined by our Remuneration and Assessment Committee of the Board taking into consideration the performance, experience and operational capacity of our employees. As at December 31, 2019, there has been no material change to our remuneration policy and training plans.

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)

In 2019, the international and domestic situations were complicated. Growth rates of major economies declined generally as unilateralism and protectionism aggravated. Uncertainties lingered as the China-US economic and trade negotiation jolted and stopped. China's GDP growth further slowed down amidst sluggish market demand. Profits of enterprises dropped. Downward pressure on the economy heightened. 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 recent years, China's GDP growth has continued to slow down. According to the "2019 Economic Blue Book" issued by the Chinese Academy of Social Sciences, GDP growth rate was 6.1% in 2019. The Central Economic Work Conference established the general development tone of "stabilising growth, promoting reform, adjusting structure, improving people's livelihood, preventing risks and maintaining stability". Poly Culture will ride the historical tide. While effectively controlling risks, we will evaluate the situation, work hard, and have the determination and confidence to grow bigger, stronger and better.

In 2020, Poly Culture will pool wisdom and learn from others. Aiming at "building a bigger, stronger and better Poly Culture", the Company will exploit the development potential of the three principal businesses and consolidate business advantages to achieve greater value. We will accelerate the pace of launching major cultural tourism projects, promote the development of innovative business through deep integration of culture and technology, and create a new growth point for the Company. We will strengthen business coordination to achieve synergy, and continuously improve the overall competitiveness of Poly Culture.

The art business and auction business will take the fifteenth anniversary of Beijing Auction as an opportunity to further implement the boutique strategy, remedy the shortcomings, enhance the brand, properly carry out collection of key auctioned items, and secure the leading position in the industry. Art Centre will accelerate inventory turnover and increase sales efforts; and organize and create high-quality art exhibitions to help promote the brand. Cultural and creative business will strengthen the synergy with cultural tourism and other business sectors and enhance creative design to create greater value.

Performance and theatre management business will properly carry out renewal of theatres; intensify efforts in introducing high-quality works and creating original works to create Poly special boutiques; properly carry out marketing and promotion and coordinated operation of boutique projects; explore new business and actively promote the improvement and upgrade of business structure of our theatre enterprises. The ticketing company will continuously optimize and upgrade the ticketing system, improve service quality and optimize customer experience to gradually increase the platform ticket sales rate.

Cinema investment management business will further optimize the organizational structure, standardize refined operations, strictly control costs, and create Poly boutique cinemas; leverage film and television funds to satisfactorily carry out key film and television projects and showcase distinctive features; give full play to the role of cinemas as traffic entrances and actively explore the opportunity to jointly created comprehensive film and cultural complex with cultural and creative business, Digital Domain and other businesses to explore the integration of technology and entertainment.

Art education and cultural and creative centre will properly carry out the coordination with Art Education Company; Poly WeDo will continue to satisfactorily operate the existing campus and improve profitability; continue to improve the teaching quality, optimize the students' experience, and strengthen the friendly cooperation with enterprises and schools, so as to continuously improve brand influence.

In terms of cultural finance, Poly Art Investment will ramp up its efforts in exploring new projects; Poly Ronghe will strengthen the research and judgment on market environment and financial environment to strictly control business risks, maintain the business size, and strengthen the support for the art business. Poly Culture Industry Fund will further explore new ideas and quickly grow in size to help the overall business development of Poly Culture.

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, 2019, 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. Li Weiqiang.

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 62 to 65 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, such as 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, research, development and engineering service in the light industry field, operation and service of raw materials and products for crafts, production and sale and service of explosives for civilian uses and financial business.

ANNUAL RESULTS

The annual results of the Group for the year ended December 31, 2019 were published on the websites of the Stock Exchange and the Company on March 31, 2020.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended December 31, 2019 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, 2019 are set out in the Consolidated Statement of Changes in Equity and Note 31 to the Financial Statements of this report, and details of reserves available for distribution to our Shareholders are set out in Note 31(e) to the Financial Statements of this report.

APPOINTMENT OF AUDITORS

For the year ended December 31, 2019, 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 AND DIVIDEND POLICY

In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. The Company does not have any pre-determined dividend payout ratio. Declaration, recommendation or distribution of any dividend is subject to all relevant applicable applicable PRC laws and the Articles.

The Company has reviewed and approved the dividend distribution plan of the company for the year 2018 at the annual general meeting of 2018 of the Company on June 21, 2019. The Company has distributed a final cash dividend of RMB0.172 per Share (tax inclusive) in an aggregate amount of approximately RMB42,366,352.00 (tax inclusive) for the year ended December 31, 2018 to Shareholders whose names appear on the register of members of the Company on July 2, 2019.

The Board recommends to distribute a final dividend of RMB0.071 per Share (tax inclusive) in cash, with an aggregate amount of approximately RMB17,488,400 (tax inclusive) to the Shareholders for the year ended December 31, 2019. The above dividend is expected to be distributed on or before August 15, 2020 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 (《關於國税發(1993)045號文件廢止後有關個人所得税徵管問題的通知》) (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, SALE OR REDEMPTION 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, 2019.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2019, 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 or subsidiaries was a party and in which a Director or Supervisor or an entity connected with such Director or Supervisor had a material interest, whether directly and indirectly, subsisted at the end of the year ended December 31, 2019 or at any time during that year.

PRINCIPAL RELATIONSHIP BETWEEN THE COMPANY AND ITS CUSTOMERS, EMPLOYEES, 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 always highly valued 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, 2019 were set forth in Note 25 to the Financial Statements of this report.

EMPLOYEES REMUNERATION AND POLICIES

As at December 31, 2019, the Group had 8,418 employees. The remuneration policy of the Group is determined by the Remuneration and Assessment Committee under the Board of Directors as per the performance, qualifications and competence of our employees. As at December 31, 2019, there has been no material change to our remuneration policy and training plans. Details of the employee remuneration of the Company were set forth in Note 7(b) to the Financial Statements of this report.

RETIREMENT AND EMPLOYEES BENEFIT SCHEME AND SHARE OPTION INCENTIVE PLAN

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

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

ENVIRONMENT POLICY AND PERFORMANCE OF THE COMPANY

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

COMPANY'S COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

As the Group's main businesses are performance and theatre management, art business and auction 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, Regulations on Management of Business Performance and Regulations on Film Management. 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 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 SFO. 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, 2019 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, 2019, 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, 2019, 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 2019 Super Short-term financing bonds (first tranche) (the "First Tranche Financing Bonds") on April 4, 2019. The aggregate issuance amount of the Financing Bonds was RMB200 million with a term of 270 days, nominal value per unit of RMB100 and coupon rate of 3.6%. The principal and interest will be repaid in a lump sum on maturity. The interests shall be accrued from April 4, 2019. After deducting issuance expenses, the proceeds raised from the First Tranche Financing Bonds are intended to be used for repayment of interest-bearing debt and used as additional working capital. The First Tranche Financing Bonds have been due and redeemed.

The Company has completed the issuance of 2019 Super Short-term financing bonds (second tranche) (the "Second Tranche Financing Bonds") on September 23, 2019. The aggregate issuance amount of the Corporate Bonds was RMB200 million with a term of 270 days, nominal value per unit of RMB100 and coupon rate of 3.48%. The principal and interest will be repaid in a lump sum on maturity. The interests shall be accrued from September 23, 2019. After deducting issuance expenses, the proceeds raised from the Second Tranche Corporate Bonds are intended to be used for repayment of interest-bearing debt and used as additional working capital.

DONATIONS

For the year ended December 31, 2019, the charity donations made by the Group amounted to approximately RMB1,595,800.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The profiles and changes of our Directors, Supervisors and senior management were set forth on pages 62 to 65 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 date of this report, 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, 2019, 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, senior management 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, 2019, 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 International	Domestic Shares	Beneficial owner	50,197,900 (L)	32.00	20.38
Li Shuming	H Shares	Beneficial owner	4,490,100 (L)	5.02	1.82

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, 2019 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 International, 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 International under the SFO.

Save as disclosed above, as at December 31, 2019, 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

During the Reporting Period, the Company did not conduct any non-exempt one-off Connected Transaction.

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 2019 (RMB Million)	Actual Transaction Amount of 2019 (RMB Million)
1.	Financial Services Agreement	Poly Finance (as the service provider)	the maximum daily deposit balance: 900.00 the maximum daily lending balance: 600.00	depositing services: 897.28 credit lending services: 200.00 settlement services: / miscellaneous financial services: /
2.	General Services Framework Agreement	Poly Group (as the service receiver)	34.02	2.93
3.	Commodities Sale and Purchase Framework Agreement	Poly Group (as the purchaser)	23.85	0.00
4.	Property Lease Framework Agreement	Poly Group (as the lessor)	86.71	46.01
5.	Cinema Box Office Income Sharing Framework Agreement	Poly Group	619.47	254.93
6.	Finance Lease Framework Agreement	Poly Leasing (as the lessor)	494.00	2.35

- 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, the Property Lease Framework Agreement will expire in 2034, 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.

Certain of the related party transactions in respect of note 35(c) in the financial statements of the annual report 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 above.

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 International, 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 stateowned 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 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 continues 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 announcements published on October 17, 2016 and December 23, 2016 and the circular published on November 4, 2016 by the Company.

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised), *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 Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Main Board Listing Rules 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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 35 to financial statements. Other than disclosed in the paragraph headed "Connected Transactions" in this report, related party transactions disclosed in Note 35 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-COMPETITION 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, 2019, 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, 2019, 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.

SUBSEQUENT EVENT

The Board recommends to distribute a final dividend of RMB0.071 per share (tax inclusive) in cash to the Shareholders for the year ended December 31, 2019. The dividend mentioned above will be distributed before the end of August 15, 2020 upon approval of Shareholders at the 2019 annual general meeting of the Company.

The Corona Virus Disease 2019 ("COVID-19") pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position.

China has undertaken national measures to prevent and control the spread of the disease since COVID-19 pandemic. It has material adverse effect on the Group's business. According to the relevant requirements of the government since late January 2020, part of art auction of the Group has been postponed, and all theatres and cinemas have been closed. The resumption of business will depend on the development of the situation of COVID-19 pandemic and the government's policies.

Since the COVID-19 pandemic, the Group has started innovative ideas of the online business mode to carry out the "cultural service transformation", and launched activities such as cloud collection, cloud theatre, cloud cinema, online art education, online thematic selling of art works, and special meal delivery of the cinema to lay a good foundation for the follow-up full resumption. The Group will be constantly concerned about the development and situation of the COVID-19 pandemic, and its impact on the Group's financial and operating performance will be continuously assessed meanwhile we will take necessary measures to minimise relevant business risks.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the year ended December 31, 2019. 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, 2019, 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 2019, 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 29, 2019, the third session of the Board of Supervisors convened its seventh meeting and deliberated and approved Proposal on Work Report 2018 of the Board of Supervisors of the Company, Proposal on 2018 Annual Results Announcement of the Company, Proposal on the 2018 Annual Report of the Company, Proposal on the Financial Report of the Company for the year 2018, Proposal on the Dividend Distribution Plan of the Company for the year 2018 and Proposal on the Financial Budget of the Company for the year 2019.

2. On August 19, 2019, the third session of the Board of Supervisors convened its eighth meeting and deliberated and approved Proposal on 2019 Interim Result Announcement of the Company and Proposal on 2019 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 IFRSs, 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 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 the board of supervisors of 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, except for the following deviations with the reasons as explained below:

CODE PROVISION A.1.1 OF THE CORPORATE GOVERNANCE CODE

Code Provision A.1.1 of the CG Code stipulates that the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. During the year, three regular Board meetings were held. Individual attendance records for full Board meetings of the Company are set out on page 46 of this Annual Report. Although the Board meetings held during the year were not convened on a quarterly basis, the Board considered that sufficient meetings had been held within appropriate intervals during the year ended December 31, 2019 in which the Directors actively participated in considering the business operations and corporate actions of the Group. In addition, the Board has established the Audit Committee, Nomination Committee, Remuneration and Assessment Committee, Art Committee and Strategy Committee to oversee particular aspects of the Company's affairs.

CODE PROVISION A.4.2 OF THE CORPORATE GOVERNANCE CODE

As stated in Code Provision A.4.2 of the CG code, all directors (including the Director whose tenure is designated) shall retire by turns once every three years at least. As disclosed in the announcement of the Company dated December 20, 2019, the tenure of the Company's third session of the Board and the Board of Supervisors expired on December 22, 2019. As the re-election of the Board and the Board of Supervisors is still in preparation, in order to ensure the continuity of the relevant work of the Company, the re-election of the Board and the Board of Supervisors will be postponed. The terms of the third session of the Board and the Board of Supervisors will be extended till the fourth session of the Board and the Board of Supervisors are elected at a shareholders' general meeting of the Company. The terms of each special committee of the Board and the Board of Supervisors and the senior management will be extended accordingly. The Company will determine the relevant matters as soon as possible, actively push forward the process of re-election of the Board and the Board of Supervisors, and fulfill its corresponding information disclosure obligations in a timely manner.

CODE PROVISION A.5.2(A) OF THE CORPORATE GOVERNANCE CODE

Code Provision A.5.2(a) of the CG Code stipulates that the nomination committee should review the structure, size and composition (including the skills, knowledge and experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the company's corporate strategy. During the year, the Company did not hold any Nomination Committee meeting due to the extension of terms of the Board.

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
Li Weiqiang	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 62 to 65 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 may appoint another Director by a written power of attorney.

During the year ended December 31, 2019, the Board of Directors held three 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	3/3	100%
Zhang Xi	Vice chairman and executive Director	3/3	100%
Jiang Yingchun	Chief executive officer and executive Director	3/3	100%
Hu Jiaquan[1]	Executive Director	1/1	100%
Li Weiqiang[2]	Executive Director	2/2	100%
Huang Geming[3]	Non-executive Director	1/3	33.3%
Wang Keling[4]	Non-executive Director	2/3	66.7%
Li Boqian[5]	Independent non-executive Director	2/3	66.7%
Li Xiaohui	Independent non-executive Director	3/3	100%
Yip Wai Ming	Independent non-executive Director	3/3	100%

Notes:

1. Mr. Hu Jiaquan resigned as executive Director of the Company on June 21, 2019. From January 1, 2019 to the date of his resignation, the company held one board meeting.

2. Mr. Li Weiqiang was appointed as the executive Director of the company on June 21, 2019. Since the date of his appointment, as of December 31, 2019, the company has held two Board meetings.

3. Mr. Huang Geming was not able to attend the seventh meeting of the third session of the Board of Directors on March 22, 2019, and appointed Mr. Zhang Xi as his proxy to represent him and vote on his behalf, and was not able to attend the eighth meeting of the third session of the Board of Directors on August 19, 2019, and appointed Mr. Jiang Yingchun as his proxy to represent him and vote on his behalf.

4. Mr. Wang Keling was not able to attend the seventh meeting of the third session of the Board of Directors on March 22, 2019, and appointed Mr. Zhang Xi as his proxy to represent him and vote on his behalf.

5. Mr. Li Boqian was not able to attend the eighth meeting of the third session of the Board of Directors on August 19, 2019 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.

