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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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.

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

### RENEWAL OF CONTINUING CONNECTED TRANSACTIONS FOR 2023 TO 2025 AND NOTICE OF THE 2023 FIRST EXTRAORDINARY GENERAL MEETING

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



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The Extraordinary General Meeting will be held by the Company at 2:30 p.m. on Monday, 17 April 2023 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 2 March 2023. 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 Tuesday, 28 March 2023.

28 March 2023

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## DEFINITIONS

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

“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 2023 first extraordinary general meeting of the Company to be held at 2:30 p.m. on Monday, 17 April 2023 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
“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board

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## DEFINITIONS

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“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”	23 March 2023, 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
“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

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## DEFINITIONS

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“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

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## LETTER FROM THE BOARD

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*(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. Jiang Yingchun (*Vice Chairman*)  
Mr. Guo Wenpeng  
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

28 March 2023

*To the Shareholders*

Dear Sir or Madam,

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

#### **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) renewal of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025; and (ii) renewal of the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement.

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

References are made to the announcement of the Company dated 13 October 2022 and the circular of the Company dated 4 November 2022 in respect of, among others, the New Cinema Box Office Income

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## LETTER FROM THE BOARD

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Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 and the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement entered into between the Company and Poly Group.

Reference is made to the announcement of the Company dated 30 November 2022 in respect of, among others, the voting results of the 2022 first extraordinary general meeting of the Company. As no more than one-half of the votes were cast in favour of the ordinary resolutions in relation to (i) renewal of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025; and (ii) renewal of the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement, these resolutions were not duly passed. Therefore, ordinary resolutions will be proposed again at the Extraordinary General Meeting to approve (i) renewal of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025; and (ii) renewal of the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement.

### **(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.

References are made to the announcement of the Company dated 13 October 2022 and the circular of the Company dated 4 November 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 such 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 expired 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

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## LETTER FROM THE BOARD

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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 and the proposed annual caps for 2023, 2024 and 2025 shall take effect upon the approval of Independent Shareholders and will expire on 31 December 2025.

(2) *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 shall take effect upon the approval of Independent Shareholders and will expire on 31 December 2025, and can be renewed for another three years upon its expiry, subject to further approval of 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) and Poly Film (a subsidiary of the Company, representing itself and its more than 70 existing subordinate cinemas) will enter into new specific contracts to renew the existing specific contracts, and Poly Wanhe Cinema Circuit will enter into new specific contracts with newly established cinemas upon establishment. Such specific contracts will be entered into according to the pricing policies, main terms and conditions provided in the New Cinema Box Office Income Sharing Framework Agreement, including but not limited to the sharing percentage (the Group will receive no less than 50% to 55% of the net cinema box office income), content and term. The term for each specific contract is three years, and the specific terms and conditions are same with the New Cinema Box Office Income Sharing Framework Agreement; and



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## LETTER FROM THE BOARD

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- 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 pay a portion of the net cinema box office income to Poly Group and/or its associates in accordance with the respective sharing percentage as set out in the specific contracts (the Group will receive no less than 50% to 55% of the net cinema box office income) 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 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 stipulate the sharing percentage of film screening income for the cinema shall not be more than 50% in principle (the "**SARFT Guiding Opinions**"), which 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 percentage 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 with reference 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, pursuant to the New Cinema Box Office Income Sharing Framework Agreement. Meanwhile, the Group will conduct research on the income sharing policy of at least two independent cinema circuits with similar size based on the similar transactions they have entered into with Poly Group and/or its associates every half year,

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## LETTER FROM THE BOARD

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and report to the Directors in a timely manner. If the Group finds that the sharing percentage offered by Poly Group and/or its associates to the Group is 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 net cinema box office income sharing percentage 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".

