

OVERVIEW

We are a leading culture and art enterprise in China with diversified business operations. We have successfully established leading market positions, premium brand names and strong competitiveness through three business segments, namely art business and auction segment, performance and theatre management segment and cinema investment and management segment. According to ARTRON, in terms of aggregate art auction turnover, we were the largest art auctioneer in China (including Hong Kong) in 2010, 2011 and 2012 and the six months ended June 30, 2013. As of October 31, 2013, we were one of the largest theatre management companies in China, in terms of number of theatres in operations. Since 2008, we have been awarded as one of the “Top 30 National Culture Enterprises” by *Guangming Daily* (光明日報) and *Economic Daily* (經濟日報) for five consecutive times. In 2011, we were ranked as one of the “Top Ten Most Influential National Culture Industry Bases” by the Ministry of Culture.

During the Track Record Period, we mainly operated in the following three business segments:

- **Art business and auction segment.** We have developed an integrated platform including auction, art business and art investment consultation and other services, through which, we provide a diverse group of clients with comprehensive services that cover key areas along the value chain of the artwork industry, including authentication, valuation, auction, sales, investment and financing. For auction operation, we function as an agent by accepting artworks on consignment, stimulating market demand through professional marketing techniques and matching sellers (or consignors) to buyers (or bidders) through art auctions or private sales. For art business operation, we purchase artworks which we believe are undervalued or have appreciation potential through art auctions or private sales and resell them when appropriate to make profit. For art investment consultation and other services, we act as an investment advisor to provide advisory services on authentication, valuation, purchase and sales of artworks, primarily serving financial institutions, enterprises and individuals with demands for artwork investment or financing.
- **Performance and theatre management segment.** We provide comprehensive services covering key areas of theatre management and operation, including day-to-day management of theatres, arrangement of performances, lease of theatres and theatre construction consultation services. We derive revenue primarily from the theatre box office income by arranging and organizing a variety of performances, theatre management fees paid by theatre owners and theatre rental charged to third parties for renting theatres to organize various events or performances. As of October 31, 2013, we managed 31 high-end theatres each with over 1,000 seating capacity in 29 cities across China.

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- **Cinema investment and management segment.** During the Track Record Period, we invested, developed and operated cinemas, procuring film prints for screening primarily through Poly Wanhe Cinema Circuit. During Track Record Period, we derived revenue primarily through cinema box office income from self-operated cinemas and circuit income from franchised cinemas. As of October 31, 2013, we had 17 cinemas in nine cities in China including three cinemas pending for commercial operations, and have entered into leasing agreements or MOUs in respect of another 25 cinemas across China. In June 2013, due to PRC regulatory restriction imposed on foreign investment into China's cinema circuit companies, we disposed of and transferred 51% equity interest in Poly Wanhe Cinema Circuit to our Controlling Shareholder. After the Disposal, we no longer engage in the cinema circuit business. For more details, please see the sections headed "Our History and Reorganization", "Relationship with our Controlling Shareholder" and "Connected Transactions".

Through years of efforts, we have successfully established an extensive business network across China and with global reach, which allows us to deliver a diverse range of culture and art products and services to customers in different income groups in a cost efficient and timely manner. This enables us to reduce the exposure to risks associated with operating in a single business segment and maintain sustainable growth. Capitalizing on our profound knowledge of local market, economies of scale and extensive management experience in managing diversified business segments, we believe we are well-positioned to benefit from the rapid growth of the culture and art industries in China.

For the years ended December 31, 2010, 2011 and 2012 and the ten months ended October 31, 2013, our revenue amounted to approximately RMB1,216.1 million, RMB1,758.2 million, RMB1,649.9 million, and RMB1,455.6 million, respectively. For the years ended December 31, 2010, 2011 and 2012 and the ten months ended October 31, 2013, our net profit amounted to approximately RMB371.6 million, RMB583.1 million, RMB386.3 million, and RMB308.2 million, respectively.

COMPETITIVE STRENGTHS

We are a leading diversified culture and art enterprise in China with strong brand names and competitiveness.

We are a leading culture and art enterprise in China with diversified business operations. Capitalizing on our strong commitment and extensive experience in culture and art industries, we have successfully established leading market positions, premium brand names and strong competitiveness in various sectors of the culture and art industries in China, including art business and auction sector, performance and theatre management sector and cinema investment and management sector. Our leading status in these areas is well reflected in the following factors.