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 Board of Directors has confirmed its responsibility for preparing annual financial statements of the Company for the year ended December 31, 2019. 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.

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 and educational background, professional experience, knowledge and skills.

Gender	Male 89%	Female 11%	
Age	55 years or below 66%	56-60 years old 22%	61 years or above 11%
Identity	Non-executive Director 22%	Independent non-executive Director 33%	Executive Director 44%
Directors (number of companies) of other public listed companies (outside the group)	0 78%	1 to 3 11%	4 or above 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, 35(a) and 10 to the Financial Statements of this report.

During the year ended December 31, 2019, 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	0
HKD1,000,001 to HKD1,500,000	1
HKD1,500,001 to HKD2,000,000	5

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. Li Weiqiang, 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, disclosure of inside information, 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, 2019, the Audit Committee held two meetings, attendance of which is as follows:

Name	Position	Meetings attended/ Meetings eligible to attend	Attendance Rate
Li Xiaohui	Independent non-executive Director	2/2	100%
Yip Wai Ming	Independent non-executive Director	2/2	100%
Wang Keling[1]	Non-executive Director	1/2	50%

Note:

1. Mr. Wang Keling was not able to attend the ninth meeting of the Audit Committee of the third session of the Board of Directors on March 22, 2019, and appointed Ms. Li Xiaohui, the chairlady of the Audit Committee, as his proxy to represent him and vote on his behalf.

The Audit Committee of the Company directed and supervised the Company's internal audit department, considered and approved the appointment of the domestic and international auditors and the Financial Reports 2018 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 of the Company in 2018.

The Audit Committee of the Company has reviewed the Company's Annual Results for 2019, and the Financial Statements for the year ended December 31, 2019 in accordance with the IFRSs.

2.2 Nomination Committee

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

The primary responsibilities of the Company's Nomination Committee are preparing the procedures and criteria for determining the candidates for the Directors and senior management of the Company and conducting preliminary review on their qualifications and credentials, including proposing to the Board on its size and composition in accordance with the Company's operating results, assets and shareholding structure; reviewing the procedures and criteria for determining the candidates for the Directors and Chief Executive Officer of the Company and 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's diversification 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, qualifications, experience, independence and other cooperation strategies of the candidates before making recommendations to the Board of Directors, and the necessary conditions for the diversification of the Board of Directors (if appropriate).

No meeting of the Nomination Committee was convened for the year ended December 31, 2019.

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 of recommendation 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, 2019, the Remuneration and Assessment Committee held one meeting, attendance of which is as follows:

Name	Position	Meetings attended/ Meetings eligible to attend	Attendance Rate
Yip Wai Ming	Independent non-executive Director	1/1	100%
Li Xiaohui	Independent non-executive Director	1/1	100%
Zhang Xi	Executive Director	1/1	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, 2019.

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 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, 2019.

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, 2019.

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

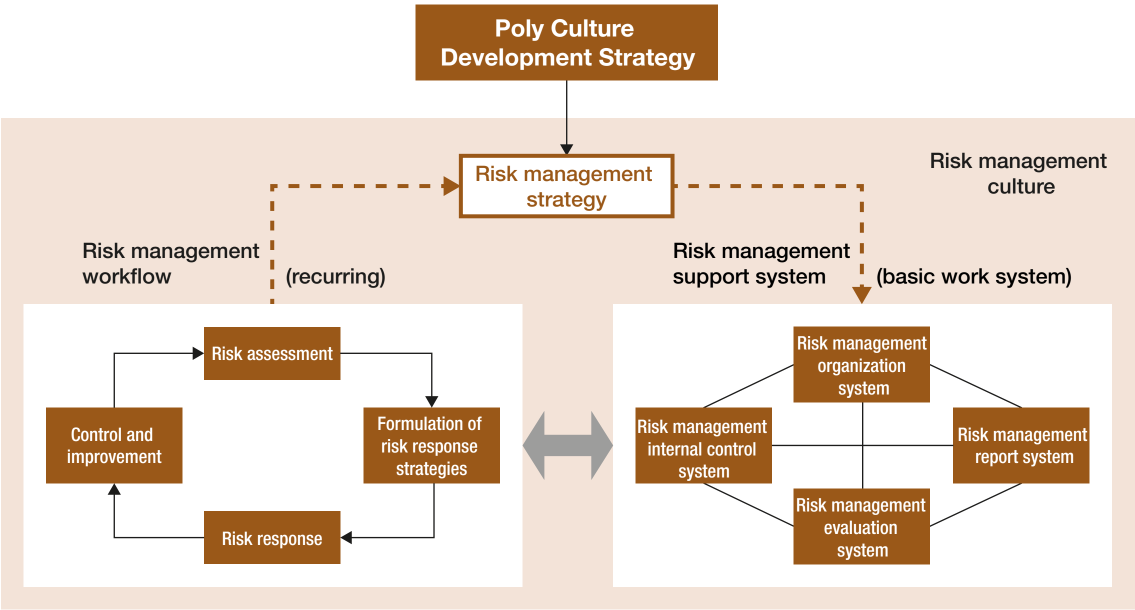
In 2019, Ms. Wang Wei was responsible for advising the Board on corporate governance matters and ensuring compliance with the Board's policies and procedures as well as compliance with relevant laws and regulations. In order to maintain good corporate governance practices and to ensure compliance with the Listing Rules and applicable laws, the Company has also appointed Ms. Leung Suet Lun, a senior manager of the listing services department 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. Wang Wei is the primary corporate contact person of the Company.

Ms. Wang Wei and Ms. Leung Suet Lun participated in not less than 15 hours of relevant professional trainings in 2019 in accordance with Rule 3.29 of the Listing Rules. In 2019, the Sock Exchange confirmed that Ms. Wang Wei has satisfied the requirements of company secretary under Rule 3.28 of the Listing Rules.

6. INTERNAL CONTROL

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.

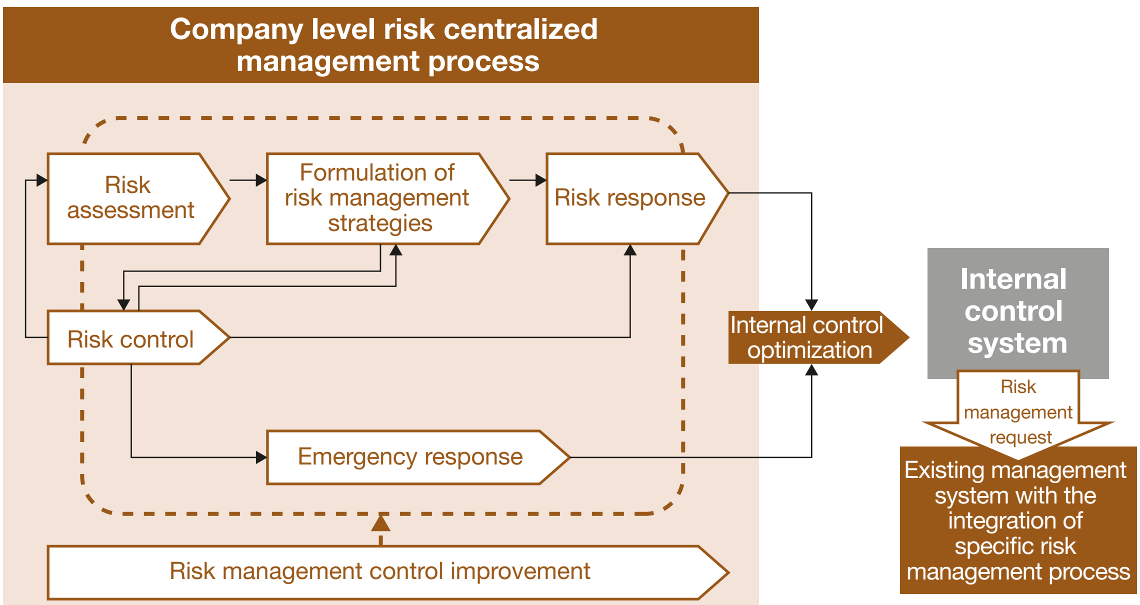


The Company's comprehensive risk management organization is divided into four-tiers, namely risk management decision-making body, comprehensive risk management leading team, risk management executive body and risk management supervisory body, where the risk management executive body is further divided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

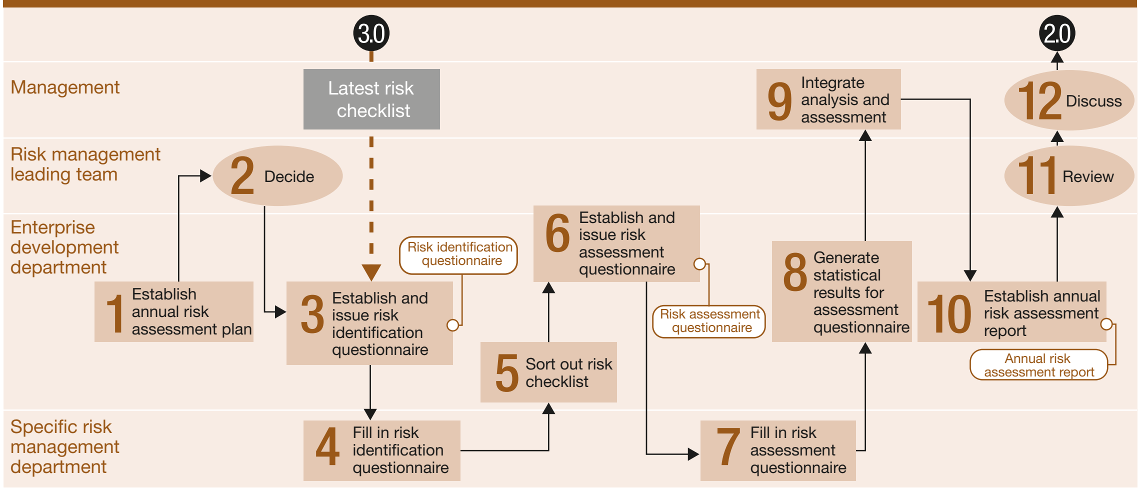


Framework of Risk Management Process of the Company

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.

1.0 Risk assessment process - annual risk assessment



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 makes 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 rearranged their orders with respect to their importance to explore in-depth the causes of risk and estimated 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' 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 SFO 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 SFO;

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

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

7. AUDITOR'S REMUNERATION

For the year ended December 31, 2019, 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, 2019, the Company convened two general meetings, as detailed below:

Date	Venue	Meetings
June 21, 2019	Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing	Annual General Meeting of 2018
December 20, 2019	Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing	The First Extraordinary General Meeting of 2019

Attendance by Directors:

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

Notes:

1. Mr. Xu Niansha was not able to attend the Annual General Meeting of 2018 on June 21, 2019 and the First Extraordinary General Meeting of 2019 on December 20, 2019 due to other work arrangements.

2. Mr. Hu Jiaquan resigned as executive Director of the Company on June 21, 2019. From January 1, 2019 to the date of his resignation, the company held one general meeting.

3. Mr. Li Weiqiang was appointed as the executive Director of the Company on June 21, 2019. Since the date of his appointment, as of December 31, 2019, the company has held one general meeting.

4. Ms. Li Xiaohui was not able to attend the Annual General Meeting of 2018 on June 21, 2019 due to other work arrangements.

5. Mr. Yip Wai Ming was not able to attend the Annual General Meeting of 2018 on June 21, 2019 and the First Extraordinary General Meeting of 2019 on December 20, 2019 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 investor.

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, 2019, there was no change in the Articles.

DIRECTORS

Executive Directors

Mr. Xu Niansha, aged 63, joined the Company in September 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 57, 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 Developments and Holdings Group Co., Ltd. (保利發展控股集團股份有限公司) (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 51, 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 general manager 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. Li Weiqiang, aged 48, joined the Company in 2002 and was appointed as the executive vice general manager of the Company in November 2018 and as the executive director of the Company in June 2019. Mr. Li also serves as the secretary to the board of Poly Group, a director of Straco Corporation Limited (新加坡星雅集團), the chairman of Poly Film, Beijing Poly Music Art, Poly Boyi Culture Media (Beijing) Co., Ltd. and Chongqing Poly Wanhe Cinema Circuit Co., Ltd., and a director of Poly Theatre and Poly Art Education. Mr. Li holds a doctoral degree in management and is a senior economist.

Non-executive Directors

Mr. Huang Geming, aged 52, 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 55, 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), a director of Sinolight Surfactants Technology Co., Ltd. (中輕日化科技有限公司), and a director of China Research Institute of Dily Chemistry Co., Ltd. (中國日用化學研究院有限公司). 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 director of the human resources management center 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 83, 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 52, 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 Jizhong Energy Resources Co., Ltd. (冀中能源股份有限公司), China U-Ton Holdings Limited (中國優通控股有限公司) and Fangda Special Steels Technology Co., Ltd. (方大特鋼科技股份有限公司). Ms. Li holds a doctoral degree in economics.

Mr. Yip Wai Ming, aged 55, 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 Huobi Technology Holdings Limited (火幣科技控股有限公司). 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 55, joined the Company in November 2016 and has been the chairman of the Board of Supervisors since then. Mr. Chen also serves as a director of the general management office and director of the supervision and enforcement office of the Discipline Inspection Committee 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 and director of the Discipline Inspection and Supervision Office 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 44, 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 50, 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. Hu Jiaquan, aged 58, joined the Company in May 2016 and was appointed as the vice general manager of the Company in November 2018. Mr. Hu also serves as the chairman of Poly Auction Guangdong, Guangdong Poly Asset Management, Shenzhen Poly Art Square, and Shenzhen Poly Cultural Development. Mr. Hu holds a bachelor's degree in economics.

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 holds a doctoral degree in management and has been granted the qualification of senior engineer and senior policy advisor.

Mr. Zhou You, aged 59, joined the Company in 2003 and has been the vice general manager 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 52, joined the Company in June 2010 and has been the chief financial officer since April 2013. She has been the vice general manager of the Company since January 2016, and has been the joint Company secretary and the secretary to the Board of Directors since January 2017. Ms. Wang also serves as a director and the general manager of Poly Auction Beijing, the chairman of Poly Ronghe Financial Leasing and Poly Culture Industrial Fund, and a director of Poly Theatre Management, Poly Auction Hong Kong, and the North American Company. Ms. Wang holds a bachelor's degree in engineering and qualification as a senior accountant.

Mr. Guo Wenpeng, aged 50, joined the Company in 2003 and has served as the vice general manager since August 2015. Mr. Guo also serves as the chairman of Poly Theatre Company, 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 46, 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

Mr. Hu Jiaquan resigned as an executive Director due to work arrangements, with effect from June 21, 2019; on June 21, 2019, the 2018 annual general meeting of the Company passed a resolution to the appoint Mr. Li Weiqiang as an executive Director of the third session of the Board of the Company, with effect from 21 June 2019 until the expiration of the term of office of the third session of the Board 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, 2019 to December 31, 2019

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 was 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 reasonably by the canteen.