### (3) *Historical amounts*

For the years ended 31 December 2020, 31 December 2021 and 31 December 2022, the number of films provided by Poly Group and/or its associates to the Group for screening, the cinema box office income generated by the Group under the Cinema Box Office Income Sharing Framework Agreement, the actual transaction amount between the Group and Poly Group and/or its associates under the Cinema Box Office Income Sharing Framework Agreement, and the relevant annual caps are set out below:

*Unit: RMB million (unless otherwise stated)*

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</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	316 films
The cinema box office income generated by the Group under the New Cinema Box Office Income Sharing Framework Agreement <i>(Note 1)</i>	156.74	342.60	196.12

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## LETTER FROM THE BOARD

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	For the year ended 31 December		
	2020	2021	2022
The average cinema box office income sharing percentage of the Group <sup>(Note 1)</sup>	57%	57%	57%
The average cinema box office income sharing percentage of Poly Group and/or its associates <sup>(Note 1)</sup>	43%	43%	43%
The actual transaction amount of the cinema box office income attributable to Poly Group and/or its associates	67.40	147.32	135.88
Annual cap <sup>(Note 2)</sup>	346.04	388.96	417.45

*Notes:*

1. The National Film Development Special Fund and VAT and surcharges have been deducted.
2. 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, 31 December 2021 and 31 December 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.

Reference is made to the announcement of the Company dated 30 November 2022 in respect of the voting results of the 2022 first extraordinary general meeting of the Company. As set out in such announcement, before obtaining the approval from the Shareholders' general meeting of the Company towards the continuing connected transactions and the proposed annual caps under the New Cinema Box Office Income Sharing Framework Agreement, the actual transaction amount conducted by the Group under the New Cinema Box Office Income Sharing Framework Agreement will be less than RMB35,697,297, where according to the Listing Rules, the highest applicable percentage of the actual transaction amount is less than 5%. The actual transaction amount of the cinema box office income attributable to Poly Group and/or its associates was RMB25.6721 million for the period from 1 January 2023 up to the Latest Practicable Date, not exceeding the above cap. The actual transaction amount under the

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## LETTER FROM THE BOARD

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New Cinema Box Office Income Sharing Framework Agreement has not exceeded, and is expected not to exceed the above cap without the approval from the Independent Shareholders. The Company has complied with the applicable requirements under the Listing Rules.

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

**Proposed annual caps:**

For the years ending 31 December 2023, 31 December 2024 and 31 December 2025, the maximum aggregate annual amount of the transactions under the New Cinema Box Office Income Sharing Framework Agreement conducted by the Group 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 percentage in the market is approximately 40% to 45% (for the sharing percentage of the cinema)) 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 prevention 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 31 December 2022 as compared with the previous years. However, after the end of the pandemic, the cinema market in China realized rapid recovery and significant growth during the 2023 Spring Festival, and the cinema box office of the Group will recover and increase, therefore the shared income between the Group and Poly Wanhe Cinema Circuit will resume its growth trend;
- (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

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## LETTER FROM THE BOARD

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end 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 end of the 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 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 pandemic. Therefore, after the end of the pandemic, the Group expects that the cinemas under the Group will have dual positive trends, 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 that offered to 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 the New 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 interests in film source and box office income, and benefit all Shareholders.

After entering into the New Cinema Box Office Income Sharing Framework Agreement, the Directors expect that, taking into consideration the long-term good business relationship between Poly Wanhe Cinema Circuit and cinemas of the Group since the date of formal commencement of business, 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 continues to maintain a cooperative 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.

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## LETTER FROM THE BOARD

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**(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 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, to ensure that necessary measures and appropriate actions will be promptly taken to comply with applicable requirements under the Listing Rules. 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 considered 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 agreements comply 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 such 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 recording of transaction amount, the calculation and payment of transaction amount, 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

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## LETTER FROM THE BOARD

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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 is about to 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 with reference 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, pursuant to the New Cinema Box Office Income Sharing Framework Agreement. Meanwhile, the Group will conduct research on the income sharing policy of at least two independent cinema circuits with similar size based on the similar transactions they have entered into with Poly Group and/or its associates every half year, and report to the Directors in a timely manner. If the Group finds that the sharing percentage offered by Poly Group and/or its associates to the Group is 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 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 that offered to 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 performance 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.

**(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.

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## LETTER FROM THE BOARD

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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.

References are made to the announcement of the Company dated 13 October 2022 and the circular of the Company dated 4 November 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).



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As the corresponding annual caps under the Property Lease Framework Agreement expired 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 of 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;
- 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

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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 31 December 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.

