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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of the Merger, this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in the Company, you should at once hand this Composite Document and the accompanying forms of proxy to the purchaser or transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

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**中藝世紀文化產業投資有限公司**  
**Zhongyi Century Cultural Industry**  
**Investment Co., Ltd.\***  
*(a company incorporated in the People's Republic of China with limited liability)*

 **保利文化集團股份有限公司**  
**POLY CULTURE GROUP CORPORATION LIMITED**  
*(a joint stock company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 3636)**

**(1) PROPOSED PRIVATISATION OF THE COMPANY BY THE OFFEROR  
BY WAY OF MERGER BY ABSORPTION**  
**(2) PROPOSED WITHDRAWAL OF LISTING**  
**(3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING  
AND**  
**(4) NOTICE OF THE H SHAREHOLDERS' CLASS MEETING**

**Financial Adviser to the Offeror**



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



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Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

This Composite Document is jointly issued by the Company and the Offeror. A letter from the Board is set out on pages 13 to 37 of this Composite Document. A letter from the Independent Board Committee containing its recommendations to the Independent H Shareholders is set out on pages 38 to 39 of this Composite Document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee is set out on pages 40 to 64 of this Composite Document.

The notices convening the EGM and the H Shareholders' Class Meeting to be held at Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, the PRC on Friday, 3 November 2023 (i) in relation to the EGM, at 2:30 p.m., and (ii) in relation to the H Shareholders' Class Meeting, at 3:00 p.m., or immediately following the conclusion of the EGM or any adjournment thereof are contained in this Composite Document. Shareholders are advised to read the notices and to complete and return the enclosed forms of proxy for use at the EGM and the H Shareholders' Class Meeting in accordance with the instructions printed thereon. If you intend to attend the EGM and the H Shareholders' Class Meeting, please complete and return the appropriate reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than Friday, 13 October 2023.

Whether or not you are able to attend and vote at the EGM and the H Shareholders' Class Meeting or any adjournment thereof in person, you are requested to complete and return the accompanying forms of proxy in accordance with the instructions printed thereon and return them to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited (for holders of H Shares) at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or to the correspondence address in the PRC (for holders of Domestic Shares) at District A, B and C, 11/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, the PRC, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof), as soon as possible and in any event not later than 24 hours before the time appointed for holding the EGM and the H Shareholders' Class Meeting or any adjournment thereof (as the case may be).

Completion and return of the forms of proxy will not preclude you from attending and voting in person at the EGM, the H Shareholders' Class Meeting or any adjournment thereof should you so wish and in such event, the forms of proxy shall be deemed to be revoked.

\* *For identification purpose only*

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## EXPECTED TIMETABLE

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### EXPECTED TIMETABLE

*The expected timetable set out below is indicative only and may be subject to changes. Further announcement(s) will be made as and when appropriate. Unless otherwise expressly stated, all references to dates and times contained in this Composite Document refer to Hong Kong dates and times.*

Latest time for lodging transfers of H Shares in order  
to be entitled to attend and vote at the EGM and  
the H Shareholders' Class Meeting . . . . . 4:30 p.m. on Tuesday, 3 October 2023

Latest date for receiving reply slips for the EGM and  
the H Shareholders' Class Meeting . . . . . Friday, 13 October 2023

Closure of registers for transfers of Shares for determination  
of the Shareholders entitled to attend and vote at the EGM  
and the H Shareholders' Class Meeting . . . . . Wednesday, 4 October 2023 to Friday,  
3 November 2023 (both dates inclusive)

Latest time for lodging proxy forms in respect of the EGM . . . . . 2:30 p.m. on Thursday,  
2 November 2023

Latest time for lodging proxy forms in respect of the  
H Shareholders' Class Meeting . . . . . 3:00 p.m. on Thursday, 2 November 2023

Record date for Shareholders for the EGM and  
H Shareholders for the H Shareholders' Class Meeting . . . . . Friday, 3 November 2023

EGM . . . . . 2:30 p.m. on Friday, 3 November 2023

H Shareholders' Class Meeting . . . . . 3:00 p.m. on Friday, 3 November 2023  
or immediately following the  
conclusion of the EGM or any  
adjournment thereof on Friday,  
3 November 2023

Announcement of the results of the EGM and  
the H Shareholders' Class Meeting . . . . . by 7:00 p.m. on Friday, 3 November 2023

Expected date for all Conditions to Effectiveness  
to be satisfied<sup>(1)</sup> . . . . . Friday, 3 November 2023

Announcement of the satisfaction of all Conditions  
to Effectiveness, last day for dealings in H Shares and  
expected date of withdrawal of listing of H Shares<sup>(2)</sup> . . . . . Friday, 3 November 2023

Resumption of registers for transfer of Shares . . . . . Monday, 6 November 2023

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## EXPECTED TIMETABLE

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Each of the Offeror and Company notifies its creditors and makes a public announcement of the Merger pursuant to the PRC Company Law . . . . . within 10 days  
(for the notice to creditors) and  
30 days (for the announcement)  
following the resolution of EGM and  
the H Shareholders' Class Meeting

Last day for dealings in H Shares . . . . . 4:10 p.m. on Monday, 6 November 2023

Latest time for lodging transfers of H Shares  
in order to be entitled to receive the Cancellation Price . . . . . 4:30 p.m. on Friday, 10 November 2023

Closure of registers of members of the Company  
(until the Company's deregistration occurs) . . . . . from Monday, 13 November 2023 onwards

Announcement that all Conditions to Implementation  
are satisfied (or waived, as applicable) <sup>(2)</sup> . . . . . by 8:30 a.m. on Tuesday, 14 November 2023

Expected date and time of withdrawal of  
listing of H Shares . . . . . 4:00 p.m. on Tuesday, 14 November 2023

Latest date for payment of the Cancellation Price to the  
H Shareholders <sup>(3)</sup> . . . . . Thursday, 23 November 2023

End of the period during which creditors may request  
the Offeror and the Company to pay off their  
respective indebtedness or provide guarantees . . . . . Within 30 days after  
the receipt of notice by creditors  
or within 45 days after the issue  
of announcement to creditors if  
the aforesaid notice has not  
been received by creditors

*Notes:*

- (1) The Conditions to Effectiveness shall be satisfied upon passing of the requisite resolutions at the EGM and the H Shareholders' Class meeting as set out in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT – Conditions to Effectiveness" in the "LETTER FROM THE BOARD" of this document.
- (2) The Offeror and the Company will jointly publish announcement(s) when or as soon as reasonably practicable after all Conditions to Effectiveness have been satisfied and the Conditions to Implementation have been satisfied or waived, as appropriate.
- (3) Pursuant to the Merger Agreement, if any Dissenting Shareholder is to exercise its right to request the Company and/or other Consenting Shareholders (or the Offeror, if so elected by the Company and/or the Consenting Shareholders) to acquire its Shares at a "fair price" during the Declaration Period (the "**Right**"), the Dissenting Shareholder must refund the Cancellation Price (if received) to the Offeror in order to be entitled to exercise the Right, failing which the

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## EXPECTED TIMETABLE

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Dissenting Shareholder will be deemed to have waived, and will no longer be able to exercise the Right. The Offeror (if so elected by the Company and/or the Consenting Shareholders) will make the payment separately upon agreement on matters regarding the Right. For the avoidance of doubt, regardless of when the Dissenting Shareholder exercises the Right, the Dissenting Shareholder will be deemed to have ceased to have any right in respect of the Shares (other than the right to request for consideration pursuant to exercise of the Right) on the Delisting Date.

**Shareholders and potential investors in the securities of the Company should be aware that the expected last day for dealings in H Shares will be Monday, 6 November 2023. In order for the transferee to be entitled to receive the Cancellation Price, the transfer documents and the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares) at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4: 30 p.m. on Friday, 10 November 2023.**

**If the transfer documents and the relevant share certificates are not lodged with the Company's H Share Registrar by 4: 30 p.m. on Friday, 10 November 2023 as set out above, the transferee will not be entitled to receive the Cancellation Price.**

**The Shareholders and potential investors in the securities of the Company should be aware that the Merger is subject to the Conditions as set out in this Composite Document being satisfied or waived, as applicable, and neither the Offeror nor the Company provides any assurance that any or all of the Conditions can be satisfied, and thus the Merger Agreement may or may not become effective or, if effective, may or may not be implemented or completed. The Shareholders and potential investors in the securities of the Company should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

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## **IMPORTANT NOTICES**

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**IMPORTANT:** You must read the following disclaimer before continuing. The following disclaimer applies to this Composite Document as a whole and you are therefore advised to read this disclaimer page carefully before accessing, reading or making any other use of this Composite Document. In, and as a result of, accessing this Composite Document you agree, and you are deemed to agree, to be bound by the following terms and conditions.

### **NOTICE TO SHAREHOLDERS OUTSIDE OF HONG KONG**

The making of the proposal of the Merger to the Overseas Shareholders may be subject to the laws of the relevant jurisdictions. Overseas Shareholders should observe any applicable legal or regulatory requirements. It is the responsibility of the Overseas Shareholders wishing to accept the proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due by the Overseas Shareholders in such jurisdiction.

### **NOTICE TO SHAREHOLDERS IN THE UNITED STATES**

The Merger will involve the cancellation of the securities of a joint stock limited company incorporated in the PRC with limited liability by means of a merger by absorption provided for under the laws of the PRC. The Merger is subject to Hong Kong disclosure requirements, which are different from those of the United States. The financial information included in this Composite Document has been prepared in accordance with IFRS and thus may not be comparable to financial information of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

The receipt of cash pursuant to the Merger by a U.S. holder of Shares as consideration for the cancellation of its Shares pursuant to the Merger may be a taxable transaction for U.S. federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of Shares is urged to consult his/her/its independent professional adviser immediately regarding the tax consequences of the implementation of the Merger.

U.S. holders of Shares may encounter difficulty enforcing their rights and any claims arising out of the U.S. federal securities laws, as the Offeror and the Company are located in a country outside the United States and some or all of their respective officers and directors may be residents of a country other than the United States. U.S. holders of Shares may not be able to sue a non-U.S. company or its officers or directors in a non-U.S. court for violations of the U.S. securities laws. Further, U.S. holders of Shares may encounter difficulty compelling a non-U.S. company and its affiliates to subject themselves to a U.S. court's judgment.

In accordance with normal Hong Kong practice, the Offeror hereby discloses that it or its affiliates, or its nominees, or their respective brokers (acting as agents) may from time to time make certain purchases of, or arrangements to purchase, Shares outside of the United States, before or during the Offer Period. In accordance with the Takeovers Code and Rule 14e-5(b) of the U.S. Exchange Act, CITICS and its affiliates may continue to act as exempt principal traders in the Shares on the Stock Exchange. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices, provided that any such purchase or arrangement complies with applicable law, including but not limited to the

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## **IMPORTANT NOTICES**

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Takeovers Code, and is made outside the United States. Any information about such purchases will be reported to the SFC in accordance with the requirements of the Takeovers Code and, to the extent made public by the SFC, will be available on the website of the SFC at <http://www.sfc.hk>.

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## ACTIONS TO BE TAKEN

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Whether or not they are able to attend the EGM or the H Shareholders' Class Meeting (where applicable) in person, the Shareholders are strongly urged to complete and sign the enclosed form of proxy in respect of the EGM in accordance with the instructions printed thereon and the H Shareholders are strongly urged to complete and sign the enclosed form of proxy in respect of the H Shareholders' Class Meeting in accordance with the instructions printed thereon as soon as possible, but in any case not later than the following respective times:

- (1) in the case of the form of proxy for use at the EGM, the Shareholders are requested to deposit such form of proxy no later than 2:30 p.m., on Thursday, 2 November 2023 at the Company's registrar for H Shares (in respect of H Shareholders) at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or to the Company's correspondence address (in respect of Domestic Shareholders) at District A, B and C, 11/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, the PRC; and
- (2) in the case of the form of proxy for use at the H Shareholders' Class Meeting, the H Shareholders are requested to deposit such form of proxy no later than 3:00 p.m. on Thursday, 2 November 2023 at the Company's registrar for H Shares at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

In the event that the relevant form of proxy has been returned to the Company's registrar for H Shares or the Company (as the case may be) after the abovementioned deadline (where applicable), it will be considered to be invalid and will not be taken into account. The completion and return of a form of proxy for any of the meetings will not preclude you from attending and voting in person at the relevant meetings or any adjournment thereof, should you so wish. In the event that you attend and vote at any of the meetings or any adjournment thereof after having deposited the relevant form of proxy, that form of proxy will be deemed to have been revoked.

The latest time for lodging transfers of H Shares in order to be entitled to attend and vote at the EGM and the H Shareholders' Class Meeting is 4: 30 p.m. on Tuesday, 3 October 2023. For the purpose of determining the entitlements of the Shareholders to attend and vote at the EGM and the H Shareholders to attend and vote at the H Shareholders' Class Meeting, the Company's registers of members will be closed from Wednesday, 4 October 2023 to Friday, 3 November 2023 (both dates inclusive). During such period, no transfer of Shares will be effected.

Only Shareholders whose names are on the Company's registers of members on Friday, 3 November 2023 are entitled to vote at the relevant meetings. Each Shareholder on the Company's registers of members on Friday, 3 November 2023 is entitled to cast one vote per Share in respect of the Merger at the EGM. Each Independent H Shareholder on the Company's registers of members on Friday, 3 November 2023 is entitled to cast one vote per H Share in respect of the Merger at the H Shareholders' Class Meeting.

An announcement will be made in relation to the result of EGM and the H Shareholders' Class Meeting. Further announcement(s) will be made as and when appropriate in respect of the satisfaction and/or waiver (if applicable) of the Conditions to Effectiveness and Conditions to Implementation.



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## DEFINITIONS

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*In this Composite Document, the following expressions have the meanings set out below, unless the context requires otherwise:*

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Articles”	the articles of association of the Company (including the rules of procedures for shareholders’ general meetings and the rules of procedures for board meetings)
“associate(s)”	has the meaning ascribed to it under the Listing Rules or the Takeovers Code (as the case may be)
“Board”	the board of Directors
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“Cancellation Price”	the cancellation price of HK\$8.88 per H Share payable in cash by the Offeror to the H Shareholders as described in the section headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT” in the “LETTER FROM THE BOARD” in this Composite Document
“China” or “PRC”	People’s Republic of China, for the purpose of this Composite Document, except where the context requires otherwise, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“China National Arts (HK)”	China National Arts & Crafts Group (Hong Kong) Limited (中國工藝集團(香港)有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of China National Arts (PRC)
“China National Arts (PRC)”	China National Arts & Crafts (Group) Corporation* (中國工藝集團有限公司), a company established in the PRC with limited liability, and a wholly-owned subsidiary of Poly Group. It holds the entire equity interests in each of China National Arts (HK) and the Offeror
“CITICS”	CITIC Securities (Hong Kong) Limited, the financial adviser to the Offeror in respect of the Merger. CITICS is a licensed corporation under the SFO, licensed to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

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## DEFINITIONS

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“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, the H Shares of which are listed on the Stock Exchange with the stock code of 3636
“Composite Document”	the document jointly issued by or on behalf of the Offeror and the Company to all Shareholders in accordance with the Takeovers Code containing, among others, details of the Merger, as may be revised or supplemented as appropriate
“Conditions”	collectively, the Conditions to Effectiveness and the Conditions to Implementation
“Conditions to Effectiveness”	has the meaning given to it in the paragraph headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT – Conditions to Effectiveness” in the “LETTER FROM THE BOARD” in this Composite Document
“Conditions to Implementation”	has the meaning given to it in the paragraph headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT– Conditions to Implementation” in the “LETTER FROM THE BOARD” in this Composite Document
“Consenting Shareholders”	the Shareholders who have approved the Merger
“Declaration Period”	a period commencing on the date on which the Merger is approved by the Shareholders and the H Shareholders at the EGM and the H Shareholders’ Class Meeting respectively and expiring on the fifth (5th) Business Day from (and including) the date on which the Merger is approved by the Shareholders and the H Shareholders at the EGM and the H Shareholders’ Class Meeting respectively, during which any Dissenting Shareholder may declare to exercise its right
“Delisting Date”	the date on which the listing of the Company on the Stock Exchange has been withdrawn
“Director(s)”	director(s) of the Company
“Dissenting Shareholder”	a Shareholder who has validly voted against all the resolutions in respect of the Merger at the EGM and (if applicable) the H Shareholders’ Class Meeting and has requested the Company or the Consenting Shareholders (or the Offeror, if so elected by the Company and/or the Consenting Shareholders) to acquire its Shares at a “fair price”

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## DEFINITIONS

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“Domestic Share(s)”	the domestic shares of the Company, with a RMB denominated par value of RMB1.00 each, representing approximately 63.69% of the entire issued share capital of the Company as at the Latest Practicable Date
“Domestic Shareholder(s)”	the holder(s) of Domestic Share, being Poly Group and Poly International
“EGM”	the extraordinary general meeting of the Company to be convened at Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, the PRC, or any adjournment thereof, to consider and, if thought fit, approve the Merger Agreement, the Merger and relevant arrangements
“Exchange Rate”	the exchange rate of HK\$1: RMB0.92048, which is the central parity rate of Hong Kong Dollar to RMB as at the date of the Joint Announcement as announced by the People’s Bank of China
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Exercise Date”	the date on which the Company and/or the Consenting Shareholders (or the Offeror, if so elected by the Company and/or the Consenting Shareholders) pays cash consideration to Dissenting Shareholders who exercised their right to request the Company or the Consenting Shareholders (or the Offeror, if so elected by the Company and/or the Consenting Shareholders) to acquire the Shares held and effectively declared by them at “fair price”, which will be decided and announced by the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in Hong Kong dollars and are listed and traded on the Main Board of the Stock Exchange, representing approximately 36.31% of the entire issued share capital of the Company as at the Latest Practicable date
“H Shareholder(s)”	the holder(s) of H Shares
“H Shareholders’ Class Meeting”	the class meeting of the Company to be convened for H Shareholders at Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, the PRC, or any adjournment thereof, to consider and, if thought fit, approve the Merger Agreement, the Merger and relevant arrangements

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## DEFINITIONS

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“H Share Registrar”	the Hong Kong H Share Registrar and Transfer Office of the Company, Computershare Hong Kong Investor Services Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standards
“Independent Board Committee”	the independent board committee of the Company established by the Company for the purposes of considering the Merger, which comprises all of the independent non-executive Directors, being Ms. Li Xiaohui, Mr. Sun Hua and Mr. Fung Edwin
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company upon the approval by the Independent Board Committee to advise the Independent Board Committee and the Independent H Shareholders in respect of, among other things, the Merger
“Independent H Shareholders”	the H Shareholders other than the Offeror, Poly Group, Poly International and any parties acting in concert with any of them (including Poly Developments and Holdings Group Co., Ltd. and Poly Investment Holding Co., Ltd.)
“Joint Announcement”	the announcement jointly published by the Offeror and the Company dated 27 June 2023, which states, amongst other things, the proposal of the Merger of the Offeror and the Company in accordance with the Merger Agreement
“Last Trading Date”	19 June 2023, being the last trading day for the Shares prior to the halt of trading in the Shares pending the release of the Joint Announcement
“Latest Practicable Date”	15 September 2023, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained therein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Long-stop Date”	26 June 2024, being the last date which the Pre-Condition, Conditions to Effectiveness and the Conditions to Implementation can be satisfied, unless the Offeror and the Company otherwise agree, subject to the consent of the SFC
“Merger”	the proposed merger by absorption of the Company by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws as contemplated under the Merger Agreement
“Merger Agreement”	the merger agreement entered into between the Offeror and the Company on 27 June 2023 in relation to the Merger
“Offer Period”	has the meaning ascribed to it under the Takeovers Code, being the period commencing on 27 June 2023 (the date of the Joint Announcement) and ending on the Delisting Date, or the date on which the Merger is not approved or otherwise lapses, whichever is earlier
“Offeror”	Zhongyi Century Cultural Industry Investment Co., Ltd.* (中藝世紀文化產業投資有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of China National Arts (PRC)
“Overseas Shareholders”	Shareholders whose names appear on the register of members of the Company and whose addresses are in a place outside Hong Kong, if any
“Poly Group”	China Poly Group Corporation, a state-owned company incorporated in the PRC and the controlling shareholder of the Company
“Poly International”	Poly International Holdings Limited (保利國際控股有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of Poly Group
“PRC Company Law”	the Company Law of the PRC, as amended, supplemented or otherwise modified from time to time
“PRC Securities Law”	the Securities Law of the PRC, as amended, supplemented or otherwise modified from time to time
“PRC Laws”	any and all laws, regulations, statutes, rules, and other normative documents as may be currently in force in the PRC, including such amendments, supplements, interpretations or re-enactments from time to time

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## DEFINITIONS

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“Pre-Condition”	has the meaning given to it in the paragraph headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT – Pre-Condition to the Merger Agreement becoming effective” in the “LETTER FROM THE BOARD” in this Composite Document
“Relevant Period”	the period commencing from 27 December 2022 (i.e. the date that is six months prior to the date of the Joint Announcement) and ending on the Latest Practicable Date
“RMB”	Renminbi, the lawful currency in the PRC
“SAMR”	the State Administration for Market Regulation
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	collectively, H Shares and Domestic Shares
“Shareholder(s)”	collectively, H Shareholders and Domestic Shareholders
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC as amended and supplemented from time to time
“trading day”	a day on which the Stock Exchange is open for dealing or trading in securities
“United States” or “U.S.”	the United States of America, its territories and possessions, any State of the United States and the District of Columbia
“U.S. Exchange Act”	the U.S. Securities Exchange Act of 1934, as amended
“%”	per cent

\* For identification purpose only

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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  
Mr. Guo Wenpeng  
Mr. Xu bei

*Registered address:*

District A, B and C, 11/F  
1 North Street of Chaoyangmen  
Dongcheng District, Beijing  
The People's Republic of China  
Postal Code: 100010

*Non-executive Directors:*

Ms. Zhang Hong  
Mr. Fu Chengrui

*Principal place of business in Hong Kong:*

31/F 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

18 September 2023

*To the Shareholders*

Dear Sir or Madam,

### **PROPOSED PRIVATISATION OF THE COMPANY BY THE OFFEROR BY WAY OF MERGER BY ABSORPTION**

#### **1. INTRODUCTION**

Reference is made to the Joint Announcement dated 27 June 2023 pursuant to which the Offeror and the Company jointly announced that the Offeror and the Company have entered into the Merger Agreement, pursuant to which the Offeror and the Company will implement the Merger subject to the terms and conditions of the Merger Agreement, including the Pre-Condition and the Conditions. After completion of the Merger, the Company will be merged into and absorbed by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws.