- According to ARTRON, in terms of aggregate art auction turnover, we were the largest art auctioneer in China (including Hong Kong) in 2010, 2011 and 2012 and

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the six months ended June 30, 2013. For the years ended December 31, 2010, 2011 and 2012 and the ten months ended October 31, 2013, our aggregate art auction turnover in China (including Hong Kong) amounted to approximately RMB9,035.9 million, RMB12,102.1 million, RMB6,495.5 million and RMB5,044.0 million, respectively.

- As of October 31, 2013, we were one of the largest theatre management companies in China, in terms of number of theatres in operation. As of October 31, 2013, we managed 31 high-end theatres, each with over 1,000 seating capacity in 29 cities across China. We are committed to the high-end market and have branded ourselves as the provider of a broad range of premium performances in China.
- Riding on the rapid growth of China's film industry and leveraging our established leading market positions in selected regional markets in China, we have been actively expanding our cinema network. As of October 31, 2013, we had 17 cinemas in nine cities in China including three cinemas pending for commercial operations and we entered into leasing agreements or MOUs in respect of another 25 cinemas across China.
- Since 2008, we have been listed as one of the "Top 30 National Culture Enterprises" by *Guangming Daily* (光明日報) and *Economic Daily* (經濟日報) for five consecutive times. In 2011, we were ranked as one of the "Top Ten Most Influential National Culture Industry Bases" by the Ministry of Culture.

Our Controlling Shareholder is one of the large-scale centrally-owned enterprises in China that is directly supervised by SASAC. We believe that the premium brand of Poly Group, which has a proven track record of successful operations in diversified industries, has improved our competitiveness in China's culture and art industries and our brand reputation among clients, which are further reflected in the following ways:

- In managing our art business and auction segment, we have established a well-recognized brand by providing professional and quality services in the sourcing, authentication, valuation, marketing, auction and sales of a broad range of artworks. Capitalizing on our brand reputation, we were able to improve the number and quality of artworks sourced for art auction, attract more clients to participate in our auction events and capture more opportunities to provide advisory services for artwork investment and financing.
- In managing our performance and theatre management segment, our premium brand in China is established upon our proven track record of offering professional and standardized management services to a large number of high-end theatres, our capability of providing a broad range of premium performances and our well-maintained long-term relationships with theatre owners in China, most of whom are local government authorities. Leveraging our premium brand, we have rapidly expanded our operations in cities of strategic importance to our business, and we have been able to attract high-profile international and domestic performance troupes and agencies, who seek to work with us for performances in China.

- In managing cinema investment and management segment, our brand reputation allows us to work with reputable landlords and real estate developers to develop cinemas on favorable terms.

We are well-positioned to benefit from the rapid growth of the culture and art industries in China.

Having been committed to China's culture and art industries for over a decade, we have obtained a deep understanding of industry trend, profound insights to local markets, economies of scale and extensive management experience. As a result, we believe we are well-positioned to benefit from the rapid growth of culture and art industries in China.

Focusing on promoting sustainable development of the culture and art industries in China, the PRC government authority has promulgated a series of laws and regulations. For instance, in September 2009, the State Council issued the *Revitalization Plan for the Culture Industry* (《文化產業振興規劃》 the “*Revitalization Plan*”). In October 2011, the PRC government authority formulated a national strategy to develop the culture and art industries in China. In February 2012, the Ministry of Culture introduced the *Doubling Plan for the Culture Industry during the 12th Five-Year Plan Period* (《文化部“十二五”時期文化產業倍增計劃》, the “*Doubling Plan*”), according to which, the PRC government authority proposed the culture industry should achieve an average annual growth rate of 20%, and as such, at least double the value added of culture industry in 2010 till 2015. From 2008 to 2011, the aggregated investments from the PRC central government in China's culture and art industries increased from RMB24,804 million to RMB39,262 million, representing a CAGR of 16.5% between 2008 and 2011. Please see the section headed “Industry Overview”.

China has become an increasingly important part of the global culture and art market, in terms of transaction volumes and market influence, particularly for Chinese artworks. According to Artprice.com and ARTRON, China (including Hong Kong) accounted for approximately 41.0% of global art auction turnover in 2012, which makes this region the largest auction market for fine art in the world for three consecutive years since 2010. Beijing and Hong Kong are the two principal cities in the Chinese art auction market. We believe that, by leveraging our extensive experience in China's culture and art industries, our deep understanding of the demands and preferences of diversified Chinese clients and our long-term cooperative relationships with PRC government authorities, we are well-positioned to enhance our unique edge over other competitors in China.

