

---

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

---

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Poly Culture Group Corporation Limited (保利文化集團股份有限公司), you should at once hand this circular to the purchaser or transferee or to the bank or stockbroker or other licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

---



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

**(Stock Code: 3636)**

**PROPOSED APPOINTMENT OF MR. GUO WENPENG AS  
EXECUTIVE DIRECTOR  
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
FOR 2023 TO 2025  
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION  
AND  
NOTICE OF THE 2022 FIRST EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board  
Committee and the Independent Shareholders**



---

The Extraordinary General Meeting will be held by the Company at 2:30 p.m. on Wednesday, 30 November 2022 at the Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, PRC.

A form of proxy (the “**Proxy Form**”) and reply slip (the “**Reply Slip**”) for use at the Extraordinary General Meeting have already been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://polyculture.com.cn>) on 13 October 2022. Holders of H Shares who intend to appoint a proxy to attend the Extraordinary General Meeting are requested to complete and return the Proxy Form in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the Extraordinary General Meeting or any adjournment thereof (as the case may be). Completion and return of the Proxy Form will not preclude you from attending the Extraordinary General Meeting and voting in person if you so wish. Holders of H Shares who intend to attend the Extraordinary General Meeting in person or by proxy should complete and return the Reply Slip in accordance with the instructions printed thereon on or before Thursday, 10 November 2022.

4 November 2022

---

## CONTENTS

---

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	4
Introduction .....	4
I. Proposed Appointment of Mr. Guo Wenpeng as Executive Director .....	5
II. Renewal of Continuing Connected Transactions for 2023 to 2025 .....	6
(I) Renewal of the New Cinema Box Office Income Sharing Framework Agreement .....	6
(II) Renewal of the Annual Caps under the Property Lease Framework Agreement ..	15
III. Proposed Amendments to the Articles of Association .....	23
Extraordinary General Meeting .....	24
Procedures for Voting at the Extraordinary General Meeting .....	25
Recommendation .....	25
Additional Information .....	26
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	27
<b>LETTER FROM INDEPENDENT FINANCIAL ADVISER</b> .....	28
<b>APPENDIX – GENERAL INFORMATION</b> .....	46
<b>NOTICE OF THE 2022 FIRST EXTRAORDINARY GENERAL MEETING</b> .....	50

---

## DEFINITIONS

---

*Unless the context otherwise requires, the following expressions in this circular shall have the following meanings:*

“Articles of Association”	the articles of association of the Company (as amended, supplemented or otherwise modified from time to time)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board” or “Board of Directors”	the board of directors of the Company
“Cinema Box Office Income Sharing Framework Agreement”	the cinema box office income sharing framework agreement entered into between the Company and Poly Group on 21 October 2019
“Company”	Poly Culture Group Corporation Limited (保利文化集團股份有限公司), a joint stock limited liability company incorporated in the PRC on 14 December 2010, and its H Shares are listed on the Stock Exchange and the stock code is 03636
“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
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary shares in the Company’s share capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“Extraordinary General Meeting”	the 2022 first extraordinary general meeting of the Company to be held at 2:30 p.m. on Wednesday, 30 November 2022 at the Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, PRC
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) contained in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Stock Exchange and traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

---

## DEFINITIONS

---

“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board
“IFRS 16”	No. 16 of International Financial Reporting Standards issued by the International Accounting Standards Board, which sets out the recognition, measurement, presentation and disclosure of leases.
“Independent Board Committee”	the independent committee of the Board, comprising of all the independent non-executive Directors of the Company, namely Ms. Li Xiaohui, Mr. Sun Hua and Mr. Fung Edwin. The purpose of setting up the committee is to provide advice to the Independent Shareholders in respect of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 as well as the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, who has been appointed as the independent financial adviser to give advice to the Independent Board Committee and the Independent Shareholders in respect of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 as well as the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement
“Independent Shareholder(s)”	the Shareholders who are not required to abstain from voting in respect of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 as well as the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement
“Latest Practicable Date”	1 November 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Cinema Box Office Income Sharing Framework Agreement”	the cinema box office income sharing framework agreement entered into between the Company and Poly Group on 13 October 2022
“Poly Film”	Poly Film Investment Co., Ltd. (保利影業投資有限公司), a wholly-owned subsidiary of the Company

---

## DEFINITIONS

---

“Poly Group”	China Poly Group Corporation (中國保利集團公司), a state-owned company incorporated in the PRC and the controlling shareholder of the Company, 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 state-owned company incorporated in the PRC, a wholly-owned subsidiary of Poly Group and a substantial Shareholder of the Company
“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 26 July 2005 in the PRC, 51% and 49% of its equity interest are respectively held by Poly Group and Chongqing Wanhe Film Co., Ltd. (重慶萬和影業有限責任公司), an independent third party. It is a subsidiary of Poly Group, and thus constitutes a connected person of the Company
“PRC” or “China”	the People’s Republic of China
“Property Lease Framework Agreement”	the property lease framework agreement entered into between the Company and Poly Group on 14 February 2014
“Prospectus”	the Company’s prospectus dated 24 February 2014
“RMB”	Renminbi, the lawful currency 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)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	supervisor(s) of the Company
“%”	percentage

---

## LETTER FROM THE BOARD

---



*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 3636)**

*Executive Directors:*

Mr. Wang Bo (*Chairman*)  
Mr. Zhang Xi  
Mr. Jiang Yingchun (*Vice Chairman*)  
Mr. Xu Bei

*Registered Office:*

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

*Non-executive Directors:*

Ms. Zhang Hong  
Mr. Fu Chengrui

*Principal Place of Business in Hong Kong:*

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

*Independent Non-executive Directors:*

Ms. Li Xiaohui  
Mr. Sun Hua  
Mr. Fung Edwin

4 November 2022

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED APPOINTMENT OF MR. GUO WENPENG AS  
EXECUTIVE DIRECTOR  
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
FOR 2023 TO 2025  
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

**INTRODUCTION**

The purpose of this circular is to give you notice of the Extraordinary General Meeting and to provide you with all information reasonably necessary to enable you to make an informed decision on whether to vote for or against the following resolutions to be proposed at the Extraordinary General Meeting.

At the Extraordinary General Meeting, ordinary resolutions will be proposed to consider and approve: (i) proposed appointment of Mr. Guo Wenpeng as executive Director; (ii) renewal of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025; and (iii) renewal of the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement; and a special resolution will be proposed to consider and approve: (iv) proposed amendments to the Articles of Association.

---

## LETTER FROM THE BOARD

---

### I. PROPOSED APPOINTMENT OF MR. GUO WENPENG AS EXECUTIVE DIRECTOR

An ordinary resolution will be proposed at the Extraordinary General Meeting to approve the proposed appointment of Mr. Guo Wenpeng as executive Director.

Reference is made to the announcement of the Company dated 9 September 2022 in respect of, among others, proposed appointment of executive Director.

The Board received the written resignation from Mr. Zhang Xi, the executive Director of the Company. Due to age reason, Mr. Zhang Xi applied to resign as the executive Director of the Company, which will take effect on the date of approval of the appointment of new executive Director at the general meeting of the Company. Mr. Zhang Xi has confirmed that he has no disagreement with the Board in any aspects and there is no matter relating to his resignation that needs to be brought to the attention of the Stock Exchange and the Shareholders.

Mr. Guo Wenpeng has been nominated by the Board as a candidate of executive Director of the fourth session of the Board on 9 September 2022. His appointment will be effective from the date of approval at the Extraordinary General Meeting to the date of expiry of the term of office of the fourth session of the Board.

The biographical details of Mr. Guo Wenpeng that need to be disclosed pursuant to the Rule 13.51 (2) of the Listing Rules are set out below:

**Mr. Guo Wenpeng**, aged 53, joined the Company in December 2003 and has served as the vice general manager of the Company since August 2015. Mr. Guo Wenpeng has served as the chairman of Beijing Poly Theatre Management Corporation Limited (北京保利劇院管理有限公司) since December 2018. He has successively served in various positions including the financial manager of Poly Plaza Co., Ltd. (保利大廈有限公司), the vice general manager and the general manager of Beijing Poly Theatre Management Corporation Limited (北京保利劇院管理有限公司) and the assistant to general manager of the Company. Mr. Guo Wenpeng graduated from the School of Economics of Nankai University with a major in international economics and obtained a master's degree in economics.

As at the Latest Practicable Date, save as disclosed above, Mr. Guo Wenpeng has confirmed that he has not held any positions as director or supervisor in other listed companies, the securities of which are listed on any securities markets in Hong Kong or overseas for the past three years, or had any major appointments or professional qualifications, or held any other position in the Company or any other members of the Group, and does not have any relationships with any other Directors, Supervisors, senior management, substantial or controlling shareholders of the Company. As at the Latest Practicable Date, Mr. Guo Wenpeng has confirmed that he does not have any interest in the Shares within the meaning of Part XV of the SFO.

As at the Latest Practicable Date, save as disclosed above, there is no information relating to Mr. Guo Wenpeng that needs to be disclosed pursuant to any provisions under Rule 13.51(2)(h) to (v) of the Listing Rules, and there are no other matters concerning his appointment that need to notify to the Stock Exchange and the Shareholders.

---

## LETTER FROM THE BOARD

---

If Mr. Guo Wenpeng is appointed as an executive Director of the fourth session of the Board of the Company, he will enter into a service contract with the Company regarding his appointment as an executive Director of the Company. During the term of office of Mr. Guo Wenpeng as an executive Director, his remuneration shall be paid with the reference to the standard of the general manager of the Company. During the term of office of Mr. Guo Wenpeng as the general manager, his remuneration shall be paid with reference to the standard of senior management of the Company and according to the Company's remuneration management measures. The basic salary of Mr. Guo Wenpeng is RMB680,000 per year. As for his performance-based salary, the remuneration and assessment committee of the Board will formulate the remuneration plan for the current year, which shall be approved by the Board. For details of the remuneration, please refer to the annual report to be issued by the Company in due course.

### **II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS FOR 2023 TO 2025**

Regarding the resolution on the renewal of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025, the Board announced on 13 October 2022 that the Company and Poly Group entered into the New Cinema Box Office Income Sharing Framework Agreement, pursuant to which Poly Group and/or its associates will provide new film prints and encryption keys to the Group and the Group will then arrange movie screening in cinemas of the Group. Both parties agree to split the net cinema box office income (i.e. the box office income after deducting the National Film Development Special Fund and VAT and surcharges) generated from the movie screening based on the pre-agreed sharing percentage. Poly Group and/or its associates may then further distribute and receive the revenue generated from such split with movie distributors and producers pursuant to separate agreements among themselves.

Regarding the resolution on the renewal of the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement, reference is made to the Property Lease Framework Agreement entered into between the Company and Poly Group on 14 February 2014, pursuant to which the Group leases properties from Poly Group and/or its associates for the purpose of office premises, cinema operation, theatre operation, art business and auction operation and ancillary service, etc.

Under the Listing Rules, the transactions contemplated under the New Cinema Box Office Income Sharing Framework Agreement and the Property Lease Framework Agreement constitute continuing connected transactions of the Company and are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

The Independent Board Committee (comprising of all the independent non-executive Directors) has been appointed by the Board to advise the Independent Shareholders in respect of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 as well as the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement. Maxa Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the same matters.

#### **(I) Renewal of the New Cinema Box Office Income Sharing Framework Agreement**

An ordinary resolution will be proposed at the Extraordinary General Meeting to approve the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025.