### **(4) Historical amounts**

The actual transaction amount incurred under the Property Lease Framework Agreement for the years ended 31 December 2020, 31 December 2021 and 31 December 2022 and the relevant annual caps are set forth below:

*Unit: RMB million*

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Floating rental <i>(Note 1)</i>	1.89	2.91	0.78
Right-of-use assets <i>(Note 2)</i>	44.14	111.83	50.99
<b>Total actual transaction amount</b>	<b>46.03</b>	<b>114.74</b>	<b>51.77</b>

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## LETTER FROM THE BOARD

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*Notes:*

1. Such amounts refer to the total floating rental paid to Poly Group related to the revenue from leases under the Property Lease Framework Agreement in each of the years ended 31 December 2020, 31 December 2021 and 31 December 2022.
2. Such amounts refer to the total value of right-of-use assets involved in existing and new leases entered into by the Group under the Property Lease Framework Agreement in each of the years ended 31 December 2020, 31 December 2021 and 31 December 2022.

*Unit: RMB million*

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Floating rental <i>(Note 1)</i>	13.27	15.41	20.32
Right-of-use assets <i>(Note 2)</i>	235.39	281.04	308.64
<b>Total annual cap <i>(Note 3)</i></b>	<b>248.66</b>	<b>296.45</b>	<b>328.97</b>

*Notes:*

1. Such amounts refer to the annual caps for the total floating rental paid to Poly Group related to the revenue from leases under the Property Lease Framework Agreement in each of the years ended 31 December 2020, 31 December 2021 and 31 December 2022.
2. Such amounts refer to the annual caps for the total value of right-of-use assets involved in existing and new leases entered into by the Group under the Property Lease Framework Agreement in each of the years ended 31 December 2020, 31 December 2021 and 31 December 2022.
3. The discrepancy between the sum of the figures in the list and the subtotal/aggregate figures is caused by rounding.

The total value of the right-of-use assets involved in the leases entered into by the Group under the Property Lease Framework Agreement and the total floating rental paid to Poly Group related to the revenue from leased properties and respective annual caps for the years ended 31 December 2020, 31 December 2021 and 31 December 2022 are set forth below:

*Unit: RMB million*

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Floating rental <i>(Note 1)</i>	1.89	2.91	0.78
Right-of-use assets <i>(Note 2)</i>	16.33	74.55	17.12
<b>Total actual transaction amount</b>	<b>18.22</b>	<b>77.46</b>	<b>17.9</b>

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*Notes:*

1. Such amounts refer to the total floating rental paid to Poly Group related to the revenue from leases under the Property Lease Framework Agreement in each of the years ended 31 December 2020, 31 December 2021 and 31 December 2022.
2. Such amounts refer to the total value of right-of-use assets involved in new leases entered into by the Group under the Property Lease Framework Agreement in each of the years ended 31 December 2020, 31 December 2021 and 31 December 2022.

Reference is made to the announcement of the Company dated 30 November 2022 in respect of the voting results of the 2022 first extraordinary general meeting of the Company. As set out in the announcement, before obtaining the approval from the Shareholders' general meeting of the Company towards the proposed annual caps for the continuing connected transactions under the Property Lease Framework Agreement, the actual amount of transactions under the Property Lease Framework Agreement conducted by the Group will be less than RMB35,697,297, where according to the Listing Rules, the highest applicable percentage of the actual transaction amount is less than 5%. Actual transaction amount incurred under the Property Lease Framework Agreement for the period from 1 January 2023 up to the Latest Practicable Date was nil, not exceeding the above caps. The actual transaction amount under the Property Lease Framework Agreement has not exceeded, and is expected not to exceed the above caps without the approval from the Independent Shareholders. The Company has complied with the applicable requirements under the Listing Rules.

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

**Proposed annual caps:**

The total annual transaction amount 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:

*Unit: RMB million*

	<b>For the year ending 31 December</b>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
– Floating rental <i>(Note 1)</i>	2.3	3.45	3.72
– Right-of-use assets <i>(Note 2)</i>	164.98	141.90	135.08
<b>Total proposed annual cap</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. Such amounts refer to the proposed annual caps for the total floating rental to be paid to Poly Group related to the revenue from leases under the Property Lease Framework Agreement in each of the years ending 31 December 2023, 31 December 2024 and 31 December 2025.