We believe that our success in China has established a solid foundation for us to capture opportunities from the rapid growth of China's culture and art industries and our further development overseas, including Hong Kong. In October 2012, we leveraged our competitive strengths, broad customer base and wealth of experience in China, particularly in Beijing, to establish Poly Auction Hong Kong, which has successfully organized 2012 Autumn Auction, 2013 Spring Auction and 2013 Autumn Auction, as well as other boutique auctions, steadily establishing our brand name in Hong Kong's art market.

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We have built an integrated business model with synergies among operations within art business and auction segment.

In managing our art business and auction segment, we have developed an integrated platform through which we provide diversified groups of clients with comprehensive services covering key areas along the value chain of the artwork industry. For auction operation, we function as an agent by accepting artworks on consignment, stimulating market demand through professional marketing techniques, and matching sellers to buyers primarily at art auctions. For art business operation, we purchase artworks which we believe are undervalued or possess appreciation potential through auctions or private sales and resell them when appropriate to make profit. For art investment consultation and other services, we act as an investment advisor to provide advisory services on authentication, valuation, purchase and sales of artworks, primarily serving financial institutions, enterprises and individuals with demand for artworks investment or financing. For details, please see the section headed “– Our Business – Art business and auction segment”.

Our capabilities of operating along the value chain of the artwork industry are important to our high quality services, our premium brand name, and our sustainable success in the art business and auction segment, while we also benefit from the synergies among our integrated business model:

- Over years of operation, we have built a team of experts specializing in authentication, valuation, marketing, auction and sales of of different categories of artworks. We rely on the skills and knowledge of our experts, particularly expertise, experience and network of internal and external experts of our artwork investment committee, to manage all three operations in this segment. They provide professional opinions on the authenticity and value of artworks, assist our management to obtain insight into market trends and help us develop and retain premium clients.
- Riding on our success in auction operation, we have established a premium brand name, a large and diverse client base and an extensive network with global reach for sourcing and marketing of artworks. During the process of sourcing artworks for art auction, we are able to locate and identify artworks which we believe are undervalued or possess appreciation potential at an early stage. As a result, we are well-positioned to purchase these artworks as principal or to assist our clients to make investment or financing decisions. Our auction operation also provides a convenient and effective channel for the sales of artworks, which improves the liquidity of artworks inventory under our or relevant clients’ management.
- Through conducting our auction operation and art business operation, we have obtained extensive experience and expertise to provide art investment consultation services. Therefore, we believe we are well-positioned to timely capture artwork investment or financing demand from our large and diverse client bases. On the other hand, when we provide art investment consultation services, the relevant

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trustees or counterparties of the relevant trust plan are more likely to engage us to sell the relevant artworks at auctions or through private sales. Furthermore, we believe that our art investment consultation and other services has also helped cultivate potential demand for artworks among the public and therefore helped ensure the sustainable development of our business.

We have an extensive domestic business network with global reach and enjoy economies of scale.

We believe that our success is determined by, to a large extent, our capacity to provide clients with culture and art products and services tailored to their specific needs, which is further dependent on the coverage and penetration of our business network. Through years of efforts, we have successfully established an extensive business network across China and with global reach, which allows us to deliver a diverse range of culture and art products and services to different income groups in a cost efficient and timely manner. We believe that the economies of scale of our business allow us to raise entry barriers and enhance our competitiveness.

- We believe that our extensive business network with global reach, together with our strong financial capacity, professional marketing techniques and quality services, helped us to successfully source sufficient high value artworks, which in turn attracted a large number of potential buyers to participate in bidding and ensured the success of our auctions. We have developed and maintained close relationship with premium clients, particularly well-known domestic and overseas collectors or families, who usually have a rich collection of high value artworks with well-maintained title and transaction records. We believe our close relationship with these clients helped raise public interest and confidence in our auction sales. In addition, we hold marketing events and client meetings from time to time in China and overseas, including regions where we have subsidiaries and representative offices, such as Hong Kong, the United States, Japan and Taiwan, and other regions we can access high value clients and artworks, such as Macau, Germany and other countries in Europe and Southeast Asia. In line with development of our capacity of sourcing artworks in global market, we commenced organizing art auctions in Hong Kong in the autumn of 2012 through Poly Auction Hong Kong.
- In managing our performance and theatre management segment, we strategically select theatres located in cities with comparatively high per capita GDP or managed by local government authorities with financial resources, including cities that are recognized as pilot cities in China to conduct reform of the national culture system. As of October 31, 2013, we managed 31 high-end theatres each with over 1,000 seating capacity in 29 cities in China. The strategic layout of our theatre network enables us to take the performance troupes and agencies to audiences situated in a large area within a short period of time in a cost-efficient way, so that we could arrange agenda to maximize return and market influence. Our theatre network also attracts international and domestic elite performance troupes and agencies seeking for business opportunities with us, which in turn improves our market influence and bargaining power.