---

## LETTER FROM THE BOARD

---

Reference is made to the announcement of the Company dated 13 October 2022 in respect of, among others, the renewal of the continuing connected transactions under the Cinema Box Office Income Sharing Framework Agreement between the Company and Poly Group, details of which are set out below:

**(1) Background**

Reference is made to the announcement of the Company dated 21 October 2019 in respect of, among others, the Cinema Box Office Income Sharing Framework Agreement between the Company and Poly Group and annual caps for 2020, 2021 and 2022. As disclosed in the announcement, pursuant to the Cinema Box Office Income Sharing Framework Agreement, Poly Group and/or its associates may provide new film prints and encryption keys to the Group and the Group will then arrange movie screening in cinemas of the Group. Both parties agree to split the net cinema box office income (i.e., the box office income after deducting the National Film Development Special Fund and VAT and surcharges) generated from the movie screening based on the pre-agreed sharing percentage. Poly Group and/or its associates may then further distribute and receive the revenue generated from such split with movie distributors and producers pursuant to separate agreements among themselves. Such net cinema box office income sharing arrangement is in line with the current film industry practice in the PRC.

As the Cinema Box Office Income Sharing Framework Agreement and the corresponding annual caps will expire on 31 December 2022, and the Group will continue the aforesaid transactions under the Cinema Box Office Income Sharing Framework Agreement subsequent to 31 December 2022, the Company entered into the New Cinema Box Office Income Sharing Framework Agreement with Poly Group on 13 October 2022 (after trading hours). Pursuant to which, Poly Group and/or its associates may provide new film prints and encryption keys to the Group and the Group will then arrange movie screening in cinemas of the Group. Both parties agree to split the net cinema box office income (i.e., the box office income after deducting the National Film Development Special Fund and VAT and surcharges) generated from the movie screening based on the pre-agreed sharing percentage. Poly Group and/or its associates may then further distribute and receive the revenue generated from such split with movie distributors and producers pursuant to separate agreements among themselves. The New Cinema Box Office Income Sharing Framework Agreement is valid for a term of three years commencing from 1 January 2023 and expiring on 31 December 2025. The New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 shall be subject to the approval by Independent Shareholders.

**(2) New Cinema Box Office Income Sharing Framework Agreement**

<b>Date:</b>	13 October 2022
<b>Parties:</b>	Poly Group; and The Company

---

## LETTER FROM THE BOARD

---

### **Principal Terms:**

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

- the New Cinema Box Office Income Sharing Framework Agreement is valid for a term of three years commencing on 1 January 2023, and can be renewed for another three years upon its expiry, subject to the further approval by Independent Shareholders according to the Listing Rules;
- based on the number of cinemas, relevant subsidiaries of both parties, namely Poly Wanhe Cinema Circuit (a subsidiary of Poly Group) will enter into a new specific contract with Poly Film (a subsidiary of the Company, representing itself and its more than 70 existing subordinate cinemas) to renew the existing specific contracts, and Poly Wanhe Cinema Circuit will enter into new specific contracts with the newly established cinemas when they are established. Such specific contracts will be entered into according to the pricing policies, the main terms and conditions provided in the New Cinema Box Office Income Sharing Framework Agreement, including but not limited to the sharing percentage (no less than 50% to 55% of the net cinema box office income to be received by the Group), contents and term. The term for each specific agreement is three years, and the specific terms and conditions are same with the New Cinema Box Office Income Sharing Framework Agreement; and
- Poly Group and/or its associates will provide new film prints and encryption keys to the Group and the Group will then arrange movie screening in cinemas of the Group. The Group will first receive the net cinema box office income (i.e., the box office income after deducting the National Film Development Special Fund and VAT and surcharges) generated from the film screening and then receive a portion of such revenue in accordance with the respective sharing percentage with Poly Group and/or its associates as set out in the specific agreements (no less than 50% to 55% of the net cinema box office income to be received by the Group) and pricing policies as agreed by both parties after arm-length negotiations; the Group will pay the net cinema box office income to Poly Group and/or its associates in cash on a monthly basis.

### **Pricing Policy:**

After the Group and Poly Group's arm's length commercial negotiations according to the principles of fairness and reasonableness, the sharing of box office income is determined pursuant to the followings:

---

## LETTER FROM THE BOARD

---

- (i) the requirements of the Guiding Opinions on Adjusting Income Sharing Percentage of Domestic Films ((2008) Ying Zi No.866) and Guiding Opinions on Promoting the Coordinated Development of Film Production, Distribution and Screening ((2011) Ying Zi No.992) issued by the State Administration of Press, Publication, Radio, Film and Television, which stipulates the percentage of film screening income sharing for the cinema shall not be more than 50% in principle (the “**SARFT Guiding Opinions**”) and set a general principle of sharing the net cinema box office income between the cinema circuit and cinemas under the cinema circuit system in China;
- (ii) the income sharing standard of the industry during the same period, which is currently at 40% to 45% for the comparable average net cinema box office income sharing of the market (for the sharing percentage of the cinema). The specific transactions under the New Cinema Box Office Income Sharing Framework Agreement will be conducted on normal commercial terms and on terms and consideration no less favourable than those offered to independent third parties; and
- (iii) during the implementation of the New Cinema Box Office Income Sharing Framework Agreement, the Group has the right to negotiate with Poly Group pursuant to the New Cinema Box Office Income Sharing Framework Agreement, according to the market changes in the net cinema box office income sharing in the PRC and the changes of the net cinema box office income sharing policy of the PRC. Meanwhile, the Group will conduct research on the income sharing policy of at least two independent cinemas with similar size based on the similar transactions entered into with Poly Group and/or its associates every half year, and report to the Directors at once. If the Group finds the sharing percentage offered by Poly Group and/or its associates to the Group is less favorable than any other independent third party based on similar terms and conditions, the Group has the right to negotiate with Poly Group at arm’s length, and Poly Group agrees to adjust the net cinema box office income sharing percentage in connection with the Group and/or its subsidiaries, to make sure that the Group implements the New Cinema Box Office Income Sharing Framework Agreement with the income sharing percentage no less favorable than any independent third party in the market.

In order to ensure that the net cinema box office income sharing percentage under the New Cinema Box Office Income Sharing Framework Agreement will be conducted on normal commercial terms and safeguard the interests of Shareholders as a whole, the Company has adopted internal control procedure and corporate governance measures regarding relevant continuing connected transactions, details of which are set out under the section below headed “(7) Internal Control Procedure and Corporate Governance Measures”.

---

## LETTER FROM THE BOARD

---

**(3) Historical amounts**

The number of films provided by Poly Group and/or its associates to the Group for screening, the historical cinema box office income generated by the Group under the existing framework agreement, the actual transaction amount between the Group and Poly Wanhe Cinema Circuit for the years ended 31 December 2020 and 31 December 2021 and for the six months ended 30 June 2022 under the Cinema Box Office Income Sharing Framework Agreement, and the annual caps for the years ended/ending 31 December 2020, 31 December 2021 and 31 December 2022 are set out below:

*Unit: RMB million (unless otherwise stated)*

	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>		<b>six months</b>
	<b>2020</b>	<b>2021</b>	<b>ended</b>
			<b>30 June</b>
			<b>2022</b>
The number of films provided by Poly Group and/or its associates to the Group for screening	323 films	526 films	174 films
The cinema box office income generated by the Group under the existing framework agreement <i>(Note 1)</i>	156.74	342.60	102.77
The average cinema box office income sharing percentage by the Group <i>(Note 1)</i>	57%	57%	57%
The average cinema box office income sharing percentage by Poly Group and/or its associates <i>(Note 1)</i>	43%	43%	43%
The actual transaction amount of the cinema box office income attributable to Poly Group and/or its associates <i>(Note 2)</i>	67.40	147.32	44.19

---

## LETTER FROM THE BOARD

---

	For the year ended/ending 31 December		
	2020	2021	2022
Annual cap <sup>(Note 3)</sup>	346.04	388.96	417.45

*Notes:*

1. The National Film Development Special Fund and VAT and surcharges have been deducted.
2. The actual transaction amount in 2022 has not exceeded and is not expected to exceed the annual cap for the year 2022.
3. Once Poly Wanhe Cinema Circuit receives the shared income from the Group, it will further distribute and receive such income with movie distributors and producers pursuant to separate agreements among themselves. Depending on the types and popularity of new movies to be screened such as Hollywood films and domestically produced movies, for the years ended 31 December 2020 and 31 December 2021 and for the six months ended 30 June 2022, the Group usually retained no less than 50%-55% of the net cinema box office income and received the remaining income based on the underlying agreements with Poly Wanhe Cinema Circuit. The higher net cinema box office income sharing percentage adopted by the Group under the New Cinema Box Office Income Sharing Framework Agreement is in compliance with the SARFT Guiding Opinions and PRC laws, and is in the interests of the Company and its Shareholders as a whole.

**(4) Proposed annual caps and basis of determination**

**Proposed annual caps:**

The maximum aggregate annual amount of the net cinema box office income shared by the Group for the years ending 31 December 2023, 31 December 2024 and 31 December 2025 shall not exceed the proposed caps set out below:

*Unit: RMB million*

	For the year ending 31 December		
	2023	2024	2025
Proposed annual cap	276.02	315.45	354.88

**Basis of determination:**

In determining the above proposed annual caps, the Directors have considered:

- (i) the industry standard of sharing the net cinema box office income (i.e., the comparable average net cinema box office income sharing in the market is approximately 40% to 45%) between cinema circuit and cinemas according to the SARFT Guiding Opinions, as well as the features of the cinema circuit system in China;

---

## LETTER FROM THE BOARD

---

- (ii) with the great impact of the ongoing pandemic and control measures on the Group's cinemas, the cinema box office income recorded a fairly substantial decline for the period from 1 January 2020 to 30 June 2022 as compared with the previous years. However, the Group expects that the impact of the pandemic will be weakened in the future, and the cinema box office of the Group will recover and increase, therefore the income sharing between the Group and Poly Wanhe Cinema Circuit will return to growth gradually;
- (iii) the average price of movie tickets was on a gradually increasing trend in recent years and followed by a continuous increase with the rise of the price index. With the development of the film industry in China and the weakening of the impact of the pandemic, the number of audience and films will recover gradually, as such, the net cinema box office income of the Group is expected to increase as well in the future;
- (iv) with the weakening of the impact of the COVID-19 pandemic and the recovery of the film and cultural market, there will be more excellent films in China and more foreign films will be introduced in the future, which will drive the recovery of the whole cinema market and the increase of box office income; and
- (v) the impact of the COVID-19 pandemic on the cinema operation industry is a temporary crisis, and at the same time, some small and medium-sized cinemas are facing the crisis of closing down due to the impact of the COVID-19 pandemic. Therefore, the Group expects that after the impact of the COVID-19 pandemic is weakened or even eliminated in the future, Poly Cinema will have a double positive trend, namely, the number of the audience will recover and the audience will tend to concentrate.

(5) ***Reasons for and benefits of entering into the New Cinema Box Office Income Sharing Framework Agreement***

Pursuant to the New Cinema Box Office Income Sharing Framework Agreement, Poly Group and/or its associates shall conduct specific transactions under the New Cinema Box Office Income Sharing Framework Agreement with the Group with the income sharing percentage no less favorable than any independent third party in the market. At present, the current comparable average net cinema box office income sharing percentage of the Chinese film screening industry is approximately 40% to 45% (for the sharing percentage of the cinema). The Group usually retained no less than approximately 50% to 55% of the net cinema box office income based on the long-term cooperation relationship between the Group and Poly Group and/or its associates. Meanwhile, as a substantial Shareholder of the Company, Poly Group will continue to provide the latest and high-quality film source to the Group and meet the reasonable demands of the Group for screening film and production under Cinema Box Office Income Sharing Framework Agreement. When the market situation changes materially, or the State makes policy adjustments to the distribution and screening of digital

---

## LETTER FROM THE BOARD

---

films, Poly Group shall also make appropriate adjustments to the income sharing percentage in time, which will maintain the Group's interest in film source and box office income, and benefit all Shareholders.

After the signing of the New Cinema Box Office Income Sharing Framework Agreement, the Directors expect that, taking into consideration the long-term business relationship between Poly Wanhe Cinema Circuit and cinemas of the Group since the date of formal commencement of business, as well as the sharing percentage offered by Poly Wanhe Cinema Circuit which is more favorable than the average market sharing percentage, it is in the Group's long-term interests that the Group continue to maintain relationship with Poly Wanhe Cinema Circuit, while any cessation of such cooperation will cause unnecessary disruption to the movie screening operation of cinemas of the Group, incurring significant business losses to the Group.