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## LETTER FROM THE BOARD

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### 2. PROPOSED MERGER

Pursuant to the Merger Agreement, conditional upon the fulfilment (or waiver, as applicable) of the Pre-Condition and the Conditions set out in the section headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT”, the Offeror will pay the amount of:

- (a) HK\$8.88 per H Share to the H Shareholders in cash to cancel the H Shares held by the H Shareholders; and
- (b) RMB8.17386240 per Domestic Share, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders (namely (i) Poly Group; and (ii) Poly International, which in aggregate held all the Domestic Shares in issue), which will be satisfied through the issuance of registered capital of the Offeror to the Domestic Shareholders, in accordance with the description under the section headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT”.

On the basis of (i) the Cancellation Price of HK\$8.88 per H Share; (ii) 89,447,600 H Shares in issue as at the Latest Practicable Date; and (iii) assuming there is no change in the number of H Shares and Domestic Shares in issue from the Latest Practicable Date up to the satisfaction (or waiver, if applicable) of the Pre-Condition and the Conditions, the amount of aggregate Cancellation Price required to be paid in cash by the Offeror to cancel the H Shares held by H Shareholders is HK\$794,294,688.

After completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered following completion of the applicable deregistration filing with SAMR.

### 3. PRINCIPAL TERMS OF THE MERGER AGREEMENT

The principal terms and conditions of the Merger Agreement include:

**Parties**

- (1) The Offeror; and
- (2) The Company

**Overview of the Merger**

Subject to the terms and conditions of the Merger Agreement, the Merger will be implemented by the Offeror merging the Company by way of merger by absorption.

After completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered following completion of the applicable deregistration filing with SAMR.



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## LETTER FROM THE BOARD

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### Consideration

Pursuant to the Merger Agreement, conditional upon, the fulfilment (or waiver, as applicable) of the Pre-Condition, Conditions to Effectiveness and the Conditions to Implementation set out in the paragraphs headed “Pre-Condition to the Merger Agreement becoming effective”, “Conditions to Effectiveness” and “Conditions to Implementation” below, the Offeror will pay the amount of:

- (a) HK\$8.88 per H Share to the H Shareholders in cash to cancel the H Shares held by the H Shareholders; and
- (b) RMB8.17386240 per Domestic Share, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders (namely (i) Poly Group; and (ii) Poly International, which in aggregate held all the Domestic Shares in issue), which will be satisfied through the issuance to the Domestic Shareholders RMB8.17386240 registered capital of the Offeror for each Domestic Share (equivalent to the payment price per Domestic Share).

The total amount of the consideration to be paid to the Domestic Shareholders shall be calculated by multiplying the aforementioned payment price per Domestic Share by the number of Domestic Shares held by the Domestic Shareholders. Hence, RMB871,909,989 and RMB410,310,727 registered capital of the Offeror will be issued to Poly Group and Poly International, respectively. Upon completion of issuance of registered capital in the Offeror to Poly Group and Poly International, the registered capital of the Offeror will be held as to approximately 58.825% by Poly Group, 27.682% by Poly International and 13.493% by China National Arts (PRC).

Settlement of the consideration to which the Shareholders are entitled will be implemented in full in accordance with the terms of the Merger Agreement without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholders.

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## LETTER FROM THE BOARD

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**Pre-Condition to the Merger Agreement becoming effective**

The Merger Agreement is subject to the satisfaction of a pre-condition, being the review, approval, filing or registration, as applicable, with or by (a) the National Development and Reform Commission of the PRC, and (b) the State Administration of Foreign Exchange of the PRC or its local authorities (as applicable), and such other applicable governmental approvals in respect of the Merger having been obtained or completed. Save for the governmental approvals as mentioned in (a) and (b) above, the Offeror is not currently aware of any other applicable governmental approvals which are required in respect of the Merger.

The Pre-Condition is not waivable. If the Pre-Condition is not satisfied by the Long-stop Date, the Merger Agreement will not become effective and will be automatically terminated.

As at the Latest Practicable Date, the Pre-Condition has been fulfilled.

**Conditions to Effectiveness**

After the Pre-Condition is satisfied, the Merger Agreement shall become effective upon satisfaction of all of the following conditions (none of which is capable of being waived):

- (1) the passing of special resolution(s) by a majority of not less than two-thirds of the votes cast by way of poll by the Shareholders present and voting in person or by proxy at the EGM to approve the Merger under the Merger Agreement in accordance with the Articles and the PRC Laws; and
- (2) the passing of special resolution(s) by way of poll approving the Merger under the Merger Agreement at the H Shareholders' Class Meeting to be convened for this purpose, provided that:
  - (a) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and
  - (b) the number of votes cast against the resolution(s) is not more than 10% of the votes attaching to all H Shares held by the Independent H Shareholders.

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## LETTER FROM THE BOARD

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If the above Conditions to Effectiveness are not satisfied by the Long-stop Date, the Merger Agreement may be terminated by either party. Please also refer to the paragraph headed "Termination" in this section.

### **Conditions to Implementation**

After the Merger Agreement becomes effective upon satisfaction of the Pre-Condition and all the Conditions to Effectiveness, the implementation of the Merger shall be subject to the following conditions being satisfied or waived, as applicable:

- (1) there being no error or omission of the representations and warranties given by the Offeror in the Merger Agreement on the Delisting Date which has a material adverse impact on the Merger. The Offeror shall comply with its undertakings under the Merger Agreement in all material respects and there being no breach of such undertakings which has a material impact on the Merger;
- (2) there being no error or omission of the representations and warranties given by the Company in the Merger Agreement on the Delisting Date which has a material adverse impact on the Merger. The Company shall comply with its undertakings under the Merger Agreement in all material respects and there being no breach of such undertakings which has a material impact on the Merger; and
- (3) there being no law, restriction or prohibition of any governmental authority, or any judgment, decision or adjudication of any court which restricts, prohibits or terminates the Merger.

The Company shall be entitled to waive Condition to Implementation (1) above and the Offeror shall be entitled to waive Condition to Implementation (2) above. Condition to Implementation (3) above is not capable of being waived. If the above Conditions to Implementation are not satisfied or if applicable, waived, by the Long-stop Date, the Merger Agreement may be terminated by either party. However, if the Conditions to Implementation are not satisfied prior to the Long-stop Date as a result of any material breach of the terms of the Merger Agreement by any party, the breaching party may not terminate the Merger Agreement.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Conditions to Implementation have not yet been satisfied or waived.

### **Payment of Consideration**

After fulfilment (or waiver, if applicable) of the Pre-Condition and all the Conditions (being the Conditions to Effectiveness and the Conditions to Implementation), the Offeror shall (a) as soon as possible and in any event within seven (7) Business Days pay the Cancellation Price to all H Shareholders and (b) satisfy the payment for the Domestic Shares through issuance of the registered capital of the Offeror to all Domestic Shareholders.

Subject to the satisfaction of all the Conditions to Implementation, and after payment of consideration is made to the H Shareholders and the relevant registered capital of the Offeror is issued to the Domestic Shareholders by or on behalf of the Offeror, all rights attaching to such Shares shall cease to have effect and the relevant Shares shall be cancelled with effect from the Delisting Date. The share certificates for such H Shares and Domestic Shares will cease to have effect as documents or evidence of title.

Payment of consideration to the H Shareholders is deemed to be completed once the Offeror or any entity designated by it has despatched to the H Shareholders the cheques for such consideration, while payment of consideration to the Domestic Shareholders is deemed to be completed once the Offeror has delivered to Poly Group and Poly International the Offeror's register of members and certification of capital contribution affixed with the Offeror's official seal reflecting the Offeror's shareholding structure after the issuance of the registered capital of the Offeror to Poly Group and Poly International in accordance with the Merger Agreement.

### **The Company's Undertakings**

Unless with the prior written consent of the Offeror, the Company shall not issue any Shares, conduct any major acquisitions or disposals which may constitute a discloseable transaction under Chapter 14 of the Listing Rules or declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders from the date of the Merger Agreement to the date of termination of the Merger Agreement or the Delisting Date (whichever is earlier).

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Company has no outstanding dividend that has been declared, made but not yet paid. In addition, the Company does not intend to declare, pay and/or make any dividend or other distribution between the Latest Practicable Date up to the date on which all of the Pre-Condition and Conditions are satisfied or waived (as applicable), or the date on which the Merger is not approved or otherwise lapsed (as the case may be).

### **Right of a Dissenting Shareholder**

According to the Articles, any Dissenting Shareholder may by written notice request the Company and/or other Consenting Shareholders to acquire its Shares at a “fair price”.

Information on the procedure and the Required Documents (as defined below) for exercising such rights (together as the “**Procedure Documents**”) will be made available for collection at the registered address of the Company at 11/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, the PRC, Post Code: 100010 or alternatively at the principal place of business in Hong Kong at 31/F, Tower 2, Times Square 1 Matheson Street Causeway Bay, Hong Kong by the Shareholders during the Declaration Period (which will be from Friday, 3 November 2023 to Thursday, 9 November 2023) from 09:00 to 17:00. The multiple documents requested for in the Procedure Documents (the “**Required Documents**”) include, but are not limited to (i) exercise notice(s) with information filled in; and (ii) declaration and proof in respect of satisfaction of criteria and entitlement conditions to exercise such right. The Required Documents must be submitted by hand or by post to the addresses as stated above during the Declaration Period. Shall any Dissenting Shareholder have any enquiries over the procedure and the required documents for exercising such rights, such Dissenting Shareholder shall reach out to the Company via the following ways:

By phone (the Company’s principal place of business in Hong Kong): +852 2822 0107 (office hours: Monday to Friday, 09:00 – 17:00 (Hong Kong time))

By email: PolyCulture@tmf-group.com

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## LETTER FROM THE BOARD

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If any Dissenting Shareholder exercises its right, the Offeror will, if so requested by the Company and/or the Consenting Shareholders, assume the obligation which the Company and/or the Consenting Shareholders may have towards such Dissenting Shareholder to acquire the Shares held by that Dissenting Shareholder at a “fair price”.

The exercise of its right by a Dissenting Shareholder is subject to the following criteria:

- (1) such Dissenting Shareholder having validly voted against the resolutions in respect of the Merger at the EGM and (if applicable) the H Shareholders’ Class Meeting;
- (2) such Dissenting Shareholder having been validly registered as a shareholder on the share register of the Company since the record date for the EGM and (if applicable) the H Shareholders’ Class Meeting, and having held such Share(s) in respect of which it intends to exercise its right until the Exercise Date; and
- (3) such Dissenting Shareholder having exercised its right during the Declaration Period.

A Shareholder is not entitled to exercise its right in respect of such Share(s) held by it if:

- (1) such Shareholder has undertaken to the Company to waive its right;
- (2) such Shareholder is prohibited from exercising its right in accordance with applicable laws; and
- (3) any Share held by such Shareholder is subject to a pledge, other third-party rights or judicial moratorium, without having legally obtained written consent or approval from the relevant pledgee, third party or competent authority.

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## LETTER FROM THE BOARD

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There is no applicable PRC law or guidance with respect to how the “fair price” will be determined from the PRC law perspective nor does the Articles set out any guidance or procedures as to how the “fair price” will be determined. No assurance can be given as to any favourable results to the Dissenting Shareholders who have validly exercised its right and costs may be incurred by the Dissenting Shareholders in the process of exercising its right and determining the “fair price”. Under the Articles, whenever any disputes or claims arise between: the H Shareholders and the Company; the H Shareholders and the Company’s directors, supervisors, general manager or other senior management personnel; or the H Shareholders and the Domestic Shareholders, in relation to the affairs of the Company arising as a result of any rights or obligations arising from the Articles, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration.

### **Termination**

The Merger Agreement may be terminated in any of the following circumstances:

- (1) by either the Offeror or the Company, if:
  - (a) any competent governmental authority issues any order, decree, ruling or take any other actions which permanently restricts, impedes or otherwise prohibits the Merger and which is final and not capable of being appealed (both the Offeror and the Company shall use reasonable endeavours to procure the withdrawal of such order, decree, ruling or action prior to exercising any right of termination); or
  - (b) the Conditions to Effectiveness and/or the Conditions to Implementation not having been satisfied, or if applicable, waived on or before the Long-stop Date;
- (2) by the Offeror, if the Company commits a material breach of the representations, warranties and undertakings under the Merger Agreement or any other agreement related to the Merger Agreement, which has a material adverse impact on the Merger and such breach is not remedied by the Company within 30 days following written notice from the Offeror to the Company; or

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## LETTER FROM THE BOARD

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- (3) by the Company, if the Offeror commits a material breach of the representations, warranties and undertakings under the Merger Agreement or any other agreement related to the Merger Agreement, which has a material adverse impact on the Merger and such breach is not remedied by the Offeror within 30 days following written notice from the Company to the Offeror.

Conditional upon the fulfilment (or waiver, as applicable) of the Conditions to Effectiveness and the Conditions to Implementation set out in the paragraphs headed “Conditions to Effectiveness” and “Conditions to Implementation” above, the Merger will be implemented. Upon completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered following completion of the applicable deregistration filing with SAMR.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror and the Company may only invoke any or all of the Conditions to Implementation (1) to (3) set out in the paragraph headed “Conditions to Implementation” in this section or terminate the Merger Agreement in accordance with the paragraph headed “Termination” in this section as a basis for not proceeding with the Merger only if the circumstances which give rise to the right to invoke any such condition or termination right are of material significance to the Offeror in the context of the Merger.

#### 4. CANCELLATION PRICE

##### Comparisons of value

The Cancellation Price of HK\$8.88 per H Share represents:

- i. a premium of approximately 77.6% over the closing price per H Share of HK\$5.0 on the Stock Exchange on the Last Trading Date;
- ii. a premium of approximately 112.5% over the average closing price of HK\$4.178 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Date;
- iii. a premium of approximately 125.2% over the average closing price of HK\$3.944 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Date;
- iv. a premium of approximately 133.1% over the average closing price of HK\$3.809 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the thirty consecutive trading days immediately prior to and including the Last Trading Date;



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## LETTER FROM THE BOARD

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- v. a premium of approximately 129.8% over the average closing price of HK\$3.864 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the sixty consecutive trading days immediately prior to and including the Last Trading Date;
- vi. a premium of approximately 129.0% over the average closing price of HK\$3.878 per H Share based on the daily closing price of H Shares on the Stock Exchange for the ninety consecutive trading days immediately prior to and including the Last Trading Date;
- vii. a premium of approximately 3.9% over the closing price of HK\$8.550 per H Share on the Stock Exchange on the Latest Practicable Date;
- viii. a discount of approximately 34.4% to the Group's audited net asset value attributable to the equity Shareholders of the Company of approximately HK\$13.532 per Share as at 31 December 2022, based on the exchange rate of HK\$1: RMB0.89327, being the median exchange rate on 31 December 2022 as announced by the People's Bank of China; and
- ix. a discount of approximately 30.9% to the Group's unaudited net asset value attributable to the equity Shareholders of the Company of approximately HK\$12.852 per Share as at 30 June 2023, based on the exchange rate of HK\$1: RMB0.92198, being the median exchange rate on 30 June 2023 as announced by the People's Bank of China.

The Cancellation Price has been determined on a commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

As advised by the PRC legal advisers of the Offeror and the Company, the Cancellation Price complies with the Articles as well as all applicable laws and regulations in the PRC including the PRC Company Law and the PRC Securities Law. In particular, the Cancellation Price does not contravene the Measures for the Supervision and Administration of the State-Owned Equities of Listed Companies (《上市公司國有股權監督管理辦法》(國資委、財政部、證監會令第36號)) (“**No. 36 Measures**”). According to article 10 of No. 36 Measures, the price of change of state-owned equity of a listed company shall be reasonably determined on the basis of the open trading prices in the securities market, the stock trading price of comparable companies, the net asset value per share and other factors. Article 10 of No. 36 Measures sets out the relevant factors to be taken into account in the change of state-owned equities of listed companies rather than a definite and mandatory requirement in determining the price of such equity. Therefore, the net asset value per share is one of the relevant factors to be taken into account in determining the Cancellation Price but not the floor price limit of the Cancellation Price.

It is specified in No. 36 Measures that there are only three scenarios in which the net asset value per listed equity shall be used as the floor price limit (that is, the transaction price must be higher than the “**audited net asset value per share of listed companies in the latest accounting year**”), namely, (a) public solicitation of transfer of shares of listed companies by state-owned shareholders; (b) non-public transfer of shares of listed companies held by state-owned shareholders through agreements

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## LETTER FROM THE BOARD

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(i.e. the act of transferring shares of listed companies through direct signing of an agreement without publicly seeking the transferee) and (c) indirect transfer of shares in listed companies held by state-owned shareholders.

***Public solicitation of transfer of shares of listed companies by state-owned shareholders being inapplicable***

Article 14 of No.36 Measures stipulates that: “Public solicitation and transfer refers to the act of state-owned shareholders to publicly disclose information according to the laws and solicit the transferee to transfer shares of listed companies.” Article 17 of No. 36 Measures stipulates that: “The contents of public solicitation information include but are not limited to: the ownership and quantity of the shares to be transferred, the qualifications required for the transferee, the selection rules of transferee, the time limit for public solicitation, etc.” Article 22 of No. 36 Measures stipulates that: “After the transferee is determined, the state-owned shareholder shall enter into the Share Transfer Agreement with the transferee in time. The share transfer agreement shall include but not be limited to the following contents: (I) the name, legal representative and domicile of the transferor, listed company and intended transferee; (II) the number of shares held by the transferor, the number and price of shares to be transferred; (III) rights and obligations of the transferor and transferee...” Article 19 of No. 36 Measures stipulates that: “After receiving the transferee application and transferee plan submitted by the intended transferee, the state-owned shareholder shall set up a working group composed of personnel from internal functional departments and independent external experts in law, finance and other fields, and select and determine the transferee in strict accordance with the announced rules.”

Based on the aforesaid rules and as advised by the PRC legal advisers of the Offeror and the Company, the public solicitation and transfer of shares of listed companies held by state-owned shareholders under No. 36 Measures (the “**Public Solicitation**”) is different from the Merger and the similar privatization transactions of H-share listed companies (the “**Merger and Similar Privatisation Transactions**”) for the following reasons:

(1) *Initiators of the transactions are different*

In the case of Public Solicitation, the share transferor (i.e., the state-owned shareholders who intend to sell the shares of listed companies, the same below) is the initiator of the transaction; in contrast, the initiator of the Merger and Similar Privatisation Transactions is the Offeror who intends to merge listed companies by absorption.