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

Greenhouse gas emission

The Company strives to reduce greenhouse gas by reducing the consumption of energy and water. Green house emissions come from energy consumption including use of electricity purchased from power companies and use of water. 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 2019 amounted to 130.8 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	135,207,674
Area of operating buildings	square meter (m^2)	2,550,108
Energy intensity of operating buildings	kwh/m^2/year	53
Water	m^3/year	1,267,637

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

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

Energy-saving equipment has been used for lighting facilities 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.

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 Company 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 Company respects the protection of the legitimate rights and interests of employees, constantly improves the employment management system and establishes a good supervision and protection system on the rights and interests of employees.

We strive to build a comfortable and healthy working and living environment to promote employees' physical and mental health. Strictly abiding by the Labour Law of the People's Republic of China, the Prevention and Control of Occupational Diseases Law of the People's Republic of China and relevant local regulations, the Company and the domestic entities mentioned in the report constantly improve the employees' health management and organize health checkups for employees. Its subsidiaries also formulate the corresponding requirements and measures for implementation to ensure employees' physical and mental well-being. We have strictly prohibited child labor and any form of forced labors. We also respect the rights of all employees to freely join in associations or labor unions. We were not involved in child labor, forced labor and discrimination cases in the financial year 2019.

Staff grouping

As of December 31, 2019, the Group has 8,418 employees in total.

By employment type		
Full-time	Headcounts	7,810
Part-time	Headcounts	608
By gender		
Male	Headcounts	4,335
Female	Headcounts	4,083
By age		
Below 30	Headcounts	4,198
30-50	Headcounts	3,677
50 or above	Headcounts	553
By region		
Beijing	Headcounts	833
Other regions of the Mainland China	Headcounts	7,520
Hong Kong, Macau, and Taiwan regions	Headcounts	56
Other regions	Headcounts	15

Number of employee turnover

For the year ended December 31, 2019, the number of loss in the Group's employees was 2,618, representing a turnover ratio of 31%. 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	1,398
Female	Headcounts	1,220
By age		
Below 30	Headcounts	2,114
30-50	Headcounts	489
50 or above	Headcounts	15
By region		
Beijing	Headcounts	204
Other regions of the Mainland China	Headcounts	2,401
Hong Kong, Macau, and Taiwan regions	Headcounts	10
Other regions	Headcounts	3

Number of newly hired employees

For the year ended December 31, 2019, the number of the Group's newly hired employees was 2,724 .

By gender		
Male	Headcounts	1,391
Female	Headcounts	1,333
By age		
Below 30	Headcounts	1,891
30-50	Headcounts	729
50 or above	Headcounts	104
By region		
Beijing	Headcounts	166
Other regions of the Mainland China	Headcounts	2,536
Hong Kong, Macau, and Taiwan regions	Headcounts	15
Other regions	Headcounts	3

Staff training

For the year ended December 31, 2019, a number of 3,557 employees in total joined the training.

By gender		
Male	Headcounts	1,793
Female	Headcounts	1,764
By duty		
Senior management officers	Headcounts	164
Mid-level management officers	Headcounts	489
Other	Headcounts	2,905

For the year ended December 31, 2019, by gender and duty, the average hours of each employee's training completed.

By gender		
Male	Average hours	71
Female	Average hours	66
By duty		
Senior management officers	Average hours	35
Mid-level management officers	Average hours	208
Other	Average hours	58

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	937	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 strictly standardized management, strengthened awareness of work safety, and adopted measures, such as establishing safety committees at various levels, building up rules and systems, and conducting safety spot checks and fire drills, to ensure operating safety.

For the year ended December 31, 2019, the Company has set up 140 safety committees, deployed over 1,200 management staff, and amended and perfected over 77 various types of systems and plans. Throughout the year, the Company carried out 1,825 trainings for production safety, organized 1,033 emergency drills and 3,857 safety check. The Company has managed to promote the sustainable and safe development of the enterprises with the systems as the basis and implementation as a method of protection. The Company recorded zero accident in relation to production safety during the year.

ANTI-CORRUPTION

For the year ended December 31, 2019, 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 April 2019, Poly Auction Beijing won the awards of “2019 Brand Influence Auction Company of the Year”; the “More Sublime When Looking Up: Chinese Classical Paintings & Calligraphy Evening Sale” won “2019 Special Auction of the Year for Brand Value”; and Jiang Yingchun, General Manager of Poly Culture and Chairman of Poly Auction Beijing, won “Men of Auction of the Year” at the 2019 Art World Summit • Awarding Ceremony of the Fourth Artwork Market Value Chart (2019藝勢峰會暨第四屆藝術市場價值榜) jointly held by Beijing Business and Beijing Association of Auctioneers.

In May 2019, Poly Culture was included in the 11th “Top 30 Culture Enterprises” in China jointly organized by Guang Ming Daily and Economic Daily.

In July 2019, Poly WeDo Music Children’s Chorus (保利童聲合唱團) won the Grant Championship, Gold Award, and the Organizing Committee Trophy at the 7th Singapore International Chinese Choral Festival.

In August 2019, Changzhou Grand Theatre participated in the 3rd National Quality Service Competition hosted by China Association for Quality. With its “Theatre Performing Service”, it stood out from the rest, ranked 4th nationwide and won the “Excellent Services Award”, becoming the only art theatre in China to win the award. It was another excellent performance of Changzhou Grand Theatre on the national stage after winning “QIC-Level III Technical Achievements Award” at the 4th National Quality Innovation Contest in July 2019.

In September 2019, Poly Auction Beijing won four awards in the fourth “Qinghua Award” organized by the China Association of Auctioneers, including “Top Ten Enterprises of the Year”, “Best Tax Creation of the Year”, “Best Profitability of the Year” and “Largest Scale of the Year”.

In October 2019, Beijing Poly Forbidden City Theatre Management Co., Ltd. won the honor of “Advanced Collectives in Beijing for Preparing and Serving the Celebration of the 70th Anniversary for the Founding of People’s Republic of China”. Xu Jian and Shi Yongfeng won the honorary title of “Advanced Individual” (issued by Beijing Committee of the Communist Party of China, the People’s Government of Beijing Municipality)

In November 2019, Poly Film won the Best Meadium and Low Budget Feature Film at the 32th China Golden Rooster Awards with its film Red Flowers and Green Leaves.

Social welfare

In June 2019, the “2019 First Wuzhong & Poly Canal Theatre Festival” co-hosted by Suzhou Poly Grand Theatre Management Corporation Limited and Culture and Sports and Tourism Bureau of Wuzhong District, Suzhou, Wuzhong Public Culture Centre kicked off. Aimed at creating an “art feast for the people” with the philosophy of “participation by all people”, the Canal Theatre Festival centred on Wuzhong Public Culture Centre to influence the whole district, enriching the cultural life of citizens and uplifting the cultural sophistication of the city.

In June 2019, "Baxi • Open the Door to Art – Summer Art Festival" hosted by Beijing Municipal Bureau of Culture and Tourism with full support of Beijing Municipal Committee Propaganda Department and undertaken by Beijing Poly Forbidden City Theatre Management Corporation Limited kicked off.

Five theatres of Poly Theatre in Beijing-Tianjin-Hebei region (Beijing Forbidden City Concert Hall, Tianjin Grand Theatre, Baoding Guan Hanqing Grand Theatre, Hengshui Poly Grand Theatre, and Tangshan Grand Theatre) launched over 100 low-cost public welfare performances as well as 16 art summer camps and 16 public welfare lecturers, provided a colorful art vacation for children in Beijing, Tianjin, Hebei with over 10 art forms including western classical music, child play, Beijing opera, Ping opera, Kunqu opera, Pang-tzu, dance, chorus, acrobatics as well as exclusive immersive art experience. This public welfare culture art project for children and teenagers has been held in Forbidden City Concert Hall for years and expands its presence to over 60 theatres in over 50 cities across China, becoming the teenager public welfare art festival with the largest scale and brand effect in China.

Youth development

In April 2019, Poly WeDo Suzhou Teenager Orchestra excelled at the 6th national art performance of primary and secondary school students and won the first prize in art performance category for the group B of primary schools. It fully demonstrated the results obtained in terms of art education after Suzhou Poly Grand Theatre started strategic cooperation with Poly WeDo.

In August 2019, the 8th Aiqin Cup & the 3rd Session of International Violoncello Contest held by Beijing Poly Music Art Development Co., Ltd., ended. On the evening of August 26, awarding ceremony and closing ceremony concert were held in Beijing Poly Theatre. This session of contest involved a total number of 600 contestants aged 4 to 84. The age span and the number of participants set the record for the Aiqin Cup that initiated 18 years ago.

Cultural exchange

In April 2019, Poly Culture participated in the 14th China Yiwu Cultural Products Trade Fair and promoted the 47th Quality Products Auction of Poly Auction, the 4th Poly "Stellaroemiar Art Exhibition", the 2nd Poly Cartoon and Comics Show, Poly Digital Theatre-Teresa Teng Holographic Music Show and other activities.

In June 2019, to celebrate the 20th anniversary for Macau's return, invited by the Government Cultural Affairs Bureau of Macao Special Administrative Region, "the Little One in the Forbidden City", the parent-child show released by Poly Performance Company under Poly Theatre was staged in Macao Cultural Centre Comprehensive Theatre to present a cultural relic journey that combines fun of stories and connotation of culture for children and teenagers in Macao. This trip in Macao is the first performance of the "Little One in the Forbidden City" in Hong Kong, Macao and Taiwan and an excellent work dedicated by Poly original children's play to audience in Macao. Through high-quality and high-level art means, it inherited Chinese traditional culture, upheld the quintessence of Chinese culture and boosted cultural exchange of Guangdong-Hong Kong-Macao Greater Bay Area.

In September 2019, Beijing Poly Theatre and Poly Culture North America co-held "Martin Mayer 2019 China Tour", which was the first performance of the "Boutique Performance Series for the 50th Anniversary of Diplomatic Relations Establishment between China and Canada", in Guangxi Culture and Art Centre. With China-Canada culture and art exchange as theme, the performance was staged in 19 Poly Theater performance halls in Taiyuan, Hohhot, Zhengzhou, Qingdao, Changsha, Chongqing, Nanning and won unanimous praise from audience across China.

KPMG

Independent auditor's report to the shareholders of
Poly Culture Group Corporation Limited
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Poly Culture Group Corporation Limited ("the Company") and its subsidiaries ("the Group") set out on pages 82 to 189, which comprise the consolidated statement of financial position as at December 31, 2019, 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, 2019 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 20 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, 2019, the balance of art inventories was RMB2.18 billion, which represented 97% 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 valuation of art inventories to determine their net realisable values at the reporting date. We identified the assessment of the net realisable value of art inventories as a key audit matter because the judgement exercised by management in determining the net realisable value of art inventories, which can be inherently uncertain, and because the impact on the consolidated financial statements could be material.	Our audit procedures to assess the net realisable value of art inventories included the following: • assessing the external art experts' experience, qualifications and credentials by inspecting the Group's records and information in the public domain; • obtaining the external valuation reports for art inventories as at December 31, 2019 and comparing valuation amount of art inventories to the net realisable value of the art inventories, on a sample basis; • obtaining an understanding of recent market trends for art inventories by inspecting recent auction prices and other publicly available information and enquiring external art experts in the auction division and applying the information obtained from the procedures above in evaluation of the net realisable value of art inventories; • assessing, on a sample basis, whether there were any losses or damage to art inventories by attending the inventory count with the assistance of the external art experts; and • comparing, on a sample basis, the carrying values of art inventories as at December 31, 2018 to prices achieved from the sales of art inventories after December 31, 2018, if any, to assess the reliability of management's process for determining the net realisable value of 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 19, 22 and 23 to the consolidated financial statements and the accounting policies in note 2(l).

The Key Audit Matter	How the matter was addressed in our audit
As at December 31, 2019, the total balance of prepayments for auctioned works of art, consignor advances and loans granted under financing arrangements was RMB5.64 billion, which represented 41% of the total assets of the Group as at that date. <u>Prepayments for auctioned works of art</u> Prepayments for auctioned works of art represent the amounts advanced to sellers of works of art who have a good credit record or have a long-term business relationship with the Group. Amounts may be advanced to sellers prior to receiving full payment of the auction purchase prices from the relevant buyers using the related auctioned works of art as collateral. The prepayments granted generally represent 40% to 60% of the collateral's auction price. <u>Consignor advances</u> 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.	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 of key internal controls over the approval process of granting prepayments for auctioned works of art, consignor advances and loans under financing arrangements; • obtaining the lists of receivables and loans and collateral, comparing whether these receivables and loans are collateralised by works of art, on a sample basis; • assessing the external art experts' experience, qualifications and credentials by inspecting the Group's records and information in the public domain; • on a sample basis, evaluating management's assessment of the forecast cash flows recoverable from collateral, which is based on the valuation assessed by external art experts, and comparing the recoverable amount to the outstanding balances of the receivables and loans with the value of collaterals to assess whether sufficient impairment allowance has been made; • assessing, on a sample basis, whether the collateral held was in good condition by attending the physical count of collateral with the assistance of the external art experts; • comparing actual amount recovered during the current year with carrying amounts of receivables and loans as at December 31, 2018 to assess the reliability of management's expected credit loss assessment process; and

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 19, 22 and 23 to the consolidated financial statements and the accounting policies in note 2(l).

The Key Audit Matter	How the matter was addressed in our audit
Loans granted under financing arrangements The Group also grants term loans secured by works of art. Loans granted generally represent 20% to 50% of the collateral's estimated value. Management 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. The Group engaged external art experts to assess the value of the collateral held to determine if sufficient allowance has been made. 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 value of art collateral, which can be inherently uncertain.	• comparing, on a sample basis, the subsequent settlement of the receivables and loans as at December 31, 2019 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 31, 2020

Consolidated Statement of Profit or Loss

for the year ended December 31, 2019
(Expressed in Renminbi ("RMB"))

	Note	2019 RMB'000	2018 (Note) RMB'000
Revenue	4	**3,845,673**	3,713,785
Cost of sales		**(2,526,483)**	(2,418,456)
Gross profit		**1,319,190**	1,295,329
Other net income	6	**61,433**	64,885
Changes in fair value of other equity securities		**23,534**	16,548
Selling and distribution expenses		**(456,200)**	(414,284)
Administrative expenses		**(698,197)**	(532,636)
Profit from operations		**249,760**	429,842
Finance income		**90,137**	60,061
Finance costs	7(a)	**(148,580)**	(41,567)
Share of profits less losses of associates		**40,326**	51,049
Share of profits less losses of joint ventures		**5,252**	8,220
Profit before taxation	7	**236,895**	507,605
Income tax	8	**(108,947)**	(139,322)
Profit for the year		**127,948**	368,283
Attributable to:			
Equity shareholders of the Company		**49,719**	241,992
Non-controlling interests		**78,229**	126,291
Profit for the year		**127,948**	368,283
Earnings per share			
Basic and diluted earnings per share (RMB)	11(a)	**0.20**	0.98

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 91 to 189 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 31(b).