**(6) *Listing Rules implications***

As at the Latest Practicable Date, 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 connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the New Cinema Box Office Income Sharing Framework Agreement entered into between the Company and Poly Group constitute the continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest of the applicable percentage ratio calculated in accordance with the Listing Rules in respect of the proposed annual caps for the New Cinema Box Office Income Sharing Framework Agreement is more than 5%, the continuing connected transactions under the New Cinema Box Office Income Sharing Framework Agreement are subject to reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

**(7) *Internal Control Procedure and Corporate Governance Measures***

The Company will endeavour to carry out adequate supervision over the actual transaction amount under the New Cinema Box Office Income Sharing Framework Agreement entered into between the Company and Poly Group against the corresponding annual caps, with a view of ensuring that necessary measures and appropriate actions for the compliance with applicable requirements under the Listing Rules will be promptly taken. The Company has formulated a series of measures and policies, including contract policies, projects management policies, connected transaction management measures, to ensure the continuing connected transactions be implemented in accordance with the New Cinema Box Office Income Sharing Framework Agreement and its pricing policies.

The New Cinema Box Office Income Sharing Framework Agreement and the transactions contemplated thereunder will be examined and approved by the Audit Committee of the Board, the Board and/or various internal departments of the Company,

---

## LETTER FROM THE BOARD

---

including but not limited to, finance department and audit and inspection department of the Company, thus to ensure the terms of such agreements be complied with applicable regulatory rules or guidelines, the New Cinema Box Office Income Sharing Framework Agreement and market practice, and will not deviate from the terms of the New Cinema Box Office Income Sharing Framework Agreement as disclosed in this circular. The Audit Committee of the Board, the chief accountant of the Company and various internal departments will also supervise the implementation of the agreements and the process of the transactions on a regular basis.

The internal audit department of the Company will check the authenticity and accuracy of the income, costs and expenses of cinemas of the Group according to the annual audit plan and special audit plan, and check the timeliness of entry of transaction amount, the calculation and payment of the accounts, etc. according to the internal audit system and internal control system of the Group. The finance department of the Company shall make statistics on a monthly basis and track and review the actual implementation of the pricing policies and the compliance with caps for framework agreements and report the amounts and the caps implementation of continuing connected transactions to the Audit Committee of the Board on a regular basis and if the amount will exceed or is estimated to exceed the caps, it will report to the chief accountant, the management and the Audit Committee of the Board in time and implement the disclosure and Independent Shareholder's approval procedures as required under the Listing Rules.

During the implementation of the New Cinema Box Office Income Sharing Framework Agreement, the Group has the right to negotiate with Poly Group pursuant to the New Cinema Box Office Income Sharing Framework Agreement, according to the market changes in the net cinema box office income sharing in the PRC and the changes of the net cinema box office income sharing policy of the PRC. Meanwhile, the Group will conduct research on the income sharing policy of at least two independent cinemas with similar size based on the similar transactions entered into with Poly Group and/or its associates every half year, and report to the Directors at once. If the Group finds the sharing percentage offered by Poly Group and/or its associates to the Group is less favorable than any other independent third party based on similar terms and conditions, the Group has the right to negotiate with Poly Group at arm's length, and Poly Group agrees to adjust the net cinema box office income sharing percentage in connection with the Group and/or its subsidiaries, to make sure that the Group implements the New Cinema Box Office Income Sharing Framework Agreement with the income sharing percentage no less favorable than any independent third party in the market.

In addition, the management of the Company will review its pricing policies every half year; the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions (including the relevant pricing mechanism); the auditors of the Company will perform evaluation and review on the above internal control measures of the Company annually and review the continuing connected transactions under the New Cinema Box Office Income Sharing Framework Agreement annually in accordance with the requirements of Listing Rules, to ensure, among which, such transactions are conducted under the pricing policies of the Company and relevant contracts that govern the transactions.



---

## LETTER FROM THE BOARD

---

### **(8) *View of the Board***

Having considered the above pricing policies, basis of determination of the proposed annual caps, reasons and benefits, and internal control procedure and corporate governance measures, the Directors (including the independent non-executive Directors) are of the view that the terms of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps have been entered into in the ordinary and usual course of business of the Company and on normal commercial terms, are fair and reasonable, and in the interests of the Company and Shareholders as a whole. Meanwhile, the Company is of the view that it has been equipped with adequate mechanism, internal control procedures and external supervision measures so as to ensure the continuing connected transactions be complied with and strictly in accordance with relevant regulatory guidelines and the terms of the New Cinema Box Office Income Sharing Framework Agreement.

As the Directors Mr. Zhang Xi, Ms. Zhang Hong and Mr. Fu Chengrui serve at Poly Group, they are considered to be connected with New Cinema Box Office Income Sharing Framework Agreement and the transactions contemplated thereunder, and they have abstained from voting on the Board resolution for approving the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps. Save as disclosed above, there are no other Directors who have any material interest in the New Cinema Box Office Income Sharing Framework Agreement and the transactions contemplated thereunder and no other Directors need to abstain from voting on the Board resolution for considering and approving the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps.

### **(9) *Information on Parties to the Transactions***

The Company is a joint stock limited company incorporated in the PRC on 14 December 2010, and is a leading diversified cultural arts company in China. The Company is mainly engaged in art business and auction, performance and theatre management, and cinema investment and management.

Poly Group was established in 1992 as a large state-owned enterprise under direct supervision and administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Apart from the culture and art business conducted through the Company, Poly Group is primarily engaged in international trade, real estate development, development and engineering service in 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.

## **(II) *Renewal of the Annual Caps under the Property Lease Framework Agreement***

An ordinary resolution will be proposed at the Extraordinary General Meeting to approve the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement.

---

## LETTER FROM THE BOARD

---

Reference is made to the announcement of the Company dated 13 October 2022 in relation to, among others, the renewal of annual caps under the Property Lease Framework Agreement entered into between the Company and Poly Group, details of which are set out below:

**(1) Background**

References are made to the Prospectus and the announcement of the Company dated 21 October 2019, containing, among others, the Property Lease Framework Agreement and the annual caps for 2020, 2021 and 2022 entered into between the Company and Poly Group. As disclosed in the Prospectus and the announcement, pursuant to the Property Lease Framework Agreement, the Group may lease properties from Poly Group and/or its associates for the purpose of office premises, cinema operation, theatre operation, auction business operation and ancillary services. The Property Lease Framework Agreement is valid for a term of 20 years commencing on the listing date (i.e. 6 March 2014).

As the corresponding annual caps under the Property Lease Framework Agreement will expire on 31 December 2022, and the Group will continue the aforesaid transactions under the Property Lease Framework Agreement subsequent to 31 December 2022, the Company entered into the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement with Poly Group on 13 October 2022 (after trading hours). Therefore, the Group will lease properties from Poly Group and/or its associates for the purposes of office premises, cinema operation, theatre operation, art business and auction operation and ancillary services, etc. The proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement shall be subject to the approval by Independent Shareholders.

**(2) Property Lease Framework Agreement**

**Date:** 14 February 2014

**Parties:** Poly Group, as the lessor; and  
The Company, as the lessee

**Principal terms:**

The principal terms of the Property Lease Framework Agreement are as follows:

- the Property Lease Framework Agreement is valid for a term of 20 years commencing on the listing date (i.e. 6 March 2014);
- relevant subsidiaries or associates 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;

---

## LETTER FROM THE BOARD

---

- 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's length negotiations;
- the property management fee shall be determined by reference to the then market price or as agreed by both parties after arm's length negotiations;
- 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
- the term of the separate underlying lease agreements entered into under the Property Lease Framework Agreement shall be for a maximum of 20 years. The members of the Group may request to renew the term of the lease by issuing a written notice to relevant members of Poly Group and/or its associates at least one month before expiry of the lease. Relevant members of Poly Group and/or its associates shall, upon receipt of the said notice, consent to the request for renewal and shall renew the lease with members of the Group before its expiration.

### **Pricing policies:**

The rent payable by the Group pursuant to the Property Lease Framework Agreement shall be determined between the parties at arm's length commercial negotiations according to the principles of fairness and reasonableness with reference to the rent of the properties at similar locations leased by Poly Group and/or its associates to independent third parties during the same period. The relevant transactions will be conducted on normal commercial terms and on terms and consideration no less favourable than those offered to independent third parties.

In order to ensure that the rental payable under the Property Lease Framework Agreement will be determined on normal commercial terms and safeguard the interests of Shareholders as a whole, the Company has adopted internal control procedure and corporate governance measures regarding relevant continuing connected transactions, details of which are set out under the section below headed "(8) Internal Control Procedure and Corporate Governance Measures".

### **(3) Existing leases**

Based on the Property Lease Framework Agreement entered into between the Group and Poly Group, the Group leased several properties from Poly Group and/or its associates with a total gross floor area of approximately 66,484.68 sq.m. as of 30 June 2022. Such properties are located in Beijing, Guangzhou, Shenzhen and Foshan and are mainly used for office premises, cinema operation, theatre operation, art business operation and ancillary services.

---

## LETTER FROM THE BOARD

---

**(4) Historical amounts**

The actual rental expense incurred under the Property Lease Framework Agreement for the years ended 31 December 2020 and 31 December 2021 and the six months ended 30 June 2022 and the annual caps for the years ended/ending 31 December 2020, 31 December 2021 and 31 December 2022 are set forth below:

*Unit: RMB million*

	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>		<b>six months</b>
	<b>2020</b>	<b>2021</b>	<b>ended</b>
			<b>30 June</b>
			<b>2022</b>
Floating rental	1.89	2.91	0.86
Right-of-use assets	44.14	111.83	81.80
<b>Total actual</b>			
<b>transaction amount</b>	<b>46.03</b>	<b>114.74</b>	<b>82.66</b>
	<b>For the year ended/ending 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Floating rental	13.27	15.41	20.32
Right-of-use assets	235.39	281.04	308.64
<b>Total annual caps</b> <i>(Note 1, 2)</i>	<b>248.66</b>	<b>296.45</b>	<b>328.97</b>

*Notes:*

1. The actual transaction amount in 2022 has not exceeded and is not expected to exceed the annual cap for the year 2022.
2. The discrepancy between the sum of the figures in the list and the subtotal/aggregate figures is caused by rounding.

**(5) Proposed annual caps and basis of determination**

**Proposed annual caps:**

The maximum total annual fee under the Property Lease Framework Agreement for the years ending 31 December 2023, 31 December 2024 and 31 December 2025 shall not exceed the caps set out below:

---

## LETTER FROM THE BOARD

---

Unit: RMB million

	For the year ending 31 December		
	2023	2024	2025
– Floating rental <i>(Note 1)</i>	2.3	3.45	3.72
– Right-of-use assets	164.98	141.90	135.08
<b>Total proposed annual cap <i>(Note 2)</i></b>	<b>167.28</b>	<b>145.35</b>	<b>138.80</b>

Notes:

1. Floating rental arising from Poly Film and its subsidiaries (the “Poly Film Group”) is subject to the Poly Film Group’s box office income.
2. The discrepancy between the sum of the figures in the list and the subtotal/aggregate figures is caused by rounding.