(2) *Transaction objects are different*

In the case of Public Solicitation, the objects receiving the share transaction request are the unspecified trading subjects in the market who may purchase the traded shares, and the final trading party is determined based on the purchase qualification inspection and bidding results of the potential purchasers. In contrast, the trading object of receiving the share transaction request in the Merger and Similar Privatisation Transactions is determined, i.e., all shareholders listed in the register of shareholders of listed companies (in terms of state-owned shares, they are the state-controlled entities among shareholders).

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## LETTER FROM THE BOARD

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(3) *The procedures for determining transaction consideration are different*

In the case of Public Solicitation, as the share transferor has not set the trading price when the Public Solicitation information is released, the intended transferee will submit an offer to the transferor, and the transferor will determine the transferee and the trading price according to the announced rules of selection (the intended transferee offering the highest price will be selected generally when conditions for transfer and qualifications are satisfied). By comparison, with regards to the Merger and Similar Privatisation Transactions, the cancellation price will be determined unilaterally by the merging party when the announcement pursuant to Rule 3.5 of the Takeovers Code is published.

(4) *Miscellaneous*

In the case of Public Solicitation, the transferor shall enter into the share transfer agreement that sets out legal requirements with the transferee after the qualified transferee is selected and determined. In comparison, no share transfer agreement is concluded between the Company and the Offeror, or the shareholders whose Shares will be cancelled for the Merger and Similar Privatisation Transactions.

***Non-public transfer of shares of listed companies held by state-owned shareholders through agreements being inapplicable***

As advised by the PRC legal advisers of the Offeror and the Company, the non-public transfer of shares of listed companies held by state-owned shareholders through agreements under No. 36 Measures (the “**Non-public Transfer**”) is different from the Merger for the following reasons:

(1) *The transaction subjects are different*

In the case of Non-public Transfer, the transaction subjects are the transferor (i.e. the existing shareholder of the underlying shares) and the potential transferee. In contrast, the transaction subjects of the Merger are the Offeror and the Company.

(2) *The transaction documents are different*

In the case of Non-public Transfer, the main transaction document is the share transfer agreement or similar transfer document entered into among the transaction subjects. In contrast, the main transaction document of the Merger is the Merger Agreement entered into between the Offeror and the Company, and the Merger does not involve the entering into of a share transfer agreement between the Offeror and the Company.

(3) *The legal basis applicable to the transactions is different*

The Non-public Transfer shall be subject to the provisions related to share transfer stipulated in No. 36 Measures and the PRC Company Law according to the actual situation. In contrast, the Merger shall be subject to the provisions on merger by absorption stipulated in the PRC

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## LETTER FROM THE BOARD

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Company Law, and the legal procedures, such as signing an agreement on merger by absorption, preparing a balance sheet and publishing an announcement to creditors, shall be performed.

(4) *The transaction results are different*

The Non-public Transfer only involves the change of the shareholders of the target company, and will not lead to the cancellation of the legal person status of the target company. In contrast, according to the provisions of the PRC Company Law and the Merger Agreement, the Company will be dissolved and cancelled as a legal person after the completion of the Merger, and the Offeror will assume all the assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company.

In conclusion, as advised by the PRC legal advisers of the Offeror and the Company, the Merger is not classified as the Public Solicitation or the Non-public Transfer under No. 36 Measures, and the Merger does not fall into any of the abovementioned scenarios under No. 36 Measures, in which the net asset value per listed equity shall be used as the floor price limit, and therefore, the Cancellation Price does not have to comply with the floor price limit.

For avoidance of doubt, the following specific rules in the PRC are not applicable in the Merger and the determination of the Cancellation Price:

- Measures for the Supervision and Administration of the Trading of State-Owned Assets of Enterprises (《企業國有資產交易監督管理辦法》(國資委、財政部令第32號)) (“**No. 32 Measures**”)

As advised by the PRC legal advisers of the Offeror and the Company, No. 32 Measures mainly govern two types of transfer of state-owned equity, namely, (a) transfer through publicly soliciting a transferee on asset exchange institutions; and (b) the non-public transfer between a transferor and a transferee under a transfer agreement. The Merger does not constitute a transfer of state-owned assets stipulated under No. 32 Measures and is subject to the relevant requirements of merger by absorption under the PRC Company Law. Therefore, pricing requirements set forth in the No. 32 Measures are not applicable in the Merger.

In addition, according to article 63 of No.32 Measures, No. 32 Measures mainly aims to supervise the transaction of state-owned assets of non-listed companies. The transaction of state-owned assets of financial and cultural state-funded enterprises and the transfer of state-owned equity of listed companies, etc., shall be governed by other provisions (if any). As such, No.32 Measures are mainly applicable in the transfer of state-owned equity of non-listed companies, and the Merger shall comply with other provisions (if any) instead of No.32 Measures.

- Temporary Measures for the Supervision and Administration of the State-Owned Overseas Assets Owned by Central Enterprises (《中央企業境外國有資產監督管理暫行辦法》(國資委令第26號)) (“**No. 26 Measures**”)

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## LETTER FROM THE BOARD

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As advised by the PRC legal advisers of the Offeror and the Company, No. 26 Measures apply to the supervision and administration of the state-owned overseas assets acquired by the central enterprises and their wholly-owned subsidiaries or controlled subsidiaries through investing in foreign enterprises incorporated in overseas jurisdictions including Hong Kong, Macau Special Administrative Region and Taiwan.

The Company is a joint stock company incorporated in the PRC with limited liability, hence not a foreign enterprise referred to in No. 26 Measures. Therefore, No. 26 Measures are not applicable in the Merger and the determination of the Cancellation Price.

**The Offeror will not increase the Cancellation Price as set out above, and the Offeror does not reserve the right to do so.**

### **Highest and lowest prices**

During the six-month period immediately up to and including the Last Trading Date, the highest closing price of the H Shares as quoted on the Stock Exchange was HK\$5.00 on 19 June 2023, and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK\$3.47 on 1 June 2023.

### **Funding for the Merger**

On the basis of (i) the Cancellation Price of HK\$8.88 per H Share; (ii) 89,447,600 H Shares in issue as at the Latest Practicable Date; and (iii) assuming there is no change in the number of H Shares in issue from the Latest Practicable Date up to the satisfaction (or waiver, if applicable) of the Conditions, the amount of aggregate Cancellation Price required to be paid in cash by the Offeror to cancel the H Shares held by H Shareholders is HK\$794,294,688. The payment of the total consideration for cancellation of the H Shares will be financed by the internal resources of China National Arts (HK) which are funded by intra-group borrowings from Poly Group and its subsidiaries. China National Arts (HK), a wholly-owned subsidiary of China National Arts (PRC) which is the holding company of the Offeror, has undertaken to pay on its behalf the total consideration for the cancellation of the H Shares.

The Offeror has appointed CITICS as its financial adviser in connection with the Merger. CITICS, being the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the satisfaction of the Offeror's obligations in respect of the full implementation of the Merger (excluding all the amount payable to the Domestic Shareholders which is to be satisfied through the issuance of the registered capital of the Offeror to the Domestic Shareholders).

In consideration of the cancellation of 156,868,400 Domestic Shares held directly by Poly Group and Poly International, registered capital of the Offeror will be issued to these Domestic Shareholders in the manner as described under the subsection "Payment of consideration" of the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" in this letter.

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## LETTER FROM THE BOARD

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### 5. REASONS FOR AND BENEFITS OF THE MERGER

The reasons and benefits of the Merger include:

The Board is of the view that the business environment in which the Group operates is uncertain, difficult and challenging. As disclosed in the 2022 annual report of the Company, China's film market indicators plummeted, and the supply of film sources and audience demand reduced significantly in 2022. Against such background, the Group's revenue for the year ended 31 December 2022 declined by 17.5% to approximately RMB2,617.0 million as compared with RMB3,170.3 million for the year ended 31 December 2021, primarily due to the large number of performances that were either cancelled and postponed as a result of the severe impact of the COVID-19 pandemic worldwide. Furthermore, due to impact of the COVID-19 pandemic worldwide, the Group had recorded three consecutive financial years of loss and the loss recorded for the year ended 31 December 2022 had increased by 105.0% to approximately RMB281.7 million as compared with RMB137.4 million for the year ended 31 December 2021. The Board expects that it will take time for the culture and art sectors to recover, to re-engage with the customers and for the customer momentum to restore. As such, the Board considers that the market landscape and business environment remain uncertain, difficult and challenging for the Group in the foreseeable future.

The Board also notes that the price of the H Shares had recorded a downward trend since 2019. Further, the trading volume of the H Shares is low with the average daily trading volume at about 42,895 H Shares for the past 12 months up to and including the date of the Joint Announcement, representing approximately 0.048% of the total issued H Shares as at the date of the Joint Announcement.

With such an uncertain, difficult and challenging business environment while given the share price performance and low liquidity of the H Shares, the Board believes that the Group's ability to raise funds from the public equity market is currently limited and it is unlikely to expect any significant improvement in the foreseeable future. The Board is of the view that the delisting of the Group would reduce the costs and management resources associated with the maintenance of the Group's listing on the Stock Exchange and its publicly listed status and, therefore, the delisting would result in a more cost effective group structure for the Group.

Furthermore, in order to maintain core competitiveness, the Company needs to unify and sort out its strategy and business direction, exploring new development opportunities and long-term growth strategies, which may cause uncertainty in the Company's financial performance in the short term, thereby causing losses to H Shareholders. After the completion of the Merger, the Company can formulate long-term strategies with more flexibility and avoid the pressure from market expectations and stock price fluctuation risks as a listed company.

The Board (other than the members of the Independent Board Committee, whose views are given in the section headed "LETTER FROM THE INDEPENDENT BOARD COMMITTEE" in this Composite Document) is of the view that the terms of the Merger are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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## LETTER FROM THE BOARD

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### 6. FUTURE INTENTION OF THE OFFEROR

After the Merger, the Company will merge into the Offeror, with the Offeror as the surviving entity, and will cease to exist as a separate legal entity. It is the intention of the Offeror that it will continue to carry on its current business as stated in the paragraph headed “Information on the Offeror” in the section headed “7. INFORMATION ON THE OFFEROR AND THE COMPANY” below. It is also the intention of the Offeror that it will continue to carry on the current business of the Group as stated in the paragraph headed “Information on the Company” in the section headed “7. INFORMATION ON THE OFFEROR AND THE COMPANY” below following the Merger.

In view of the Merger, the Offeror will review the holding structure of certain business, assets, properties and operation units within the Group, and may implement changes to be determined with reference to such review to be conducted after the delisting of the Company’s H Shares which the Offeror deems necessary, appropriate or convenient, which may include redeployment of fixed assets of the Group, such as the reallocation of fixed assets from the Offeror to the operating subsidiaries of the Group after completion of the Merger. As at the Latest Practicable Date, the Offeror has not formulated any concrete plans for redeployment of fixed assets of the Group.

The Offeror does not intend to make any significant changes to the continued employment of the employees of the Group. Following completion of the Merger, the employment contracts of all employees of the Company will continue with the Offeror as the surviving entity. The Board is willing to cooperate with the Offeror and act in the best interests of the Company and the Shareholders as a whole.

Even if payment of Cancellation Price is to be financed by intra-group borrowings from China National Arts (HK), as described in the section headed “Funding for the Merger” in this letter, the payment of interests on, repayment of or security for any liability, contingent or otherwise, in connection with such intra-group borrowings, is not intended to depend on, to any significant extent, business of the Company.

### 7. INFORMATION ON THE OFFEROR AND THE COMPANY

#### (a) Information on the Offeror

The Offeror is a company established in the PRC with limited liability on 18 April 2014. The Offeror is wholly-owned by China National Arts (PRC) which is a wholly-owned subsidiary of Poly Group. As at the Latest Practicable Date, Ms. Li Jing, a PRC citizen, is the sole director and legal representative of the Offeror.

The business scope of the Offeror as set out in the business registration certificate includes, inter alia, investment management and asset management.

As at the Latest Practicable Date, the shareholding in the Offeror is as follows:

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## LETTER FROM THE BOARD

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<b>Name of Shareholders</b>	<b>Subscribed capital contribution (RMB'000)</b>	<b>Percentage in total issued share capital</b>
China National Arts (PRC)	200,000	100%

**(b) Information of China National Arts (PRC)**

China National Arts (PRC) is a company established in the PRC with limited liability on 24 April 2007. As at the Latest Practicable Date, China National Arts (PRC) held 100% of the equity interests in the Offeror. Its principal business includes, inter alia, export and import trading, sales of arts and crafts and jewelry, property development and property management.

**(c) Information on the Company**

The Company was established in the PRC on 14 December 2010 as a joint stock company with limited liability. The Company and its subsidiaries are mainly engaged in art business and auction, performance and theatre management and cinema investment and management. On 6 March 2014, the H Shares of the Company were listed on the Main Board of the Stock Exchange.

Set out below is the financial information of the Group as extracted from the audited consolidated financial statements of the Company for the years ended 31 December 2020, 2021 and 2022 and the interim report of the Company for the six months ended 30 June 2023 prepared in accordance with IFRS.



## LETTER FROM THE BOARD

	For the years ended 31 December			For the six months ended
	2020	2021	2022	30 June 2023
	(RMB'000)			(RMB'000)
<b>Total assets</b>	13,858,497	13,296,003	11,940,917	12,016,698
<b>Revenue</b>	2,323,775	3,170,312	2,617,044	1,576,926
<b>Loss for the year/period</b>	315,841	137,401	281,709	80,100

### *Shareholding in the Company*

As at the Latest Practicable Date, the relevant securities of the Company in issue are 246,316,000 Shares, which comprise 89,447,600 H Shares and 156,868,400 Domestic Shares.

As at the Latest Practicable Date, none of the Directors held any Shares or the relevant securities of the Company.

As at the Latest Practicable Date, the shareholding in the Company are as follows:

Name of Shareholders	Number of Shares held	Approximate percentage in the relevant class of share capital	Approximate percentage in total issued share capital
<b>Domestic Shares</b>			
Offeror	–	–	–
Poly Group <sup>(Note 1)</sup>	106,670,500	68.00%	43.31%
Poly International <sup>(Note 1)</sup>	50,197,900	32.00%	20.38%
<b>Sub-total</b>	<b>156,868,400</b>	<b>100.00%</b>	<b>63.69%</b>
<b>H Shares</b>			
UBS Group AG <sup>(Note 2)</sup>	9,846,684	11.01%	4.00%
Li Shuming <sup>(Note 2)</sup>	6,615,000	7.40%	2.69%
The Bank of New York Mellon Corporation <sup>(Note 2)</sup>	4,964,560	5.55%	2.01%
JPMorgan Chase & Co. <sup>(Note 2)</sup>	4,478,004	5.00%	1.82%
Poly Developments and Holdings Group Co., Ltd. <sup>(Note 3)</sup>	403,300	0.45%	0.16%
Poly Investment Holding Co., Ltd.* (保利投資控股有限公司) <sup>(Note 4)</sup>	230,000	0.26%	0.09%
Other public Shareholders <sup>(Note 2)</sup>	62,910,052	70.33%	25.54%
<b>Sub-total</b>	<b>89,447,600</b>	<b>100.00%</b>	<b>36.31%</b>
<b>Total</b>	<b>246,316,000</b>		<b>100.00%</b>

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## LETTER FROM THE BOARD

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*Notes:*

- 1) 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.
- 2) UBS Group AG, Li Shuming, The Bank of New York Mellon Corporation, JPMorgan Chase & Co. and other public Shareholders are the Independent H Shareholders.
- 3) Poly Developments and Holdings Group Co., Ltd. is a listed company on the Shanghai Stock Exchange with stock code 600048 and Poly Group is interested in 40.49% of its shareholding as at the Latest Practicable Date.
- 4) Poly Investment Holding Co., Ltd. is a wholly-owned subsidiary of Poly Group.
- 5) CITICS is the financial adviser to the Offeror in respect of the Merger. Accordingly, CITICS and members of the CITICS group are presumed to be acting in concert with the Offeror in respect of shareholding of CITICS group in the Company in accordance with class (5) of the definition of “acting in concert” under the Takeovers Code (except in respect of the Shares held by members of the CITICS group which are exempt principal traders or exempt fund managers, in each case recognized by the Executive as such for the purpose of the Takeovers Code and excluding the Shares held on behalf of non-discretionary investment clients). As at the Latest Practicable Date, except in respect of Shares held by exempt principal traders or exempt fund managers or Shares held on behalf of non-discretionary investment clients of other parts of the CITICS group, members of CITICS group did not own or control any Shares or any other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, nor were there any Shares (or convertible securities, warrants, options or derivatives in respect thereof) borrowed or lent, or dealt for value in, by any member of the CITICS group during the Relevant Period.

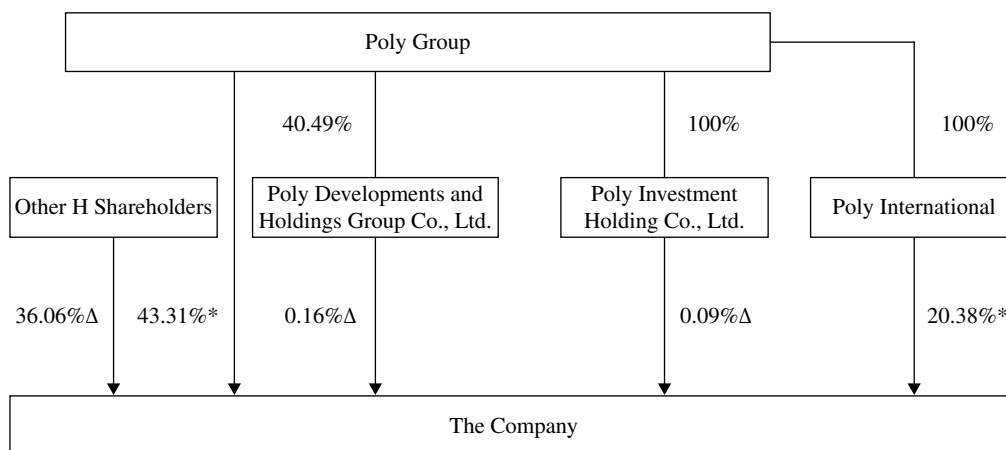
Notwithstanding the above, Shares held by any such exempt principal traders will not be voted at the EGM or the H Shareholders’ Class Meeting unless the Executive allows such Shares to be so voted.

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## LETTER FROM THE BOARD

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Set out below is the shareholding structure of the Company as at the Latest Practicable Date:



*Notes:*

Δ represents holding of H Shares

\* represents holding of Domestic Shares

As at the Latest Practicable Date, the Offeror does not own any Share.

As at the Latest Practicable Date, the Company does not have any outstanding options, warrants or convertible securities or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue.

### (d) Information on Poly Group

Poly Group was established in 1992 as a large state-owned enterprise under the 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.

## 8. ARRANGEMENTS FOR IMPLEMENTATION OF THE MERGER AGREEMENT

On 11 September 2023, the Offeror and the Company jointly announced that the Pre-Condition had been satisfied. As at the Latest Practicable Date, none of the Conditions to Effectiveness and Conditions to Implementation has been satisfied or (if applicable) waived. Upon satisfaction of all the Conditions to Effectiveness and Conditions to Implementation, the Company does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for voluntary withdrawal of the listing of the H Shares from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules.

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## LETTER FROM THE BOARD

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The Company will issue separate announcement(s) notifying H Shareholders of the proposed withdrawal of listing and the exact dates and relevant arrangements for the last day for dealing in H Shares on the Stock Exchange as well as when the formal delisting of the H Shares will become effective.

The listing of the H Shares on the Stock Exchange will not be withdrawn if the Merger is not approved or lapses or does not become unconditional for any reason. In such cases, no cancellation of the Shares will take place pursuant to the Merger Agreement and the Company's public float will not be affected as a result of the Merger not being approved or otherwise lapses or does not become unconditional.