	Note	**2019** **RMB'000**	2018 (Note) RMB'000
Profit for the year		**127,948**	368,283
Other comprehensive income for the year, net of tax			
Item that will not be reclassified to profit or loss:			
Share of other comprehensive income of investments accounted for using the equity method		**(23,335)**	–
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of investments accounted for using the equity method		**22**	–
Exchange differences on translation of financial statements of subsidiaries outside the PRC		**18,349**	21,658
Total comprehensive income for the year		**122,984**	389,941
Attributable to:			
Equity shareholders of the Company		**40,757**	257,496
Non-controlling interests		**82,227**	132,445
Total comprehensive income for the year		**122,984**	389,941

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 91 to 189 form part of these financial statements.

Consolidated Statement of Financial Position

at December 31, 2019
(Expressed in Renminbi ("RMB"))

	Note	**2019**	2018 (Note)
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	12	**674,016**	820,094
Right-of-use assets	13	**911,262**	–
Intangible assets	14	**38,799**	31,806
Goodwill	15	**76,933**	161,892
Long-term prepayments		**2,601**	2,827
Interest in associates	17	**737,709**	242,384
Interest in joint ventures	18	**472,327**	516,273
Other financial assets	19	**213,115**	725,335
Deferred tax assets	30(b)	**35,094**	34,969
		3,161,856	2,535,580
Current assets			
Inventories	20	**2,246,598**	2,101,117
Trade receivables	21	**380,037**	328,682
Consignor advances	22	**1,674,462**	967,041
Deposits, prepayments and other receivables	23	**2,056,720**	1,354,274
Current tax assets		**18,647**	23,788
Other financial assets	19	**2,759,760**	1,622,932
Restricted cash		**32,662**	11,278
Deposits with original maturities over three months		**109,676**	93,611
Cash and cash equivalents	24	**1,151,244**	1,407,805
		10,429,806	7,910,528

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 91 to 189 form part of these financial statements.

	Note	2019 RMB'000	2018 (Note) RMB'000
Current liabilities			
Trade and other payables	26	**2,053,554**	1,625,018
Contract liabilities	27	**573,658**	497,448
Lease liabilities	28	**165,440**	–
Interest-bearing borrowings	25	**3,962,364**	2,109,372
Current taxation	30(a)	**58,042**	78,469
		6,813,058	4,310,307
Net current assets		**3,616,748**	3,600,221
Total assets less current liabilities		**6,778,604**	6,135,801
Non-current liabilities			
Interest-bearing borrowings	25	**880,000**	1,058,039
Lease liabilities	28	**948,780**	–
Trade and other payables	26	**1,040**	43,975
Deferred revenue		**5,801**	14,332
Deferred tax liabilities	30(b)	**23,005**	17,594
		1,858,626	1,133,940
NET ASSETS		**4,919,978**	5,001,861

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 91 to 189 form part of these financial statements.

Consolidated Statement of Financial Position

at December 31, 2019
(Expressed in Renminbi ("RMB"))

	Note	2019 RMB'000	2018 (Note) RMB'000
CAPITAL AND RESERVES			
Share capital	31(c)	**246,316**	246,316
Reserves		**3,999,319**	4,072,132
Total equity attributable to equity shareholders of the Company		**4,245,635**	4,318,448
Non-controlling interests		**674,343**	683,413
TOTAL EQUITY		**4,919,978**	5,001,861

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

Approved and authorised for issue by the board of directors on March 31, 2020.

Jiang Yingchun
Director

Liu Shibin
Authorised non-director

The notes on pages 91 to 189 form part of these financial statements.

	Attributable to equity shareholders of the Company								
	Share Capital RMB'000 note 31(c)	Share premium RMB'000 note 31(d)(ii)	Capital reserve RMB'000 note 31(d)(i)	PRC statutory reserve RMB'000 note 31(d)(iii)	Retained profits RMB'000	Exchange reserve RMB'000 note 31(d)(iv)	Total RMB'000	Non–controlling interests RMB'000	Total equity RMB'000
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 31(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

The notes on pages 91 to 189 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended December 31, 2019
(Expressed in Renminbi ("RMB"))

	Attributable to equity shareholders of the Company								
	Share Capital RMB'000 note 31(c)	Share premium RMB'000 note 31(d)(ii)	Capital reserve RMB'000 note 31(d)(i)	PRC statutory reserve RMB'000 note 31(d)(iii)	Retained profits RMB'000	Exchange reserve RMB'000 note 31(d)(iv)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at December 31, 2018 (Note)	246,316	1,982,448	(4,270)	158,361	1,916,056	19,537	4,318,448	683,413	5,001,861
Impact on initial application of IFRS 16	-	-	-	-	(73,860)	(64)	(73,924)	(3,125)	(77,049)
Balance at January 1, 2019	246,316	1,982,448	(4,270)	158,361	1,842,196	19,473	4,244,524	680,288	4,924,812
Changes in equity for 2019:									
Profit for the year	-	-	-	-	49,719	-	49,719	78,229	127,948
Other comprehensive income	-	-	(23,313)	-	-	14,351	(8,962)	3,998	(4,964)
Total comprehensive income	-	-	(23,313)	-	49,719	14,351	40,757	82,227	122,984
Share of other changes of investments accounted for using the equity method	-	-	2,720	-	-	-	2,720	-	2,720
Capital contributions from non-controlling equity owners	-	-	-	-	-	-	-	3,323	3,323
Decrease in non-controlling interests due to disposal of a subsidiary	-	-	-	-	-	-	-	(1,470)	(1,470)
Dividends approved in respect of the previous year (note 31(b))	-	-	-	-	(42,366)	-	(42,366)	-	(42,366)
Dividends declared by subsidiaries to non-controlling equity owners	-	-	-	-	-	-	-	(90,025)	(90,025)
Balance at December 31, 2019	246,316	1,982,448	(24,863)	158,361	1,849,549	33,824	4,245,635	674,343	4,919,978

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 91 to 189 form part of these financial statements.

	Note	2019 RMB'000	2018 (Note) RMB'000
Operating activities			
Cash used in operations	24(b)	**(301,460)**	(171,701)
Tax paid	30(a)	**(123,199)**	(152,323)
Net cash used in operating activities		**(424,659)**	(324,024)
Investing activities			
Payment for the purchase of property, plant and equipment		**(96,916)**	(152,054)
Net payment for consignor advances		**(542,412)**	(83,314)
Addition of deposit with maturity over three months		**(16,065)**	(7,356)
Investments in joint ventures, associates and other equity securities		**(513,109)**	(174,027)
Cash consideration paid for acquisition of subsidiaries, net of cash acquired		**(4,000)**	(17,369)
Proceeds from disposal of property, plant and equipment		**1,379**	557
Proceeds from disposal of a subsidiary		**(1,229)**	–
Dividends received from associates		**–**	142
Dividends received from joint ventures		**3,881**	–
Dividends received from other equity securities	6	**3,806**	2,938
Interest received		**38,819**	32,495
Net cash used in investing activities		**(1,125,846)**	(397,988)

The notes on pages 91 to 189 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended December 31, 2019
(Expressed in Renminbi ("RMB"))

	Note	**2019** RMB'000	2018 (Note) RMB'000
Financing activities			
Capital contributions from non-controlling equity owners of subsidiaries		**3,323**	5,428
Proceeds from bank loans	24(c)	**4,018,625**	2,351,664
Repayment of bank loans	24(c)	**(2,773,736)**	(2,018,827)
Proceeds from issue of bond	24(c)	**–**	700,000
Proceeds from issue of debentures	24(c)	**400,000**	–
Repayment of debentures	24(c)	**(200,000)**	(300,000)
Proceeds from borrowings from joint ventures	24(c)	**15,660**	15,590
Proceeds from borrowings from the controlling equity owner	24(c)	**180,000**	–
Repayment of borrowings from related party	24(c)	**–**	(100,000)
Proceeds from borrowings from an associate	24(c)	**18,000**	20,000
Repayment of borrowings from an associate	24(c)	**(2,000)**	(18,000)
Proceeds from borrowings from a non–controlling equity owner	24(c)	**800**	–
Dividends paid by subsidiaries to non-controlling equity owners		**(71,113)**	(156,946)
Dividends paid to equity shareholders of the Company	31(b)	**(42,366)**	(50,987)
Borrowing costs paid	24(c)	**(88,558)**	(37,401)
Capital element of lease rentals paid	24(c)	**(107,292)**	–
Interest element of lease rentals paid	24(c)	**(55,386)**	–
Net cash generated from financing activities		**1,295,957**	410,521
Net decrease in cash and cash equivalents		**(254,548)**	(311,491)
Cash and cash equivalents at January 1	24(a)	**1,407,805**	1,719,504
Effect of foreign exchange rate changes		**(2,013)**	(208)
Cash and cash equivalents at December 31	24(a)	**1,151,244**	1,407,805

Note: The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 91 to 189 form part of these financial statements.

1 PRINCIPAL ACTIVITIES AND ORGANISATION

Poly Culture Group Corporation Limited ("The Company") was established in the People's Republic of China (the "PRC") on December 14, 2010 as a joint stock company with limited liability. Poly Culture Group Corporation Limited and its subsidiaries ("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, 2019 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 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 new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, Leases

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from January 1, 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

IFRS 16, Leases (Continued)

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after January 1, 2019. For contracts entered into before January 1, 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to properties leased for own use and equipment as disclosed in note 13. For an explanation of how the Group applies lessee accounting, see note 2(k)(i).

At the date of transition to IFRS 16 (i.e. January 1, 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at January 1, 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.00%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before December 31, 2019;

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

IFRS 16, Leases *(Continued)*

b. Lessee accounting and transitional impact *(Continued)*

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at December 31, 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 33(b) as at December 31, 2018 to the opening balance for lease liabilities recognised as at January 1, 2019:

	January 1, 2019 RMB'000
Operating lease and other commitments at December 31, 2018	1,807,979
Less: commitments relating to non-lease elements at December 31, 2018	(281,490)
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before December 31, 2019	(15,639)
Less: total future interest expenses	(377,963)
Present value of remaining lease payments, discounted using the incremental borrowing rate at January 1, 2019	1,132,887
Add: finance lease liabilities recognised as at December 31, 2018	56,680
Total lease liabilities recognised at January 1, 2019	1,189,567

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if IFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at January 1, 2019) or at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at December 31, 2018, on a lease-by-lease basis.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

IFRS 16, Leases *(Continued)*

b. Lessee accounting and transitional impact *(Continued)*

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of other accruals and payables and payable for purchase of equipment under "trade and other payables", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at December 31, 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	**Carrying amount at January 1, 2019 RMB'000**
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Deposits, prepayments and other receivables	1,354,274	(2,598)	**1,351,676**
Total current assets	7,910,528	(2,598)	**7,907,930**
Property, plant and equipment	820,094	(63,276)	**756,818**
Right-of-use assets	–	1,008,938	**1,008,938**
Deferred tax assets	34,969	616	**35,585**
Total non-current assets	2,535,580	946,278	**3,481,858**
Trade and other payables (current)	1,625,018	(127,415)	**1,497,603**
Lease liabilities (current)	–	154,799	**154,799**
Current liabilities	4,310,307	27,384	**4,337,691**
Net current assets	3,600,221	(29,982)	**3,570,239**
Total assets less current liabilities	6,135,801	916,296	**7,052,097**
Trade and other payables (non-current)	43,975	(41,424)	**2,551**
Lease liabilities (non-current)	–	1,034,768	**1,034,768**
Total non-current liabilities	1,133,940	993,344	**2,127,284**
Net assets	5,001,861	(77,048)	**4,924,813**
Retained profits	1,916,056	(73,860)	**1,842,196**
Non-controlling interests	683,413	(3,073)	**680,340**
Exchange reserve	19,537	(115)	**19,422**
Total equity	5,001,861	(77,048)	**4,924,813**

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

IFRS 16, Leases *(Continued)*

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at January 1, 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 24(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 24(d)).

The following tables give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended December 31, 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

***IFRS 16, Leases** (Continued)*

c. Impact on the financial result, segment results and cash flows of the Group *(Continued)*

	2019				2018
	Amounts reported under IFRS 16 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under IAS 17 (note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Financial result year ended December 31, 2019 impacted by the adoption of IFRS 16:					
Profit from operations	249,760	113,037	152,937	209,860	429,842
Finance costs	(148,580)	52,840	–	(95,740)	(41,567)
Profit before taxation	236,895	165,877	152,937	249,835	507,605
Profit for the year	127,948	165,877	152,937	140,888	368,283
Reportable segment profit (adjusted EBITDA) for the year ended December 31, 2019 (note 5) impacted by the adoption of IFRS 16:					
– Art business and auction	310,586	–	36,513	274,073	388,128
– Performance and theatre management	78,182	–	6,148	72,034	60,150
– Cinema circuits management	200,631	–	102,953	97,678	173,684
– Total	589,399	–	145,614	443,785	621,962

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

IFRS 16, Leases *(Continued)*

c. **Impact on the financial result, segment results and cash flows of the Group** *(Continued)*

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (note 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Line items in the consolidated cash flow statement for the year ended December 31, 2019 impacted by the adoption of IFRS 16:				
Cash used in operations	(301,460)	(144,216)	(445,676)	(171,701)
Net cash used in operating activities	(424,659)	(144,216)	(568,875)	(324,024)
Capital element of lease rentals paid	(107,292)	91,376	(15,916)	–
Interest element of lease rentals paid	(55,386)	52,840	(2,546)	–
Net cash generated from financing activities	1,295,957	144,216	1,440,173	410,521

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

d. **Lessor accounting**

The Group mainly leases out a number of items of properties as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

Under IFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of IFRS 16 does not have a significant impact on the Group's financial statements in this regard.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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 (after applying the ECL model to such other long-term interests where applicable (see note 2(l)(i)).

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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).

(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)(iii)).

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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 32(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) 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.

(ii) 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)*

(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.

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 – 5 years
–	Motor vehicles	5 – 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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 – 10 years
–	Right to use the brands	5 – 20 years

Both the period and method of amortisation are reviewed annually.

(k) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from January 1, 2019

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily plants. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(i) *As a lessee* *(Continued)*

(A) Policy applicable from January 1, 2019 *(Continued)*

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses(see note 2(l)(iii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to January 1, 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

(B) Policy applicable prior to January 1, 2019 *(Continued)*

Where the Group acquired the use of assets were 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 were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset. Impairment losses were accounted for in accordance with the accounting policy as set out in note 2(l). Finance charges implicit in the lease payments were 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 were charged to profit or loss in the accounting period in which they were incurred.

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

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. 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. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(ii) *As a lessor (Continued)*

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2(k)(i), then the Group classifies the sub-lease as an operating lease.

(l) Credit losses and Impairment of assets

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

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, the cash flows expected from collateral, 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)

Measurement of ECLs *(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Significant increases in credit risk *(Continued)*

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Write-off policy *(Continued)*

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.

(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.

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)*

(iii) Impairment of other assets

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

– property, plant and equipment;

– film and drama rights;

– right-of-use assets;

– long-term prepayments;

– intangible assets;

– goodwill; and

– investments in subsidiaries, interest in 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 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.

(m) Inventories

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Inventories *(Continued)*

When works of art 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 works of art to net realisable value and all losses of works of art are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of works of art is recognised as a reduction in the amount of works of art recognised as an expense in the period in which the reversal occurs. Works of art 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.