### **Basis of determination:**

In determining the above proposed annual caps, the Directors have considered:

- (i) the Company has applied IFRS 16 since 1 January 2019. As lease properties of the Group were mainly used for the office premises, cinema operation, theatre operation, and art business and auction, the Company will account for the expenses under the Property Lease Framework Agreement as the finance lease instead of the original operating lease, that is, recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding right-of-use asset. The subsidiaries of the Company will recognise interest expense accrued on the outstanding balance of the lease liability and the depreciation of the right-of-use asset, instead of the original rental expenses incurred on the operating lease;
- (ii) the floating rental is directly linked to Poly Film Group’s box office income and Poly Film expects to record a substantial increase in box office income and may commence operating more projects from 2023 to 2025. During the next three years ending 31 December 2022, the Company assumed that there would be seven new projects in total, for which the Poly Film Group would enter into leasing agreement with Poly Group and/or its associates. The floating rental of the new projects are directly linked to the expected box office of such projects for the three years ending 31 December 2022;

---

## LETTER FROM THE BOARD

---

- (iii) the right-of-use assets are based on the fixed monthly rental fees and estimated monthly rental fees between the Group (other than the Poly Film Group) and Poly Group and/or its associates. The Company has taken into account of office expansion and with reference to the office size in similar area when calculating the right-of-use assets;
- (iv) as at 30 June 2022, the Group leased 20 pieces of properties from Poly Group and/or its associates;
- (v) the rentals of the existing property leases (for the six months ended 30 June 2022, according to the Company's unaudited interim report for the six months ended 30 June 2022, the rental expense incurred was approximately RMB19.59 million);
- (vi) having considered the historical transaction amount and the Group's future development plan, the total annual rental payable by the Group under the Property Lease Framework Agreement for the years ending 31 December 2023, 31 December 2024 and 31 December 2025 shall not exceed RMB164.33 million per year (estimated amounts before taking into account IFRS 16);
- (vii) continuous increase in rentals of properties in the vicinity of the relevant properties and the overall future development of the property market in the PRC;
- (viii) the Group plans to expand office premises and the premises for art business and auction; and
- (ix) the Group's future plan to expand its cinema and theatre management business from 2023 to 2025 may require the Group to lease properties from Poly Group and/or its associates.

**(6) *Reasons for and benefits of the transactions under the Property Lease Framework Agreement***

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. One of the principal business of Poly Group is real estate development and operation, which has an excellent reputation in the PRC and ranks the top in the real estate industry in terms of the land reserve, development and sales. The properties developed or held by Poly Group are all located in cities with good economic development and population scale in China, and in the prosperous areas of these cities, which meet the business needs of the Group. Moreover, the conditions of property sites available for the Group's theater business are relatively strict. At the same time, Poly Group can also guarantee a long-term and stable supply of the properties leased by the Group, and the brand effect of Poly is also an important factor of consumption aggregation. Therefore, pursuant to the Property Lease

---

## LETTER FROM THE BOARD

---

Framework Agreement, Poly Group and/or its associates shall conduct specific transactions with the Company on terms and consideration no less favourable than those offered to independent third parties to guarantee the Group's long-term property lease rights, thereby enabling the Group's business and operation to achieve the stable, long-term and sustainable development.

The Directors 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 as well as the stability of the art business and auction and the secure storage of art works, 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 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.

### **(7) *Listing Rules implications***

As at the Latest Practicable Date, 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 connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Property Lease Framework Agreement entered into between the Company and Poly Group constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest of the applicable percentage ratio calculated in accordance with the Listing Rules in respect of the proposed annual caps for the Property Lease Framework Agreement is more than 5%, the continuing connected transactions under the Property Lease Framework Agreement are subject to reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **(8) *Internal Control Procedure and Corporate Governance Measures***

The Company will endeavour to carry out adequate supervision over the actual transaction amount under the Property Lease Framework Agreement entered into between the Company and Poly Group against the corresponding annual caps, with a view of ensuring that necessary measures and appropriate actions for the compliance with applicable requirements under the Listing Rules will be promptly taken. The Company has formulated a series of measures and policies, including contract policies, projects management policies, connected transaction management measures, to ensure the continuing connected transactions be implemented in accordance with the Property Lease Framework Agreement and its pricing policies.

---

## LETTER FROM THE BOARD

---

The Property Lease Framework Agreement and transactions contemplated thereunder will be examined and approved by the Audit Committee of the Board, the Board and/or various internal departments of the Company, including but not limited to, finance department and audit and inspection department of the Company, thus to ensure the terms of such agreement be complied with applicable regulatory rules or guidelines, the Property Lease Framework Agreement and market practice, and will not deviate from the terms of the Property Lease Framework Agreement as disclosed in this circular. The Audit Committee of the Board, the chief accountant of the Company and various internal departments will also supervise the implementation of the agreements and the process of the transactions on a regular basis.

The internal audit department of the Company will check the authenticity and accuracy of the amounts statistics of specific transactions conducted by subsidiaries of the Group under the Property Lease Framework Agreement according to the annual audit plan and special audit plan and check the timeliness of entry of transaction amount, the calculation and payment of accounts, etc. according to the internal audit system and internal control system of the Group. The finance department of the Company shall make statistics on a monthly basis and track and review the actual implementation of the pricing policies and the compliance with caps for framework agreements, and report the amounts and the caps implementation of continuing connected transactions to the Audit Committee of the Board on a regular basis and if the amount will exceed or is estimated to exceed the caps, it will report to the chief accountant, the management and the Audit Committee of the Board in time and implement the disclosure and Independent Shareholder's approval procedures as required under the Listing Rules.

During the implementation of the Property Lease Framework Agreement, the Group will conduct research on comparative conditions including rental policies and advantages of properties in similar locations in the same period prior to entering into each individual lease agreement with Poly Group, and report to the chief accountant and the management timely. If the Group finds the rents offered by Poly Group to the Group are less favorable than that offered to any other independent third party based on similar terms and conditions, the Group has the right to negotiate with Poly Group at arm's length, and Poly Group agrees to adjust the property rents in connection with the Group and/or its subsidiaries, to make sure that the Group implements the Property Lease Framework Agreement with the rents of properties no less favorable than any independent third party in the market.

In addition, the management of the Company will review its pricing policies every half year; the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions (including the relevant pricing mechanism); the auditors of the Company will perform evaluation and review on the above internal control measures of the Company annually and review the continuing connected transactions under the Property Lease Framework Agreement annually in accordance with the requirements of Listing Rules, to ensure, among which, such transactions are conducted under the pricing policies of the Company and relevant contracts that govern the transactions.



---

## LETTER FROM THE BOARD

---

### *(9) View of the Board*

Having considered the above pricing policies, basis of determination of the proposed annual caps, reasons and benefits, and internal control procedures and corporate governance measures, the Directors (including the independent non-executive Directors) are of the view that the terms of the Property Lease Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 thereunder have been entered into in the ordinary and usual course of business of the Company and on normal commercial terms, are fair and reasonable, and in the interests of the Company and Shareholders as a whole. Meanwhile, the Company is of the view that it has adequate mechanism, internal control procedures and external supervision measures to ensure the continuing connected transactions be complied with and strictly in accordance with relevant supervision guidelines and the terms of the Property Lease Framework Agreement.

As the Directors Mr. Zhang Xi, Ms. Zhang Hong and Mr. Fu Chengrui serve at Poly Group, they are considered to be connected with Property Lease Framework Agreement and the transactions contemplated thereunder, and they have abstained from voting on the Board resolution for approving the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement. Save as disclosed above, there are no other Directors who have any material interest in the Property Lease Framework Agreement and the transactions contemplated thereunder and no other Directors need to abstain from voting on the Board resolution for considering and approving the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement.

### *(10) Information on Parties to the Transactions*

For information about the Company and Poly Group, see page 15 hereof.

## **III. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

A special resolution will be proposed at the Extraordinary General Meeting to approve the proposed amendments to the Articles of Association.

Reference is made to the announcement of the Company dated 29 August 2022 in respect of, among others, change of business address and residence and proposed amendments to the Articles of Association.

The relocation of business address has been completed by the Company in accordance with the Company Law of the People's Republic of China and the Articles of Association, the business address and residence of the Company is changed from "District A, 20/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing City" to "Districts A, B and C, 9/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing City". The aforesaid change of business address and residence is valid after registration or filing of the relevant authority(ies).

The Company proposed to make amendments to the Articles of Association in relation to the aforementioned change of business address and residence as follows:

---

## LETTER FROM THE BOARD

---

No.	Original article	Amended article
1.	<p><b>Article 4</b> Residence of the Company: District A, 20/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing City</p> <p>Postal code: 100010</p> <p>Tel.: 010-64082666</p> <p>Fax: 010-64082662</p>	<p><b>Article 4</b> Residence of the Company: <del>District A, 20/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing City</del> <b>Districts A, B and C, 9/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing City</b></p> <p>Postal code: 100010</p> <p>Tel.: 010-64082666</p> <p>Fax: 010-64082662</p>

The amended Articles of Association shall become effective on the date of the passing of the relevant resolution at the Extraordinary General Meeting. Prior to the passing of the relevant resolution at the Extraordinary General Meeting, the existing Articles of Association shall remain valid.

### EXTRAORDINARY GENERAL MEETING

A notice of the Extraordinary General Meeting to be held at 2:30 p.m. on Wednesday, 30 November 2022 at the Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, PRC has been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://polyculture.com.cn>) by the Company on 13 October 2022 and also set out in this circular.

Any Shareholder who has material interest in the transactions contemplated under the New Cinema Box Office Income Sharing Framework Agreement and the Property Lease Framework Agreement will be required to abstain from voting at the Extraordinary General Meeting. Poly Group, a substantial Shareholder of the Company and together with its associates, Poly International, holding approximately 64% directly and indirectly of the total issued share capital of the Company as at the Latest Practicable Date, had material interests in the New Cinema Box Office Income Sharing Framework Agreement and the Property Lease Framework Agreement and the transactions contemplated thereunder. Accordingly, Poly Group and its associates, Poly International, will abstain from voting in respect of the relevant resolutions at the Extraordinary General Meeting. The number of abstained voting Shares held by Poly Group and its associates, Poly International, is 156,868,400 Shares in aggregate. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, save for Poly Group and its associates, Poly International, no Shareholder has any interest in the New Cinema Box Office Income Sharing Framework Agreement and the Property Lease Framework Agreement and the transactions contemplated thereunder or any other resolutions.

In order to determine the Shareholders who are entitled to attend the Extraordinary General Meeting, the H Share register of the Company will be closed from Monday, 31 October 2022 to Wednesday, 30 November 2022 (both days inclusive). The Shareholders whose names appear on the register of members of the Company on Wednesday, 30 November 2022 are entitled to attend and vote at the Extraordinary General

---

## LETTER FROM THE BOARD

---

Meeting. In order to be eligible to attend and vote at the Extraordinary General Meeting, holders of H Shares are required to deposit the transfer documents together with the relevant share certificates at the H Share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 28 October 2022.

The Proxy Form and Reply Slip for use at the Extraordinary General Meeting is also published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://polyculture.com.cn>). Holders of H Shares who intend to appoint a proxy to attend the Extraordinary General Meeting are requested to complete the enclosed Proxy Form in accordance with the instructions printed thereon and deposit the Proxy Form together with the power of attorney or other authorization document (if any) at the H Share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in person or by post not less than 24 hours before the time fixed for holding the Extraordinary General Meeting or any adjournment thereof (as the case may be). Completion and return of the Proxy Form will not preclude you from attending the Extraordinary General Meeting and voting in person if you so wish. Holders of H Shares who intend to attend the Extraordinary General Meeting in person or by proxy are requested to complete and return the enclosed Reply Slip in accordance with the instructions printed thereon to the H Share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before Thursday, 10 November 2022.

### PROCEDURES FOR VOTING AT THE EXTRAORDINARY GENERAL MEETING

According to Rule 13.39(4) of the Listing Rules, the vote of Shareholders at the Extraordinary General Meeting will be taken by poll.

### RECOMMENDATION

The Independent Board Committee comprising of all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 as well as the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement. Maxa Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the same matters.

Your attention is drawn to the letter from the Independent Board Committee set out on page 27 of this circular. The Independent Board Committee, having taken into account the advice of Maxa Capital, the text of which is set out on pages 28 to 45 of this circular, is of the view that the terms of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 as well as the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement have been entered into in the ordinary and usual course of business of the Company and on normal commercial terms, are fair and reasonable, and in the interests of the Company and its Shareholders as a whole. The Independent Board Committee, as stated in its letter, recommend the Independent Shareholders to vote in favour of the resolutions to approve the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 as well as the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement.