### **9. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Board has established the Independent Board Committee, consisting of all of the independent non-executive Directors, being Ms. Li Xiaohui, Mr. Sun Hua and Mr. Fung Edwin, to advise the Independent H Shareholders as to: (a) whether the terms of the Merger are fair and reasonable for the purpose of the Takeovers Code; and (b) whether to vote in favour of the Merger at the EGM and the H Shareholders' Class Meeting. Since the non-executive Directors, namely, Ms. Zhang Hong and Mr. Fu Chengrui, are the supervisor and the chief accountant of Poly International, respectively, they may have interest in the Merger and are therefore excluded from the Independent Board Committee. For the advice of the Independent Board Committee, please refer to the section headed "LETTER FROM THE INDEPENDENT BOARD COMMITTEE" in this Composite Document.

Maxa Capital has been appointed as the Independent Financial Adviser to provide advice to the Independent Board Committee and the Independent H Shareholders in respect of, among others, the Merger. Such appointment has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code. For the opinions and advice of the Independent Financial Adviser, please refer to the section headed "LETTER FROM THE INDEPENDENT FINANCIAL ADVISER" in this Composite Document.

### **10. EGM AND H SHAREHOLDERS' CLASS MEETING**

The Company will convene the EGM and the H Shareholders' Class Meeting for the Shareholders and the H Shareholders respectively, to consider and, if thought fit, approve matters including the Merger.

As the Merger constitutes a capital reorganisation to privatise the Company under Rule 2.10 of the Takeovers Code and the Takeovers Code is applicable to the Merger, in compliance with Rule 2.10 of the Takeovers Code, the Merger Agreement and the Merger are conditional on (i) the approval by way of poll by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy at the H Shareholders' Class Meeting; and (ii) the number of votes cast against the resolution at the H Shareholders' Class Meeting is not more than 10% of the votes attaching to all the H Shares held by the Independent H Shareholders.

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## LETTER FROM THE BOARD

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The Independent H Shareholders who have been registered as holders of H Shares on the register of members of the Company kept by the H Share Registrar, Computershare Hong Kong Investor Services Limited, on Friday, 3 November 2023 will be entitled to attend the EGM and the H Shareholders' Class Meeting.

**(1) Suspension of registration of Share transfers**

The register of members of the Company will be closed from Wednesday, 4 October 2023 to Friday, 3 November 2023, during which no registration of transfers of Shares will be processed. If applicable, the Shareholders and the H Shareholders intending to attend the EGM and the H Shareholders' Class Meeting respectively must lodge their respective transfer documents and relevant share certificates with (in respect of the H Shareholders) the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or to the correspondence address in the PRC (for holders of Domestic Shares) at District A, B and C, 11/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, the PRC no later than 4: 30 p.m. on Wednesday, 3 October 2023.

**(2) Proxy forms**

Whether or not you intend to attend the EGM or the H Shareholders' Class Meeting, you are strongly urged to complete and return the proxy forms in accordance with the instructions printed thereon. The proxy forms should be returned as soon as possible (but in any event not less than 24 hours before the appointed time for holding the relevant meeting or any adjournment thereof). In the event that the relevant proxy form has been returned to the Company's H Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or the Company (as the case may be) after the abovementioned deadline (where applicable) it will be considered to be invalid and will not be taken into account. After completion and return of the proxy forms, you may still attend and vote at the relevant meetings should you so wish.

**(3) Voting at the EGM and the H Shareholders' Class Meeting**

Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions will be passed by way of poll at the EGM and the H Shareholders' Class Meeting.

The PRC Company Law does not require any Shareholders to abstain from voting in respect of the Merger at the EGM, hence the Offeror, Poly Group, Poly International and any parties acting in concert with any of them (including Poly Developments and Holdings Group Co., Ltd. And Poly Investment Holdings Co., Ltd.) will vote in favour of the resolutions in relation to the Merger at the EGM. Nevertheless, the Offeror, Poly Group, Poly International and any parties acting in concert with any of them (including Poly Developments and Holdings Group Co., Ltd. And Poly Investment Holdings Co., Ltd.) will abstain from voting at the H Shareholders' Class Meeting for the purpose of satisfying the requirements under Rule 2.10 of the Takeovers Code, as set out under paragraph (2) of the Conditions to Effectiveness in the

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## LETTER FROM THE BOARD

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section headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT” in this Composite Document. There are no other restrictions imposed on any Independent H Shareholders to cast votes on the relevant resolutions at the H Shareholders’ Class Meeting.

### 11. TAXATION

#### (1) Non-tax advice

You should consult your professional adviser to understand the possible tax implications of the Merger or the exercise of the Dissenting Shareholders’ rights. None of the Company, the Offeror, CITICS or Independent Financial Adviser, nor their respective directors or any person participating in the Merger, assume any liability in respect of any tax incurred or other implication of any exercise of the Dissenting Shareholders’ rights.

#### (2) Hong Kong stamp duty

As implementation of the Merger involves cancellation of the H Shares but not the sale and purchase of Hong Kong stock, and in this respect only, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong.

For the Dissenting Shareholders who exercise their right to require acquisition of their H Shares, Hong Kong stamp duty is payable at the rate of 0.13% of the consideration by each of the seller and the buyer. The stamp duty payable by the seller will be deducted from the cash received by the relevant Dissenting Shareholders who exercise such right.

### 12. RECOMMENDATION OF THE BOARD

The Board (other than members of the Independent Board Committee, whose views are given in the section headed “LETTER FROM THE INDEPENDENT BOARD COMMITTEE” in this Composite Document) is of the view that the terms of the Merger Agreement, including the Cancellation Price, and the proposed Merger are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Having considered the terms of the Merger Agreement and taken into account the advice from the Independent Financial Adviser, the Independent Board Committee is of the view that the terms of the Merger Agreement and the proposed Merger are fair and reasonable so far as the Independent H Shareholders are concerned. Therefore, the Board recommends that the Shareholders vote in favour of the resolutions in relation to the Merger at the EGM and (if applicable) the H Shareholders’ Class Meeting.

### 13. OTHER INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this Composite Document, all of which form part of this Composite Document.

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## LETTER FROM THE BOARD

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In considering what actions to take in connection with the Merger, you should consider your own tax and financial positions and, if you are in doubt, you should consult your own professional advisers.

Yours faithfully,  
For and on behalf of  
**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)

18 September 2023

*To the Independent H Shareholders*

Dear Sir or Madam,

- (1) PROPOSED PRIVATISATION OF THE COMPANY BY THE OFFEROR  
BY WAY OF MERGER BY ABSORPTION**  
**(2) PROPOSED WITHDRAWAL OF LISTING**  
**(3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING  
AND**  
**(4) NOTICE OF THE H SHAREHOLDERS' CLASS MEETING**

### INTRODUCTION

We refer to the composite document dated 18 September 2023 jointly issued by the Company and the Offeror (the “**Composite Document**”), of which this letter forms part. Unless the context otherwise requires, terms defined in the Composite Document shall have the same meaning when used in this letter.

We have been appointed by the Board to form the Independent Board Committee to consider and advise the Independent H Shareholders as to whether the terms of the Merger are, or are not, fair and reasonable and as to voting.

Maxa Capital has been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to advise us as to whether or not the terms of the Merger are fair and reasonable so far as the Independent H Shareholders are concerned and as to voting. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the letter from the Independent Financial Adviser on pages 40 to 64 of the Composite Document. We also wish to draw your attention to, and advise you to read, the letter from the Board on pages 13 to 37 of the Composite Document, the letter from Independent Financial Adviser on pages 40 to 64 of the Composite Document and the appendices to the Composite Document.

We, being the members of the Independent Board Committee, have declared that, we are independent and do not have any conflict of interest in respect of the Merger and are therefore able to consider the terms of the Merger and to make recommendations to the Independent H Shareholders.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### RECOMMENDATION

Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter, we concur with the view of the Independent Financial Adviser and consider the terms of Merger to be fair and reasonable so far as the Independent H Shareholders are concerned.

Accordingly, we concur with the recommendation of the Independent Financial Adviser, and would recommend the Independent H Shareholders to vote in favour of the Merger.

Notwithstanding our views and recommendation in respect of the terms of the Merger, the Shareholders are strongly advised to exercise their independent decision on voting at the EGM and the H Shareholders' Class Meeting. If in doubt, the Shareholders should consult their own professional advisers for professional advice.

Yours faithfully,

For and on behalf of

**THE INDEPENDENT BOARD COMMITTEE**

**Ms. Li Xiaohui**

*Independent non-executive Director*

**Mr. Sun Hua**

*Independent non-executive Director*

**Mr. Fung Edwin**

*Independent non-executive Director*

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## LETTER FROM THE 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 Composite Document.*



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

18 September 2023

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**(1) PROPOSED PRIVATISATION OF THE COMPANY  
BY THE OFFEROR BY WAY OF MERGER BY ABSORPTION  
AND  
(2) PROPOSED WITHDRAWAL OF LISTING**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent H Shareholders in relation to, amongst others, the Merger, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the Composite Document of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context requires otherwise.

On 27 June 2023, the Offeror and the Company entered into the Merger Agreement, pursuant to which the Offeror and the Company will implement the Merger subject to the terms and conditions of the Merger Agreement, including the Pre-Condition and the Conditions. Pursuant to the Merger Agreement, conditional upon the fulfilment (or waiver, as applicable) of the Pre-Condition and the Conditions, the Offeror will pay the amount of (a) HK\$8.88 per H Share to the H Shareholders in cash to cancel the H Shares held by the H Shareholders; and (b) RMB8.17386240 per Domestic Share, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders, which will be satisfied through the issuance of registered capital of the Offeror to the Domestic Shareholders, in accordance with the description under the section headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT” of the Letter from the Board. After completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered following completion of the applicable deregistration filing with SAMR. Upon satisfaction of the Pre-Condition and all the Conditions to Effectiveness, the Company will apply to the Stock Exchange for voluntary withdrawal of the listing of the H Shares from the Stock Exchange pursuant to Rule 6.15(2) of the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Board Committee comprising of all the independent non-executive Directors, being Ms. Li Xiaohui, Mr. Sun Hua and Mr. Fung Edwin, has been established by the Board to advise the Independent H Shareholders as to: (a) whether the terms of the Merger are fair and reasonable for the purpose of the Takeovers Code; and (b) whether to vote in favour of the Merger at the EGM and the H Shareholders' Class Meeting. Since the non-executive Directors, namely, Ms. Zhang Hong and Mr. Fu Chengrui, are the supervisor and the chief accountant of Poly International, respectively, they may have interest in the Merger and are therefore excluded from the Independent Board Committee. Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee has approved the appointment of Maxa Capital as the Independent Financial Adviser in this regard.

### OUR INDEPENDENCE

Maxa Capital is not associated with the Company, the Offeror or their respective substantial shareholders (if applicable) or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Merger. During the past two years, we have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to the renewal of certain continuing connected transactions, details of which were set out in the circulars of the Company dated 4 November 2022 and 28 March 2023. Apart from normal professional fees paid or payable to us in connection with our past engagements mentioned above and this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them.

### BASIS OF OUR OPINION

In formulating our advice and recommendations, we have reviewed, among others, (i) the Merger Agreement; (ii) the annual reports of the Company for the two years ended 31 December 2021 (the “**2021 AR**”) and 31 December 2022 (the “**2022 AR**”); (iii) the interim report of the Company for the six months ended 30 June 2023 (“**2023 IR**”); and (iv) the announcements published by the Company on the website of Stock Exchange since 1 January 2019. We have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations which have been provided by the Directors and the management of the Group (the “**Management**”), for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the date of the Composite Document. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Composite Document were reasonably made after due enquiry and careful consideration. Our opinion is based on the Directors' and Management's representation and confirmation that no material facts have been omitted from the information provided and referred to in the Composite Document. The Directors and the Management confirmed that they have, at our request, provided us with all 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 Composite Document 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, Directors and the Management, have been omitted or withheld from the information supplied or opinions expressed in the Composite Document, or 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. The Company will notify the H Shareholders of any material changes to

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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such information provided during the Offer Period as soon as possible in accordance with Rule 9.1 of the Takeovers Code. Independent H Shareholders will also be notified of any material changes to our opinion as soon as possible throughout the Offer Period. 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, the Offeror and each of their respective subsidiaries or associates.

We have not considered the tax, regulatory and other legal implications on the H Shareholders in respect of the Merger, since these depend on their individual circumstances. In particular, the H Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on security dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

### **PRINCIPAL TERMS OF THE MERGER**

Details of the terms of the Merger are set out in the Letter from the Board. The relevant extracts are reproduced below for your reference.

#### **Cancellation Price**

Pursuant to the Merger Agreement, conditional upon the fulfilment (or waiver, as applicable) of the Pre-Condition and the Conditions, the Offeror will pay the amount of (a) HK\$8.88 per H Share to the H Shareholders in cash to cancel the H Shares held by the H Shareholders; and (b) RMB8.17386240 per Domestic Share, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders, which will be satisfied through the issuance of registered capital of the Offeror to the Domestic Shareholders, in accordance with the description under the section headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT” of the Letter from the Board. The Offeror will not increase the Cancellation Price, and the Offeror does not reserve the right to do so.

As set out in the Letter from the Board, the Cancellation Price has been determined on a commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

As at the Latest Practicable Date, the Company has no outstanding dividend that has been declared, made but not yet paid. In addition, the Company does not intend to declare, pay and/or make any dividend or other distribution between the Latest Practicable Date up to the date on which all of the Pre-Condition and Conditions are satisfied or waived (as applicable), or the date on which the Merger is not approved or otherwise lapsed (as the case may be).

#### **Pre-Condition and Conditions**

The implementation of the Merger will be subject to the fulfilment (or waiver, as applicable) of the Pre-Condition and the Conditions. As at the Latest Practicable Date, the Pre-Condition had been satisfied; none of the Conditions has been satisfied or (if applicable) waived. Details of the Pre-Condition and the Conditions are set out in the section headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT” of the Letter from the Board.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **Right of a Dissenting Shareholder**

According to the Articles, any Dissenting Shareholder may by written notice request the Company and/or other Consenting Shareholders to acquire its Shares at a “fair price”. If any Dissenting Shareholder exercises its right, the Offeror will, if so requested by the Company and/or the Consenting Shareholders, assume the obligation which the Company and/or the Consenting Shareholders may have towards such Dissenting Shareholder to acquire the Shares held by that Dissenting Shareholder at a “fair price”. Details of the right of a Dissenting Shareholder are set out in the section headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT” of the Letter from the Board.

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

We have considered the following factors in arriving at our recommendations regarding the terms of the Merger:

#### **1. Information and prospects 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.

The art business and auction segment of the Group mainly provides services including auction, buy and sell of antiques, modern and contemporary calligraphy and painting, ancient calligraphy and painting, oil painting and sculpture and other cultural relics and artwork, and generates revenue through the collection of commission during the provision of auction services and the selling of artworks and cultural relic collections. It also provides artwork investment consultation and other services, earns interest income and revenue from consignor advances and loans granted under financial arrangements.

The performance and theatre management segment of the Group mainly provides services including daily management of theatre, arrangement of performances, leases of theatres and theatre design consultation. Revenue of such segment mainly comprises the box office income generated from show performance and the service fees generated from the provision of theatre management services to the government agencies.

The cinema investment and management segment of the Group mainly provides services including cinema construction and cinema operation, earns income from cinema box office.

On 6 March 2014, the H Shares of the Company were listed on the Main Board of the Stock Exchange.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 1.1 Historical financial performance

Set out below is a summary of the historical financial performance of the Group for the three years ended 31 December 2020 (“FY2020”), 31 December 2021 (“FY2021”) and 31 December 2022 (“FY2022”) and the six months ended 30 June 2023 (“1H2023”) as extracted from the 2021 AR, 2022 AR and 2023 IR:

	For the year ended 31 December			For the six months ended	
	2020	2021	2022	30 June	
	RMB'000 (audited)	RMB'000 (audited)	RMB'000 (audited)	RMB'000 (unaudited)	RMB'000 (unaudited)
<b>Revenue</b>	<b>2,323,775</b>	<b>3,170,312</b>	<b>2,617,044</b>	<b>924,271</b>	<b>1,576,926</b>
<b>Gross profit</b>	<b>752,048</b>	<b>1,013,702</b>	<b>885,350</b>	<b>291,409</b>	<b>425,906</b>
– Selling and distribution expenses	(375,487)	(453,411)	(440,828)	(172,899)	(197,093)
– Administrative expenses	(650,685)	(566,158)	(635,833)	(228,404)	(267,254)
<b>(Loss)/profit from operations</b>	<b>(186,752)</b>	<b>113,444</b>	<b>(67,383)</b>	<b>(75,685)</b>	<b>10,007</b>
– Finance costs	(185,532)	(228,944)	(220,297)	(108,380)	(107,086)
<b>Loss for the year/period</b>	<b>(315,841)</b>	<b>(137,401)</b>	<b>(281,709)</b>	<b>(187,575)</b>	<b>(80,100)</b>

#### (a) Revenue

Breakdowns of the Group’s revenue by segments and geographical markets are as follows:

	For the year ended 31 December						For the six months ended 30 June			
	2020		2021		2022		2022		2023	
	RMB'000 (audited)	%	RMB'000 (audited)	%	RMB'000 (audited)	%	RMB'000 (unaudited)	%	RMB'000 (unaudited)	%
<i>Segments</i>										
– Art business and auction	717,282	30.9	805,247	25.4	661,779	25.3	249,230	27.0	262,862	16.7
– Performance and theatre management	1,380,603	59.4	1,881,762	59.4	1,658,759	63.4	513,093	55.5	1,063,162	67.4
– Cinema investment and management	209,923	9.0	468,766	14.8	263,940	10.1	143,677	15.5	239,271	15.2
– Others	15,967	0.7	14,537	0.5	32,566	1.2	18,271	2.0	11,631	0.7
<b>Total</b>	<b>2,323,775</b>	<b>100.0</b>	<b>3,170,312</b>	<b>100.0</b>	<b>2,617,044</b>	<b>100.0</b>	<b>924,271</b>	<b>100.0</b>	<b>1,576,926</b>	<b>100.0</b>
<i>Geographical markets</i>										
– Mainland China	2,226,957	95.8	3,014,153	95.1	2,445,892	93.5	858,323	92.9	1,539,405	97.6
– Others	96,818	4.2	156,159	4.9	171,152	6.5	65,948	7.1	37,521	2.4
<b>- Total</b>	<b>2,323,775</b>	<b>100.0</b>	<b>3,170,312</b>	<b>100.0</b>	<b>2,617,044</b>	<b>100.0</b>	<b>924,271</b>	<b>100.0</b>	<b>1,576,926</b>	<b>100.0</b>

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For FY2021, the total revenue of the Group was approximately RMB3,170.3 million, representing an increase of approximately 36.4% as compared to that for FY2020. Such increase was primarily attributable to (i) the slowdown of the pandemic this year which mitigated the impact on the Group's operation and financial position; and (ii) the resumption of both the performance and theatre management business and cinema investment and management business, which each achieved a significant growth of approximately 36.3% and 123.3%, respectively.

For FY2022, the total revenue of the Group was approximately RMB2,617.0 million, representing a decrease of approximately 17.5% as compared to that for FY2021. Such decrease was primarily attributable to the postponement of the 2022 autumn auction at "Beijing Poly Auction" to February 2023, and the suspension of some performances and cinema business by the Group due to the resurgence of the pandemic.

For 1H2023, the total revenue of the Group was approximately RMB1,576.9 million, representing an increase of approximately 70.6% as compared to that for the six months ended 30 June 2022 ("**1H2022**"). Such increase was primarily attributable to the economic recovery in 1H2023 which led to the significant increase in consumption level of theaters and cinemas as compared with 1H2022.

(b) *Gross profit*

For FY2021, the Group recorded a gross profit of approximately RMB1,013.7 million, representing an increase of approximately 34.8% as compared to that for FY2020. For FY2022, the Group recorded a gross profit of approximately RMB885.4 million, representing a decrease of approximately 12.7% as compared to that for FY2021. For 1H2023, the Group recorded a gross profit of approximately RMB425.9 million, representing an increase of approximately 46.2% as compared to that for 1H2022. The gross profit margin for FY2020, FY2021, FY2022 and 1H2023 was approximately 32.4%, 32.0%, 33.8% and 27.0%, respectively.

(c) *(Loss)/profit from operations*

For FY2021, the Group recorded a profit from operations of approximately RMB113.4 million, representing an increase of approximately RMB300.2 million as compared to a loss from operations of approximately RMB186.8 million for FY2020, which is mainly due to the increase in revenue and decrease in administrative expenses in FY2021. For FY2022, the Group recorded a loss from operation of approximately RMB67.4 million, representing a decrease of approximately RMB180.8 million as compared to a profit from operations for FY2021, which is mainly due to the decrease in revenue and increase in administrative expenses in FY2022. For 1H2023, the Group recorded a profit from operation of approximately RMB10.0 million, representing an increase of approximately RMB85.7 million as compared to a loss from operations for 1H2022, which is mainly due to the significant increase in revenue.