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2. Such amounts refer to the proposed annual caps for the total value of right-of-use assets involved in new leases to be entered into by the Group under the Property Lease Framework Agreement in each of the years ending 31 December 2023, 31 December 2024 and 31 December 2025.
3. 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 leased 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 2025, the Company assumed that there would be 14 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 2025;
- (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) 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;
- (v) the Group plans to expand office premises and the premises for art business and auction; and

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## LETTER FROM THE BOARD

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- (vi) 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 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.

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## LETTER FROM THE BOARD

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As the highest 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.

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

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## LETTER FROM THE BOARD

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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.

### **(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 14 hereof.



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## LETTER FROM THE BOARD

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### **(III) Reasons for and Benefits of Re-proposing the Renewal of Continuing Connected Transactions for 2023 to 2025 at the Extraordinary General Meeting**

In view of the fact that (i) renewal of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025; and (ii) renewal of the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement have failed to obtain more than one-half of voting rights in favor of the Company at the 2022 first extraordinary general meeting, the Company proposed to re-propose these proposals for consideration and approval at the Extraordinary General Meeting (the “**Renewal of Continuing Connected Transactions**”) and the further main reasons and benefits are as follows:

- (1) Save as disclosed above, there are no any other changes in the facts and circumstances applicable to the New Cinema Box Office Income Sharing Framework Agreement and the Property Lease Framework Agreement. There are no changes in the transaction terms and conditions under the New Cinema Box Office Income Sharing Framework Agreement and the Property Lease Framework Agreement. The Directors of the Company (including all the independent non-executive Directors) confirmed that 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;
- (2) The specific transactions under the New Cinema Box Office Income Sharing Framework Agreement and the Property Lease Framework Agreement will be conducted on normal commercial terms and on terms and consideration no less favourable than those offered to independent third parties. Due to the long-term cooperative relationship between the Group and Poly Group, the Group expects that it will benefit from the long-term stable business support of the Poly Group in the cinema circuit and real estate industries and Poly Group’s familiarity with the industry and operation of the Group. Through cooperation between each other for many years, Poly Group is familiar with the capital structure, business operation and the entire financial management system of the Group, so it will be an advantage to provide the Group with more appropriate, effective, favorable and flexible services when compared with the independent third-party counterparties;
- (3) the Renewal of Continuing Connected Transactions is conducive to the acceleration of the business development of the Group, driving the increase in operation revenue. Cinema investment and operation is the ordinary and usual business of the Group. After the pandemic, the cinema market in China realized rapid recovery and significant growth during the Spring Festival, and the cinema box office of the Group will recover rapidly and increase, therefore the income sharing between the Group and Poly Wanhe Cinema Circuit will resume its growth trend. In 2023, the adverse impact of the pandemic on the cinema market in China will gradually fading away. The national box office during the Spring Festival amounted to RMB6,758 million, which showed a

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positive signal of market recovery. Poly Film will also proactively seize the opportunities in the market and continue to expand cinema projects in commercial properties of Poly Group to achieve coordination and linkage of resources within the Group and efficient promotion of the market share of its own box office. Real estate development and operation is one of the main businesses of Poly Group and there are real estate development projects under construction and pending construction in major cities in China, therefore, the long-term lease and use of its properties by the Group is extremely beneficial to the stability and sustainability of the business operation of the Group. As the continuing connected transactions under the New Cinema Box Office Income Sharing Framework Agreement and the Property Lease Framework Agreement are related to the ordinary course of business of the Company, failure to approve the resolutions at the Extraordinary General Meeting could adversely affect the Company's business operations. Moreover, in order for the Company to carry out the continuing connected transactions in its daily operation and compliance with the requirements of Listing Rules, it is very important that relevant proposed annual caps be approved at the upcoming Extraordinary General Meeting in a timely manner;