---

## LETTER FROM THE BOARD

---

The Directors (including the independent non-executive Directors having considered the advice of Independent Financial Adviser) believe that the resolutions set out in this letter are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting as set out in the enclosed Notice of the Extraordinary General Meeting.

### ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders and the letter from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out in this circular.

By order of the Board of Directors  
**Poly Culture Group Corporation Limited**  
**Wang Bo**  
*Chairman*

---

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

---



*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 3636)**

4 November 2022

*To the Independent Shareholders*

Dear Sir or Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS FOR 2023 TO 2025**

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 as well as the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement, details of which are set out in the “Letter from the Board” in the circular dated 4 November 2022 (the “**Circular**”) to the Shareholders. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the same matters as set out in the “Letter From Independent Financial Adviser” in the Circular. Having taken into account the advice of Independent Financial Adviser, we are of the view that the terms of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 as well as the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement have been entered into in the ordinary and usual course of business of the Company and on normal commercial terms, are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to approve the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 as well as the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement at the Extraordinary General Meeting.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Li Xiaohui**  
*Independent non-executive  
Director*

**Sun Hua**  
*Independent non-executive  
Director*

**Fung Edwin**  
*Independent non-executive  
Director*

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

*The following is the letter of advice from Maxa Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



Unit 1908, Harbour Center  
25 Harbour Road  
Wan Chai  
Hong Kong

4 November 2022

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### RENEWAL OF CONTINUING CONNECTED TRANSACTIONS FOR 2023 TO 2025

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 (the “**Proposed New Cinema Box Office Income Sharing Annual Caps**”); and (ii) proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement (the “**Proposed Property Lease Annual Caps**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 4 November 2022 issued by the Company (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 21 October 2019 in respect of, among others, the Cinema Box Office Income Sharing Framework Agreement between the Company and Poly Group and annual caps for 2020, 2021 and 2022. Pursuant to the Cinema Box Office Income Sharing Framework Agreement, Poly Group and/or its associates may provide new film prints and encryption keys to the Group and the Group will then arrange movie screening in cinemas of the Group. Both parties agree to split the net cinema box office income (i.e., the box office income after deducting the National Film Development Special Fund and VAT and surcharges) generated from the movie screening based on the pre-agreed sharing percentage. Poly Group and/or its associates may then further distribute and receive the revenue generated from such split with movie distributors and producers pursuant to separate agreements among themselves. Such net cinema box office income sharing arrangement is in line with the current film industry practice in the PRC. As the Cinema Box Office Income Sharing Framework Agreement and the corresponding annual caps will expire on 31 December 2022, and the Group will continue the aforesaid transactions under the Cinema Box Office Income Sharing Framework Agreement subsequent to 31 December 2022, the Company entered into the New Cinema Box Office Income Sharing Framework Agreement with Poly Group on 13 October 2022 (after trading hours).

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

References are made to the Prospectus and the announcement of the Company dated 21 October 2019, containing, among others, the Property Lease Framework Agreement and the annual caps for 2020, 2021 and 2022 entered into between the Company and Poly Group. Pursuant to the Property Lease Framework Agreement, the Group may lease properties from Poly Group and/or its associates for the purpose of office premises, cinema operation, theatre operation, auction business operation and ancillary services. The Property Lease Framework Agreement is valid for a term of 20 years commencing on the listing date (i.e. 6 March 2014). As the corresponding annual caps under the Property Lease Framework Agreement will expire on 31 December 2022, and the Group will continue the aforesaid transactions under the Property Lease Framework Agreement subsequent to 31 December 2022, the Company entered into the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement with Poly Group on 13 October 2022 (after trading hours).

As at the Latest Practicable Date, 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 connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the New Cinema Box Office Income Sharing Framework Agreement and the Property Lease Framework Agreement (collectively known as “**Framework Agreements**”) entered into between the Company and Poly Group constitute continuing connected transactions of the Company pursuant to the Listing Rules. As the highest of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of both the Proposed New Cinema Box Office Income Sharing Annual Caps and the Proposed Property Lease Annual Caps are more than 5%, the continuing connected transactions under the Framework Agreements are subject to reporting, announcement, annual review and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising of all the independent non-executive Directors has been appointed by the Board to advise the Independent Shareholders in relation to the New Cinema Box Office Income Sharing Framework Agreement and the Proposed New Cinema Box Office Income Sharing Annual Caps as well as the Proposed Property Lease Annual Caps. We, Maxa Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the same matters.

### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we were independent from the Company in accordance with Rule 13.84 of the Listing Rules and, accordingly, are considered eligible to give independent advice on the New Cinema Box Office Income Sharing Framework Agreement and the Proposed New Cinema Box Office Income Sharing Annual Caps as well as the Proposed Property Lease Annual Caps. Save for this appointment as the Independent Financial Adviser, there was no other engagement between the Company and us in the last two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

### **BASIS OF OUR OPINION**

In formulating our advice and recommendations, we have reviewed, among others, (i) the Framework Agreements; (ii) the annual reports of the Company for the two years ended 31 December 2020 (the “**2020 AR**”) and 31 December 2021 (the “**2021 AR**”) and the interim report of the Company for the six months ended 30 June 2022 (the “**2022 IR**”); (iv) the basis of calculation of the Proposed New Cinema Box Office Income Sharing Annual Caps and the Proposed Property Lease Annual Caps; and (v) the Company’s internal control procedures in relation to continuing connected transactions. We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Group (the “**Management**”), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date of this letter. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. Our opinion is based on the Directors’ representation and confirmation that no material facts have been omitted from the information provided and referred to in the Circular.

The Company confirmed that they have, at our request, provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in the Circular nor do we doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company, the Directors and the Management which have been provided to us. We have not, however, conducted any independent verification on the information provided to us by the Directors and the Management, nor have we conducted any form of independent in-depth investigation into the business and affairs of the Company, Poly Group and each of their respective subsidiaries or associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the New Cinema Box Office Income Sharing Framework Agreement and the Proposed New Cinema Box Office Income Sharing Annual Caps as well as the Proposed Property Lease Annual Caps, we have taken into consideration the following principal factors and reasons:

#### **1. Background of the Framework Agreements**

##### ***1.1 Information of the Group***

The Company is a joint stock limited company incorporated in the PRC on 14 December 2010, and is a leading diversified cultural arts company in China. The Company is mainly engaged in art business and auction, performance and theatre management, and cinema investment and management.



---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

Set out below is a summary of the consolidated financial information of the Group for the two years ended 31 December 2020 (“FY2020”) and 31 December 2021 (“FY2021”) as extracted from the 2021 AR, the six months ended 30 June 2021 (“1H2021”) and 30 June 2022 (“1H2022”) as extracted from the 2022 IR:

	For the year ended		For the six months ended	
	31 December		30 June	
	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
<b>Revenue</b>	2,323,775	3,170,312	1,503,165	924,271
– Art business and auction	717,282	805,247	427,918	249,230
– Performance and theatre management	1,380,603	1,881,762	811,854	513,093
– Cinema investment and management	209,923	468,766	258,938	143,677
– Others	15,967	14,537	4,455	18,271
<b>Gross profit</b>	752,048	1,013,702	483,486	291,409
<b>Profit/(loss) for the year/period</b>	(315,841)	(137,401)	288	(187,575)

As disclosed in the 2021 AR, the total revenue of the Group was approximately RMB3,170.3 million for FY2021, representing an increase of approximately 36.4% as compared to that for FY2020. Such increase was primarily attributable to slow down of the COVID-19 pandemic this year which mitigated the impact on the Group’s operation and financial position. The Group recorded loss for the year of approximately RMB137.4 million for FY2021, representing a decrease of 56.5% as compared to that for FY2020. Such decrease was primarily attributable to the combined effects of (i) the increase in revenue as mentioned above; and (ii) the increase in the number of theaters under the Group’s management and the theatre renovation costs; (iii) the turnaround of net loss on disposal of property, plant and equipment and right-of-use assets from approximately RMB1.0 million for FY2020 to net gain on disposal of property, plant and equipment and right-of-use assets to approximately RMB35.3 million.

As disclosed in the 2022 IR, the total revenue of the Group was approximately RMB924.3 million for 1H2022, representing a decrease of approximately 38.5% as compared to that for 1H2021. Such decrease was primarily attributable to the resurgence of the COVID-19 pandemic since early 2022 which has affected the operation of businesses. The Group recorded loss for the period of approximately RMB187.6 million for 1H2022 as compared to profit for the period of approximately RMB0.3 million for 1H2021. Such turnaround was primarily attributable to the combined effects of (i) the decrease in revenue as mentioned above; and (ii) the decrease in other net income (mainly including government grants) by approximately RMB24.3 million during 1H2022.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

	As at 31 December		As at 30 June
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(unaudited)
<b>Total assets</b>	13,858,497	13,296,003	12,207,878
<b>Total liabilities</b>	9,322,965	9,671,663	8,748,586
<b>Net assets</b>	4,535,532	3,624,340	3,459,292

The total assets and net assets of the Group as at 31 December 2021 decreased by approximately 4.1% and approximately 20.1%, respectively, as compared to that as at 31 December 2020. The total assets and net assets of the Group as at 30 June 2022 decreased by approximately 8.2% and 4.6%, respectively, as compared to that as at 31 December 2020.

### **1.2 Information of Poly Group**

Poly Group was established in 1992 as a large state-owned enterprise under direct supervision and administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Apart from the culture and art business conducted through the Company, Poly Group is primarily engaged in international trade, real estate development, development and engineering service in 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.

## **2. Reasons for and benefits of the transactions contemplated under the Framework Agreements**

### **2.1 New Cinema Box Office Income Sharing Framework Agreement**

Pursuant to the New Cinema Box Office Income Sharing Framework Agreement, Poly Group and/or its associates may provide new film prints and encryption keys to the Group and the Group will then arrange movie screening in cinemas of the Group. Poly Group and/or its associates shall conduct specific transactions under the New Cinema Box Office Income Sharing Framework Agreement with the Group with the income sharing percentage no less favorable than any independent third party in the market. At present, the Group usually retained no less than approximately 50% to 55% of the net cinema box office income based on the long-term cooperation relationship between the Group and Poly Group and/or its associates. Meanwhile, as a substantial Shareholder of the Company, Poly Group will continue to provide the latest and high-quality film source to the Group and meet the reasonable demands of the Group for screening film and production under Cinema Box Office Income Sharing Framework Agreement. When the market situation changes materially, or the State makes policy adjustments to the distribution and screening of digital films, Poly Group shall also make appropriate adjustments to the income sharing percentage in time, which will maintain the Group's interest in film source and box office income, and benefit all Shareholders.

After the signing of the New Cinema Box Office Income Sharing Framework Agreement, the Directors expect that, taking into consideration the long-term business relationship between Poly Wanhe Cinema Circuit and cinemas of the Group since the date of formal commencement of

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

business, as well as the sharing percentage offered by Poly Wanhe Cinema Circuit which is more favorable than the average market sharing percentage, it is in the Group's long-term interests that the Group continue to maintain relationship with Poly Wanhe Cinema Circuit, while any cessation of such cooperation will cause unnecessary disruption to the movie screening operation of cinemas of the Group, incurring significant business losses to the Group.

Having considered (i) the long-term cooperation relationship between the Group and Poly Group; (ii) the historical cinema box office income retained by the Group under the existing framework agreement; (iii) the no less favorable sharing percentage offered by Poly Wanhe Cinema Circuit as compared with the market; and (iii) the fact that Poly Group will continue to provide new film prints and encryption keys to the Group and act as a stable source for the movie screening operation of cinemas of the Group, we concur with the Directors' view that the transactions contemplated under the New Cinema Box Office Income Sharing Framework Agreement are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

### ***2.2 Property Lease Framework Agreement***

Pursuant to the Property Lease Framework Agreement, the Group may lease properties from Poly Group and/or its associates for the purpose of office premises, cinema operation, theatre operation, auction business operation and ancillary services. The Property Lease Framework Agreement is valid for a term of 20 years commencing on the listing date (i.e. 6 March 2014).