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(d) *Loss for the year*

For FY2021, the Group recorded a loss for the year of approximately RMB137.4 million, representing a decrease of approximately 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; (ii) the increase in the number of theaters under the Group's management and the theatre renovation costs; and (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.

For FY2022, the Group recorded a loss for the year of approximately RMB281.7 million, representing an increase of approximately 105.0% as compared to that for FY2021. Such increase was primarily attributable to (i) the decrease in revenue as mentioned above; and (ii) the increase in administrative expenses which was mainly caused by the increase in impairment losses of approximately RMB88.6 million for interest in associates following the decrease in the share price of Digital Domain Holdings Limited (stock code: 547.hk).

For 1H2023, the Group recorded a loss for the year of approximately RMB80.1 million, representing a decrease of approximately 57.3% as compared to that for 1H2022. Such decrease was primarily attributable to the significant increase in revenue as mentioned above.

(e) *Dividends*

No dividend was declared for FY2020, FY2021, FY2022 and 1H2023.

### 1.2 *Historical financial Position*

Set out below is a summary of the historical financial position of the Group as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023 as extracted from the 2021 AR, 2022 AR and 2023 IR:

	As at 31 December		As at 30 June	
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(unaudited)
<b>Total assets</b>	<b>13,858,497</b>	<b>13,296,003</b>	<b>11,940,917</b>	<b>12,016,698</b>
<b>Total liabilities</b>	<b>9,322,965</b>	<b>9,671,663</b>	<b>8,625,080</b>	<b>8,776,636</b>
<b>Net assets</b>	<b>4,535,532</b>	<b>3,624,340</b>	<b>3,315,837</b>	<b>3,240,062</b>



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As at 30 June 2023, the Group's total assets were approximately RMB12,016.7 million, which primarily include, among others, (i) inventories (including antiques, works of art, calligraphy, painting and sculptures, small value items for resale, low value materials, drama rights and film production) of approximately RMB2,207.5 million; (ii) deposits, prepayments and other receivables of approximately RMB2,443.6 million; (iii) other financial assets (including loans granted under financing arrangements, loans to associates, loans to joint ventures, finance lease receivable and other equity securities) of approximately RMB2,120.6 million; and (iv) cash and cash equivalents of approximately RMB1,212.2 million. As at 30 June 2023, the Group's total liabilities were approximately RMB8,776.6 million, which primarily include, among others, (i) interest-bearing borrowings of approximately RMB5,073.4 million; and (ii) trade and other payables of approximately RMB2,137.4 million.

The debt-to-asset ratio of the Group, calculated by the total liabilities divided by the total assets, was approximately 67.3%, 72.7%, 72.2% and 73.0% as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, respectively. The increase in debt-to-asset ratio during FY2021 is mainly attributable to the increase in trade and other payables. The slight decrease in debt-to-asset ratio during FY2022 is mainly due to the decrease in interest-bearing borrowings. The slight increase in debt-to-asset ratio during 1H2023 is mainly attributable to the increase in trade and other payables.

The Group's net assets as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023 amounted to approximately RMB4,535.5 million, RMB3,624.3 million, RMB3,315.8 million and RMB3,240.1 million with a net asset value ("NAV") per Share of approximately RMB18.4, RMB14.7, RMB13.5 and RMB13.2, respectively. The significant decrease in net assets during FY2021 was mainly attributable to (i) the loss for FY2021 of approximately RMB139.5 million; and (ii) the acquisition of non-controlling interests of Beijing Poly International Auction Corporation Limited and Poly Auction (Hong Kong Limited) at the consideration of approximately RMB711.8 million. The decrease in net assets during FY2022 was mainly attributable to (i) the loss for FY2022 of approximately RMB281.7 million; and (ii) the further acquisition of non-controlling interests of Beijing Poly International Auction Corporation Limited of approximately RMB60.6 million. The slight decrease in net assets during 1H2023 was mainly attributable to the loss for the period of approximately RMB80.1 million.

### ***1.3 Prospects of the Group***

As disclosed in the 2022 AR, China's film market indicators plummeted, and the supply of film sources and audience demand reduced significantly in 2022. Against such background, the Group's revenue for FY2022 declined by 17.5% to approximately RMB2,617.0 million as compared with RMB3,170.3 million for FY2021, primarily due to the large number of performances that were either cancelled or postponed as a result of the severe impact of the COVID-19 pandemic worldwide.

As the domestic economy of the PRC has gradually recovered in 2023, the culture industry of the PRC is also expected to recover at a steady pace. According to the National Bureau of Statistics in the PRC, for 1H2023, the enterprise above designated size (i.e., with an annual

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revenue of RMB20 million or above) of the culture industry has achieved a growth rate of approximately 7.3% as compared to the same period of previous year and the per capita consumption expenditure of residents nationwide has also recorded a nominal growth rate of approximately 8.4% as compared to the same period of 2022 (after deducting the impact of price factors, the actual growth rate was 7.6%). Following the economic recovery in 2023, the Group recorded a revenue of approximately RMB1,576.9 million for 1H2023, representing an increase of approximately 70.6% as compared to that for 1H2022.

According to the data released by the National Bureau of Statistics of China in July and August 2023, it is noted that (i) the GDP for the second quarter of 2023 only rose by approximately 0.8% on a quarter-to-quarter basis, which is significantly lower than the growth of approximately 2.2% in the first quarter of 2023 on the same basis; and (ii) the year-on-year change of the China's monthly retail sales only rose by approximately 2.5% in July 2023, which is lower than growth rate of 3.1% in June 2023 and demonstrated a general declining trend since April 2023. Despite the gradual recovery of the cultural industry in 2023, the aforementioned data shows that the sustainability of the domestic economy in general remains uncertain and consumers remain skeptical about the recovery. Further, as mentioned in the 2022 AR, the operation performance of the art business and auction segment is particularly exposed to the risks arising from volatilities in domestic and overseas economic and financial environment. Based on our discussion with the Management, we understood that in addition to the uncertainties as mentioned above which might have negative impact on the consumers' consumption demand and affect adversely on the businesses of the Group, the uncertainties arose from overseas events such as the U.S. interest rate hikes, inflation and geopolitical tensions may also cause a decline in the general market demand in respect of artworks, which could result in the fluctuation of artworks auction turnover.

In view of the above, we concur with the Board that the market landscape and business environment remain uncertain, difficult and challenging for the Group in the foreseeable future.

### **2. Information on the Offeror and the future intention of the Offeror**

The Offeror is a company established in the PRC with limited liability on 18 April 2014. The Offeror is wholly-owned by China National Arts (PRC) which is a wholly-owned subsidiary of Poly Group. As at the Latest Practicable Date, Ms. Li Jing, a PRC citizen, is the sole director and legal representative of the Offeror. The business scope of the Offeror as set out in the business registration certificate includes, inter alia, investment management and asset management.

China National Arts (PRC) is a company established in the PRC with limited liability on 24 April 2007. As at the Latest Practicable Date, China National Arts (PRC) held 100% of the equity interests in the Offeror. Its principal business includes, inter alia, export and import trading, sales of arts and crafts and jewelry, property development and property management.

As set out in the section headed "6. FUTURE INTENTION OF THE OFFEROR" of the Letter from the Board, it is the intention of the Offeror that it will continue to carry on the current business of the Group following the Merger. As at the Latest Practicable Date, the Offeror has not formulated any

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concrete plans for redeployment of fixed assets of the Group. The Offeror does not intend to make any significant changes to the continued employment of the employees of the Group. Following completion of the Merger, the employment contracts of all employees of the Company will continue with the Offeror as the surviving entity. The Board is willing to cooperate with the Offeror and act in the best interests of the Company and the Shareholders as a whole.

Even if payment of Cancellation Price is to be financed by intra-group borrowings from China National Arts (HK), as described in the section headed “Funding for the Merger” in the Letter from the Board, the payment of interests on, repayment of or security for any liability, contingent or otherwise, in connection with such intra-group borrowings, is not intended to depend on, to any significant extent, business of the Company.

Given that (i) the Offeror is an indirect wholly-owned subsidiary of Poly Group, which together with its parties acting in concert with it, directly or indirectly held approximately 63.94% of the total issued share capital of the Company as at the Latest Practicable Date, and there will be no change in the ultimate controller of the business of the Group after the Merger; and (ii) it is expected there will be no material change of current business of the Group after the Merger, we consider that it is fair and reasonable for the Offeror and the Company to enter into the Merger Agreement.

### **3. Reasons for and benefits of the Merger**

It is stated in the Letter from the Board that, the Board is of the view that the business environment in which the Group operates is uncertain, difficult and challenging. As mentioned in the section headed “1. Information and prospects of the Group” of this letter, the Group performed poorly during FY2022 due to the impact of the COVID-19 pandemic worldwide. The Group had recorded three consecutive financial years of loss and the loss recorded for FY2022 had increased by 105.0% to approximately RMB281.7 million as compared with RMB137.4 million for FY2021. The Board expects that it will take time for the culture and art sectors to recover, to re-engage with the customers and for the customer momentum to restore.

The Board also notes that the price of the H Shares had recorded a downward trend since 2019. Further, the trading volume of the H Shares is low with the average daily trading volume at about 42,895 H Shares for the past 12 months up to and including the date of the Joint Announcement, representing approximately 0.048% of the total issued H Shares as at the date of the Joint Announcement.

With such an uncertain, difficult and challenging business environment while given the share price performance and low liquidity of the H Shares, the Board believes that the Group’s ability to raise funds from the public equity market is currently limited and it is unlikely to expect any significant improvement in the foreseeable future. The Board is of the view that the delisting of the Group would reduce the costs and management resources associated with the maintenance of the Group’s listing on the Stock Exchange and its publicly listed status and, therefore, the delisting would result in a more cost effective group structure for the Group.

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Furthermore, in order to maintain core competitiveness, the Company needs to unify and sort out its strategy and business direction, exploring new development opportunities and long-term growth strategies, which may cause uncertainty in the Company's financial performance in the short term, thereby causing losses to the H Shareholders. After the completion of the Merger, the Company can formulate long-term strategies with more flexibility and avoid the pressure from market expectations and stock price fluctuation risks as a listed company.

From the Independent H Shareholders' perspective, we consider the Merger provides a special opportunity to monetise their investment in H Shares at a premium over the prevailing market prices, especially given the unsatisfactory share price performance and low liquidity of the H Shares in recent years, and may redeploy the proceeds towards other investment opportunities. Please refer to the sections below headed "4.2 Historical price performance of the H Shares" and "4.3 Liquidity of the H Shares" in this letter for our further analysis in this regard.

From the Company's perspective, we have reviewed the announcements published by the Company since 1 January 2019 and noted that the Group has not carried out any fundraising activities from the public equity market during such period. Therefore, in view of such lack of public equity market utilisation, we concur with the Board that the costs and efforts required to maintain listing status of the Group may not be economically justified. Upon completion of the Merger, the Group (i) would not be subject to the requirements under Listing Rules in relation to certain corporate actions, such as connected transactions; (ii) would have greater flexibility to deploy long-term development strategy to maintain its competitiveness without concerning market expectations and share price fluctuations in the short term; and (iii) would reduce the ongoing costs for maintaining the listing status of the Company.

Based on the above, we consider that the Merger is in the interests of the Company and the Independent H Shareholders as a whole.

#### **4. Analysis on the Cancellation Price**

In order to assess the fairness and reasonableness of the Cancellation Price, we have considered the following principal factors:

##### **4.1 Cancellation Price comparisons**

The Cancellation Price of HK\$8.88 per H Share represents:

- i. a premium of approximately 3.9% over the closing price per H Share of HK\$8.55 on the Stock Exchange on the Latest Practicable Date;
- ii. a premium of approximately 77.6% over the closing price per H Share of HK\$5.0 on the Stock Exchange on the Last Trading Date;

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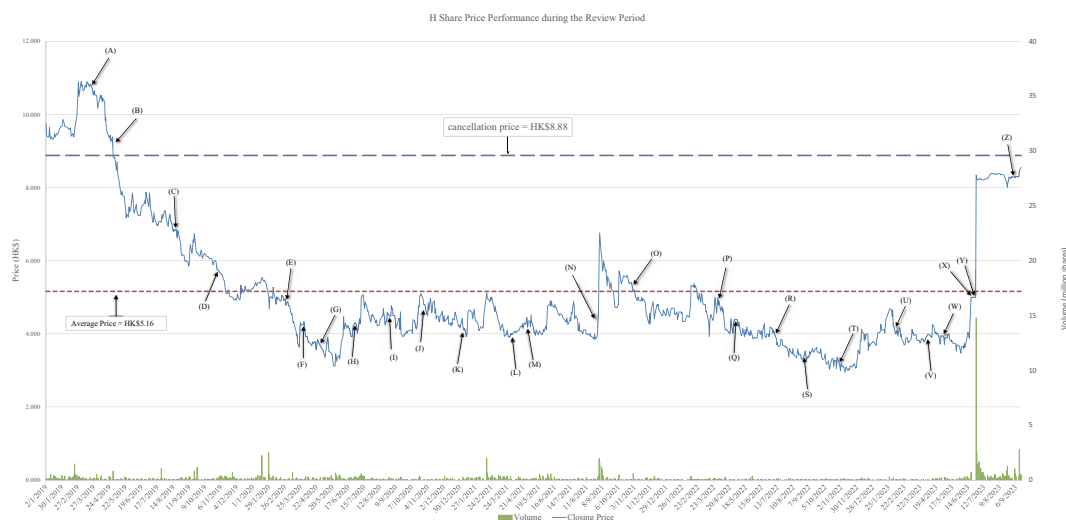
- iii. a premium of approximately 112.5% over the average closing price of HK\$4.178 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Date;
- iv. a premium of approximately 125.2% over the average closing price of HK\$3.944 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Date;
- v. a premium of approximately 133.1% over the average closing price of HK\$3.809 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the thirty consecutive trading days immediately prior to and including the Last Trading Date;
- vi. a premium of approximately 129.8% over the average closing price of HK\$3.864 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the sixty consecutive trading days immediately prior to and including the Last Trading Date;
- vii. a premium of approximately 129.0% over the average closing price of HK\$3.878 per H Share based on the average closing price of H Shares on the Stock Exchange for the ninety consecutive trading days immediately prior to and including the Last Trading Date;
- viii. a discount of approximately 34.4% to the Group's audited net asset value attributable to the equity Shareholders of the Company of approximately HK\$13.532 per Share as at 31 December 2022, based on the exchange rate of HK\$1: RMB0.89327, being the median exchange rate on 31 December 2022 as announced by the People's Bank of China; and
- ix. a discount of approximately 30.9% to the Group's unaudited net asset value attributable to the equity Shareholders of the Company of approximately HK\$12.852 per Share as at 30 June 2023, based on the exchange rate of HK\$1: RMB0.92198, being the median exchange rate on 30 June 2023 as announced by the People's Bank of China.

### **4.2 Historical price performance of the H Shares**

We have reviewed the daily closing prices of the H Shares for the period from 1 January 2019 up to and including the Latest Practicable Date (the “**Review Period**”). We consider that the Review Period, covering more than four years, is adequate and appropriate to demonstrate the

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historical price performance of the H Shares for the purpose of our analysis. The following chart sets out the daily closing prices of the H Shares on the Stock Exchange during the Review Period:



Source: Wind

Item	Date	Announcement
(A)	22 March 2019	2018 annual results announcement
(B)	29 April 2019	2019 first quarter results announcement
(C)	19 August 2019	2019 interim results announcement
(D)	31 October 2019	2019 third quarter results announcement
(E)	28 February 2020	2019 annual results profit warning announcement
(F)	31 March 2020	2019 annual results announcement
(G)	28 April 2020	2020 first quarter results announcement
(H)	2 July 2020	2020 interim results profit warning announcement
(I)	28 August 2020	2020 interim results announcement
(J)	30 October 2020	2020 third quarter results announcement
(K)	8 January 2021	2020 annual results profit warning announcement
(L)	30 March 2021	2020 annual results announcement
(M)	29 April 2021	2021 first quarter results announcement
(N)	31 August 2021	2021 interim results announcement
(O)	29 October 2021	2021 third quarter results announcement
(P)	31 March 2022	2021 annual results announcement
(Q)	29 April 2022	2022 first quarter results announcement
(R)	7 July 2022	2022 interim results profit warning announcement
(S)	29 August 2022	2022 interim results announcement
(T)	31 October 2022	2022 third quarter results announcement
(U)	3 February 2023	2022 annual results profit warning announcement
(V)	31 March 2023	2022 annual results announcement
(W)	28 April 2023	2023 first quarter results announcement

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Item	Date	Announcement
(X)	20 June 2023	Trading halt announcement
(Y)	27 June 2023	Joint Announcement
(Z)	31 August 2023	2023 interim results announcement

As illustrated in the chart above, during the Review Period, the H Share traded at an average of approximately HK\$5.16, with the highest and lowest closing prices of the H Shares, being approximately HK\$10.90 recorded on 28 February 2019, 5 March 2019, 15 March 2019 and HK\$2.95 recorded on 9 November 2022, respectively. The Cancellation Price is mostly higher than the historical closing prices of the H Shares throughout the entire Review Period and represents (i) a discount of approximately 18.5% to the highest closing prices of the H Shares; and (ii) a premium of approximately 201.0% and 72.1% over the lowest and average closing prices of the H Shares, respectively, during the Review Period.

We noted that the H Share demonstrated a general declining trend since the beginning of the Review Period, especially after the release of the annual results announcement for the year ended 31 December 2018 (“FY2018”). The net profit margin of the Group decreased from 11.6% for the year ended 31 December 2017 to 9.9% for FY2018, which is mainly attributable to the substantial increase of the selling and distribution expenses and administrative expenses by approximately 14.7% and 20.5%, respectively, in FY2018. Subsequently, the Company released the interim results announcement for the six months ended 30 June 2019 (“1H2019”) and we noted the net profit margin has further deteriorated and reached 6.8% for 1H2019. On 28 February 2020, the Company published the profit warning announcement for the year ended 31 December 2019 which announced the profit for the period attributable to equity shareholders of the Company for the year is expected to decrease by approximately 70% to 90% as compared with that of the previous year. Such declining trend was ended in May 2020, and the H Share quickly recovered and surged to HK\$5.08 on 13 July 2020. We have reviewed the announcements published by the Company on the Stock Exchange website during May 2020 to 13 July 2020 and are not aware of any material information that might trigger such price surge. Subsequently, the H Share experienced a fluctuation within the range of HK\$3.85 and HK\$5.13 until August 2021.

On 31 August 2021, the Company released the interim results announcement for the six months ended 30 June 2021 (“1H2021”), and announced that the Group’s revenue was increased by approximately 156.3% from approximately RMB586.5 million for the six months ended 30 June 2020 to approximately RMB1,503.2 million for 1H2021. It was noted that such increase in revenue was primarily attributable to the gradual resumption of business due to the slowdown of the pandemic. Subsequent to the abovementioned announcement, the closing prices of the H Share quickly surged to HK\$6.76 on 3 September 2021, but soon after entered into a declining trend and reached the lowest closing price of HK\$2.95 in November 2022. During such period, we noted that the Company issued a profit warning announcement for the six months ended 30 June 2022, which announced the expected decrease in the operating profit of the Company due to the resurgence of the pandemic.

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Trading in the H Shares was suspended with effect from 9:00 a.m. on 20 June 2023. During the period from the first trading day after the publication of the Joint Announcement and up to the Latest Practicable Date (i.e., from 28 June 2023 to 15 September 2023) (the “**Post-Joint Announcement Period**”), the closing prices of the H Shares had been trading below the Cancellation Price within a narrow band of between HK\$8.00 and HK\$8.55. This price range is significantly above the average closing H Share price during the period from the beginning of the Review Period and up to the Last Trading Day (i.e., from 1 January 2019 to 19 June 2023) (the “**Pre-Joint Announcement Period**”) of approximately HK\$5.00. However, Independent H Shareholders should note that there is no assurance that the H Share price will remain at the current level if the Merger lapses.