Film and drama rights comprise the distribution rights and copyrights of film and drama either acquired or produced by the Group. Film and drama rights are stated at cost less accumulated amortisation and impairment losses (see Note 2(l)). Costs of film and drama rights comprise consideration payable upon acquisition of drama series and/or costs/expenses incurred during the production of film and drama series.

The amortisation of drama and film rights is determined using the drama and film forecast computation method. Under this method, the amount of amortisation is determined based on the proportion of the revenue recognised in the reporting period for each individual drama and film to the estimated total revenue expected to be recognised throughout the life cycle of the drama and film.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Contract assets and contract liabilities *(Continued)*

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

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax *(Continued)*

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.

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:

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax *(Continued)*

– 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

Performance and theatre management

(i) Revenue from show performance

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

(ii) Rendering of theatre management service

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Others

(i) Government grants

Government grants are recognised initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Translation of foreign currencies *(Continued)*

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.

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Related parties *(Continued)*

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

(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.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

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

(ii) Impairment losses for bad and doubtful debts

The Group estimates impairment losses for expected credit losses (ECL) 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, right-of-use assets, long-term prepayments, and interest in associates and joint ventures, 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 fair value less costs to sell of these assets because market price 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.

(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.

(i) Disaggregation of revenue

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

	2019 **RMB'000**	2018 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
– Revenue from art business and auction	**983,198**	1,151,444
– Revenue from performance and theatre management	**1,979,211**	1,655,881
– Revenue from cinema investment and management	**814,146**	858,972
– Revenue from other services	**39,024**	28,249
	3,815,579	3,694,546
Revenue from rental services		
– Revenue from performance and theatre management	**7,812**	1,616
– Revenue from cinema investment and management	**22,282**	17,623
	3,845,673	3,713,785

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.

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(a) Revenue *(Continued)*

(i) Disaggregation of revenue *(Continued)*

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.

(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, 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.

5 SEGMENT REPORTING *(Continued)*

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

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 other equity securities, 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, amortisation, finance income and finance costs and impairment losses to non-current segment assets used by the segment in their operations.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as 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, 2019 and 2018 is set out below:

	Year ended December 31, 2019 (Note i)			
	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	755,665	1,979,211	774,455	3,509,331
Over time	227,533	7,812	61,973	297,318
Revenue from external customers	983,198	1,987,023	836,428	3,806,649
Inter-segment revenue	2,756	2,415	–	5,171
Reportable segment revenue	985,954	1,989,438	836,428	3,811,820
Reportable segment profit (adjusted EBITDA)	310,586	78,182	200,631	589,399
Depreciation and amortisation	(43,631)	(18,885)	(176,727)	(239,243)
Finance income	80,574	11,468	1,178	93,220
Finance costs	(146,858)	(400)	(84,296)	(231,554)
Impairment of				
– goodwill	–	–	(84,959)	(84,959)
– Investment in joint ventures	–	–	(47,866)	(47,866)
Reportable segment assets	9,376,034	900,710	1,845,351	12,122,095
Reportable segment liabilities	7,650,061	518,574	2,176,496	10,345,131

5 SEGMENT REPORTING *(Continued)*

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

	Year ended December 31, 2018 (Note i)			
	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 (adjusted EBITDA)	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

Note (i): The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated (see note 2(c)).

Note (ii): There was no individual customer that represents more than 10 percent of the Group's revenue during the year ended December 31, 2019 and 2018.

5 SEGMENT REPORTING *(Continued)*

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

	2019 RMB'000	2018 RMB'000
Revenue		
Reportable segment revenue	**3,811,820**	3,692,070
Elimination of inter-segment revenue	**(5,171)**	(6,534)
Revenue from other services	**39,024**	28,249
Consolidated revenue (Note 4(a))	**3,845,673**	3,713,785
Profit		
Reportable segment profit (adjusted EBITDA)	**589,399**	621,962
Revenue from other services	**39,024**	28,249
Unallocated head office and corporate other net income	**53,414**	30,806
Share of profits less losses of associates	**40,326**	51,049
Share of profits less losses of joint ventures	**5,252**	8,220
Changes in fair value of other equity securities	**23,534**	16,548
Impairment losses on non-current assets	**(132,825)**	(33,937)
Depreciation and amortisation	**(247,767)**	(155,882)
Finance income	**90,137**	60,061
Finance costs	**(148,580)**	(41,567)
Unallocated head office and corporate expenses	**(75,019)**	(77,904)
Consolidated profit before taxation	**236,895**	507,605

5 SEGMENT REPORTING *(Continued)*

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

	2019 RMB'000	2018 RMB'000 (Note)
Assets		
Reportable segment assets	**12,122,095**	9,248,883
Elimination of inter-segment receivables	**(3,924,526)**	(3,119,411)
Other equity securities	**213,115**	159,364
Interests in associates	**737,709**	242,384
Interests in joint ventures	**472,327**	516,273
Deferred tax assets	**35,094**	34,969
Unallocated head office and corporate assets	**3,935,848**	3,363,646
Consolidated total assets	**13,591,662**	10,446,108
Liabilities		
Reportable segment liabilities	**10,345,131**	7,214,403
Elimination of inter-segment payables	**(3,924,526)**	(3,119,411)
Current taxation	**58,042**	78,469
Deferred tax liabilities	**23,005**	17,594
Unallocated head office and corporate liabilities	**2,170,032**	1,253,192
Consolidated total liabilities	**8,671,684**	5,444,247

Note:

The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

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**	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Mainland China	**3,613,640**	3,402,595	**2,883,376**	1,763,463
Others	**232,033**	311,190	**30,271**	11,813
	3,845,673	3,713,785	**2,913,647**	1,775,276

Note:

The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

6 OTHER NET INCOME

	2019	2018
	RMB'000	RMB'000
Government grants	**54,267**	59,454
Dividend income from other equity securities	**3,806**	2,938
Net foreign exchange loss	**(4,774)**	(5,547)
Net gain/(loss) on disposal of property, plant and equipment	**44**	(332)
Others	**8,090**	8,372
	61,433	64,885

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2019	2018
	RMB'000	RMB'000
		(Note)
Interest expenses (note 24(c))	**93,399**	42,901
Interest on lease liabilities (note 24(c))	**55,386**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**148,785**	42,901
Less: interest expense capitalised into property, plant and equipment	**205**	1,334
	148,580	41,567

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The borrowing costs have been capitalised at a rate of 4.42% per annum (2018: 4.76%).

(b) Staff costs

	2019	2018
	RMB'000	RMB'000
Salaries, wages and other benefits	**733,009**	681,712
Contributions to defined contribution retirement plans (note)	**84,105**	78,639
Share-based payment arrangement (note 29)	**–**	149
	817,114	760,500

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.

7 PROFIT BEFORE TAXATION *(Continued)*

(b) Staff costs *(Continued)*

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% to 8% 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.

(c) Other items

	2019 RMB'000	2018 RMB'000 (Note)
Depreciation		
– property, plant and equipment (note 12)	**115,047**	153,419
– right-of-use assets (note 13)	**129,889**	–
Amortisation (note 14)	**2,831**	2,463
Impairment losses/(reversal)		
– trade receivables (note 32(a))	**1,161**	666
– deposits, prepayments and other receivables (note 23)	**30,088**	(56)
– property, plant and equipment (note 12)	**–**	20,037
– intangible assets (note 14)	**–**	2,412
– goodwill (note 15)	**84,959**	11,488
– interest in joint ventures (note 18)	**47,866**	–
Auditors' remuneration		
– audit and audit-related services	**4,200**	4,200
Total minimum lease payments for leases previously classified as operating leases under IAS 17	**–**	148,898
Expense relating to short-term leases and other leases with remaining lease term ending on or before December 31, 2019	**40,958**	–
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**1,170**	–
Variable lease payments not included in the measurement of lease liabilities	**9,823**	9,081

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at January 1, 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the 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:

	2019 RMB'000	2018 RMB'000
Current tax – PRC corporate income tax		
Provision for the year	**85,601**	112,257
Under-provision in respect of prior years	**5,711**	4,546
	91,312	116,803
Current tax – Other regions		
Provision for the year	**11,460**	19,555
	11,460	19,555
Deferred tax		
Origination and reversal of temporary differences	**6,175**	2,964
	108,947	139,322

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

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	**236,895**	507,605
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned (note)	**45,029**	116,697
Tax effect of non-deductible expenses	**3,108**	1,747
Tax effect of non-taxable income	**(14,734)**	(15,552)
Tax effect of unused tax losses not recognised	**33,010**	33,995
Tax effect of temporary differences not recognised	**44,586**	8,514
Tax effect of use of tax losses in prior years	**(7,763)**	(10,625)
Under-provision in respect of prior years	**5,711**	4,546
Actual tax expense	**108,947**	139,322

Note:

The Company and its PRC subsidiaries are mainly subject to standard PRC corporate income tax rate of 25% (2018: 25%), except for certain subsidiaries of the Group which enjoy a preferential tax rate according to related tax policies.

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. One subsidiary of the Group is incorporated and carried out business in Macau and is subject to Macau Profits Tax at 12%. 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%, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018. The provision for Hong Kong Profits Tax for 2019 is taken into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of HK$20,000 for each business (2018: a maximum reduction of HK$30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2018). 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, 2019				
	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	–	517	1,400	203	2,120
Mr. Li Weiqiang (note i)	–	517	696	131	1,344
Mr. Hu Jiaquan (note ii)	–	512	1,266	180	1,958
Non-executive directors					
Mr. Wang Keling	–	–	–	–	–
Mr. Huang Geming	–	–	–	–	–
Independent non-executive directors					
Mr. Li Boqian	134	–	–	–	134
Mr. Yip Wai Ming	134	–	–	–	134
Ms. Li Xiaohui	134	–	–	–	134
Supervisor					
Mr. Wang Fuqiang	–	309	331	94	734
Mr. Chen Yuwen	–	–	–	–	–
Mr. Hou Hongxiang	–	–	–	–	–
	402	1,855	3,693	608	6,558

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

	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	–	–	–	–	–
Mr. Wang Keling	–	–	–	–	–
Mr. Huang Geming	–	–	–	–	–
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	–	–	–	–	–
	363	1,312	3,161	293	5,129

Notes:

i: Mr. Li Weiqiang was appointed as the executive director of the Company with effect from June 21, 2019.

ii: Mr. Hu Jiaquan tendered his resignation as the executive director of the Company with effect from June 21, 2019.

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, 2019 and 2018 are set forth below:

	2019 Number of individuals	2018 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:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	**10,667**	8,119
Discretionary bonuses	**5,863**	8,130
Contributions to defined contribution retirement plans	**221**	312
	16,751	16,561

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

	2019 Number of Individuals	2018 Number of individuals
HKD2,500,001 to HKD3,000,000	**1**	–
HKD3,000,001 to HKD3,500,000	**2**	3
HKD3,500,001 to HKD4,000,000	**–**	1
HKD4,000,001 to HKD4,500,000	**1**	–
HKD5,000,001 to HKD5,500,000	**–**	1
HKD5,500,001 to HKD6,000,000	**1**	–

For the years ended December 31, 2019 and 2018, 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.

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 RMB49,719,000 for the year ended December 31, 2019 (2018: RMB241,992,000) and the weighted average number of ordinary shares in issue during the year of 246,316,000 shares.

(b) Diluted earnings per share

The Company did not have any potential dilutive shares throughout the years of 2019 and 2018. Accordingly, diluted earnings per share is the same as the basic earnings per share.

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Land, buildings and structures	Equipment	Motor vehicles	Furniture, fixtures and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At January 1, 2018	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
Impact on initial application of IFRS 16 (note i)	–	–	(84,234)	–	–	–	(84,234)
At January 1, 2019	849,852	44,016	338,311	50,427	75,412	61,476	1,419,494
Additions	8,880	–	1,603	4,514	13,218	8,180	36,395
Transfer from construction in progress	16,004	–	5,378	–	598	(21,980)	–
Disposals	(9,469)	–	(14,236)	(1,761)	(2,579)	–	(28,045)
At December 31, 2019	865,267	44,016	331,056	53,180	86,649	47,676	1,427,844

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	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
Accumulated depreciation:							
At January 1, 2018	(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)
Impact on initial application of IFRS 16 (note i)	–	–	20,958	–	–	–	20,958
At January 1, 2019	(338,560)	(16,488)	(213,263)	(26,145)	(48,183)	–	(642,639)
Charge for the year	(63,009)	(1,394)	(37,022)	(4,642)	(8,980)	–	(115,047)
Written back on disposals	5,588	–	10,830	1,305	1,943	–	19,666
At December 31, 2019	(395,981)	(17,882)	(239,455)	(29,482)	(55,220)	–	(738,020)
Impairment:							
At January 1, 2018	–	–	–	–	–	–	–
Impairment losses recognised (note ii)	(16,165)	–	(3,852)	–	(20)	–	(20,037)
At December 31, 2018	(16,165)	–	(3,852)	–	(20)	–	(20,037)
Written back on disposals	3,857	–	372	–	–	–	4,229
At December 31, 2019	(12,308)	–	(3,480)	–	(20)	–	(15,808)
Net book value:							
At December 31, 2019	456,978	26,134	88,121	23,698	31,409	47,676	674,016
At December 31, 2018	495,127	27,528	184,472	24,282	27,209	61,476	820,094

Note i: On the date of transition to IFRS16, assets previously under finance leases of net book value RMB63,276,000 which included in "Property, plant and equipment" were adjusted to "Right-of-use assets" recognised at January 1, 2019. See note 2(c).

Note ii: For the year ended December 31, 2018, there are certain disputes of lease terms between the Group and the lessor, which lead to these three 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 it 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 RIGHT-OF-USE ASSETS

	Properties leased for own use (note (i)) RMB'000	Equipment (note (ii)) RMB'000	Total RMB'000
Cost			
At December 31, 2018	–	–	–
Impact on initial application of IFRS 16 (note)	945,662	63,276	1,008,938
At January 1, 2019	945,662	63,276	1,008,938
Additions	33,729	3,400	37,129
Lease modification	(4,916)	–	(4,916)
At December 31, 2019	974,475	66,676	1,041,151
Accumulated amortisation and depreciation:			
At January 1, 2019	–	–	–
Charge for the year	(113,037)	(16,852)	(129,889)
At December 31, 2019	(113,037)	(16,852)	(129,889)
Net book value:			
At December 31, 2019	861,438	49,824	911,262
At December 31, 2018	–	–	–

13 RIGHT-OF-USE ASSETS *(Continued)*

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019	2018
		(Note)
	RMB'000	RMB'000
Interest on lease liabilities (note 7(a))	**55,386**	–
Total minimum lease payments for leases previously classified as operating leases under IAS 17	**–**	148,898
Expense relating to short-term leases and other leases with remaining lease term ending on or before December 31, 2019	**40,958**	–
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**1,170**	–
Variable lease payments not included in the measurement of lease liabilities	**9,823**	9,081

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at January 1, 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line. basis over the lease term. Under this approach, the comparative information is not restated (see note 2(c)(ii)).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 24(d) and 28, respectively.

(i) Properties leased for own use

The Group has obtained the right to use properties as its cinemas, offices and warehouses through tenancy agreements. The leases typically run for an initial period of 2 to 22 years. Lease payments are usually increased every 4 years to reflect market rentals.