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- In managing our cinema investment and management segment, we strive to expand our cinema network, while maintaining our good relationships with existing landlords. As of October 31, 2013, we had 17 cinemas including three cinemas pending for commercial operations, and have entered into leasing agreements or MOUs in respect of another 25 cinemas across China. We manage cinemas with unified standards to improve quality of services, brand recognition and profitability. For instance, our cinemas adopt similar arrangement in screening and marketing of movies and is decorated with a unified theme. In addition, where applicable, we prepare overall plans on logistics, management, human resources and marketing for each cinema. As a result, we are able to operate our cinemas in a cost-efficient way and benefit from the economies of scale.

We provide diversified services tailored to a large and high quality client base, and maintain long-term relationships with our key clients.

We serve a large and high quality client base. We believe that our ability to maintain long-term and stable relationships with our clients is essential to our success.

- In managing our art business and auction segment, our clients include individuals and institutions, comprising artwork collectors, enterprises, artwork dealers and museums. Focusing on establishing long-term relationships with our clients, we designed our service portfolio to cover our clients' diversified requirements. We endeavor to continuously improve the quality of our client services, in order to develop and maintain relationship with our clients, in particular high value clients. For instance, we established an IT system to enable our buyers to track of the storage and transportation status of the artworks they purchased. This system also allows consignors to check the status of buyers' payments. We have utilized digital media by establishing and continuously upgrading the official websites of Poly Auction Beijing and Poly Auction Hong Kong. We also developed applications for portable gadgets such as iPhone, iPad, Android phones, so that our potential clients can conveniently view auction catalogues and get real time updates on auctions. We also utilize other social media platforms like WeChat and Weibo to publicize news about our development and operations. We started the pilot program of on-line auction through cooperation with Taobao, which provided technical support for the on-line auction platform and participated on-line marketing campaign, and another auction services provider, which was responsible for uploading information of artworks for auction to internet, managing on-line auction procedures and providing post-sales services. We source the artworks for on-line auction. According to the relevant arrangements, we receive around 5% of the total auction turnover. We held two on-line auctions of Chinese artworks in May and June 2013, respectively, with an aggregate auction turnover of approximately RMB15.0 million. We did not recognize any revenue from these two on-line auctions for the ten months ended October 31, 2013.

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- In managing our art performance and theatre management segment. We have successfully developed and maintained long-term relationships with a large number of theatre owners, most of whom are local government authorities. As of October 31, 2013, we managed 31 high-end theatres each with over 1,000 seating capacity in 29 cities across China and we also had four theatres under construction to which we have entered into theatre management agreements with relevant owners. Leveraging our proven track record, we, from time to time, received invitations from relevant local government authorities to participate in the construction of theatres as a consultant and to become the manager of the relevant theatre upon its completion. Among all 35 theatres for which we had entered into theatre management agreements as of October 31, 2013, we have previously provided theatre construction consultation services to 26 of them. As of October 31, 2013, we were providing theatre construction consultation services for 29 theatres. We believe we are well-positioned to renew our existing theatre management agreements and explore new business opportunities.
- In managing our cinema investment and management segment, we strive to distinguish ourselves from other competitors through offering unique viewing experiences by continuously upgrading and fine-tuning the screening technologies and offering high quality services. As of October 31, 2013, we had 17 cinemas in nine cities, with 122 screens, including 82 3D screens and five Poly-Max screens. In particular, we established a city-wide membership program among the six self-operated cinemas in Beijing, which we believe has helped to improve customers' loyalty. To capture the increasing demand for huge screens and 3D movies in China, we developed Poly-Max movie screening equipment and technology. Please see the section headed “– Cinema Investment and Management Segment – Poly-Max”.