### 4.3 *Liquidity of the H Shares*

The following table sets out the total trading volume of the H Shares per month/period, the average daily trading volume, the percentage of such average daily trading volume to the total issued H Shares and the public float of the Company during the Review Period:

<b>Months/ Period</b>	<b>Total trading volume of H Shares for the month/period</b>	<b>Average daily trading volume <i>(Note 1)</i></b>	<b>Percentage of average daily trading volume to the total issued H Shares <i>(Note 2)</i></b>	<b>Percentage of average daily trading volume to total number of Shares held by public Shareholders <i>(Note 3)</i></b>
<b>2019</b>				
January	3,854,400	175,200	0.1959%	0.1973%
February	5,371,100	315,947	0.3532%	0.3557%
March	2,229,400	106,162	0.1187%	0.1195%
April	3,419,100	179,953	0.2012%	0.2026%
May	1,353,200	64,438	0.0720%	0.0726%
June	1,030,185	54,220	0.0606%	0.0610%
July	2,594,000	117,909	0.1318%	0.1328%
August	1,110,232	50,465	0.0564%	0.0568%
September	3,771,100	179,576	0.2008%	0.2022%
October	1,191,851	56,755	0.0635%	0.0639%
November	5,280,700	251,462	0.2811%	0.2831%
December	1,402,900	70,145	0.0784%	0.0790%
<b>2020</b>				
January	8,844,314	442,216	0.4944%	0.4979%
February	2,132,000	106,600	0.1192%	0.1200%
March	2,138,982	97,226	0.1087%	0.1095%
April	2,282,200	120,116	0.1343%	0.1352%
May	3,656,600	182,830	0.2044%	0.2059%



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<b>Months/ Period</b>	<b>Total trading volume of H Shares for the month/period</b>	<b>Average daily trading volume <i>(Note 1)</i></b>	<b>Percentage of average daily trading volume to the total issued H Shares <i>(Note 2)</i></b>	<b>Percentage of average daily trading volume to total number of Shares held by public Shareholders <i>(Note 3)</i></b>
June	3,029,035	144,240	0.1613%	0.1624%
July	3,722,700	169,214	0.1892%	0.1905%
August	801,400	38,162	0.0427%	0.0430%
September	1,042,600	47,391	0.0530%	0.0534%
October	1,058,500	58,806	0.0657%	0.0662%
November	523,700	24,938	0.0279%	0.0281%
December	1,093,200	49,691	0.0556%	0.0559%
<b>2021</b>				
January	2,448,900	122,445	0.1369%	0.1379%
February	5,200,800	288,933	0.3230%	0.3253%
March	3,957,900	172,083	0.1924%	0.1938%
April	1,421,900	74,837	0.0837%	0.0843%
May	2,238,300	111,915	0.1251%	0.1260%
June	3,036,500	144,595	0.1617%	0.1628%
July	883,200	42,057	0.0470%	0.0474%
August	1,349,500	61,341	0.0686%	0.0691%
September	7,897,300	376,062	0.4204%	0.4234%
October	810,600	45,033	0.0503%	0.0507%
November	1,630,100	74,095	0.0828%	0.0834%
December	1,477,100	67,141	0.0751%	0.0756%
<b>2022</b>				
January	216,700	10,319	0.0115%	0.0116%
February	1,205,700	70,924	0.0793%	0.0799%
March	1,237,100	53,787	0.0601%	0.0606%
April	907,900	50,439	0.0564%	0.0568%
May	1,050,100	52,505	0.0587%	0.0591%
June	398,800	18,990	0.0212%	0.0214%
July	409,400	20,470	0.0229%	0.0230%
August	537,200	23,357	0.0261%	0.0263%
September	493,300	23,490	0.0263%	0.0264%
October	522,899	26,145	0.0292%	0.0294%
November	608,500	27,659	0.0309%	0.0311%
December	1,105,300	55,265	0.0618%	0.0622%

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<b>Months/ Period</b>	<b>Total trading volume of H Shares for the month/period</b>	<b>Average daily trading volume <i>(Note 1)</i></b>	<b>Percentage of average daily trading volume to the total issued H Shares <i>(Note 2)</i></b>	<b>Percentage of average daily trading volume to total number of Shares held by public Shareholders <i>(Note 3)</i></b>
<b>2023</b>				
January	465,300	25,850	0.0289%	0.0291%
February	901,000	45,050	0.0504%	0.0507%
March	294,900	12,822	0.0143%	0.0144%
April	1,265,100	74,418	0.0832%	0.0838%
May	1,599,300	76,157	0.0851%	0.0857%
June	20,904,100	995,433	1.1129%	1.1208%
July	9,389,600	469,480	0.5249%	0.5286%
August	7,020,200	305,226	0.3412%	0.3437%
From 1 September 2023 to the Latest Practicable Date	6,538,600	726,511	0.8122%	0.8180%

*Source: Wind*

*Notes:*

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.
2. It is calculated by dividing the average daily trading volume for the month/period by the total issued H Shares at the end of each month/period.
3. It is calculated by dividing the average daily trading volume for the month/period by the total number of Shares held by the public Shareholders (within the meaning of the Listing Rules) as at the Latest Practicable Date, i.e. 88,814,300.

We noted from the above table that the trading volume of the Pre-Joint Announcement Period was generally thin, where the percentages of average daily trading volume of the H Shares to the total issued H Shares and the total issued Shares held by the public Shareholders during the Pre-Joint Announcement Period are 0.1143% and 0.1151%, respectively.

On 27 June 2023, the Company and the Offeror jointly announced the Merger, and subsequently, the trading volume of the H Shares surged along with the H Share price. On the first trading day after the release of the Joint Announcement, the daily trading volume of the H

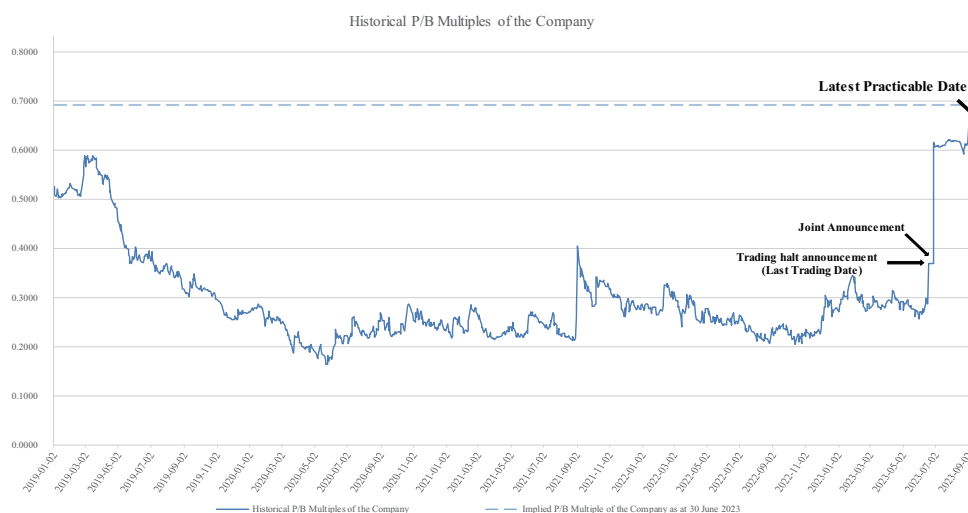
## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shares increased to approximately 14.8 million H Shares from approximately 0.7 million H Shares as recorded on the Last Trading Day, representing approximately 16.6374% of the total issued Shares held by the public Shareholders. The increase in trading volume of the H Shares, in our view, is primarily attributable to the initial positive market reaction to the Merger. The average trading volume of the H Shares during the Post-Joint Announcement Period was approximately 757,787 Shares, representing approximately 0.8472% of the total issued H Shares and approximately 0.8532% of the total issued Shares held by the public Shareholders.

Given the generally low trading volume during the Pre-Joint Announcement Period as discussed above, if H Shareholders, especially those with relatively sizeable shareholdings, wish to sell a significant number of the H Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the H Shares. In addition, the higher level of trading volume of the Post-Joint Announcement Period may not be sustained if the Merger lapses. Therefore, we consider that the Merger provides an opportunity for the Independent H Shareholders, especially those with relatively sizeable shareholdings, to liquidate their investment in H Shares at a fixed price representing premium to the prevailing trading price.

#### 4.4 Historical discount to NAV per Share

We noted the Cancellation Price represents a discount of approximately 30.9% to NAV per Share as at 30 June 2023. To better understand the pattern of discounts to NAV per Share, we have reviewed and set out below the historical price-to-book multiples (the “P/B Multiple(s)”) of the Company during the Review Period.



Source: Wind

Note: Implied P/B Multiple of the Company as at 30 June 2023 is calculated by dividing the Cancellation Price of HK\$8.88 per H Share by the Group’s unaudited net asset value attributable to the equity Shareholders of the Company of approximately HK\$12.852 per Share as at 30 June 2023, based on the exchange rate of HK\$1: RMB0.92198, being the median exchange rate on 30 June 2023 as announced by the People’s Bank of China.

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As illustrated above, it is noted that the H Shares have been traded at persistent discounts to the NAV per Share during the Review Period, with historical P/B Multiples ranging from approximately 0.16 times to approximately 0.67 times. In particular, the H Shares are mostly traded at a substantial discount to NAV per Share during the Pre-Joint Announcement Period, with historical P/B Multiples of the Company ranged from approximately 0.16 times to approximately 0.59 times. The increase in the Company's P/B Multiples during Post-Joint Announcement Period is largely due to the surge in H Share price on 28 June 2023 after the publication of the Joint Announcement as discussed in the section above headed "4.2 Historical price performance of the H Shares" of this letter. During the Post-Joint Announcement Period, the historical P/B Multiples of the Company ranged from approximately 0.59 times to approximately 0.67 times. The implied P/B Multiple of 0.69 times calculated based on the Cancellation Price and the NAV per Share as at 30 June 2023, is higher than the historical P/B Multiples of the Company throughout the Review Period. Based on the above, we consider the Cancellation Price representing a discount to NAV per Share is justifiable.

### 4.5 *Precedent privatisations*

As set out in the section headed "1.1 Historical financial performance" of this letter, the Group is mainly engaged in three different business segments: (i) performance and theatre management segment, which accounted for approximately 63.4% of the total revenue of the Group for FY2022; (ii) art business and auction segment, which accounted for approximately 25.3% of the total revenue of the Group for FY2022; and (iii) cinema investment and management segment, which accounted for approximately 10.1% of the total revenue of the Group for FY2022. In assessing the fairness and reasonableness of the Cancellation Price, we have also tried to searched for companies engaged in similar business combination of the Group and listed on the Stock Exchange. However, on best effort basis, we have not identified any such comparable company which fulfills such criteria and hence we consider there are no comparable companies which are suitable for our analysis purpose. Instead, we have conducted a search of precedent privatisations to understand the trend of the recent market practice based on the following selection criteria: (i) the company was listed on the Main Board of the Stock Exchange; (ii) the privatisation was announced since 27 June 2021 (being two year prior to the date of the Joint Announcement) and up to the Latest Practicable Date (the "**Comparable Review Period**"); (iii) the privatisation only involves a cash consideration; and (iv) the privatisation has been approved by disinterested shareholders or the required acceptance level was achieved.

Based on our search on best effort basis, we have identified an exhaustive list of 24 precedent privatisations (the "**Comparable Privatisations**") during the Comparable Review Period. Although the Comparable Privatisations are engaged in different business, we consider the Comparable Privatisations are relevant reference for our analysis on the fairness and reasonableness of the Cancellation Price and the Comparable Review Period of more than two years is adequate and appropriate given that (i) the Comparable Privatisations would provide us with the recent and relevant information to demonstrate the pricing of successful privatisation of Main Board listed companies in Hong Kong; and (ii) we are able to identify sufficient and reasonable samples size for the selection of Comparable Privatisations within the Comparable Review Period. We are of the view that the Comparable Privatisations are fair,

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representative and exhaustive samples for our assessment of the Cancellation Price. The following table sets out the premiums or discounts of the cancellation prices offered by the corresponding offerors in each of the Comparable Privatisations over or to the corresponding prevailing share prices prior to the issue of the relevant privatisation announcements and the latest NAV/re-assessed NAV per share:

Date of the first Rule 3.5/3.7 announcement	Company (stock code)	Premium/(discount) of cancellation/offer price over/to closing share price/average share price on/over					Latest NAV/ re-assessed NAV per share (Notes 1 and 3)
		Last trading day/ last full trading day/unaffected price date (Note 1)	10 trading days (Notes 1 and 2)	30 trading days (Notes 1 and 2)	60 trading days (Notes 1 and 2)	90 trading days (Notes 1 and 2)	
27-June-23	Dali Foods Group Company Limited (3799)	37.87%	39.41%	30.21%	21.75%	18.60%	151.68%
28-May-23	Golden Eagle Retail Group Limited (3308)	40.41%	61.50%	55.30%	49.89%	54.61%	(47.40)%
9-May-23	Inner Mongolia Yitai Coal Co., Ltd. (3948)	54.87%	63.70%	67.30%	64.17%	65.09%	(6.02)%
8-May-23	Hailan Holdings Limited (2278)	5.00%	5.00%	5.00%	5.11%	6.22%	(60.19)%
21-Feb-23	Jiangnan Group Limited (1366)	12.68%	89.93%	101.44%	99.55%	90.24%	(65.44)%
17-Feb-23	AAG Energy Holdings Limited (2686)	10.10%	9.27%	10.80%	24.20%	27.21%	(27.50)%
24-Oct-22	Kingston Financial Group Limited (1031)	47.78%	47.57%	39.41%	33.27%	29.87%	(46.17)%
8-Aug-22	EVOC Intelligent Technology Company Limited (2308)	15.13%	44.63%	44.63%	50.86%	52.17%	(55.41)%
5-Aug-22	Lifestyle International Holdings Limited (1212)	62.34%	81.88%	70.11%	58.66%	48.08%	(52.83)%
9-Jun-22	China VAST Industrial Urban Development Company Limited (6166)	30.43%	28.82%	31.39%	36.90%	42.07%	(41.89)%
2-Jun-22	Xiamen International Port Co., Ltd (3378)	55.17%	100.89%	134.13%	150.00%	155.68%	(14.77)%
6-May-22	Yashili International Holdings Ltd (1230)	30.40%	38.60%	31.80%	64.40%	81.80%	(2.90)%

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Date of the first Rule 3.5/3.7 announcement	Company (stock code)	Premium/(discount) of cancellation/offer price over/to closing share price/average share price on/over					Latest NAV/ re-assessed NAV per share (Notes 1 and 3)
		Last trading day/ last full trading day/unaffected price date (Note 1)	10 trading days (Notes 1 and 2)	30 trading days (Notes 1 and 2)	60 trading days (Notes 1 and 2)	90 trading days (Notes 1 and 2)	
24-Jan-22	Guodian Technology & Environment Group Corporation Limited (1296)	47.95%	103.77%	93.20%	107.69%	93.90%	(6.90)%
14-Jan-22	AKM Industrial Co., Ltd. (1639)	15.19%	31.40%	25.75%	29.02%	40.70%	70.88%
17-Dec-21	Lanzhou Zhuangyuan Pasture Co., Ltd (1533)	25.17%	47.36%	43.48%	54.25%	58.75%	12.50%
1-Dec-21	Razer Inc. (1337)	5.60%	2.32%	19.00%	38.90%	42.40%	487.50%
24-Nov-21	Shanghai Jin Jiang Capital Company Limited (2006)	56.57%	67.57%	77.14%	85.63%	86.75%	8.77%
15-Oct-21	Yorkey Optical International (Cayman) Ltd. (2788)	75.30%	101.00%	102.60%	101.00%	101.00%	6.30%
8-Oct-21	Dragon Crown Group Holdings Limited (935)	8.47%	7.47%	9.40%	20.75%	28.30%	34.74%
30-Sep-21	C.P. POKPHAND CO. LTD. (43)	19.79%	17.35%	27.78%	33.72%	30.68%	7.52%
6-Sep-21	Hop Hing Group Holdings Limited (47)	73.90%	77.78%	70.90%	62.90%	61.00%	57.80%
12-Aug-21	Good Friend International Holdings Inc. (2398)	50.00%	73.81%	61.58%	49.01%	38.89%	(20.21)%
27-Jul-21	Nature Home Holding Company Limited (2083)	39.30%	37.99%	31.80%	30.80%	38.20%	(23.10)%
9-Jul-21	Beijing Capital Land Ltd. (2868)	62.79%	77.22%	127.64%	150.00%	143.48%	(37.71)%
Comparable Review Period	Maximum	75.30%	103.77%	134.13%	150.00%	155.68%	487.50%
	Minimum	5.00%	2.32%	5.00%	5.11%	6.22%	(65.44)%
	Average	36.76%	52.34%	54.66%	59.27%	59.82%	13.72%
	Median	38.59%	47.47%	44.06%	50.38%	50.13%	(10.84)%

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Date of the first Rule 3.5/3.7 announcement	Company (stock code)	Premium/(discount) of cancellation/offer price over/to closing share price/average share price on/over					Latest NAV/ re-assessed NAV per share (Notes 1 and 3)
		Last trading day/ last full trading day/unaffected price date (Note 1)	10 trading days (Notes 1 and 2)	30 trading days (Notes 1 and 2)	60 trading days (Notes 1 and 2)	90 trading days (Notes 1 and 2)	
Recent Review	Maximum	62.34%	89.93%	101.44%	99.55%	90.24%	151.68%
Period (i.e. 27	Minimum	5.00%	5.00%	5.00%	5.11%	6.22%	(65.44)%
June 2022 to	Average	31.80%	49.21%	47.13%	45.27%	43.57%	(23.25)%
Latest	Median	37.87%	47.57%	44.63%	49.89%	48.08%	(47.40)%
Practicable Date)							
	The Company	77.6%	125.2%	133.1%	129.8%	129.0%	(30.9)%

*Source: Wind and the Stock Exchange*

*Notes:*

1. Subject to rounding differences.
2. Up to and including the last trading day/last full trading day/unaffected price date of the shares prior to the publication of the first announcement pursuant to Rule 3.5 or Rule 3.7 of the Takeovers Code (where applicable).
3. Based on the latest NAV per share or re-assessed NAV per share (where applicable) extracted from the relevant scheme document/offer document of the Comparable Privatisations.

As shown in the table above, the premiums represented by the Cancellation Price over the Last Trading Day, 10, 30, 60, 90 trading days and latest NAV/re-assessed NAV per share are all within or above ranges of the Comparable Privatisations. In particular, the premiums represented by the Cancellation Price over the Last Trading Day, 10, 30, 60, 90 trading days of approximately 77.6%, 125.2%, 133.1%, 129.8% and 129.0% are significantly higher than the corresponding average and median premiums and close to the corresponding maximum premiums of the Comparable Privatisations.

The Cancellation Price represents a discount of approximately 30.9% to the NAV per Share as at 30 June 2023, which falls within the range of premium over/discount to NAV/re-assessed NAV per share of the Comparable Privatisations but lower than the average and median premiums of the Comparable Privatisations. We also noted that the cancellation prices of the majority of the Comparable Privatisations (the “**Recent Comparable Privatisations**”) announced in the past one year prior to the date of the Joint Announcement and up to the Latest Practicable Date, i.e., 27 June 2022 to 15 September 2023 (the “**Recent Review Period**”) represent substantial discounts to their respective NAV/re-assessed NAV per share, ranging from a discount of approximately 65.44% to a premium of approximately 151.68%,

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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majority of which are deeper than the discount to NAV per Share implied by the Cancellation Price. We consider the Recent Comparable Privatisations are more relevant for our analysis purpose and can demonstrate a more recent trend of the market pricing of privatisations in the Hong Kong equity capital market.

Based on our above analysis, we are of the view that the Cancellation Price is in line with the market practice, fair and reasonable.

### 5. Other considerations

#### 5.1 *Potential consequences of failing to complete the Merger*

Rule 31.1 of the Takeovers Code restricts any offeror nor person who, in the original offer or subsequently, is acting in concert with it, to make another offer for the offeree company or acquire any voting rights of the offeree company if such acquisition would lead to a mandatory general offer within 12 months from the date on which the preceding offer is withdrawn or lapses, except with the consent of the Executive. As a result of such restriction, if the Merger fails, neither the Offeror, Poly Group or any person acting in concert with any of them may propose another proposal to privatise the Company within the next 12 months.

Noticing Poly Group, together with its parties acting in concert with it, directly or indirectly held approximately 63.94% of the total issued share capital of the Company as at the Latest Practicable Date, we consider an offer from another party without Poly Group's agreement to accept such offer to be remote.