- (4) The Renewal of Continuing Connected Transactions will help the Group to capture the market opportunities in the cultural industry and promote the stability and development of the Group's business. The internal and external environment for the development of domestic cultural industry is undergoing profound changes. The foundation for domestic economic recovery is not solid yet, and the normal business order is still facing uncertainty in the short term. However, in general, the fundamentals of domestic long-term economic growth remain unchanged, the general trend of high-quality development remains the mainstream, and the overall operation of the cultural market is expected to see a steady recovery. The Company believes that: with the rebound of consumption, the cultural market is expected to recover. The long-term repeated outbreak of COVID-19 pandemic has brought a huge impact on both the supply and demand sides of the industry, and the security of the industrial chain and supply chain of the cultural market has been compromised. However, under the context "to foster a new pattern of development that is focused on the domestic economy and features a positive interplay between domestic and international economic flows", cultural consumption, as service consumption and new consumption, is an important part of expanding domestic demand. The favorable policies are expected to usher in an industrial recovery and restore market confidence and performance. The Group will make proper analysis of the market and competitors, pay close attention to the domestic cultural consumption market and cultural exchanges at home and abroad as well as the relevant national policies, conduct pre-arranged planning to cope the rapid recovery or slow recovery of the market, striving for rapid recovery and continuing stable development of all businesses.

Following the 2022 first extraordinary general meeting, the Company actively communicated with certain major Independent Shareholders; explained to them the importance and benefits for the Group of the Renewal of Continuing Connected Transactions which is in the interests of the Shareholders as a whole; introduced the current operations and future development expectations of the Group to such Shareholders, to obtain their further understanding on the resolutions regarding the Renewal of Continuing Connected Transactions.

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## LETTER FROM THE BOARD

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The financial department and the auditing supervision department of the Company keep real-time monitoring on the New Cinema Box Office Income Sharing Framework Agreement and the Property Lease Framework Agreement and the continuing connected transactions thereunder before obtaining Independent Shareholders' approval. These departments report the actual transaction amount conducted by the Company under such framework agreements to the Chief Financial Officer of the Company who will strictly control to guarantee that the highest applicable percentage ratio of such continuing connected transactions calculated according to the Listing Rules will not exceed 5% until such transactions are approved by Independent Shareholders.

In the event that the ordinary resolution 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 has not been approved by the Extraordinary General Meeting, the Company will apply the above measures and internal control procedures to strictly control and guarantee that the highest applicable percentage ratio of such continuing connected transactions calculated according to the Listing Rules will not exceed 5%, and the Company will not propose such transactions again for the Independent Shareholders' consideration and approval within twelve months from the date of the Extraordinary General Meeting.

### **EXTRAORDINARY GENERAL MEETING**

A notice of the Extraordinary General Meeting to be held by the Company at 2:30 p.m. on Monday, 17 April 2023 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 2 March 2023 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 Saturday, 18 March 2023 to Monday, 17 April 2023 (both days inclusive). The Shareholders whose names appear on the register of members of the Company on Monday, 17 April 2023 are entitled to attend and vote at the Extraordinary General Meeting. In

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## LETTER FROM THE BOARD

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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, 17 March 2023.

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 Tuesday, 28 March 2023.

### 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 28 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 29 to 47 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.

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## LETTER FROM THE BOARD

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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*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

28 March 2023

*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 28 March 2023 (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*

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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*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

28 March 2023

*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 renewal of 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) the renewal of the 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 28 March 2023 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 were expired 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).

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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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 were expired 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).

References are made to the announcement of the Company dated 13 October 2022 and the circular of the Company dated 4 November 2022 in respect of, among others, the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025 thereunder, and the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement entered into between the Company and Poly Group. Reference is also made to the announcement of the Company dated 30 November 2022 in respect of, among others, the voting results of the 2022 first extraordinary general meeting of the Company (the “**2022 EGM**”). As no more than one-half of the votes were cast in favour of the ordinary resolutions in relation to (i) the renewal of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025; and (ii) the renewal of the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement, these resolutions were not duly passed. The relevant ordinary resolutions will be proposed again at the Extraordinary General Meeting. As advised by the Company, following the 2022 EGM, the Company (i) actively communicated with certain major Independent Shareholders; (ii) explained to them the importance and benefits for the Group of the Renewal of Continuing Connected Transactions which is in the interests of the Shareholders as a whole; and (iii) introduced the current operations and future development expectations of the Group to such Shareholders, to obtain their further understanding on the resolutions regarding the Renewal of the Continuing Connected Transactions. Having taken into the account of the above and given that (i) the transactions contemplated under the New Cinema Box Office Income Sharing Framework Agreement and the Property Lease Framework Agreement (collectively known as “**Framework Agreements**”) are conducted in the ordinary and usual course of business of the Group as elaborated in the section headed “2. Reasons for and benefits of the transactions contemplated under the Framework Agreements”; and (ii) without the proposed annual caps under the Framework Agreement, the relevant transactions contemplated under the Framework Agreements would be subject to relative small annual caps, which would restrict the business operation and development of the Group, we are of the view that presenting the aforesaid ordinary resolutions under the same terms for Independent Shareholders’ approval within around 3.5 month after the 2022 EGM is in the interest of the Company and its Shareholders (including the Independent Shareholders) as a whole.