The Group has been leasing and using the relevant properties for its business operation for a long period. Any relocation may cause unnecessary disruption to our business operation and incur unnecessary costs. One of the principal businesses of Poly Group is real estate development and operation, which has an excellent reputation in the PRC and ranks the top in the real estate industry in terms of the land reserve, development and sales. The properties developed or held by Poly Group are all located in cities with good economic development and population scale in China, and in the prosperous areas of these cities, which meet the business needs of the Group. Moreover, the conditions of property sites available for the Group's theater business are relatively strict. At the same time, Poly Group can also guarantee a long-term and stable supply of the properties leased by the Group, and the brand effect of Poly is also an important factor of consumption aggregation. Therefore, pursuant to the Property Lease Framework Agreement, Poly Group and/or its associates shall conduct specific transactions with the Company on terms and consideration no less favorable than those offered to independent third parties to guarantee the Group's long-term property lease rights, thereby enabling the Group's business and operation to achieve the stable, long-term and sustainable development.

The Directors 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 as well as the stability of the art business and auction and the secure storage of art works, 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

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

business caused by relocation in the case of short term lease. As such, the Directors are of the view that the lease term of 20 years is appropriate for the Property Lease Framework Agreement and is the normal business practice for lease agreements of this type to be of such duration.

Having considered (i) the Group has been leasing and using the relevant properties for its business operation for a long period; and (ii) the Property Lease Framework Agreement is valid for a term of 20 years commencing on the listing date (i.e. 6 March 2014) and the entering of long term property lease would provide stability to the operation of business for the Group, we concur with the Directors' view that the transactions contemplated under the New Cinema Box Office Income Sharing Framework Agreement are conducted in the ordinary and usual course of business of the Group and the renewal of Proposed Property Lease Annual Caps is in the interests of the Company and the Shareholders as a whole.

### 3. Principal terms of the Framework Agreements

#### 3.1 *New Cinema Box Office Income Sharing Framework Agreement*

Date: 13 October 2022

Parties: Poly Group; and  
The Company

#### **Principal Terms:**

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

- the New Cinema Box Office Income Sharing Framework Agreement is valid for a term of three years commencing on 1 January 2023, and can be renewed for another three years upon its expiry, subject to the further approval by Independent Shareholders according to the Listing Rules;
- Based on the number of cinemas, relevant subsidiaries of both parties, namely Poly Wanhe Cinema Circuit (a subsidiary of Poly Group) will enter into a new specific contract with Poly Film (a subsidiary of the Company, representing itself and its more than 70 existing subordinate cinemas) to renew the existing specific contracts, and Poly Wanhe Cinema Circuit will enter into new specific contracts with the newly established cinemas when they are established. Such specific contracts will be entered into according to the pricing policies, the main terms and conditions provided in the New Cinema Box Office Income Sharing Framework Agreement, including but not limited to the sharing percentage (no less than 50% to 55% of the net cinema box office income to be received by the Group), contents and term. The term for each specific agreement is three years, and the specific terms and conditions are same with the New Cinema Box Office Income Sharing Framework Agreement; and

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

- Poly Group and/or its associates will provide new film prints and encryption keys to the Group and the Group will then arrange movie screening in cinemas of the Group. The Group will first receive the net cinema box office income (i.e., the box office income after deducting the National Film Development Special Fund and VAT and surcharges) generated from the film screening and then receive a portion of such revenue in accordance with the respective sharing percentage with Poly Group and/or its associates as set out in the specific agreements (no less than 50% to 55% of the net cinema box office income to be received by the Group) and pricing policies as agreed by both parties after arm-length negotiations; the Group will pay the net cinema box office income to Poly Group and/or its associates in cash on a monthly basis.

### **Pricing Policy:**

After the Group and Poly Group's arm's length commercial negotiations according to the principles of fairness and reasonableness, the sharing of box office income is determined pursuant to the followings:

- (i) the requirements of the Guiding Opinions on Adjusting Income Sharing Percentage of Domestic Films ((2008) Ying Zi No.866) and Guiding Opinions on Promoting the Coordinated Development of Film Production, Distribution and Screening ((2011) Ying Zi No.992) issued by the State Administration of Press, Publication, Radio, Film and Television, which stipulates the percentage of film screening income sharing for the cinema shall not be more than 50% in principle (the "SARFT Guiding Opinions") and set a general principle of sharing the net cinema box office income between the cinema circuit and cinemas under the cinema circuit system in China;
- (ii) the income sharing standard of the industry during the same period, which is currently at 40% to 45% for the comparable average net cinema box office income sharing of the market (for the sharing percentage of the cinema). The specific transactions under the New Cinema Box Office Income Sharing Framework Agreement will be conducted on normal commercial terms and on terms and consideration no less favorable than those offered to independent third parties;
- (iii) during the implementation of the New Cinema Box Office Income Sharing Framework Agreement, the Group has the right to negotiate with Poly Group pursuant to the New Cinema Box Office Income Sharing Framework Agreement, according to the market changes in the net cinema box office income sharing in the PRC and the changes of the net cinema box office income sharing policy of the PRC. Meanwhile, the Group will conduct research on the income sharing policy of at least two independent cinemas with similar size based on the similar transactions entered into with Poly Group and/or its associates every half year, and report to the Directors at once. If the Group finds the sharing percentage offered by Poly Group and/or its associates to the Group is less favorable than any other independent third party based on similar terms and conditions, the Group has the right to negotiate with Poly Group at arm's length, and Poly Group agrees to adjust the net cinema box office income sharing percentage in connection with

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

the Group and/or its subsidiaries, to make sure that the Group implements the New Cinema Box Office Income Sharing Framework Agreement with the income sharing percentage no less favorable than any independent third party in the market.

As advised by the Management, other than the box office income sharing arrangement between the Group's subsidiary(ies) and independent third party cinema circuit already existed before such subsidiary(ies) was/were acquired by the Group and ended in 2018, the Group has not entered into any agreements, which are of similar nature with the New Cinema Box Office Income Sharing Framework Agreement, with independent third parties. In this regard, we have, on random sampling basis, obtained and reviewed three agreements (the "**Independent Cinema Sample Agreements**"), which are of similar nature with transactions under the New Cinema Box Office Income Sharing Framework Agreement and entered into by (i) the Group between Poly Group; and (ii) Poly Group and independent third parties and are effective in 2021 and 2022. Further, we have obtained and reviewed (i) two specific contracts entered into between the Group and Poly Group effective for the year ended 31 December 2021 and ending 31 December 2022, respectively; and (ii) the monthly statements and financial records of three of the cinemas operated under the Cinema Box Office Income Sharing Framework Agreement in 2022 (collectively known as the "**Poly Cinema Sample Documents**"). We noted that (i) the terms to the Group, especially the net cinema box office sharing percentages adopted in the Poly Cinema Sample Documents, are not less favorable to the Company than those in the Independent Cinema Sample Agreements; (ii) the formula used to calculate the net cinema box office income under the Poly Cinema Sample Documents is in line with the formula used in New Cinema Box Office Income Sharing Framework Agreement; and (iii) the payment terms between the Group and Poly Group are no less favorable than those between Poly Group and independent third parties, where the Group shall settle its payments on a monthly basis and within 4 to 12 days in the subsequent month whereas independent third parties shall settle their payments on a monthly basis and within 4 to 10 days in the subsequent month.

With reference to the Letter from the Board, in order to ensure that the net cinema box office income sharing percentage under the New Cinema Box Office Income Sharing Framework Agreement will be conducted on normal commercial terms and safeguard the interests of Shareholders as a whole, the Company has adopted internal control procedures and corporate governance measures regarding relevant continuing connected transactions, details of which are set out under the section headed "(I) Renewal of the New Cinema Box Office Income Sharing Framework Agreement - (7) Internal Control Procedure and Corporate Governance Measures" of the Letter from the Board.

In view of the above and taking into the account the specific transactions under the New Cinema Box Office Income Sharing Framework Agreement will be conducted on terms no less favorable than those offered to independent third parties, we consider the terms of New Cinema Box Office Income Sharing Framework Agreement are on normal commercial terms and are fair and reasonable.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

### 3.2 *Property Lease Framework Agreement*

Date: 14 February 2014

Parties: Poly Group, as the lessor; and  
The Company, as the lessee

#### **Principal Terms:**

The principal terms of the Property Lease Framework Agreement are as follows:

- the Property Lease Framework Agreement is valid for a term of 20 years commencing on the Listing Date (i.e. 6 March 2014);
- relevant subsidiaries or associates 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;
- 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's length negotiations;
- the property management fee shall be determined by reference to the then market price or as agreed by both parties after arm's length negotiations;
- 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
- the term of the separate underlying lease agreements entered into under the Property Lease Framework Agreement shall be for a maximum of 20 years. The members of the Group may request to renew the term of the lease by issuing a written notice to relevant members of Poly Group and/or its associates at least one month before expiry of the lease. Relevant members of Poly Group and/or its associates shall, upon receipt of the said notice, consent to the request for renewal and shall renew the lease with members of the Group before its expiration.

#### **Pricing Policy:**

The rent payable by the Group pursuant to the Property Lease Framework Agreement shall be determined between the parties at arm's length commercial negotiations according to the principles of fairness and reasonableness with reference to the rent of the properties at similar locations leased by Poly Group and/or its associates to independent third parties during the same period. The relevant transactions will be conducted on normal commercial terms and on terms and consideration no less favorable than those offered to independent third parties.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

With reference to the Letter from the Board, the Company has adopted internal control procedures and corporate governance measures to ensure the relevant continuing connected transactions be implemented in accordance with the Property Lease Framework Agreement and its pricing policies, details of which are set out under the section headed (II) Renewal of the Annual Caps under the Property Lease Framework Agreement - (8) Internal Control Procedure and Corporate Governance Measures” of the Letter from the Board.

As part our due diligence work, we have, on random sampling basis, obtained and reviewed three property lease agreements entered under the Property Lease Framework Agreement (the “**Poly Leasing Sample Agreements**”) and three lease agreements entered into by the Group and independent third parties (the “**Independent Leasing Sample Agreements**”) which remain effective as at the Latest Practicable Date, and noted that (i) the principal terms of Poly Leasing Sample Agreements, such as the arrangement of rental fees, the validity period of the lease, the arrangement of rent-free period, etc., are generally in line with those under the Independent Leasing Sample Agreements; (ii) the pricing terms of the Poly Leasing Sample Agreements which include the floating rental and fixed monthly rental fees are in line with those of the Independent Leasing Sample Agreements; (iii) the payment terms for the floating rental under the Poly Leasing Sample Agreements are no less favorable than those under the Independent Leasing Sample Agreements, where the payments under the Poly Leasing Sample Agreements shall be settled on a yearly basis whereas the payments under the Independent Leasing Sample Agreements shall be settled on a quarterly or yearly basis; and (iv) the payment terms for the fixed monthly rental under the Poly Leasing Sample Agreements are no less favorable than those under the Independent Leasing Sample Agreements, where the payments under the Poly Leasing Sample Agreements shall be settled on a monthly basis with a settlement period of 10 days subsequent to the lease period whereas the payments under the Independent Leasing Sample Agreements shall be settled on a monthly basis with settlement periods that ranged from prepayment within 25 days in the previous month to 10 days subsequent to the lease period.

In light of the above and having further considered (i) the Group will conduct research on comparative conditions and advantages of properties in similar locations prior to entering into each individual lease agreement with Poly Group; (ii) the Group has the option to negotiate with Poly Group and adjust the properties rents, after the entering of the lease agreement under the Property Lease Framework Agreement, to ensure the rent of properties are no less favorable than that offered to any other independent third party; and (iii) a series of other measures and policies are implement to monitor the transactions contemplated under the Property Lease Framework Agreement, we are of the view that the terms of Property Lease Framework Agreement are on normal commercial terms and are fair and reasonable.