#### 5.2 *Recent H Shares' trading price may not be supported*

We noted the recent surge of trading price and volume of the H Shares. The trading volume of the H Shares rose from under 50,000 shares on 16 June 2023 to over 719,500 shares on 19 June 2023, along with an increase of closing price from HK\$3.88 to HK\$5.00. Further, subsequent to the Joint Announcement, the H Shares' trading volume mounted to over 14 million shares with the trading price closed at HK\$8.34. If the Merger fails, it is probable that the trading volume and price of the H Shares will resume to the levels that prevailed prior to the Joint Announcement.

### RECOMMENDATION

Having considered the above factors and reasons, in particular the followings:

- (i) despite the gradual recovery of the culture industry and the substantial decrease in loss of the Group in 1H2023, the market landscape and business environment remain uncertain, difficult and challenging for the Group in the foreseeable future given the uncertainties on the domestic and the overseas economic environment;



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- (ii) the Group had recorded three consecutive financial years of loss and the loss recorded for FY2022 had increased by 105.0% to approximately RMB281.7 million as compared with RMB137.4 million for FY2021;
- (iii) the Merger provides a special opportunity for the Independent H Shareholders to monetise their H Shares at a premium over the prevailing market prices during the Review Period and redeploy the proceeds towards other investment opportunities, especially given the unsatisfactory price performance and low liquidity of the H Shares during the Pre-Joint Announcement Period;
- (iv) upon completion of the Merger, the Group would save the ongoing costs for maintaining the listing status of the Company and have greater flexibility to deploy long-term development strategy to maintain its competitiveness without concerning market expectations and share price fluctuations in the short term;
- (v) the Cancellation Price is mostly higher than the historical closing prices of the H Shares throughout the entire Review Period and significantly higher than the average closing price of the H Shares during the Review Period;
- (vi) the implied P/B Multiple calculated based on the Cancellation Price and the NAV per Share as at 30 June 2023, is higher than the historical P/B Multiples of the Company throughout the Review Period;
- (vii) the premiums/discounts represented by the Cancellation Price over/to the closing prices of the H Shares on or prior to the Last Trading Day and the latest NAV per Share are all within or above the relevant ranges of the Comparable Privatisations;
- (viii) the cancellation prices of the majority of the Recent Comparable Privatisations represent substantial discounts to their respective NAV/re-assessed NAV per share, majority of which are deeper than the discount to NAV per Share implied by the Cancellation Price;
- (ix) the higher level of trading volume and prices of the H Shares during the Post-Joint Announcement Period may not be sustained if the Merger lapses; and
- (x) the likelihood of another proposal to privatise the Company within the next 12 months is remote,

we are of the opinion that the terms of the Merger are fair and reasonable so far as the Independent H Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent H Shareholders to vote in favour of the resolutions in relation to the Merger to be proposed at the EGM and the H Shareholders' Class Meeting.

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

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*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. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 as extracted from the annual reports for the years ended 31 December 2020, 2021 and 2022, respectively, and the unaudited interim report of the Group for the six months ended 30 June 2023 prepared in accordance with IFRS.

	For the six months ended 30 June 2023 RMB'000 <i>Unaudited</i>	For the year ended 31 December 2022 RMB'000 <i>Audited</i>	For the year ended 31 December 2021 RMB'000 <i>Audited</i>	For the year ended 31 December 2020 RMB'000 <i>Audited</i>
Revenue	1,576,926	2,617,044	3,170,312	2,323,775
(Loss)/profit before taxation	(65,437)	(260,553)	(103,293)	(274,912)
Income tax expenses	(14,663)	(21,156)	(34,108)	(40,929)
(Loss)/profit for the year/period	(80,100)	(281,709)	(137,401)	(315,841)
<b>(Loss)/profit attributable to:</b>				
Equity shareholders of the Company	(75,684)	(290,196)	(139,502)	(354,489)
Non-controlling interests	(4,416)	8,487	2,101	38,648
(Loss)/earnings per share				
Basic and diluted earnings per share (RMB)	(0.31)	(1.18)	(0.57)	(1.44)
Total comprehensive income for the year/period	(62,841)	(237,125)	(154,815)	(365,147)
<b>Total comprehensive income attributable to:</b>				
Equity shareholders of the Company	(58,841)	(247,016)	(154,119)	(392,174)
Non-controlling interests	(4,000)	9,891	(696)	27,027
Amount of dividends distributed to equity shareholders of the Company	-	-	-	-
Dividends per share	-	-	-	-

There are no other items of income or expense which are material for each of the three years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023.

The consolidated financial statements of the Group for the years ended 31 December 2020, 2021 and 2022 were audited by KPMG. No modified opinion, emphasis of matter or material uncertainty related to going concern was given by the auditors of the Group in respect of the Group's audited consolidated financial statements for the financial years ended 31 December 2020, 2021 and 2022.

Save for the interim results announcement and the interim report for the six months ended 30 June 2023, there are no other interim statement or preliminary announcement made by the Company since the last published audited accounts of the Company (namely, its annual report for the year ended 31 December 2022).

**2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEARS ENDED 31 DECEMBER 2020, 2021 AND 2022 AND UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2023**

The Company is required to set out or refer to in this document the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated cash flow statement and the consolidated statement of changes in equity as shown in (i) the audited consolidated financial statements of the Group for the year ended 31 December 2020; (ii) the audited consolidated financial statements of the Group for the year ended 31 December 2021; (iii) the audited consolidated financial statements of the Group for the year ended 31 December 2022; and (iv) the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2023, together with the notes (as and when applicable) to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The audited consolidated financial statements of the Group for the year ended 31 December 2020 (including the notes thereto) are set out from pages 82 to 185 in the annual report of the Company for the year ended 31 December 2020 (the “**2020 Financial Statements**”) which was published on 29 April 2021 on the Stock Exchange website <https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042902705.pdf>.

The audited consolidated financial statements of the Group for the year ended 31 December 2021 (including the notes thereto) are set out from pages 93 to 209 in the annual report of the Company for the year ended 31 December 2021 (the “**2021 Financial Statements**”) which was published on 26 April 2022 on the Stock Exchange website <https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0426/2022042600577.pdf>.

The audited consolidated financial statements of the Group for the year ended 31 December 2022 (including the notes thereto) are set out from pages 76 to 184 in the annual report of the Company for the year ended 31 December 2022 (the “**2022 Financial Statements**”) which was published on 20 April 2023 on the Stock Exchange website <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0420/2023042000926.pdf>.

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2023 are set out from pages 17 to 25 in the interim report (the “**2023 Interim Financial Statements**”) which was published on 11 September 2023 on the Stock Exchange website <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0911/2023091100140.pdf>.

The 2020 Financial Statements, the 2021 Financial Statements, the 2022 Financial Statements and the 2023 Interim Financial Statements are incorporated by reference into this document and form part of this document.

### 3. INDEBTEDNESS STATEMENT

At the close of business on 31 July 2023, being the latest practicable date for the purpose of determining this statement of indebtedness prior to the printing of this Composite Document, the Group had outstanding indebtedness of approximately RMB5,816.6 million as set out below.

	<b>As at</b> <b>31 July 2023</b> <i>RMB'000</i>
<b>Bank loans</b>	
– Unsecured and unguaranteed	2,851,311
<b>Borrowings from joint ventures</b>	
– Unsecured and unguaranteed	83,595
<b>Borrowings from a Poly Group’s affiliate</b>	
– Unsecured and unguaranteed	56,331
<b>Borrowings from China Poly Group Corporation Limited</b>	
– Unsecured and unguaranteed	1,231,600
<b>Borrowings from non-controlling equity owners</b>	
– Unsecured and unguaranteed	1,200
<b>Bonds</b>	
– Unsecured and unguaranteed	800,000
<b>Lease liabilities</b>	
– Unsecured and unguaranteed	792,538
<b>Total outstanding debts</b>	<u><u>5,816,575</u></u>

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal accounts payable in the ordinary course of business, as of 31 July 2023, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

#### 4. MATERIAL CHANGE

The Directors confirm that, as at the Latest Practicable Date, save for the following information, there was no material change in the financial or trading position or outlook of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

- (i) despite still being loss-making, the Group recorded substantial increase in revenue of approximately 70.6% for the six months ended 30 June in 2023 as compared with the same period of 2022, which was mainly attributable to the relatively low revenue of the Group in the first half of 2022 affected by the global pandemic and the economic recovery in the first half of 2023 which led to the significant increase in consumption level of theaters and cinemas as compared with the first half of 2022;
- (ii) the trade and other payables of the Group as at 30 June 2023 increased substantially by approximately 14.2% as compared with that as at 31 December 2022, which was mainly attributable to (a) the growth of the trade payable under the performance and theatre management business along with the growth of revenue of this segment; and (b) the increase in payment to consignors resulting from the temporary holding of sale proceeds by the Group following the sale of artwork at the auctions; and
- (iii) the Group recorded a substantial increase of approximately 11.3% in the current portion of the interest-bearing borrowings as at 30 June 2023 as compared with that as at 31 December 2022, which was mainly due to new short-term bank loans used for the repayment of the mid-term note with an aggregate principal amount of RMB500 million due in February 2023.

## 1. RESPONSIBILITY STATEMENT

As at the Latest Practicable Date, the Offeror's sole director is Ms. Li Jing. The sole director of the Offeror accepts full responsibility for the accuracy of information contained in this Composite Document (other than any information relating to the Company) and confirms, having made all reasonable enquiries, that to the best of her knowledge, opinions expressed in this Composite Document (other than those expressed by the directors of the Company) having been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

As at the Latest Practicable Date, the board of directors of Poly Group comprises Liu Hualong, Zhang Wanshun, Zhang Hao, Gao Lieyang, Wu Mengfei, Geng Ruguang, Guo Jianxin, Pan Zhengyi and Luo Depi, and the directors of Poly International are Wang Xingye, Huang Geming, Tong Yunxiang, Zhang Jinsong and Zhang Yi. The directors of Poly Group and Poly International, jointly and severally, accept full responsibility for the accuracy of information contained in this Composite Document (other than any information relating to the Company), and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the sole director of the Offeror and the directors of the Company) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

As at the Latest Practicable Date, the Board comprises Mr. Wang Bo, Mr. Jiang Yingchun, Mr. Guo Wenpeng and Mr. Xu Bei as executive Directors, Ms. Zhang Hong and Mr. Fu Chengrui as non-executive Directors and Ms. Li Xiaohui, Mr. Sun Hua and Mr. Fung Edwin as independent non-executive Directors. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than those relating to the Offeror, Poly Group, Poly International and any parties acting in concert with any of them), and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the sole director of the Offeror and the directors of Poly Group and Poly International) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements in this Composite Document misleading.

## 2. SHARE CAPITAL

### (a) Authorised and issued share capital

As at the Latest Practicable Date, the registered and issued share capital of the Company were as follows:

	<i>RMB</i>
<b>Registered Share Capital:</b>	
89,447,600 H Shares of RMB1.00 each	89,447,600
156,868,400 Domestic Shares of RMB1.00 each	156,868,400
Total	246,316,000
	<i>RMB</i>
<b>Issued and fully paid:</b>	
89,447,600 H Shares of RMB1.00 each	89,447,600
156,868,400 Domestic Shares of RMB1.00 each	156,868,400
Total	246,316,000

All of the Domestic Shares and H Shares currently in issue rank pari passu in all respects with each other, including voting rights, right to receive dividend payment (except that payment of dividend will be made in RMB to the holders of the Domestic Shares and in Hong Kong dollars to H Shareholders) and capital (including right to return of capital).

Since 31 December 2022, being the date of the last audited consolidated financial statements of the Company, up to the Latest Practicable Date, the Company has not issued any Shares.

There were not any outstanding options, derivatives, warrants, or any conversion rights affecting the Shares issued by the Company as at the Latest Practicable Date and the Company has not entered into any agreement for the issue of such options, derivatives, warrants, or securities convertible or exchangeable into Shares, and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the Latest Practicable Date.

### (b) Listing

The H Shares are listed and traded on the Main Board of the Stock Exchange. No part of the Shares is listed or dealt in, nor is any listing or permission to deal in the Shares being or proposed to be sought, on any other stock exchange.



### 3. MARKET PRICES

The table below sets out the closing prices of the H Shares as quoted on the Stock Exchange on (1) the last trading day of each of the calendar months during the Relevant Period, (2) the Last Trading Date, and (3) the Latest Practicable Date:

Date	Closing price per H Share (HK\$)
30 December 2022	3.770
31 January 2023	4.470
28 February 2023	3.760
31 March 2023	3.880
28 April 2023	3.940
31 May 2023	3.540
19 June 2023 (Last Trading Date)	5.000
30 June 2023	8.210
31 July 2023	8.360
31 August 2023	8.280
15 September 2023 (Latest Practicable Date)	8.550

During the Relevant Period, the highest and lowest closing prices per H Share recorded on the Stock Exchange were HK\$8.550 on 15 September 2023 and HK\$3.470 on 1 June 2023, respectively.

### 4. DISCLOSURE OF INTERESTS IN THE SHARES BY THE COMPANY

**(a) Interests of the directors, supervisors and chief executives of the Company in the securities of the Company and the securities of the associated corporations of the Company**

As at the Latest Practicable Date, none of the directors, supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register required to be kept pursuant to section 352 of the SFO; or (iii) 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; or (iv) to be disclosed under the Takeovers Code.

**(b) Interests of substantial shareholders in the securities of the Company**

As at the Latest Practicable Date, save as disclosed below, so far as was known to the Board, no persons (not being a director, supervisor or chief executive of the Company) had an interest or a short position in the shares or underlying shares and debentures of the Company which

would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Shareholders	Class of shares	Capacity	Number of Shares/ underlying Shares held (Note 1)	Percentage of the relevant class of share capital (%) (Note 2)	Percentage of the total share capital (%) (Note 3)
Poly Group (Note 4)	Domestic Shares	Beneficial owner and interests of controlled corporation	156,868,400 (L)	100.00 (L)	63.69 (L)
Poly International	Domestic Shares	Beneficial owner	50,197,900 (L)	32.00 (L)	20.38 (L)
UBS Group AG	H Shares	Beneficial owner	9,846,684 (L) 2,495,707 (S)	11.01 (L) 2.79 (S)	4.00 (L) 1.01 (S)
Li Shuming	H Shares	Beneficial owner	6,615,000 (L)	7.40 (L)	2.69 (L)
The Bank of New York Mellon Corporation (Note 5)	H Shares	Interest of controlled corporation	4,964,560(L)	5.55(L)	2.01(L)
JPMorgan Chase & Co. (Note 6)	H Shares	Interest of controlled corporation	4,478,004 (L) 1,084,900 (S)	5.00 (L) 1.21 (S)	1.82 (L) 0.44 (S)

*Notes:*

- (1) "L" stands for long positions. "S" stands for short positions.
- (2) The percentage is calculated based on the number of the relevant class of Shares of the Company issued as at the Latest Practicable Date.
- (3) The percentage is calculated based on the total registered share capital of the Company as at the Latest Practicable Date.
- (4) Poly Group directly holds 106,670,500 Shares of the Company and holds 100% of the equity interest of Poly International, which in turn holds 50,197,900 Shares of the Company. Accordingly, Poly Group is deemed to be interested in the 50,197,900 Shares held by Poly International under the SFO.
- (5) The Bank of New York Mellon holds 4,964,560 Shares and is wholly-owned by The Bank of New York Mellon Corporation. Accordingly, The Bank of New York Mellon Corporation is deemed to be interested in all 4,964,560 Shares held by The Bank of New York Mellon.
- (6) J.P. Morgan Securities LLC directly holds 1,235,900 Shares and J.P. MORGAN SECURITIES PLC directly holds 3,242,104 Shares and has a short position of 1,084,900 Shares. JPMorgan Chase & Co. indirectly holds 100% of the equity interest of J.P. Morgan Securities LLC and J.P. MORGAN SECURITIES PLC. Accordingly, JPMorgan Chase & Co. is deemed to be interested in the 4,478,004 Shares held by J.P. Morgan Securities LLC and J.P. MORGAN SECURITIES PLC in aggregate and have a short position of 1,084,900 Shares held by J.P. MORGAN SECURITIES PLC.

**(c) Interests discloseable under Schedule II of the Takeovers Code**

Save as disclosed under subsection (a) and (b) of this section, as at the Latest Practicable Date:

- (i) the Company was not interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Offeror and the Company had not dealt for value in the shares or relevant securities of the Offeror during the Relevant Period;
- (ii) The Offeror is wholly-owned by China National Arts (PRC) which is a wholly-owned subsidiary of Poly Group. None of the Directors was interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company or the Offeror, or had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company or the Offeror during the Relevant Period;
- (iii) none of the subsidiaries of the Company, the pension fund of the Company or of its subsidiaries, or a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code owned or controlled any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company, or had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (iv) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” or who is an “associate” of the Company by virtue of classes (2), (3) and (4) under definitions of the Takeovers Code, and none of such persons had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (v) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were managed on a discretionary basis by fund managers connected with the Company, and none of them had dealt for value in any relevant securities in the Company during the Relevant Period;
- (vi) none of the directors of the Company held any beneficial shareholdings in the Company which would otherwise entitle them to accept or reject the Merger; and
- (vii) none of the Company or the directors of the Company had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

**5. DISCLOSURE OF INTERESTS IN THE SHARES BY THE OFFEROR****(a) Interests of the Offeror in the Company**

As at the Latest Practicable Date,

- (i) the Offeror is wholly-owned by China National Arts (PRC) which is a wholly-owned subsidiary of Poly Group. Poly Group is a state-owned enterprise under the direct supervision and administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. Ms. Li Jing is the sole director of the Offeror.
- (ii) The Offeror does not own any Share. The following parties acting in concert with the Offeror are interested in the Shares in the following manner:
  - (1) Poly Group directly holds 106,670,500 Domestic Shares and indirectly holds 50,197,900 Domestic Shares through its 100% interest in Poly International, representing all of the Domestic Shares in issue and approximately 63.69% of the total issued Shares in the Company; and
  - (2) Poly Developments and Holdings Group Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600048 and is held as to 40.49% by Poly Group) holds 403,300 H Shares and Poly Investment Holding Co., Ltd.\* (保利投資控股有限公司) (a wholly-owned subsidiary of Poly Group) holds 230,000 H Shares, representing in aggregate approximately 0.71% of the H Shares in issue and approximately 0.26% of the total issued Shares in the Company.

**(b) Interests disclosable under Schedule I to the Takeovers Code**

As at the Latest Practicable Date,

- (i) the sole director of the Offeror was not interested (within the meaning of Part XV of the SFO) in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;
- (ii) save for the existing shareholding of the parties acting in concert with the Offeror as set out in the paragraph 5(a) of this appendix, none of the Offeror, Poly Group, Poly International, or any parties acting in concert with any of them owned or had control or direction over any interests in the Shares, options, derivatives, warrants, other securities convertible into Shares, or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, excluding Shares held on behalf of non-discretionary investment clients of the CITICS group (for the avoidance of doubt, members of the CITICS group which are exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code, are not considered to be concert parties of the Offeror);

- (iii) no one who owned or controlled shares, convertible securities, warrants, options or derivatives in respect of the Shares had irrevocably committed to vote in favour of or against the resolutions at the H Shareholders' Class Meeting and/or at the EGM, or to accept or reject the Merger;
- (iv) save for the Merger Agreement and the transactions contemplated thereunder, no person had any arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror, Poly Group, Poly International or any parties acting in concert with any of them during the Relevant Period;
- (v) there was no agreement or arrangement (other than the Merger Agreement and the transactions contemplated thereunder) to which the Offeror was a party which related to the circumstances in which the Offeror might or might not invoke or seek to invoke a condition of the Merger;
- (vi) other than the Cancellation Price to be paid by the Offeror for every H Share under the Merger, there is no other consideration, compensation or benefit in whatever form paid or to be paid by the Offeror, Poly Group, Poly International, or any parties acting in concert with any of them to the H Shareholders in connection with the cancellation of the H Shares under the Merger;
- (vii) there was no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (i) any Shareholder; and (ii)(a) the Offeror, Poly Group, Poly International, or any parties acting in concert with any of them or (b) the Company, its subsidiaries or associated companies as at the Latest Practicable Date;
- (viii) none of the Offeror, Poly Group, Poly International, or any parties acting in concert with any of them (except those which are exempt principal traders or exempt fund managers recognised by the Executive as such for the purpose of the Takeovers Code) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22) in the Company; and
- (ix) none of the Offeror, Poly Group, Poly International, or any parties acting in concert with any of them had dealt for value in any Shares, or any convertible securities, warrants, options or derivatives in respect of the Shares (excluding non-proprietary trades conducted by members of the CITICS group for and on behalf of clients of the CITICS group) during the Relevant Period (for the avoidance of doubt, members of the CITICS group which are exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code, are not considered to be concert parties of the Offeror).