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 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



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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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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, we were appointed once as the independent financial adviser by the Company in the last two years, details of which were set out in the circular of the Company dated 4 November 2022. The aforesaid previous appointment was limited to providing one-off independent advisory service, for which Maxa Capital received normal professional fees. Accordingly, we do not consider such previous appointment gives rise to any conflict of interest for Maxa Capital in acting as the Independent Financial Adviser in respect of this transaction. Apart from normal professional fees payable to us in connection with the previous appointment and this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company.

### 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**"); (iii) the basis of calculation of the Proposed New Cinema Box Office Income Sharing Annual Caps and the Proposed Property Lease Annual Caps; and (iv) 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.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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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.

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:

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**LETTER FROM INDEPENDENT FINANCIAL ADVISER**

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	<b>For the year ended</b>		<b>For the six months ended</b>	
	<b>31 December</b>		<b>30 June</b>	
	<b>2020</b>	<b>2021</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
<b>Revenue</b>	<b>2,323,775</b>	<b>3,170,312</b>	<b>1,503,165</b>	<b>924,271</b>
– 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>	<b>752,048</b>	<b>1,013,702</b>	<b>483,486</b>	<b>291,409</b>
<b>Profit/(loss) for the year/period</b>	<b>(315,841)</b>	<b>(137,401)</b>	<b>288</b>	<b>(187,575)</b>

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 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 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

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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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.

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

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 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 the New Cinema Box Office Income Sharing Framework Agreement. When the market

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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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 entering into 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 a cooperative 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 (iv) 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 The 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 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.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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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.

Having considered (i) the Group has been leasing and using the relevant properties for its business operation for a long period of time; 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 shall take effect upon the approval of Independent Shareholders and will expire on 31 December 2025, 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) and Poly Film (a subsidiary of the Company, representing itself and its more than 70 existing subordinate cinemas) will enter into new specific contracts to renew the existing specific contracts, and Poly Wanhe Cinema Circuit will enter into new specific contracts with the newly established cinemas upon establishment. Such specific contracts will be entered into according to the pricing policies, main terms and conditions provided in the New Cinema Box Office Income Sharing Framework

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Agreement, including but not limited to the sharing percentage (the Group will receive no less than 50% to 55% of the net cinema box office income), 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 pay a portion of the net cinema box office income to Poly Group and/or its associates in accordance with the respective sharing percentage as set out in the specific agreements (the Group will receive no less than 50% to 55% of the net cinema box office income) 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 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 stipulates the percentage of film screening income sharing for the cinema shall not be more than 50% in principle (the "SARFT Guiding Opinions"), which 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 with reference 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

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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of the PRC, pursuant to the New Cinema Box Office Income Sharing Framework Agreement. Meanwhile, the Group will conduct research on the income sharing policy of at least two independent cinema circuits with similar size based on the similar transactions they have entered into with Poly Group and/or its associates every half year, and report to the Directors in a timely manner. If the Group finds that the sharing percentage offered by Poly Group and/or its associates to the Group is 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 net cinema box office income sharing percentage 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.

As advised by the Management, other than the box office income sharing arrangement between the Group's subsidiary and independent third party cinema circuit already existed before such subsidiary was 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 between 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 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 and January 2023 (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.



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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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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 favourable 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.

### 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.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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*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 favourable than those offered to independent third parties.

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 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 Agreement, 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

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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other measures and policies are implemented 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.