#### 4. **Proposed Annual Caps**

In assessing the fairness and reasonableness of the Proposed New Cinema Box Office Income Sharing Annual Caps and the Proposed Property Lease Annual Caps (collectively known as “**Proposed Annual Caps**”), we have discussed with the Company about the basis and underlying assumptions used in the determination of the Proposed Annual Caps.



---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

### 4.1 Historical Amount, Existing and Proposed Annual Caps

The following table sets forth (i) the historical amounts for the two years ended 31 December 2021 and for the six months ended 30 June 2022; (ii) the existing annual caps for each of the three years ended/ending 31 December 2022; and (iii) the Proposed Annual Caps for each of the three years ending 31 December 2025.

<i>RMB million</i>	Existing Annual Caps for the years ended/ending 31 December			Proposed Annual Caps for the years ending 31 December		
	2020	2021	2022	2023	2024	2025
<b>New Cinema Box Office Income Sharing Framework Agreement</b>						
Annual caps	346.04	388.96	417.45	276.02	315.45	354.88
Actual amounts	67.40	147.32	44.19 <sup>1</sup>			
Utilisation rates	19.5%	37.9%	10.6% <sup>2</sup>			
<b>Property Lease Framework Agreement</b>						
Annual caps						
- Floating rental	13.27	15.41	20.32	2.3	3.45	3.72
- Right-of-use assets	235.39	281.04	308.64	164.98	141.90	135.08
<b>Total</b>	248.66	296.45	328.97	167.28	145.35	138.80
Actual amounts						
- Floating rental	1.89	2.91	0.86 <sup>1</sup>			
- Right-of-use assets	44.14	111.83	81.80 <sup>1</sup>			
<b>Total</b>	46.03	114.74	82.66 <sup>1</sup>			
Utilisation rates						
- Floating rental	14.2%	18.9%	4.2% <sup>2</sup>			
- Right-of-use assets	18.8%	39.8%	26.5% <sup>2</sup>			
<b>Total</b>	18.5%	38.7%	25.1% <sup>2</sup>			

<sup>1.</sup> Historical amount for the six months ended 30 June 2022.

<sup>2.</sup> The utilisation rates for the year ending 31 December 2022 are computed based on the actual amounts up to 30 June 2022.

<sup>3.</sup> The discrepancy between the sum of the figures in the list and the subtotal/aggregate figures is caused by rounding.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

### 4.2 *Proposed New Cinema Box Office Income Sharing Annual Caps*

#### 4.2.1 *Basis of determining the Proposed New Cinema Box Office Income Sharing Annual Caps*

In determining the Proposed New Cinema Box Office Income Sharing Annual Caps, the Directors have considered:

- (i) the industry standard of sharing the net cinema box office income (i.e., the comparable average net cinema box office income sharing in the market is approximately 40% to 45%) between cinema circuit and cinemas according to the SARFT Guiding Opinions, as well as the features of the cinema circuit system in China;
- (ii) with the great impact of the ongoing pandemic and control measures on the Group's cinemas, the cinema box office income recorded a fairly substantial decline for the period from 1 January 2020 to 30 June 2022 as compared with the previous years. However, the Group expects that the impact of the pandemic will be weakened in the future, and the cinema box office of the Group will recover and increase, therefore the income sharing between the Group and Poly Wanhe Cinema Circuit will return to growth gradually;
- (iii) the average price of movie tickets was on a gradually increasing trend in recent years and followed by a continuous increase with the rise of the price index. With the development of the film industry in China and the weakening of the impact of the pandemic, the number of audience and films will recover gradually, as such, the net cinema box office income of the Group is expected to increase as well in the future;
- (iv) with the weakening of the impact of the COVID-19 pandemic and the recovery of the film and cultural market, there will be more excellent films in China and more foreign films will be introduced in the future, which will drive the recovery of the whole cinema market and the increase of box office income; and
- (v) the impact of the COVID-19 pandemic on the cinema operation industry is a temporary crisis, and at the same time, some small and medium-sized cinemas are facing the crisis of closing down due to the impact of the COVID-19 pandemic. Therefore, the Group expects that after the impact of the COVID-19 pandemic is weakened or even eliminated in the future, Poly Cinema will have a double positive trend, namely, the number of the audience will recover and the audience will tend to concentrate.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

### *4.2.2 Assessment to the Proposed New Cinema Box Office Income Sharing Annual Caps*

In assessing the fairness and reasonableness of the Proposed New Cinema Box Office Income Sharing Annual Caps, we have (i) reviewed the actual transaction amount of cinema box office income attributable to Poly Group and/or its associates for the two years ended 31 December 2021 and for the six months ended 30 June 2022, which represent the utilisation rates of approximately 19.5%, 37.9% and 10.6% for the corresponding periods; and (ii) discussed with the Management on the basis for determining the Proposed New Cinema Box Office Income Sharing Annual Caps with the Company.

We noted that the utilisation rates under the Cinema Box Office Income Sharing Framework Agreement were maintained at a relatively low level, with the highest utilisation rate only reached 37.9% during the periods. In this regard, we have discussed with the Management and understood that the cinema investment management business is adversely impacted by the sudden outbreak of the COVID-19 pandemic in early 2020, which led to the close of business for all the cinemas in late January 2020. Despite the reopening of some of the cinemas in the second half of 2020, the performance of the Group's cinemas has continued to be affected by the anti-epidemic measures or restrictions, such as the limitation on the seating capacity, the lockdown of cities due to the resurgence of the COVID-19 pandemic, etc. As such, the Company proposed a relative lower annual caps under the New Cinema Box Office Income Sharing Framework Agreement as compared with the existing annual caps.

As discussed with the Management, we understood that Proposed New Cinema Box Office Income Sharing Annual Caps are estimated primarily based on (i) the historical net cinema box office income prior to the outbreak of the COVID-19 pandemic, which the Management considers more appropriate as the net cinema box office income generated during the period from FY2020 to 1H2022 may not reflect the actual performance of the Group's cinemas; (ii) the weakening of the impact of the COVID-19 pandemic and the recovery of the film and cultural market in China; (iii) the gradual increase of the average price of movie tickets; and (iv) the cinema box office income sharing percentage by Poly Group.

As part of our due diligence, we have reviewed the annual reports released by the Company for the financial years prior to outbreak of the COVID-19 pandemic and noted that the proposed annual cap for the year ending 31 December 2023 is at a similar level, with an increase of approximately 8.3% as compared with the actual transaction amount of the cinema box office income attributable to Poly Group and/or its associate for the year ended 31 December 2019 ("FY2019"). We have reviewed a report released by the China Film Special Funds, a subsidiary under the China Film Administration, and noted that the average movie ticket price in China has increased by approximately 9.1% for the period from 2019 to 2021, which is slightly higher than the difference between the proposed annual cap and the actual transaction amount as mentioned above.

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

Having considered (i) the historical net cinema box office income attributable to Poly Group and/or its associate for FY2019; (ii) the historical growth of the average movie ticket price in China; (iii) no less than 50% to 55% of the net cinema box office income to be retained by the Group, we are of the view that the Proposed New Cinema Box Office Income Sharing Annual Caps are fair and reasonable.

### **4.3 Proposed Property Lease Annual Caps**

#### *4.3.1 Basis of determining the Proposed Property Lease Annual Caps*

In determining the Proposed Property Lease Annual Caps, the Directors have considered:

- (i) the Company has applied IFRS 16 since 1 January 2019. As lease properties of the Group were mainly used for the office premises, cinema operation, theatre operation, and art business and auction, the Company will account for the expenses under the Property Lease Framework Agreement as the finance lease instead of the original operating lease, that is, recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding right-of-use asset. The subsidiaries of the Company will recognise interest expense accrued on the outstanding balance of the lease liability and the depreciation of the right-of-use asset, instead of the original rental expenses incurred on the operating lease;
- (ii) the floating rental is directly linked to Poly Film Group's box office income and Poly Film expects to record a substantial increase in box office income and may commence operating more projects from 2023 to 2025. During the next three years ending 31 December 2022, the Company assumed that there would be seven new projects in total, for which the Poly Film Group would enter into leasing agreement with Poly Group and/or its associates. The floating rental of the new projects are directly linked to the expected box office of such projects for the three years ending 31 December 2022;
- (iii) the right-of-use assets are based on the fixed monthly rental fees and estimated monthly rental fees between the Group (other than the Poly Film Group) and Poly Group and/or its associates. The Company has taken into account of office expansion and with reference to the office size in similar area when calculating the right-of-use assets;
- (iv) as at 30 June 2022, the Group leased 20 pieces of properties from Poly Group and/or its associates;
- (v) the rentals of the existing property leases (for the six months ended 30 June 2022, according to the Company's unaudited interim report for the six months ended 30 June 2022, the rental expense incurred was approximately RMB19.59 million);

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

- (vi) having considered the historical transaction amount and the Group's future development plan, the total annual rental payable by the Group under the Property Lease Framework Agreement for the years ending 31 December 2023, 31 December 2024 and 31 December 2025 shall not exceed RMB164.33 million per year (estimated amounts before taking into account IFRS 16);
- (vii) continuous increase in rentals of properties in the vicinity of the relevant properties and the overall future development of the property market in the PRC;
- (viii) the Group plans to expand office premises and the premises for art business and auction; and
- (ix) the Group's future plan to expand its cinema and theatre management business from 2023 to 2025 may require the Group to lease properties from Poly Group and/or its associates.

### *4.3.2 Assessment to the Proposed Property Lease Annual Caps*

In assessing the fairness and reasonableness of the Proposed Property Lease Annual Caps, we have reviewed the historical amounts of the floating rental and right-of-use assets for the two years ended 31 December 2021 and for the six months ended 30 June 2022, which represent the utilisation rates of approximately 14.2%, 18.9%, 4.2% and 18.8%, 39.8%, 26.5%, respectively, for the corresponding periods.

We have also reviewed and discussed the forecast model for determining the Proposed Property Lease Annual Caps with the Company and understood that the Proposed Property Lease Annual Caps are calculated based on (i) the estimated floating rental arising from Poly Film Group which is subject to Poly Film Group's box office income; (ii) the estimated right-of-use assets for the projects of the Group, which were based on the fixed monthly rental fees under existing leases and estimated monthly rental fees in the coming years.

For the floating rental, we note that the utilisation rates for the existing annual caps of the floating rental were maintained at a relatively low level, with the highest utilisation rate only reached 18.9% during the periods. In this regard, we have discussed with the Management and understood that the floating rental, which is directly linked to the Poly Film Group's box office income, is at a low level due to the reduction of the box office income as a result of the outbreak of the COVID-19 pandemic. Having considered (i) the estimated floating rental is broadly in line with the transaction amount of the historical floating rental; and (ii) the floating rental is directly linked to Poly Film Group's box office income, which is expected to resume due to reasons as mentioned in the section headed "4.2.2 Assessment to the Proposed New Cinema Box Office Income Sharing Annual Caps", we consider the estimated floating rental is justifiable.

For the right-of-use assets, we note from the forecast model that the proposed annual caps for the right-of-use assets are general in line with the sum of the estimated right-of-use assets for the projects of the Group. In this regard, we have obtained and reviewed the

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

calculation that was used to estimate the right-of-use assets for the projects of the Group and noted that the calculation was based on each projects' (i) monthly rental fees under existing leases and estimated monthly rental fees in the coming years; (ii) duration of individual agreements of the projects; and (iii) a discount rate. For our due diligence works, we have randomly selected three projects from the forecast model, obtained and reviewed the respective agreements under such projects and noted that the monthly rental fees and the duration as shown in the agreements are in line with the data used for the calculation of the right-of-use assets. Further, as advised by the Management, the discount rate used for the calculation is based on the PRC market lending rate. As such, we have visited the website of The People's Bank of China and noted the prevailing loan prime rate for RMB loans (above 5 years) is 4.9% per annum, which is general in line with the discount rate used in the calculation. Having considered the above, we consider the estimated right-of-use assets is justifiable.