During the year ended December 31, 2019, the Group leased a number of cinemas which contain variable lease payment terms that are based on net cinema box office income from the cinemas and minimum annual lease payment terms that are fixed. These payment terms are common in cinemas in China where the Group operates. The amount of fixed and variable lease payments for the year is summarised below:

	Fixed payments	**Variable payments**	**Total payments**
	RMB'000	RMB'000	RMB'000
Cinemas – China	97,454	9,823	107,277

13 RIGHT-OF-USE ASSETS *(Continued)*

(i) Properties leased for own use *(Continued)*

At December 31, 2019, it is estimated that an increase in sales generated from these cinemas by 5% would have increased the lease payments by RMB243,000.

(ii) Equipment

The Group leases equipment under leases primarily expiring in 5 years. None of the leases includes variable lease payment.

14 INTANGIBLE ASSETS

	Software RMB'000	Right to use the brands RMB'000	Total RMB'000
Cost:			
At January 1, 2018	4,000	28,775	32,775
Additions	5,430	–	5,430
At December 31, 2018	9,430	28,775	38,205
Additions	9,824	–	9,824
At December 31, 2019	19,254	28,775	48,029
Accumulated amortisation and impairment:			
At January 1, 2018	(33)	(1,491)	(1,524)
Charge for the year	(435)	(2,028)	(2,463)
At December 31, 2018	(468)	(3,519)	(3,987)
Charge for the year	(945)	(1,886)	(2,831)
At December 31, 2019	(1,413)	(5,405)	(6,818)
Impairment:			
At January 1, 2018	–	–	–
Impairment losses recognised	–	(2,412)	(2,412)
At December 31, 2018 and 2019	–	(2,412)	(2,412)
Net book value:			
At December 31, 2019	17,841	20,958	38,799
At December 31, 2018	8,962	22,844	31,806

14 INTANGIBLE ASSETS *(Continued)*

The amortisation charge for the year is included in "Administrative expenses" in the consolidated statement of profit or loss. The right to use the brands and the related goodwill (note 15) were raised from acquisition of Foshan XingX Entertainment Corporation Limited ("Xingxing Entertainment") in 2017. During the year ended December 31, 2018, there are dispute of lease terms between one cinema of Xingxing Entertainment and the lessor, and the cinema was not under normal operation. The Group assessed the recoverable amounts of the intangible assets and goodwill, and wrote down the carrying values of the intangible assets and goodwill to their recoverable amount of zero. An impairment loss of RMB2,412,000 and RMB11,488,000 (note 15) were recognised as "Administrative expenses".

15 GOODWILL

	RMB'000
Cost:	
At January 1, 2018, December 31, 2018 and December 31, 2019	173,380
Accumulated impairment losses:	
At January 1, 2018	–
Impairment loss	(11,488)
At December 31, 2018	(11,488)
Impairment loss	(84,959)
At December 31, 2019	(96,447)
Carrying amount:	
At December 31, 2019	76,933
At December 31, 2018	161,892

15 GOODWILL *(Continued)*

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:

	2019 RMB'000	2018 RMB'000
Cinema investment and management:		
– Xingxing Entertainment	**76,933**	161,892

As the results of Xingxing Entertainment cannot meet the management forecast and in view of the uncertainties of the PRC movie market in the foreseeable future, the Group considers there is impairment indicator on this business. For the purpose of impairment testing, the recoverable amounts of the CGUs have been determined by the Directors on the basis of 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 11.07% to 13.85%. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. Based on the result of impairment assessment, impairment losses of goodwill and interest in joint ventures of RMB84,959,000 and RMB47,866,000 was recognised during the year ended December 31, 2019, respectively.

16 INVESTMENTS IN SUBSIDIARIES

	Company	
	2019 RMB'000	2018 RMB'000
Unlisted shares, at cost	**940,220**	940,220

(Expressed in RMB unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES *(Continued)*

As at December 31, 2019, the principal subsidiaries of the Company are listed as follows:

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 Theatre Management Corporation Limited ("Beijing Poly Theatre") (Note B) 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 International Auction Corporation Limited ("Beijing Auction") (Note B) 北京保利國際拍賣有限公司	The PRC July 14, 2005	RMB10,000,000	55%	55%	–	Auction business
Beijing Poly Art Centre Corporation Limited ("Poly Art Centre") (Note B) 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)
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%	38.5%	30%	Auction business
Poly Film Investment Corporation Limited) ("Poly Film") (Note B) 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)
Poly Ronghe Financial Leasing Corporation Limited ("Poly Ronghe") (Note A) 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:

Note A: Equity-joint venture

Note B: Domestic company

16 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following table lists out the information relating to 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.

	2019 **RMB'000**	2018 RMB'000
NCI percentage	**45%**	45%
Current assets	**3,250,287**	2,231,987
Non-current assets	**110,814**	73,840
Current liabilities	**(2,885,633)**	(1,843,780)
Non-current liabilities	**(30,110)**	(4,729)
Net assets	**445,358**	457,318
Carrying amount of NCI	**200,411**	205,793
Revenue	**392,717**	440,803
Profit for the year	**50,173**	104,374
Total comprehensive income	**50,173**	104,374
Profit allocated to NCI	**22,578**	46,968
Dividend paid to NCI	**27,000**	112,500
Cash flows used in operating activities	**(157,109)**	(185,663)
Cash flows (used in)/generated from investing activities	**(272,998)**	119,082
Cash flows generated from/(used in) financing activities	**496,853**	(265,765)

(Expressed in RMB unless otherwise indicated)

17 INTEREST IN ASSOCIATES

The following list contains only the particulars of material associate:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Digital Domain Holdings Limited. ("Digital Domain") (note) 數字王國集團有限公司	Incorporated	Hong Kong	34,073,816,258 shares of HK$1 each	15.62%	15.62%	–	VFX production and post-production services

Note:

On March 22, 2019, the Company and 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 (the "Subscription"). Upon the completion of the Subscription, the Company will directly hold about 16.6% of the total number of enlarged issued shares of Digital Domain. After the completion of a placing by Digital Domain in July 2019, the Company's shareholding in Digital Domain decreased to about 15.6%. On December 31, 2019, the quoted market price of the investment in Digital Domain is HK$0.071 per share and the fair value based on the quoted market price of investment in Digital Domain was assessed to be RMB339 million. The Subscription will help the Group to strengthen its cultural and technological strength, enhance its innovation ability, market image and customer base, and facilitate the cinema investment and management, performance and theatre management, art business and auction, art education, cultural tourism and the operation and management of cultural assets.

17 INTEREST IN ASSOCIATES *(Continued)*

The above associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the material associate, fair value adjustments at acquisition and any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Digital Domain 2019 RMB'000
Gross amounts of the associate's	
Current assets	475,891
Non-current assets	773,751
Current liabilities	268,354
Non-current liabilities	356,785
Equity	
-attributable to shareholders of the associate	579,137
-attributable to non-controlling interests	45,366
Revenue	444,065
Loss attributable to shareholders of the associate	(250,613)
Other comprehensive income attributable to shareholders of the associate	(148,067)
Total comprehensive income attributable to shareholders of the associate	(398,680)
Dividend received from the associate	–
Reconciled to the Group's interests in the associate	
Gross amounts of net assets of the associate	579,137
Group's effective interest	15.62%
Group's share of net assets of the associate	90,461
Goodwill	336,339
Carrying amount in the consolidated financial statements	426,800

17 INTEREST IN ASSOCIATES *(Continued)*

Aggregate information of associates that are not individually material:

	2019 RMB'000	2018 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**310,909**	242,384
Aggregate amounts of the Group's share of those associates'		
Profit from continuing operations	**68,025**	51,049
Total comprehensive income	**68,025**	51,049

18 INTEREST IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Unlisted shares, at cost	**532,476**	529,926
Impairment loss (Note 15)	**(47,866)**	–
Share of profits, net of dividends	**(12,283)**	(13,653)
Total	**472,327**	516,273

(Expressed in RMB unless otherwise indicated)

18 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
Poly Armstrong (Beijing) International Arts&Communication Co.,Ltd 保利斯特朗(北京)國際藝術傳播有限公司	Incorporated	The PRC	51%	–	Theatre operation management
Beijing Eastern Poly Culture and Art Corporation Limited ("Eastern Poly") 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 (i)) 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 (i)) 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 (i)) 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 (i)) 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 (i)) 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 (i)) 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 (i)) 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 (i)) 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 (i)) 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.

Note:

i The joint venture was acquired through the acquisition of Xingxing Entertainment. The transaction can swiftly enhance the industry ranking and brand value of the Company's cinema investment business and has significant meaning in the establishment of a complete cinema industry value chain for the Company. In accordance with agreements between the investors, the investors exercise joint control over the entities.

18 INTEREST IN JOINT VENTURES *(Continued)*

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:

	2019 RMB'000	2018 RMB'000
Aggregate carrying amount of joint ventures in the consolidated financial statements	**472,327**	516,273
Aggregate amounts of the Group's share of those joint ventures'		
Profit from continuing operations	**(5,252)**	(8,220)
Total comprehensive income	**(5,252)**	(8,220)

19 OTHER FINANCIAL ASSETS

	Note	**2019 RMB'000**	2018 RMB'000
Current			
Financial assets measured at amortised cost			
– Loans granted under financing arrangements	(ii)		
– Within 1 year or on demand		**2,718,257**	1,569,685
– Loans to an associate		**29,503**	41,247
– Loans to a joint venture		**12,000**	12,000
		2,759,760	1,622,932
Non-current			
Financial assets measured at amortised cost			
– Loans granted under financing arrangements	(ii)		
– After 1 year but within 2 years		**–**	565,971
Financial assets measured at FVPL			
– Other equity securities	(i)	**213,115**	159,364
		213,115	725,335
		2,972,875	2,348,267

19 OTHER FINANCIAL ASSETS *(Continued)*

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.

(ii) Poly North America and Poly Ronghe granted term loans to third parties secured by works of art which bear interest from 8% to 15% per annum. Loans granted generally represent 20%-50% of the collateral's estimated value.

20 INVENTORIES

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

	2019	2018
	RMB'000	RMB'000
Antiques, works of art	**1,693,547**	1,564,367
Calligraphy, painting and sculptures	**484,566**	459,386
Small value items for resale	**7,251**	8,033
Low value materials	**3,290**	3,258
Drama rights	**8,915**	12,517
Film production	**49,029**	53,556
	2,246,598	2,101,117

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

	2019	2018
	RMB'000	RMB'000
Carrying amount of inventories sold	**102,695**	158,074

21 TRADE RECEIVABLES

	2019 **RMB'000**	2018 RMB'000
Trade receivables for sale of goods and rendering of services, net of credit loss allowance, due from		
– related parties	**6,705**	3,088
– third parties	**373,332**	325,594
Financial assets measured at amortised cost	**380,037**	328,682

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

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:

	2019 **RMB'000**	2018 RMB'000
Within 1 month	**159,518**	78,770
1 to 3 months	**18,451**	18,777
3 to 6 months	**38,970**	36,312
6 to 12 months	**74,766**	94,078
Over 1 year	**88,332**	100,745
	380,037	328,682

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 32(a).

22 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.

As at December 31, 2019, 6.9% of the consignor advances was due from the largest debtor related to art business and auction (2018: 10.9%).

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

23 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Current		
Prepayments for auctioned works of art (note (i))	**1,247,599**	774,458
Receivables for auctioned works of art	**305,673**	55,012
Rental deposits	**28,459**	24,631
Guarantee deposits	**54,085**	53,419
Interest receivables from consignor advances on auction artwork	**121,533**	89,437
Advances to staff for business related activities	**15,687**	13,445
Investment deposit	**–**	30,000
Loans to third parties (note (ii))	**84,125**	89,125
Others	**68,268**	71,705
Financial assets measured at amortised cost	**1,925,429**	1,201,232
Prepayments for purchase of inventories	**66,085**	104,020
Prepayments for performance	**73,479**	31,596
Others	**23,330**	18,969
	162,894	154,585
	2,088,323	1,355,817
Less: allowance for doubtful debts	**31,603**	1,543
Deposits, prepayments and other receivables, net of loss allowance	**2,056,720**	1,354,274

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

Notes:

(i) 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.

(ii) The balances mainly represent loans granted by the Group to third-party executive producers for film and drama series with fixed repayment terms and bear interest at rates ranged from 8% to 13% per annum. Having considered the expected future income of certain film and drama series, the respective loans granted may not be fully recoverable and an impairment charge of RMB30,000,000 is recognised.

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

	2019	2018
	RMB'000	RMB'000
At January 1	**1,543**	1,605
Impairment loss recognised	**30,153**	103
Reversal of impairment loss	**(65)**	(159)
Uncollectible amounts written off	**(28)**	(6)
At December 31	**31,603**	1,543

24 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:

	2019	2018
	RMB'000	RMB'000
Cash at bank and on hand	**1,151,244**	1,407,805

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

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

	Note	**2019** **RMB'000**	2018 (Note) RMB'000
Profit before taxation		**236,895**	507,605
Adjustments for:			
Depreciation and amortisation	7(c)	**247,767**	155,882
Net (gain)/loss on disposal of property, plant and equipment	6	**(44)**	332
Impairment loss on trade receivables	7(c)	**1,161**	666
Impairment loss/(reversal) on deposits, prepayments and other receivables	7(c)	**30,088**	(56)
Impairment loss on property, plant and equipment	7(c)	**–**	20,037
Impairment loss of goodwill	7(c)	**84,959**	11,488
Impairment loss of intangible assets	7(c)	**–**	2,412
Impairment of interest in joint ventures	18	**47,866**	–
Interest earned from consignor advances		**(76,059)**	(46,891)
Net foreign exchange loss		**1,740**	69
Finance costs	7(a)	**148,580**	41,567
Amortisation of deferred revenue		**(17,815)**	(17,139)
Share of profits less losses of associates		**(40,326)**	(51,049)
Share of profits less losses of joint ventures		**(5,252)**	(8,220)
Dividend income from other equity securities	6	**(3,806)**	(2,938)
Changes in fair value of other equity securities		**(23,534)**	(16,548)
Changes in working capital:			
Increase in inventories		**(145,481)**	(135,262)
Decrease in trade receivables		**51,726**	141,400
(Increase)/decrease in loans granted under financing arrangements		**(748,453)**	218,561
Increase in deposits, prepayments and other receivables		**(792,689)**	(595,554)
Decrease in long-term prepayments		**226**	226
(Increase)/decrease in restricted cash		**(21,384)**	128,216
Increase in contract liabilities		**76,210**	497,448
Increase/(decrease)in trade and other payables		**646,165**	(1,023,953)
Cash used in operations		**(301,460)**	(171,701)

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

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

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Previously, cash payments under operating leases made by the Group as a lessee of RMB157,979,000 were classified as operating activities in the consolidated cash flow statement. Under IFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 24(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in note 2(c).