Our diversified operations bring us multiple sources of revenue and effectively reduce our exposure to risks associated with operating in a single business segment.

We operate in three business segments, namely, art business and auction segment, performance and theatre management segment, and cinema investment and management segment, through which, we provide different income groups with a broad range of products and services. As a result, we are able to reduce our exposure to risks associated with operating in a single business segment.

- In managing our art business and auction segment, through conducting auction, art business and art investment consultation and other services, we established multiple revenue sources and improved our capacity to mitigate risks associated with negative economic cycles and fluctuation of artwork prices. For instance, adverse economic conditions or political instability could adversely affect the market demand for artworks, which in turn could reduce artworks investment activities and their market price. As a result, our auction commission income and investment advisory fee could decrease. However, we may be able to purchase artworks which we believe are undervalued at a lower price during the same period, which may allow us to realize higher profit in the future. When the market demand for artworks is strong, we are able to collect higher commission income from auction operation and higher advisory income, although we get less opportunities to purchase artworks which we believe are undervalued.

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- In managing our performance and theatre management segment, we strive to expand our theatre network through cooperation with local government authorities to increase our theatre management fees, which are comparatively stable as the total amount of the theatre management fees are pre-determined in the theatre management agreements. The stable revenue and cash flow source from this segment could allow us to allocate resource to support the development of art business and auction segment and the cinema investment and management segment, which require large capital funding from time to time but enjoy high growth potential.
- In addition, during adverse economic conditions, movies and ordinary theatre performances with comparatively low ticket prices have demonstrated resilience to the negative economic effects as the public is more likely to decrease spending on luxuries and high costs items, including artworks and high-end theatre performances, while allocating more of their budget on affordable entertainment consumptions, which in turn may increase cinema and theatre box office income in adverse economic conditions.

We have an experienced and visionary management team with support from dedicated professional employees.

We believe that the strong commitment and extensive experience of our management team is crucial for us. Our Directors and senior management have significant experience in the culture and art industries in China, with an average industry experience of ten years. Capitalizing on their profound insight and extensive practical experience in different sectors of China's culture and art industries, we have successfully established leading market positions. We believe that the cross-sector experience of our management and their capacity to develop and maximize synergy effect among different segments have improved the overall management efficiency of our Group. For instance, our Chief Executive Officer and executive Director, Mr. Jiang Yingchun, graduated from the School of Archaeology of Peking University and has served in several professional positions in various culture sectors, including as an editor for *China Cultural Relics News* and President of Poly Art Museum. The education and work experience enabled him to obtain solid academic knowledge of artworks and extensive first-hand experiences in art related business. Since joining our Group, Mr. Jiang has sequentially served as the chairman of the board for Poly Auction Beijing, Poly Art Center and Poly Film, covering different segments of our business. Please see the section headed "Directors, Supervisors and Senior Management". Based on the business success of Poly Auction Beijing, in 2011, Mr. Zhao Xu, director of Poly Auction Beijing and Ms. Li Da, general manager of Poly Auction Beijing, jointly ranked the 6th in the "Auction Power Top 100", elected by *Art+Auction Magazine*.

We consider employees our most valuable assets and attach great importance to our recruitment and training programs. We established an artwork investment committee comprising 72 internal and external experts as of October 31, 2013, among which, 52 were academic experts and 20 were market specialists. Divided into five different teams, namely, painting and calligraphy, porcelain, bronze vessels, Buddhism art and craftwork teams, these

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experts are able to provide professional advice on authentication and valuation of different types of artworks. We also rely on our experienced sales and marketing team to develop and maintain client relationships and provide efficient and professional auction services. In managing our performance and theatre management segment, we provide systematic on-the-job training to our employees to support the development of our theatre network. As of the Latest Practicable Date, we had one of the largest theatre management teams in China. We also have a team of experienced professionals in movie screening and cinema investment and management.

We have prudent risk management and internal control systems.