In light of the above, we are of the view that the Proposed Property Lease Annual Caps are fair and reasonable.

### **5. Procedures and internal control measures for the Framework Agreements**

The Company has adopted certain internal control procedures and corporate governance measures in relation to the Framework Agreements, details of which are included in the sections headed "(I) Renewal of the New Cinema Box Office Income Sharing Framework Agreement - (7) Internal Control Procedure and Corporate Governance Measures" and "(II) Renewal of the Annual Caps under the Property Lease Framework Agreement - (8) Internal Control Procedure and Corporate Governance Measures" in the Letter form the Board.

Pursuant to Rules 14A.55 and 14A.56 of the Listing Rules, the independent non-executive Directors and auditor of the Company will conduct annual review and issue confirmations regarding the continuing connected transactions of the Company each year. We have reviewed the 2020 AR and 2021 AR and noted that the independent non-executive Directors and the auditor of the Company have reviewed the continuing connected transactions during such years and provided the relevant confirmations. As confirmed with the Company, the Company will continue to comply with the relevant annual review requirement under the Listing Rules on an on-going basis. In addition, we have obtained and reviewed the internal control management policies which set out the general procedures to be followed by the Company while dealing with any connected transaction.

Based on the above, we are of the view that the Group has effective internal policies in place to continue to monitor the continuing connected transactions under the Framework Agreements and the Proposed Annual Caps, therefore the interests of the Company and its Shareholders would be safeguarded.

### **RECOMMENDATION**

Having considered the above factors and reasons, we are of the opinion that (i) the continuing connected transactions under the Framework Agreements are conducted in the ordinary and usual course of business of the Company and on normal commercial terms; and (ii) the terms of the Framework Agreements and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we

---

## LETTER FROM INDEPENDENT FINANCIAL ADVISER

---

also recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Framework Agreements and the Proposed Annual Caps to be proposed at the Extraordinary General Meeting.

Yours faithfully,  
For and on behalf of  
**Maxa Capital Limited**  
**Dian Deng**  
*Managing Director*

*Ms. Dian Deng is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 14 years of experience in corporate finance industry.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DIRECTORS' INTERESTS

- (1) As at the Latest Practicable Date, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 or chief executives of the Company or their respective associates were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.
- (2) As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 December 2021 (being the date on which the latest published audited consolidated accounts of the Company were prepared) been acquired or disposed of by or leased to or by the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to or by the Company or any of its subsidiaries.
- (3) As at the date of this circular, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries, which was subsisting and was significant in relation to the business of the Group.
- (4) As at the Latest Practicable Date, the following Directors are directors or employees of a company having an interest or short position in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

<b>Name</b>	<b>Position in the entity disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO</b>
Ms. Zhang Hong	Supervisor of Poly International
Mr. Fu Chengrui	Chief accountant of Poly International



### 3. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware of, none of the Directors and Director candidates and their respective close associates had any interest in a business which competes or is likely to compete with the business of the Group.

### 4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as was known to the Directors, as at the Latest Practicable Date, the following persons (not being a Director, chief executive of the Company nor any member of the Group) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or were directly or indirectly interested in 5% or more of the nominal value of any class of Shares carrying rights to vote in all circumstances at general meetings of any member of the Group.

Name of Shareholders	Type of Shares	Capacity	Number of Shares/ underlying Shares held <sup>(Note 1)</sup>	Percentage of the relevant class of share capital (%) <sup>(Note 2)</sup>	Percentage of the total share capital (%) <sup>(Note 2)</sup>
Poly Group <sup>(Note 3)</sup>	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	7,130,100 (L)	7.97	2.89

Notes:

- (1) "L" stands for long positions.
- (2) The percentage is calculated as the number of the relevant class of Shares of the Company in issue as at the Latest Practicable Date 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 50,197,900 Shares held by Poly International under the SFO.

Saved as disclosed above, as at the Latest Practicable Date, to the best knowledge of the Directors, there were no other persons who had interests or short positions in the Shares or underlying Shares, which were required to be notified to the Company and the Stock Exchange 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.

**5. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into or was proposing to enter into any service contracts with the Company or any of its subsidiaries, which are not terminable within one year without payment of compensation other than statutory compensation.

**6. EXPERT'S DISCLOSURE OF INTERESTS AND CONSENTS**

- (1) As at the Latest Practicable Date, Maxa Capital, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, did not have any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (2) As at the Latest Practicable Date, Maxa Capital did not have any direct or indirect interests in any assets which have been acquired or disposed of or leased to or which were proposed to be acquired or disposed of by or leased to by any member of the Group since 31 December 2021, being the date to which the latest published audited consolidated accounts of the Company were made up.
- (3) Maxa Capital issued a letter dated 4 November 2022 for the purpose of incorporation in this circular in connection with its recommendation to the Independent Board Committee and the Independent Shareholders.
- (4) Maxa Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of recommendation and reference to its name in the form and context in which they appear.

**7. GENERAL**

- (1) As at the Latest Practicable Date, save for the affect of the COVID-19 pandemic stated below, the Directors confirm that there is no material adverse change in the Group's financial or trading position since 31 December 2021, being the date on which the latest published audited consolidated accounts of the Company were prepared.

In the first half of 2022, affected by the COVID-19 pandemic, the three principal businesses of the Group have experienced temporary closure at different degree, resulting in a decline in operating results. In terms of artwork operation and auction business, spring auction has been postponed to late July. In terms of performance and theatre management business, the Group strictly implemented the requirements of prevention and control of the COVID-19 pandemic, the actual number of performances reduced to 2,968. In terms of cinema investment and management business, our cinemas were mainly located in Beijing, Shanghai, Shenzhen and other regions which severely affected by the outbreak of the COVID-19 pandemic, resulting in the failure of several cinemas to open.

Total revenue decreased by 38.5% from RMB1,503.2 million for the six months ended 30 June 2021 to RMB924.3 million for the six months ended 30 June 2022, primarily due to the outbreak of COVID-19 pandemic since early 2022, which has resulted in a decrease in revenue during the six months ended 30 June 2022.

Gross profit decreased by 39.7% from RMB483.5 million for the six months ended 30 June 2021 to RMB291.4 million for the six months ended 30 June 2022, mainly due to the outbreak of the COVID-19 pandemic at the beginning of 2022, resulting in a decrease in gross profit for the six months ended 30 June 2022. Gross profit margin decreased from 32.2% for the six months ended 30 June 2021 to 31.5% the six months ended 30 June 2022, which remained relatively stable.

Selling and distribution expenses decreased by 4.7% from RMB181.4 million for the six months ended 30 June 2021 to RMB172.9 million for the six months ended 30 June 2022, primarily due to the decrease in travel costs and office costs.

Administrative expenses increased by 1.7% from RMB224.6 million for the six months ended 30 June 2021 to RMB228.4 million for the six months ended 30 June 2022, basically in line with the previous year.

Reportable segment profit was RMB0.1 million for the six months ended 30 June 2022 compared with the reportable segment profit of RMB220.9 million for the six months ended 30 June 2021.

The loss for the six months ended 30 June 2022 amounted to RMB187.6 million compared with the profit of RMB0.3 million for the six months ended 30 June 2021.

- (2) The address of registered office of the Company is District A, 20/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, PRC and the postal code is 100010.
- (3) The H share registrar of the Company is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (4) The company secretaries of the Company are Ms. Wang Wei and Ms. Ng Sau Mei. Ms. Ng Sau Mei is a fellow member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

## **8. DOCUMENTS AVAILABLE FOR DISPLAY**

Copies of the following documents are available for display on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://polyculture.com.cn>) from the date of this circular up to and including the date of the Extraordinary General Meeting:

- (1) the New Cinema Box Office Income Sharing Framework Agreement; and
- (2) the Property Lease Framework Agreement.

---

## NOTICE OF THE 2022 FIRST EXTRAORDINARY GENERAL MEETING

---



*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 3636)**

### NOTICE OF THE 2022 FIRST EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the 2022 first extraordinary general meeting (the “**Extraordinary General Meeting**”) of Poly Culture Group Corporation Limited (the “**Company**”) will be held at 2:30 p.m. on Wednesday, 30 November 2022 at the Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, PRC to consider and, if thought fit, to pass the following resolutions:

#### **Ordinary Resolutions**

1. To consider and approve the proposed appointment of Mr. Guo Wenpeng as executive director
2. To consider and approve the renewal of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025
3. To consider and approve the renewal of the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement

#### **Special Resolution**

4. To consider and approve the proposed amendments to the Articles of Association

By order of the Board of Directors  
**Poly Culture Group Corporation Limited**  
**Wang Bo**  
*Chairman*

Beijing, the PRC  
14 October 2022

---

## NOTICE OF THE 2022 FIRST EXTRAORDINARY GENERAL MEETING

---

*Notes:*

**1. CLOSURE OF REGISTER OF MEMBERS, ELIGIBILITY FOR ATTENDING THE EXTRAORDINARY GENERAL MEETING**

Holders of H shares of the Company are advised that the register of members for H shares will be closed from Monday, 31 October 2022 to Wednesday, 30 November 2022 (both days inclusive). Shareholders whose names appear on the register of members of the Company on Wednesday, 30 November 2022 are entitled to attend and vote at the Extraordinary General Meeting. In order to be eligible to attend and vote at the Extraordinary General Meeting, holders of H shares are required to deposit the transfer documents together with the relevant share certificates at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Friday, 28 October 2022.

**2. PROXY**

Shareholders entitled to attend and vote at the Extraordinary General Meeting may appoint one or more proxies to attend and vote in their stand. A proxy need not be a shareholder of the Company.

The instrument appointing a proxy must be in writing under the hand of a shareholder or his/her attorney duly authorized in writing. If the shareholder is a corporate body, the proxy form dispatched thereto by the Company on 14 October 2022 (the "**Proxy Form**") must be either executed under its common seal or under the hand of its legal representative(s) or director(s) or duly authorized attorney(s). If the Proxy Form is signed by an attorney of the shareholder, the power of attorney authorizing that attorney to sign or other authorizations document must be notarized.

For holders of H shares who intend to attend the Extraordinary General Meeting by proxy, the Proxy Form together with the power of attorney or other authorization document (if any) must be returned at the H share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in person or by post not less than 24 hours before the time fixed for holding the Extraordinary General Meeting or any adjournment thereof (as the case may be). Completion and return of the Proxy Form will not preclude you from attending the Extraordinary General Meeting and voting in person if you so wish.

**3. REPLY SLIP**

Holders of H shares who intend to attend the Extraordinary General Meeting in person or by proxy should return the reply slip to the H share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before Thursday, 10 November 2022.

**4. CONTACT DETAILS OF THE COMPANY**

Contact Address: District A, 20/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, PRC  
Postal code: 100010  
Contact Person: Wang Wei  
Contact Telephone: (86 10) 6408 2711  
Contact Fax: (86 10) 6408 2662

---

## **NOTICE OF THE 2022 FIRST EXTRAORDINARY GENERAL MEETING**

---

### **5. PROCEDURES FOR VOTING AT THE EXTRAORDINARY GENERAL MEETING**

According to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at the Extraordinary General Meeting must be taken by poll.

### **6. OTHER BUSINESS**

The Extraordinary General Meeting is expected to last for approximately half a day. Shareholders (in person or by proxy) attending the Extraordinary General Meeting are responsible for their own transportation and accommodation expenses.

Shareholders or their proxies attending the Extraordinary General Meeting shall produce their identity documents.

### **7. NOTES FOR THE MEETING**

Shareholders should pay attention to the following matters if they wish to attend the meeting in person:

Please strictly comply with the pandemic prevention and control requirements of the government authorities and check the pandemic prevention and control requirements of the place of departure and Beijing in advance. Please follow and comply with instructions on pandemic prevention requirements, including health information authentication, travel information inquiry and authentication as well as temperature check, upon arrival at the meeting venue. Please wear masks during the whole process of the meeting and take seats according to the arrangements of the Company.