(c) Reconciliation of liabilities arising from financing activities:

	Bank loans RMB'000 (Note 25)	Borrowings from joint ventures RMB'000 (Note 25)	Bonds RMB'000 (Note 25)	Debentures RMB'000 (Note 25)	Borrowings from controlling equity owner RMB'000 (Note 25)	Borrowings from an associate RMB'000 (Note 25)	Borrowings from a non-controlling equity owner RMB'000 (Note 25)	Interest payable RMB'000 (Note 26)	Lease liabilities RMB'000 (Note 28)	Total RMB'000
At December 31, 2018	2,088,621	76,790	1,000,000	–	–	2,000	–	30,351	–	3,197,762
Impact on initial application of IFRS 16 (Note)	-	-	-	-	-	-	-		1,189,567	1,189,567
At January 1, 2019	2,088,621	76,790	1,000,000	-	-	2,000	-	30,351	1,189,567	4,387,329
Changes from financing cash flows:										
Proceeds from bank loans	4,018,625	-	-	-	-	-	-	-	-	4,018,625
Repayment of bank loans	(2,773,736)	-	-	-	-	-	-	-	-	(2,773,736)
Proceeds from issue of debentures	-	-	-	400,000	-	-	-	-	-	400,000
Repayment of debentures	-	-	-	(200,000)	-	-	-	-	-	(200,000)
Proceeds from borrowings from joint ventures	-	15,660	-	-	-	-	-	-	-	15,660
Proceeds from borrowings from an associate	-	-	-	-	-	18,000	-	-	-	18,000
Repayment of borrowings from an associate	-	-	-	-	-	(2,000)	-	-	-	(2,000)
Proceeds from borrowings from the controlling equity owner	-	-	-	-	180,000	-	-	-	-	180,000
Proceeds from borrowings from a non-controlling equity owner	-	-	-	-	-	-	800	-	-	800
Capital element of lease rentals paid	-	-	-	-	-	-	-	-	(107,292)	(107,292)
Interest element of lease rentals paid (note 7(a))	-	-	-	-	-	-	-	-	(55,386)	(55,386)
Borrowing costs paid	-	-	-	-	-	-	-	(88,558)	-	(88,558)
Total changes from financing cash flows	1,244,889	15,660	-	200,000	180,000	16,000	800	(88,558)	(162,678)	1,406,113
Other changes:										
Effect of foreign exchange rate changes	17,604	-	-	-	-	-	-	-	1,118	18,722
Increase in lease liabilities from entering into new leases during the year	-	-	-	-	-	-	-	-	35,814	35,814
Lease modifications	-	-	-	-	-	-	-	-	(4,987)	(4,987)
Interest expenses (note 7(a))	-	-	-	-	-	-	-	93,194	55,386	148,580
Capitalised borrowing costs (note 7(a))	-	-	-	-	-	-	-	205	-	205
Total other changes	17,604	-	-	-	-	-	-	93,399	87,331	198,334
At December 31, 2019	3,351,114	92,450	1,000,000	200,000	180,000	18,000	800	35,192	1,114,220	5,991,776

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at January 1, 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. See notes 2(c) and 24(b).

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

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

	Bank loans RMB'000 (Note 25)	Borrowings from joint ventures RMB'000 (Note 25)	Bonds RMB'000 (Note 25)	Debentures RMB'000 (Note 25)	Borrowings from a related party RMB'000 (Note 25)	Borrowings from associates RMB'000 (Note 25)	Interest payable RMB'000 (Note 26)	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 a 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

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 **RMB'000**	2018 (Note) RMB'000
Within operating cash flows	**51,951**	157,979
Within financing cash flows	**162,678**	–
	214,629	157,979

Note: As explained in the note 24(b), the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

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

(d) Total cash outflow for leases *(Continued)*

These amounts relate to the following:

	2019 RMB'000	2018 RMB'000
Lease rentals paid	**214,629**	157,979

25 INTEREST-BEARING BORROWINGS

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

	2019 RMB'000	2018 RMB'000
Current Interest-bearing borrowings		
Bank loans		
– Unsecured	**3,171,114**	2,030,582
Borrowings from joint ventures(note 35(c))(note (i))	**92,450**	76,790
Borrowings from an associate(note 35(c))((note (ii))	**18,000**	2,000
Debentures (note (iii))	**200,000**	–
Bonds (note (iv))	**300,000**	–
Borrowings from the controlling equity owner (note (v))	**180,000**	–
Borrowings from a non-controlling equity owner	**800**	–
	3,962,364	2,109,372
Non-current Interest-bearing borrowings		
Bonds (note (iv))	**700,000**	1,000,000
Bank loans		
– Unsecured	**180,000**	58,039
	880,000	1,058,039
	4,842,364	3,167,411

(Expressed in RMB unless otherwise indicated)

25 INTEREST-BEARING BORROWINGS *(Continued)*

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

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 with a maturity period of one year.

(ii) The borrowings from an associate bear interest at variable-rate between 0% and 8% per annum, are unsecured with a maturity period of one year.

(iii) On September 25, 2019, the Company issued short-term debentures with an aggregate principal amount of RMB200 million with a term of 270 days (the maturity date being June 21, 2020), nominal value per unit of RMB100 and coupon rate of 3.48% per annum.

(iv) On March 15, 2017, the Company issued corporate bonds with an aggregate principal amount of RMB300 million with a term of three years, nominal value per unit of RMB100 and coupon rate of 4.80% per annum. 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.

(v) The borrowings from the controlling equity owner bear interest at variable-rate of one-year benchmark lending rate with floating rate upwards by 0.30% per annum, are unsecured with a maturity period of one year.

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

	2019 **%**	2018 %
Fixed-rate borrowings		
– Bank loans	**4.13-5.44**	4.57 – 5.67
– Borrowings from joint ventures	**2.40-3.20**	2.40-3.20
– Bonds	**4.70-4.92**	4.70-4.92
– Debentures	**3.48**	–
– Borrowings from a non-controlling equity owner	**4.35**	–
Variable-rate borrowings		
– Bank loans	**1-month HIBOR+1.95%- 1-month HIBOR+2.5%**	1-month HIBOR +1.75%– one-year benchmark lending rate with floating rate upwards by 25%
– Borrowings from an associate	**0%-8%**	0%-8%
– Borrowings from the controlling equity owner	**one-year benchmark lending rate with floating rate upwards by 0.30%**	–

25 INTEREST-BEARING BORROWINGS *(Continued)*

(c) At December 31, 2019, the Interest-bearing borrowings were repayable as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year or on demand	**3,962,364**	2,109,372
After 1 year but within 2 years	**880,000**	358,039
After 2 years but within 3 years	**–**	700,000
	4,842,364	3,167,411

26 TRADE AND OTHER PAYABLES

	December 31, 2019 RMB'000	January 1, 2019 (Note) RMB'000	December 31, 2018 (Note) RMB'000
Current			
Trade payables to			
– related parties	**53,207**	75,827	75,827
– third parties	**113,498**	139,027	245,678
	166,705	214,854	321,505
Interest payables			
– related parties	**8,497**	8,497	8,497
– third parties	**26,695**	21,854	21,854
Payables for staff related costs	**56,354**	49,876	49,876
Payables for other taxes and surcharges	**73,476**	72,046	72,046
Dividends payable	**1,494**	307	307
Other accruals and payables			
– related parties	**29,115**	7,229	10,531
– third parties	**1,691,218**	1,097,392	1,114,854

26 TRADE AND OTHER PAYABLES *(Continued)*

	December 31, 2019	January 1, 2019 (Note)	December 31, 2018 (Note)
	RMB'000	RMB'000	RMB'000
Financial liabilities measured at amortised cost	**2,053,554**	1,472,055	1,599,470
Receipts in advance			
– related parties	**–**	20,000	20,000
– third parties	**–**	5,548	5,548
	–	25,548	25,548
	2,053,554	1,497,603	1,625,018
Non-current			
Payable for purchase of equipment			
– related parties	**–**	–	1,603
– third parties	**1,040**	2,551	42,372
	1,040	2,551	43,975

As at December 31, 2019, the aging analysis of trade payables presented based on the invoice date is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 12 months	**98,942**	254,791
Over 12 months	**67,763**	66,714
	166,705	321,505

Note: On the date of transition to IFRS 16, finance lease payment of RMB56,680,000 was reclassified as lease liabilities and accrued operating lease payments of RMB112,159,000 were adjusted to retained profits recognised at January 1, 2019. See note 2(c).

27 CONTRACT LIABILITIES

	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Receipts in advance		
– Billings in advance of theatre and cinema performance	**339,256**	281,170
– Billings in advance of art business	**150,850**	138,709
Others	**83,552**	77,569
	573,658	497,448

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, 2019 and 2018, has been substantially recognised as revenue during the respective year.

28 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	December 31, 2019		January 1, 2019 (Note)		December 31, 2018 (Note)	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	165,440	169,079	154,799	158,260	16,809	17,208
After 1 year but within 2 years	134,198	144,171	146,847	157,245	15,150	16,287
After 2 years but within 5 years	314,658	371,502	324,594	383,288	24,721	28,715
After 5 years	499,924	760,051	563,327	874,268	–	–
	948,780	1,275,724	1,034,768	1,414,801	39,871	45,002
	1,114,220	1,444,803	1,189,567	1,573,061	56,680	62,210
Less: total future interest expenses		330,583		383,494		5,530
Present value of lease liabilities		1,114,220		1,189,567		56,680

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Further details on the impact of the transition to IFRS 16 are set out in note 2(c).

29 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.

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Group

	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Tax payable at January 1	**78,469**	94,434
Provision for the year (note 8(a))	**97,061**	131,812
Under-provision in respect of prior years (note 8(a))	**5,711**	4,546
Income tax paid	**(123,199)**	(152,323)
Tax payable at December 31	**58,042**	78,469

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

(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	Right-of-use assets and 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 RMB'000	Total RMB'000
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)
Exchange adjustments	–	–	–	–	785	–	–	785
At December 31, 2018	1,334	10,927	278	22,177	253	(5,711)	(11,883)	17,375
Impact on initial application of IFRS 16	–	–	–	616	–	–	–	616
At January 1, 2019	1,334	10,927	278	22,793	253	(5,711)	(11,883)	17,991
Credited/(charged) to profit or loss	(55)	(3,927)	–	3,218	–	472	(5,883)	(6,175)
Exchange adjustments	–	–	–	–	273	–	–	273
At December 31, 2019	1,279	7,000	278	26,011	526	(5,239)	(17,766)	12,089

(ii) Reconciliation to the statement of consolidated financial position

	2019 RMB'000	2018 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**35,094**	34,969
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(23,005)**	(17,594)
	12,089	17,375

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(t), the Group has not recognised deferred tax assets in respect of unused tax losses of RMB329,495,000 as at December 31, 2019 (2018: RMB235,155,000), 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, 2019, the unused tax losses of RMB34,756,000, RMB31,294,000, RMB31,466,000, RMB116,609,000 and RMB115,370,000 will expire at the end of the year 2020, 2021, 2022, 2023 and 2024, respectively.

31 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, 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	31(b)	–	–	–	(50,987)	(50,987)
Balance at December 31, 2018		246,316	1,982,448	158,361	1,031,320	3,418,445
Impact on initial application of IFRS 16		–	–	–	(400)	(400)
Balance at January 1, 2019		246,316	1,982,448	158,361	1,030,920	3,418,045
Changes in equity for 2019:						
Total comprehensive income for the year		–	(23,313)	–	190,595	167,282
Share of other comprehensive income of investments accounted for using the equity method		–	2,720	–	–	2,720
Dividends approved in respect of the previous year	31(b)	–	–	–	(42,366)	(42,366)
Balance at December 31, 2019		246,316	1,961,855	158,361	1,179,149	3,545,681

Note: The Group, including the Company, has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at January 1, 2019. See notes 2(c).

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

	2019	2018
	RMB'000	RMB'000
Final dividend proposed after the end of the reporting period of RMB0.071 per ordinary share (2018: RMB0.172 per ordinary share)	**17,488**	42,366

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:

	2019	2018
	RMB'000	RMB'000
Dividend in respect of the previous financial year, approved and paid during the year, of RMB0.172 per ordinary share (2018: RMB0.207 per ordinary share)	**42,366**	50,987

(c) Share capital

Issued share capital

	2019		2018	
	No, of shares '000	**RMB'000**	No, of shares '000	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, the difference between the considerations of acquisition or disposal of equity interests from/to non-controlling equity owners, the carrying amount of the proportionate net assets and the share of other changes of investments accounted for using the equity method.

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

(ii) Share premium

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

(iii) PRC statutory reserve

The subsidiaries in the PRC are required to appropriate 10% of its after-tax profit to the general reserve fund as determined until the cumulative amounts reach 50% of the registered capital 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 31(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.

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(f) Capital management *(Continued)*

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 an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and lease liabilities) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from January 1, 2019. This caused a significant increase in the Group's total debt and hence the Group's adjusted net debt-to-capital ratio rose from 36% to 61% on January 1, 2019 when compared to its position as at December 31, 2018.

Considering the impact of the application of IFRS 16, during 2019, the Group reassessed the range at which it maintains its adjusted net debt-to-capital ratio to be 61% to 98% (2018: 18% to 36%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(f) Capital management *(Continued)*

The Group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to IFRS 16 was as follows:

	Note	December 31, 2019 RMB'000	January 1, 2019 (Note) RMB'000	December 31, 2018 (Note) RMB'000
Current liabilities:				
Interest-bearing borrowings		**3,962,364**	2,109,372	2,109,372
Lease liabilities		**165,440**	154,799	–
		4,127,804	2,264,171	2,109,372
Non-current liabilities:				
Interest-bearing borrowings		**880,000**	1,058,039	1,058,039
Lease liabilities		**948,780**	1,034,768	–
		1,828,780	2,092,807	1,058,039
Total debt		**5,956,584**	4,356,978	3,167,411
Add: Proposed dividends	31(b)	**17,488**	42,366	42,366
Less: Cash and cash equivalents	24	**(1,151,244)**	(1,407,805)	(1,407,805)
Adjusted net debt		**4,822,828**	2,991,539	1,801,972
Total equity		**4,919,978**	4,924,813	5,001,861
Proposed dividends	31(b)	**(17,488)**	(42,366)	(42,366)
Adjusted capital		**4,902,490**	4,882,447	4,959,495
Adjusted net debt-to-capital ratio		**98%**	61%	36%

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 2(c).

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

32 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, the Group and the Company does not provide any other guarantees which would expose the Group or the Company to credit risk.

(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, 7% (2018: 6%) and 26% (2018: 19%) 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.

32 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 of the performance and theatre management and cinema investment and management segments as at December 31, 2019:

	2019			2018	
	Expected loss rate %	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**	Gross carrying amount RMB'000	Loss allowance RMB'000
Less than 1 year	**1.3%**	**123,893**	**(1,665)**	68,092	(2,435)
1-2 years	**20%**	**7,184**	**(1,437)**	6,271	(1,243)
2-3 years	**30%**	**4,952**	**(1,486)**	916	(365)
3-4 years	**50%**	**361**	**(181)**	204	(63)
4-5 years	**80%**	**144**	**(115)**	225	(140)
More than 5 years	**100%**	**374**	**(374)**	737	(641)
		136,908	**(5,258)**	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 of the art business and auction segments, 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.