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

The following table sets forth (i) the historical amounts for each of the three years ended 31 December 2022; (ii) the existing annual caps for each of the three years ended 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			Proposed Annual Caps for the		
	years ended 31 December			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	135.88			
<b>Property Lease Framework Agreement</b>						
Annual caps						
Floating rental	13.27 <sup>2</sup>	15.41 <sup>2</sup>	20.32 <sup>2</sup>	2.3 <sup>4</sup>	3.45 <sup>4</sup>	3.72 <sup>4</sup>
Right-of-use assets	235.39 <sup>3</sup>	281.04 <sup>3</sup>	308.64 <sup>3</sup>	164.98 <sup>5</sup>	141.90 <sup>5</sup>	135.08 <sup>5</sup>
<b>Total</b>	<b>248.66</b>	<b>296.45</b>	<b>328.97</b>	<b>167.28</b>	<b>145.35</b>	<b>138.80</b>
Actual amounts						
Floating rental <sup>6</sup>	1.89	2.91	0.78			
Right-of-use assets <sup>7</sup>	44.14	111.83	50.99			
<b>Total</b>	<b>46.03</b>	<b>114.74</b>	<b>51.77</b>			
Actual amounts						
Floating rental <sup>8</sup>	1.89	2.91	0.78			
Right-of-use assets <sup>9</sup>	16.33	74.55	17.12			
<b>Total</b>	<b>18.22</b>	<b>77.46</b>	<b>17.90</b>			

- The discrepancy between the sum of the figures in the list and the subtotal/aggregate figures is caused by rounding.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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2. Such amounts are the annual caps for the total floating rental to be paid to Poly Group related to the revenue generated from the leases under the Property Lease Framework Agreement in each of FY2020, FY2021 and the year ended 31 December 2022 (“**FY2022**”).
3. Such amounts are the annual caps for the total value of the right-of-use assets involved in the existing and new leases entered by the Group under the Property Lease Framework Agreement in each of FY2020, FY2021 and FY2022.
4. Such amounts are the annual caps for the total floating rental to be paid to Poly Group related to the revenue generated from the leases under the Property Lease Framework Agreement in each of the years ending 31 December 2023, 31 December 2024 and 31 December 2025.
5. Such amounts are the annual caps for the total value of the right-of-use assets involved in the new leases to be entered into by the Group under the Property Lease Framework Agreement in each of the years ending 31 December 2023, 31 December 2024 and 31 December 2025.
6. Such amounts are the total floating rental paid to Poly Group related to the revenue generated from the leases under the Property Lease Framework Agreement in each of FY2020, FY2021 and FY2022.
7. Such amounts are the total value of the right-of-use assets involved in the existing and new leases entered by the Group under the Property Lease Framework Agreement in each of FY2020, FY2021 and FY2022.
8. Such amounts are the total floating rental paid to Poly Group related to the revenue generated from the leases under the Property Lease Framework Agreement in each of FY2020, FY2021 and FY2022.
9. Such amounts are the total value of the right-of-use assets involved in the new leases entered into by the Group under the Property Lease Framework Agreement in each of FY2020, FY2021 and FY2022.

### **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% (for the sharing percentage of the cinema)) 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 31 December 2022 as compared with the previous years. However, after the end of the pandemic, the cinema market in the China realized rapid recovery and significant growth during 2023

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Spring Festival, 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 resume its growth trend;

- (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 end of the 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 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 pandemic. Therefore, after the end of the pandemic, the Group expects that the cinemas under the Group will have dual positive, namely, the number of the audience will recover and the audience will tend to concentrate.

#### *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 three years ended 31 December 2022, which represent the utilisation rates of approximately 19.5%, 37.9% and 32.6% for the corresponding years; 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 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 pandemic, etc. As such, the Company proposed relative lower annual caps under the New Cinema Box Office Income Sharing Framework Agreement as compared with the existing annual caps.

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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 pandemic, which the Management considers more appropriate as the net cinema box office income generated during the period from FY2020 to the year ended 31 December 2022 may not reflect the actual performance of the Group's cinemas; (ii) the end of the 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 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. Further, as the PRC government removed the majority of the anti-epidemic measures in December of 2022, the film industry has also benefited significantly from the reopening of China. According to the monthly reports released by the China Film Special Funds, the total box office in China for January 2023 reached approximately RMB10.09 billion, representing an increase of approximately 272.58% as compared with that for January 2022.