**6. ARRANGEMENTS IN CONNECTION WITH THE MERGER****(a) Arrangements affecting the Directors**

As at the Latest Practicable Date:

- (i) no benefit (save for statutory compensation required under applicable laws) would be given to any Director as compensation for loss of office or otherwise in connection with the Merger;
- (ii) save for the Merger, there were no agreements or arrangements between any Director and any other person which was conditional on or dependent upon the outcome of the Merger or otherwise connected with the Merger; and
- (iii) there were no material contracts entered into by the Offeror in which any Director had a material personal interest.

**(b) Arrangements with the Company in connection with the Merger**

As at the Latest Practicable Date, no person who owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares had irrevocably committed themselves to vote their Shares in favour of or against (as the case may be) the resolutions in respect of the Merger.

**(c) Arrangement with the Offeror in connection with the Merger**

As at the Latest Practicable Date,

- (i) Save for the Merger Agreement and the transactions contemplated thereunder, there is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it on the one hand and any of the Directors, recent Directors, Shareholders or recent Shareholders on the other hand having any connection with or dependence upon the Merger.
- (ii) Save for the Merger Agreement and the transactions contemplated thereunder, there is no agreement or arrangement to which the Offeror is a party which relate to the circumstances in which the Offeror may or may not invoke or seek to invoke a Condition to the Merger.
- (iii) As at the Latest Practicable Date, the Offeror did not have any intention to transfer, charge or pledge any Shares acquired pursuant to the Merger to any other person.

## 7. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business carried on or intended to be carried on by the members of the Group) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the commencement of the Offer Period, and up to and including the Latest Practicable Date, which are or may be material:

- (i) the Merger Agreement.

## 8. MATERIAL LITIGATION

Poly Ronghe Financial Leasing Corporation Limited (保利融禾融資租賃有限公司) (the “**Poly Ronghe**”), a non-wholly owned subsidiary of the Company, signed the artwork financing lease contracts (hereinafter referred to as “lease contracts”) with three lessees (natural persons) from 2016 to 2018, respectively. However, the three lessees failed to pay the rent and the consideration for buy-back of artwork, and as a result liquidated damages and interests for overdue payment were incurred according to the lease contracts. After the lease contracts expired, the ownership of the artwork was owned by Poly Ronghe. In order to lower the financial risk and ensure financial security, Poly Ronghe decided to dispose of the artworks on hand, and at the same time has initiated arbitration against the three lessees as agreed in the lease contracts. The total amount of the subject matter involved in all arbitration cases is RMB470,189,000, and the arbitration cases have been filed pending hearing as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is pending or threatened by or against the Company or any of its subsidiaries.

## 9. EXPERTS’ QUALIFICATIONS AND CONSENT

The following are the names and qualifications of the experts whose letter, opinions or advice are contained or referred to in this Composite Document:

<b>Name</b>	<b>Qualifications</b>
CITICS	The financial adviser to the Offeror in respect of the Merger, a corporation licensed to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Maxa Capital	The Independent Financial Adviser, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this document with the inclusion therein of its opinions or reports, and the references to its name, opinions or reports in the form and context in which they respectively appear.

## 10. SERVICE CONTRACTS

The Company had entered into the following service agreements with the following Directors, all of which still have more than 12 months to run irrespective of the notice period. Details of the said fixed term service contracts are set out below:

- (1) the service contract entered into between the Company and Mr. Wang Bo, pursuant to which Mr. Wang Bo was appointed as an executive Director for a term of three years with effect from 2 November 2021 to 1 November 2024. Mr. Wang Bo is entitled to receive remuneration which would be determined based on the remuneration of the general manager of the Company served by Mr. Wang Bo or such sum as the Company may from time to time determine\* and no variable remuneration;
- (2) the service contract entered into between the Company and Mr. Jiang Yingchun, pursuant to which Mr. Jiang Yingchun was appointed as an executive Director for a term of three years with effect from 2 November 2021 to 1 November 2024. Mr. Jiang Yingchun is entitled to receive remuneration which would be determined with reference to total remuneration standard of the general manager of the Company or such sum as the Company may from time to time determine\* and no variable remuneration;
- (3) the service contract entered into between the Company and Mr. Guo Wenpeng, pursuant to which Mr. Guo Wenpeng was appointed as an executive Director for a period from 30 November 2022 to the date of expiry of the term of office of the fourth session of the Board (i.e. 1 November 2024). Mr. Guo Wenpeng is entitled to receive remuneration which would be determined with reference to total remuneration standard of the general manager of the Company or such sum as the Company may from time to time determine\* and no variable remuneration;
- (4) the service contract entered into between the Company and Mr. Xu Bei, pursuant to which Mr. Xu Bei was appointed as an executive Director for a term of three years with effect from 2 November 2021 to 1 November 2024. Mr. Xu Bei is entitled to receive remuneration which would be determined with reference to 0.6-0.9 of total remuneration standard of the general manager of the Company or such sum as the Company may from time to time determine\* and no variable remuneration;
- (5) the service contract entered into between the Company and Ms. Zhang Hong, pursuant to which Ms. Zhang Hong was appointed as a non-executive Director for a term of three years with effect from 2 November 2021 to 1 November 2024 and would not receive any remuneration from the Company;



- (6) the service contract entered into between the Company and Mr. Fu Chengrui, pursuant to which Mr. Fu Chengrui was appointed as a non-executive Director for a term of three years with effect from 2 November 2021 to 1 November 2024 and would not receive any remuneration from the Company;
- (7) the service contract entered into between the Company and Mr. Sun Hua, pursuant to which Mr. Sun Hua was appointed as an independent non-executive Director for a term of three years with effect from 2 November 2021 to 1 November 2024. Mr. Sun Hua is entitled to receive remuneration from the Company of HK\$150,000 per year and no variable remuneration;
- (8) the service contract entered into between the Company and Ms. Li Xiaohui, pursuant to which Ms. Li Xiaohui was appointed as an independent non-executive Director for a term of three years with effect from 2 November 2021 to 1 November 2024. Ms. Li Xiaohui is entitled to receive remuneration from the Company of HK\$150,000 per year and no variable remuneration; and
- (9) the service contract entered into between the Company and Mr. Fung Edwin, pursuant to which Mr. Fung Edwin was appointed as an independent non-executive Director for a period from 21 June 2022 to the date of expiry of the term of office of the fourth session of the Board (i.e. 1 November 2024). Mr. Fung Edwin is entitled to receive remuneration from the Company of HK\$150,000 per year and no variable remuneration.

*\*Note:* The remuneration standard of the general manager of the Company is subject to annual adjustment based on market conditions and shall be reviewed and approved by the remuneration committee of the Company. For reference purpose only, the remuneration standard of the general manager of the Company for the year of 2021 was RMB1.5 million, among which the fixed remuneration was RMB630,000 and the performance-based remuneration was RMB870,000. The remuneration standard of the general manager of the Company for the year of 2022 and 2023 includes the fixed remuneration which is expected to be RMB630,000, and the performance-based remuneration which is subject to confirmation by the state-owned assets supervision authority.

Save as disclosed above, none of the Directors had any existing service contract with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) had been entered into, or amended within six months before the date of commencement of the Offer Period; (ii) was a continuous contract with a notice period of 12 months or more; (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## 11. OTHER INFORMATION

- (a) The registered address of the Offeror is at 5/F, No. 101 Fuxingmennei Street, Xicheng District, Beijing, the PRC.
- (b) The sole director of the Offeror is Ms. Li Jing.
- (c) The principal member of the Offeror's concert group are as follows:

<b>Name of the principal member</b>	<b>Director(s)</b>	<b>Registered Office</b>
Ms. Li Jing	N/A	N/A
China National Arts (PRC)	Li Jing, Zhang Hong, Zhao Zigao, Chen Xiangdong, Zhang Huanke, Zhang Yan and Liu Pingchun	No. 103, Jixiangli, Chaoyangmenwai, Chaoyang District, Beijing, the PRC
Poly Group	Liu Hualong, Zhang Wanshun, Zhang Hao, Gao Lieyang, Wu Mengfei, Geng Ruguang, Guo Jianxin, Pan Zhengyi and Luo Depi	28F, No. 1, Chaoyangmen North Street, Dongcheng District, Beijing, the PRC
Poly International	Wang Xingye, Huang Geming, Li Guangcheng, Zhao Zigao, Guo Jianquan	26F, No.1 Chaoyangmen North Street, Dongcheng District, Beijing, the PRC
China National Arts (HK)	Liu Yuqing, Zhang Fan, Jiang Jinghui	Flat D, 23/F, Max Share Centre, 367-373 King's Road, Hong Kong

- (d) CITICS is the financial adviser to the Offeror in relation to the Merger and its address is 18/F, One Pacific Place, 88 Queensway, Hong Kong.
- (e) The registered office address of the Company is District A, B and C, 11/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, 100010, PRC and the principal place of business of the Company in Hong Kong is 31/F Floor, Tower 2, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.
- (f) As at the Latest Practicable Date, the Board comprises Mr. Wang Bo, Mr. Jiang Yingchun, Mr. Guo Wenpeng and Mr. Xu Bei as executive Directors, Ms. Zhang Hong and Mr. Fu Chengrui as non-executive Directors, and Ms. Li Xiaohui, Mr. Sun Hua and Mr. Fung Edwin as independent non-executive Directors.
- (g) The address of the Independent Financial Adviser, Maxa Capital, is at Unit 1908, Harbour Center, 25 Harbour Road, Wanchai, Hong Kong.
- (h) In case of inconsistency, the English version of this document shall prevail over the Chinese version.

## 12. DOCUMENTS AVAILABLE FOR DISPLAY

Copies of the following documents are available for inspection (1) on the website of the Company at <http://polyculture.com.cn>; (2) on the website of the SFC at [www.sfc.hk](http://www.sfc.hk); and (3) at the principal place of business of the Company in Hong Kong at 31/F Floor, Tower 2, Times Square, 1 Matheson Street,

Causeway Bay, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. from Monday to Friday (public holidays excepted) until the date on which the Offer Period ends or the date on which the Merger is withdrawn or lapse, whichever is the earliest:

- (1) the Articles;
- (2) the articles of association of the Offeror;
- (3) the annual reports of the Company for each of the three years ended 31 December 2020, 2021 and 2022;
- (4) the interim report for the six months ended 30 June 2023 of the Company;
- (5) the letter from the Board, the text of which is set out from pages 13 to 37 of this Composite Document;
- (6) the letter from the Independent Board Committee, the text of which is set out from pages 38 to 39 of this Composite Document;
- (7) the letter from the Independent Financial Adviser, the text of which is set out from pages 40 to 64 of this Composite Document;
- (8) the material contract(s) referred to in the section headed “7. Material Contracts” in this Appendix II;
- (9) the written consents referred to in the sections headed “9. Experts’ Qualifications and Consents” in this Appendix II;
- (10) Directors’ service contracts/letters of appointment referred to in the section headed “10. Service Contracts” of this Appendix II; and
- (11) this Composite Document.

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## NOTICE OF 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 EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Poly Culture Group Corporation Limited (the “Company”) will be held at 2:30 p.m. on Friday, 3 November 2023 at Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, the PRC, for the purpose of considering and, if thought fit, passing the following resolution.

Save as defined otherwise, capitalised terms defined in the composite document dated 18 September 2023 jointly issued by the Company and Zhongyi Century Cultural Industry Investment Co., Ltd.\* (中藝世紀文化產業投資有限公司) shall have the same meanings when used herein.

#### AS SPECIAL RESOLUTIONS

- (1) To consider and, if thought fit, to approve, confirm and ratify the Merger Agreement dated 27 June 2023 entered into between the Company and the Offeror and the Merger and the transactions contemplated under the Merger Agreement.
- (2) To consider and, if thought fit, to approve that any Director be authorised to do all such acts and things, to sign and execute all such other documents, deeds and instruments, to make applications to the relevant regulatory authorities and to take such steps as he may consider necessary, appropriate, expedient and in the interest of the Company to give effect to and in connection with any transactions contemplated under the Merger Agreement.

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

Beijing, the PRC  
18 September 2023

*As at the date of this notice, the executive directors are Mr. Wang Bo, Mr. Jiang Yingchun, Mr. Guo Wenpeng and Mr. Xu Bei, the non-executive directors are Ms. Zhang Hong and Mr. Fu Chengrui, and the independent non-executive directors are Ms. Li Xiaohui, Mr. Sun Hua and Mr. Fung Edwin.*

\* *for identification purpose only*

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. As set out in the Composite Document, it is one of the conditions to the effectiveness of the Merger Agreement that the special resolution in the EGM approving the Merger under the Merger Agreement is passed by not less than two-thirds of the votes cast by way of poll by the Shareholders present and voting in person or by proxy at the EGM.
2. In order to determine the H Shareholders who will be entitled to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 4 October 2023 to Friday, 3 November 2023, both days inclusive, during which period no transfer of the Company's shares will be registered. To be eligible to attend and vote at the EGM, all instruments of transfer accompanied by relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Service Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183, Queen's Road East, Wanchai, Hong Kong (for H Shareholders) or to the Company's correspondence address at District A, B and C, 11/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, 100010, PRC (for Domestic Shareholders), in each case not later than 4: 30 p.m. on Tuesday, 3 October 2023. Shareholders whose names are recorded in the register of members of the Company on Friday, 3 November 2023 are entitled to attend the EGM.
3. A shareholder entitled to attend and vote at the EGM may appoint one or more proxies (whether or not he/she is a Shareholder) to attend and vote at the EGM on his or her behalf. The form of proxy shall contain the number of the shares to be represented by the proxy. If several persons are authorised as the proxies of a Shareholder, the form of proxy shall specify the number and class of shares to be represented by each proxy.
4. The form of proxy shall be signed by the appointer or his attorney duly authorised in writing or, in the case of a legal person, must be either executed under its common seal or under the hand of its directors or attorney duly authorised.
5. To be valid, the form of proxy must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Service Limited, at 17M Floor, Hopewell Centre, 183, Queen's Road East, Wanchai, Hong Kong (for H Shareholders) or to the Company's correspondence address at District A, B and C, 11/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, 100010, PRC (for Domestic Shareholders) not less than 24 hours prior to the holding of the EGM. If the form of proxy is signed by another person under a power of attorney or other authorisation documents given by the appointer, such power of attorney or other authorisation documents shall be notarised. The notarised power of attorney or other authorisation documents shall, together with the form of proxy, be deposited at the specified place at the time set out in the form of proxy.
6. If the appointer is a legal person, its legal representative or any person authorised by resolutions of the board of directors or other governing bodies may attend the EGM on behalf of the appointer.
7. The Company has the right to request a proxy who attends the EGM on behalf of a shareholder to provide proof of identity. If a legal person shareholder appoints its representative to attend the meeting, the Company is entitled to require the representative to present his own identification document and a notorially certified copy of the resolution or power of attorney authorized by the board of directors or other competent body of such legal person shareholder (except for a recognized clearing house as defined by relevant ordinances in force from time to time in accordance with Hong Kong laws or its proxies).
8. The shareholder(s) attending the EGM shall bear the costs of accommodation, meals and transport.
9. Contact details of the Company in the PRC are as follows:

Address : District A, B and C, 11/F, 1 North Street of Chaoyangmen, Dongcheng District,  
Beijing, PRC

Telephone number : (86 10) 6408 2711

Fax number : (86 10) 6408 2662

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## NOTICE OF H SHAREHOLDERS' CLASS 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 H SHAREHOLDERS' CLASS MEETING

**NOTICE IS HEREBY GIVEN** that an H Shareholders' class meeting (the "**H Shareholders' Class Meeting**") of Poly Culture Group Corporation Limited (the "**Company**") will be held at 3:00 p.m. on Friday, 3 November 2023 at Meeting Room, 29/F, New Poly Plaza, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, the PRC for the purpose of considering and, if thought fit, passing the following resolution. Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the composite document (the "**Composite Document**") jointly issued by the Company and Zhongyi Century Cultural Industry Investment Co., Ltd.\* (中藝世紀文化產業投資有限公司) (the "**Offeror**") dated 18 September 2023.

#### AS SPECIAL RESOLUTIONS

- (1) To consider and, if thought fit, to approve, confirm and ratify the Merger Agreement dated 27 June 2023 entered into between the Company and the Offeror and the Merger and the transactions contemplated under the Merger Agreement.
- (2) To consider and, if thought fit, to approve that any Director be authorised to do all such acts and things, to sign and execute all such other documents, deeds and instruments, to make applications to the relevant regulatory authorities and to take such steps as he may consider necessary, appropriate, expedient and in the interest of the Company to give effect to and in connection with any transactions contemplated under the Merger Agreement.

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

Beijing, the PRC  
18 September 2023

*As at the date of this notice, the executive directors are Mr. Wang Bo, Mr. Jiang Yingchun, Mr. Guo Wenpeng and Mr. Xu Bei, the non-executive directors are Ms. Zhang Hong and Mr. Fu Chengrui, and the independent non-executive directors are Ms. Li Xiaohui, Mr. Sun Hua and Mr. Fung Edwin.*

\* *for identification purpose only*

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## NOTICE OF H SHAREHOLDERS' CLASS MEETING

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*Notes:*

1. As set out in the Composite Document, it is one of the conditions to the effectiveness of the Merger Agreement that (a) the special resolution in the H Shareholders' Class Meeting approving the Merger under the Merger Agreement is approved by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and (b) the number of votes cast against such resolution is not more than 10% of the votes attaching to the H Shares held by the Independent H Shareholders.
2. In order to determine the H Shareholders who will be entitled to attend and vote at the H Shareholders' Class Meeting, the register of members of the Company will be closed from Wednesday, 4 October 2023 to Friday, 3 November 2023, both days inclusive, during which period no transfer of the Company's shares will be registered. To be eligible to attend and vote at the H Shareholders' Class Meeting, all instruments of transfer accompanied by relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Service Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183, Queen's Road East, Wanchai, Hong Kong not later than 4: 30 p.m. on Tuesday, 3 October 2023. Shareholders whose names are recorded in the register of members of the Company on Friday, 3 November 2023 are entitled to attend the H Shareholders' Class Meeting.
3. A shareholder entitled to attend and vote at the H Shareholders' Class Meeting may appoint one or more proxies (whether or not he/she is a Shareholder) to attend and vote at the H Shareholders' Class Meeting on his or her behalf. The form of proxy shall contain the number of the shares to be represented by the proxy. If several persons are authorised as the proxies of a Shareholder, the form of proxy shall specify the number and class of shares to be represented by each proxy.
4. The form of proxy shall be signed by the appointer or his attorney duly authorised in writing or, in the case of a legal person, must be either executed under its common seal or under the hand of its directors or attorney duly authorised.
5. To be valid, the form of proxy must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Service Limited, at 17M Floor, Hopewell Centre, 183, Queen's Road East, Wanchai, Hong Kong (for H Shareholders) not less than 24 hours prior to the holding of the H Shareholders' Class Meeting. If the form of proxy is signed by another person under a power of attorney or other authorisation documents given by the appointer, such power of attorney or other authorisation documents shall be notarised. The notarised power of attorney or other authorisation documents shall, together with the form of proxy, be deposited at the specified place at the time set out in the form of proxy.
6. If the appointer is a legal person, its legal representative or any person authorised by resolutions of the board of directors or other governing bodies may attend the H Shareholders' Class Meeting on behalf of the appointer.
7. The Company has the right to request a proxy who attends the H Shareholders' Class Meeting on behalf of a shareholder to provide proof of identity. If a legal person shareholder appoints its representative to attend the meeting, the Company is entitled to require the representative to present his own identification document and a notarially certified copy of the resolution or power of attorney authorized by the board of directors or other competent body of such legal person shareholder (except for a recognized clearing house as defined by relevant ordinances in force from time to time in accordance with Hong Kong laws or its proxies).
8. The shareholder(s) attending the H Shareholders' Class Meeting shall bear the costs of accommodation, meals and transport.
9. Contact details of the Company in the PRC are as follows:

Address : District A, B and C, 11/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, PRC

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