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

(a) Credit risk *(Continued)*

(i) Trade receivables *(Continued)*

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

	2019 **RMB'000**	2018 RMB'000
Balance at January 1	**4,887**	4,220
Impairment loss recognised	**2,283**	1,825
Exchange adjustments	**–**	1
Reversal of impairment loss	**(1,122)**	(1,159)
Uncollectible amounts written off	**(790)**	–
At December 31	**5,258**	4,887

(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 notes 19, 22 and 23. 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, 2019 and December 31, 2018.

(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.

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:

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

(b) Liquidity risk *(Continued)*

	2019 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 December 31 RMB'000
Bank loans (note 25)	**3,257,847**	**195,145**	**–**	**–**	**3,452,992**	**3,351,114**
Borrowings from joint ventures (note 25)	**94,496**	**–**	**–**	**–**	**94,496**	**92,450**
Borrowings from an associate (note 25)	**18,862**	**–**	**–**	**–**	**18,862**	**18,000**
Bonds (note 25)	**302,919**	**760,355**	**–**	**–**	**1,063,274**	**1,000,000**
Debenture (note 25)	**203,299**	**–**	**–**	**–**	**203,299**	**200,000**
Borrowings from the controlling equity owner (note 25)	**182,156**	**–**	**–**	**–**	**182,156**	**180,000**
Borrowings from a non-controlling equity owner (note 25)	**801**	**–**	**–**	**–**	**801**	**800**
Lease liabilities (note)	**169,079**	**144,171**	**371,502**	**760,051**	**1,444,803**	**1,114,220**
Trade and other payables measured at amortised costs (note 26)	**2,053,554**	**1,040**	**–**	**–**	**2,054,594**	**2,054,594**
	6,283,012	**1,100,711**	**371,502**	**760,051**	**8,515,276**	**8,011,178**

	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 December 31 RMB'000
Bank loans (note 25)	2,067,782	61,061	–	–	2,128,843	2,088,621
Borrowings from joint ventures (note 25)	78,086	–	–	–	78,086	76,790
Borrowings from associates (note 25)	2,075	–	–	–	2,075	2,000
Bonds (note 25)	–	317,319	794,135	–	1,111,454	1,000,000
Trade and other payables measured at amortised costs (note 26)	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

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognise other lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Lease liabilities include amounts recognised at the date of transition to IFRS 16 in respect of leases previously classified as operating leases under IAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 2(c).

32 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 25.

	2019 **RMB'000**	2018 RMB'000
Floating rate financial assets:		
Other financial assets	**184,221**	174,172
Fixed rate borrowings:		
Bank loans	**(1,652,073)**	(1,048,000)
Borrowings from joint ventures	**(92,450)**	(76,790)
Bonds	**(1,000,000)**	(1,000,000)
Debentures	**(200,000)**	–
Borrowings from a non-controlling equity owner	**(800)**	–
Floating rate borrowings:		
Bank loans	**(1,699,041)**	(1,040,621)
Borrowings from an associate	**(18,000)**	(2,000)
Borrowings from the controlling equity owner	**(180,000)**	–
Total borrowings	**(4,842,364)**	(3,167,411)
Net borrowings	**(4,658,143)**	(2,993,239)
Fixed rate borrowings as a percentage of total borrowings	**60.82%**	67.08%

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 2(c).

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

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At December 31, 2019, 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 RMB13,381,000 (2018: RMB6,954,000). 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 on 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 on 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.

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

(d) Currency risk *(Continued)*

(ii) Exposure to currency risk (Continued)

	Exposure to foreign currencies (expressed in RMB)	
	2019	2018
	RMB'000	RMB'000
Other financial assets		
– in USD	**246,766**	246,200
Cash and cash equivalents		
– in USD	**131,913**	34,230
– in HKD	**8,058**	8,541
– in CAD	**808**	650
Trade and other receivables		
– in USD	**112**	487
– in HKD	**132,812**	191,453
– in CAD	**3,457**	353
Trade and other payables		
– in HKD	**(177,224)**	(241,244)
– in USD	**–**	(17,707)
Bank loans		
– in USD	**(62,786)**	(61,769)
Net exposure	**283,916**	161,194

(iii) Sensitivity analysis

	2019	2018
	RMB'000	RMB'000
HKD	**(1,298)**	(1,403)
USD	**12,204**	7,451
CAD	**166**	40

A 5% weakening of RMB against the above currency as at December 31, 2019 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 2018.

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

(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, 2018 and 2019, the fair value measure of all unlisted equity securities falls into Level 3 of the fair value hierarchy, 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.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2019 **RMB'000**	2018 RMB'000
Other equity securities:		
At 1 January	**159,364**	142,816
Additions	**30,216**	–
Changes in fair value during the year	**23,534**	16,548
At 31 December	**213,114**	159,364

32 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, 2018 and 2019.

33 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, 2019 not provided for in the financial statements were as follows:

	2019	2018
	RMB'000	RMB'000
Contracted for	**182,574**	59,226
Authorised but not contracted for	**812,355**	805,875
	994,929	865,101

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

	Properties	Others
	RMB'000	RMB'000
Within 1 year	**200,466**	188
After 1 year but within 5 years	**613,403**	312
After 5 years	**993,610**	–
	1,807,479	500

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at January 1, 2019 to recognise lease liabilities relating to these leases (see note 2(c)). From January 1, 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(k), and the details regarding the Group's future lease payments are disclosed in note 28.

34 CONTINGENT ASSETS AND LIABILITIES

(a) 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 RMB52,000,000 (2018: RMB154,000,000).

(b) Contingent liability in respect of legal claim

A number of outstanding litigation against the Group had arisen in the normal course of its business as at December 31, 2019. After consulting the legal professional advice, the Group's management believes that such litigation will not have a significant financial impact on the Group.

35 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, 2019 and 2018:

(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:

	2019 **RMB'000**	2018 RMB'000
Short-term employee benefits	**12,241**	10,356
Post-employment benefits	**1,291**	650
	13,532	11,006

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

35 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Name and relationship with related parties

During the years ended December 31, 2019 and 2018, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
China Poly Group Corporation ("Poly Group") 中國保利集團有限公司	Parent and ultimate holding company
Poly Group's affiliates (note (i)) 保利集團附屬公司	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
Digital Domain Holdings Limited ("Associates") 數字王國集團有限公司	Associate 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

35 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:

	2019 **RMB'000**	2018 RMB'000
Sales to Poly Group and its affiliates	**–**	5,276
Service provided to Poly Group and its affiliates	**2,930**	5,708
Receiving Service from (note (iii)) Poly Group and its affiliates	**254,931**	256,890
Receiving Service from Eastern Poly	**492**	–
Receiving Service from Associates	**2,220**	469
Rental from Poly Group and its affiliates	**17,895**	31,402
Rental from Eastern Poly	**333**	333
Interest income from Poly Group and its affiliates	**4,296**	3,656
Interest income from Eastern Poly	**485**	485

35 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

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

	2019 RMB'000	2018 RMB'000
Property management services (note (iv))		
Poly Group and its affiliates	**6,707**	4,905
Borrowing from (note (v))		
Poly Group and its affiliates	**380,000**	150,000
Borrowings from (note 25(a))		
Poly Investment Fund	**18,000**	20,000
Borrowings from (note 25(a)) (note (vi))		
Joint ventures	**15,660**	15,590
Borrowing costs to		
Poly Group and its affiliates	**12,729**	11,273
Borrowing costs to		
Joint ventures	**2,583**	2,002
Borrowing costs to		
Poly Investment Fund	**1,021**	82
Repayment of loans		
Poly Group and its affiliates	**150,000**	250,000
Repayment of loans (note (vii))		
Poly Investment Fund	**2,000**	18,000
Loans to		
Joint ventures	**–**	41,247
Repayment from loans to		
Joint ventures	**11,744**	–
Loans to		
Eastern Poly	**–**	3,000
Interest expenses		
Poly Group and its affiliates	**–**	97

35 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 RMB180 million from Poly Group and RMB200 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 interest-bearing borrowings.

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

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

	2019 **RMB'000**	2018 RMB'000
Cash and cash equivalents (note)		
Poly Group and its affiliates	**508,116**	329,622
Deposits with original maturities over three months (note)		
Poly Group and its affiliates	**143,971**	51,584
Trade receivables (note 21)		
Poly Group and its affiliates	**6,705**	3,088
Deposits, prepayments and other receivables		
Poly Group and its affiliates	**22,195**	49,765
Deposits, prepayments and other receivables		
Joint ventures	**3,862**	3,821

35 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

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

	2019 RMB'000	2018 RMB'000
Deposits, prepayments and other receivables		
Associates	**996**	380
Loans to (note 19)		
Joint ventures	**12,000**	12,000
Loans to (note 19)		
Associates	**29,503**	41,247
Trade and other payables		
Poly Group and its affiliates	**69,203**	96,158
Trade and other payables		
Associates	**21,063**	20,300
Trade and other payables		
Joint ventures	**553**	–
Contract liabilities		
Poly Group and its affiliates	**251**	730
Interest-bearing borrowings		
Poly Group and its affiliates	**380,000**	150,000
Interest-bearing borrowings (note 25(a))		
Joint ventures	**92,450**	76,790
Interest-bearing borrowings (note 25(a))		
Associates	**18,000**	2,000

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 3.3% according to the period of bank deposits.

35 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(e) Lease of the properties and machinery

The Group has initially applied IFRS16 as from January 1, 2019. Based on IFRS16, the minimum amount of rent payable by the Group to its joint ventures and Poly Group's affiliates under the terms of the arrangements in connection with its use of properties and machinery had resulted in recognition of a lease liability with the balance of RMB281,000 and RMB66,311,000, and a right-of-use asset with the balance of RMB372,000 and RMB64,575,000 as at December 31, 2019, respectively. In addition, the Group recorded depreciation of right-of-use asset of RMB186,000 and RMB16,402,000 interest expense of RMB9,000 and RMB8,919,000, respectively, and variable lease payments of RMB5,235,000 in its consolidated statement of comprehensive income of Poly Group's affiliates for the year ended December 31, 2019.

The total amounts of lease payments and service charges incurred under the lease arrangement by the Group to its joint ventures and Poly Group's affiliates for the year ended December 31, 2019 were RMB333,000 and RMB39,299,000 (for the year ended December 31, 2018: RMB333,000 and RMB31,402,000), respectively. The related payable balance to Poly Group's affiliates included in the balance of amounts due to related parties as at December 31, 2019 was RMB5,084,000 (December 31, 2018: RMB5,287,000).

36 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2019

(Expressed in RMB)

	Note	December 31, 2019 RMB'000	January 1, 2019 RMB'000	December 31, 2018 (Note) RMB'000
Non-current assets				
Property, plant and equipment		**1,444**	1,798	1,798
Right-of-use assets		**1,118**	5,589	–
Investments in subsidiaries	16	**940,220**	940,220	940,220
Interest in associates		**558,803**	126,423	126,423
Interest in joint ventures		**24,709**	26,163	26,163
Other financial assets		**210,946**	157,412	157,412
		1,737,240	1,257,605	1,252,016
Current assets				
Trade receivables		**39,361**	6,926	6,926
Deposits, prepayments and other receivables		**3,750,639**	2,927,687	2,927,687
Other financial assets		**29,503**	41,247	41,247
Cash and cash equivalents		**78,205**	393,926	393,926
		3,897,708	3,369,786	3,369,786
Current liabilities				
Interest-bearing borrowings		**896,000**	100,000	100,000
Lease liabilities		**1,227**	4,820	–
Trade and other payables		**274,647**	84,188	84,188
Current taxation		**19,627**	7,287	7,287
		1,191,501	196,295	191,475

36 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2019 *(Continued)*

(Expressed in RMB)

	Note	December 31, 2019 RMB'000	January 1, 2019 RMB'000	December 31, 2018 RMB'000
Net current assets		**2,706,207**	3,173,491	3,178,311
Total assets less current liabilities		**4,443,447**	4,431,096	4,430,327
Non-current liabilities				
Deferred tax liabilities		**17,766**	11,882	11,882
Lease liability		**–**	1,169	–
Interest-bearing borrowings		**880,000**	1,000,000	1,000,000
		897,766	1,013,051	1,011,882
NET ASSETS		**3,545,681**	3,418,045	3,418,445
CAPITAL AND RESERVES	31			
Share capital		**246,316**	246,316	246,316
Reserves		**3,299,365**	3,171,729	3,172,129
TOTAL EQUITY		**3,545,681**	3,418,045	3,418,445

Approved and authorised for issue by the board of directors on March 31, 2020.

Jiang Yingchun
Director

Liu Shibin
Authorised non-director

Note: The Company has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

37 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 31(b)(i).

The Corona Virus Disease 2019 ("COVID-19") pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position.

China has undertaken national measures to prevent and control the spread of the disease since COVID-19 pandemic. It has material adverse effect on the Group's business. According to the relevant requirements of the government since late January 2020, part of art auction of the Group has been postponed, and all theatres and cinemas have been closed. The resumption of business will depend on the development of the situation of COVID-19 pandemic and the government's policies.

Since the COVID-19 pandemic, the Group has started innovative ideas of the online business mode to carry out the "cultural service transformation", and launched activities such as cloud collection, cloud theatre, cloud cinema, online art education, online thematic selling of art works, and special meal delivery of the cinema to lay a good foundation for the follow-up full resumption. The Group will be constantly concerned about the development and situation of the COVID-19 pandemic, and its impact on the Group's financial and operating performance will be continuously assessed meanwhile we will take necessary measures to minimise relevant business risks.

38 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at January 1, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

39 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At December 31, 2019, 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.

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019 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
Amendments to IFRS 3, Definition of a business	January 1, 2020
Amendments to IAS 1 and IAS 8, Definition of material	January 1, 2020

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 it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Definitions

"Articles"	the articles of association of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"Board of Supervisors"	the board of Supervisors of the Company
"Companies Ordinance"	the old Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and new Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company", "Poly Culture" or "we", "us", "our"	Poly Culture Group Corporation Limited (保利文化集團股份有限公司) and except where the context indicates otherwise, all of its subsidiaries and with respect to the period before our Company became the holding company of its present subsidiaries, the businesses operated by its present subsidiaries or (as the case may be) their predecessors
"Connected Person(s)"	has the meaning ascribed to it under the Listing Rules
"Connected Transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Continuing Connected Transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Corporate Governance Code"	Corporate Governance Code and Corporate Governance Report on Corporate Governance in Appendix 14 to the Listing Rules
"Directors"	the directors of the Company
"Domestic Shares"	ordinary Shares in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group"	the Company and its subsidiaries
"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
"IFRS(s)"	International Financial Reporting Standards and its notes

"Latest Practicable Date"	April 22, 2020, 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), a subsidiary of Poly Group
"Poly Finance"	Poly Finance Company Limited (保利財務有限公司)
"Poly Group"	China Poly Group Corporation Limited, a state-owned company incorporated in the PRC and our Controlling Shareholder, and (when the context requires) including its subsidiaries
"Poly International"	Poly International Holdings Limited (保利國際控股有限公司), a limited liability company incorporated in the PRC
"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, 2019 to December 31, 2019
"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
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"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

www.polyculture.com.cn