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; and (iv) a more positive prospect of the film industry as a result of the removal of anti-epidemic measures in China, 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

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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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 2025, the Company assumed that there would be 14 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 2025;
- (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) 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;
- (v) the Group plans to expand office premises and the premises for art business and auction; and
- (vi) 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 three years ended 31 December 2022. 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 new projects of the Group, which are based on the estimated monthly rental fees under leases to be entered by the Group for each of the years ending 31 December 2023, 31 December 2024 and 31 December 2025, with reference to the terms of existing leases of the Group.

For the floating rental, we note that the Company proposed a relative lower annual caps as compared with the existing annual caps, and it is understood from the Management that the floating rental, which is directly linked to the Poly Film Group's box office income, was rarely incurred during three years ended 31 December 2022 primarily due to the reduction of the box

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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office income as a result of the outbreak of the 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 broadly in line with the sum of the estimated right-of-use assets for the new projects of the Group. In this regard, we have obtained and reviewed the development plan and the calculation that was used to estimate the right-of-use assets for the projects of the Group and noted that (i) it is expected there would be 14 new projects during the three years ending 31 December 2025, for which the Poly Film Group would enter into leasing agreement with Poly Group and/or its associates; (ii) comparable projects are selected based on similar location or similar tier of cities and used as references for the assumptions to calculate the right-of-use assets; and (iii) the estimated right-of-use assets of each project were calculated based on (a) the estimated monthly rental fees in the coming years; (b) the estimated lease duration of such individual project; and (c) a discount rate. For our due diligence works, we have randomly selected three comparable projects, 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 estimated right-of-use assets of the new projects. 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.

In view of the fact that (i) renewal of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025; and (ii) renewal of the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement have failed to obtain more than one-half of voting rights in favour of the Company at the 2022 EGM, the Company has adopted additional internal control measures to monitor the continuing connected transactions. It was understood that both the financial department and the auditing supervision department of the Company would keep real-time



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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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monitoring on the Framework Agreements and the continuing connected transactions contemplated thereunder before obtaining Independent Shareholders' approval. These departments would also report the actual transaction amount conducted by the Company under such Framework Agreements to the Chief Financial Officer of the Company who will strictly control to guarantee that the maximum applicable percentage ratio of such continuing connected transactions calculated according to the Listing Rules will not exceed 5% until such transactions are approved by Independent Shareholders. As advised by the Management, it is noted that the highest applicable percentage of the actual transaction amount contemplated under each of the Framework Agreements has not exceeded 5% for the period from 1 January 2023 up to the Latest Practicable Date and the Company has complied with the applicable requirements under the Listing Rules.

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 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 15 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 <small>(Note 1)</small>	Percentage of the relevant class of share capital (%) <small>(Note 2)</small>	Percentage of the total share capital (%) <small>(Note 2)</small>
Poly Group <small>(Note 3)</small>	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 28 March 2023 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, Wanchai, 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.

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## NOTICE OF THE 2023 FIRST EXTRAORDINARY GENERAL MEETING

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

### NOTICE OF THE 2023 FIRST EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the 2023 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 Monday, 17 April 2023 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 renewal of the New Cinema Box Office Income Sharing Framework Agreement and the proposed annual caps for 2023, 2024 and 2025
2. To consider and approve the renewal of the proposed annual caps for 2023, 2024 and 2025 under the Property Lease Framework Agreement

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

Beijing, the PRC  
3 March 2023

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# NOTICE OF THE 2023 FIRST EXTRAORDINARY GENERAL MEETING

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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 Saturday, 18 March 2023 to Monday, 17 April 2023 (both days inclusive). Shareholders whose names appear on the register of members of the Company on Monday, 17 April 2023 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, 17 March 2023.

## 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 3 March 2023 (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 Tuesday, 28 March 2023.

## 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

## 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.

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## NOTICE OF THE 2023 FIRST EXTRAORDINARY GENERAL MEETING

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### 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.