Effective risk management and internal control systems are essential to sustainable development of our business. We have established comprehensive internal control measures to monitor, evaluate and manage market and operational risks that we are exposed to in our different business segments. For instance, in managing our art business and auction segment, we require our employees to strictly follow internal control procedures and applicable laws and regulations in respect of purchase, authentication, valuation, storage, auction and sales of artworks. Our management strictly relies on opinions issued by our internal and external experts, among other things, as a reference to determine auction reserve price under auction operation, purchasing price under art business operation or recommended purchasing price under art investment consultation and other services. As a result, we have established well-recognized reputation for our strong capacity in authentication and valuation of artworks. As we generally settle auction payment after auction, we implement stringent rules to each sector of the auction sales to control risks associated with settlement, particularly risks associated with buyers' default in making payment. For instance, we request bidders to enter into a bidding agreement prior to the commencement of an auction, according to which, we collect a bidding deposit and personal information of the bidder for examination. After a bidder secures an artwork, we will sign a sales confirmation agreement with him or her on the site of the auction, where we will specify the amount and time of payment. In addition, we created detailed measures to mitigate risks associated with payment of consignor advances, prepayments of auctioned artwork and conflict of interests. For more details, please see the section headed “– Internal Control and Risk Management”.

DEVELOPMENT STRATEGIES

We will continue to realize our “channel + content” strategies. We will continue to scale up our “channel” resources such as auctions, theatre and cinema networks, and in the mean time, strengthen our production capability of “content”, including artwork sourcing, art business operation and creating original repertoires. Synergies from combining “channel + content” will help us consolidate and integrate our internal resources and further increase our market share, brand reputation and profitability in each sector we operate.

In detail, we intend to adopt the following strategies to improve the market influence and competitiveness of our “Poly Culture” brand and enhance our position as a leading culture and art enterprise with diversified operations in China.

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Maintaining our leading position in China's artwork market through strengthening our domestic and overseas artwork sourcing channels and client relationship.

We intend to enhance our leading market position by expanding our business network for sourcing, auction and sales of artworks in China and overseas, improving the quality of our client base and providing better client services. We intend to develop a leading gallery chain in China through Poly Art Centre, so that we could derive revenue from conducting artist dealership business, art business operation and sales of derivative artworks. In particular, we intend to develop galleries, primarily through leasing suitable properties, in cities with strong local economies and developed art markets, such as Beijing, Shenyang, Shanghai, Chengdu and Guangzhou. We plan to utilize these galleries as platforms to hold exhibitions for artworks we purchased under our art business operations, or acquired through artist dealership operations, so that we could effectively promote market interests to the relevant artworks for subsequent sales. In addition, we also plan to design, produce and market derivative artworks through management of these galleries to meet demands of different customer groups in China. We expect the total capital expenditures for development of chain galleries will be approximately RMB40 million by 2015. Please also see section headed "Forward-looking Statements" and "Risk Factors – Our development strategy may not successful". In overseas markets, art galleries generally serve as the primary trading platform through which promising artists can be identified and grant the gallery owners opportunities to purchase, market, exhibit and sell the relevant artworks for profit. We believe that this business model is still under development in China. Leveraging our experience in China's art market, our network and our brand reputation, we believe we are well-positioned to consolidate artist resources in China, and enter into dealership business of artists and sales of derivative artworks. We also believe that by operating art galleries, we could expand our sources of artworks and attract more potential clients to participate in our auctions. In addition, it could help us to build up reserves of targets for purchase or investment through our art business operation and art investment consultation and other services.

We intend to improve our business network for sourcing artworks in Hong Kong and other major overseas markets. Capitalizing on our thorough understanding of traditional Chinese culture, ability to source large numbers of premium artworks and our team of experts with professional authentication, valuation and marketing capability, we are committed to discovering premium artworks from different areas of the world and introducing innovative and promising artists into international art markets. In order to further develop our existing client base, we intend to invest in the improvement of client service through providing continuous training for our employees, increasing utilization of IT systems and other digital media in our operations.

Expanding our theatre and cinema networks.

We believe that managing in theatre networks has become a major trend in the development and integration of the performance and theatre management industry in China. As of October 31, 2013, we were one of the largest theatre management companies in China, in terms of number of theatres in operation. We obtain the rights to directly-manage and operate

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theatres by entering into theatre management agreements with relevant theatre owners. Through directly managing theatres by our subsidiaries, we could operate various theatres with unified standards, arrange an overall performance agenda and conduct marketing activities, which in turn improve the synergies among our theatres. We believe this integrated management structure gives us a competitive advantage over theatre alliance, the other type of theatre network in China, where different theatres share performances through contractual arrangement, which make it difficult to have efficient overall arrangement on agenda arrangement, marketing and other operations.

To improve economies of scale, we intend to add three to five new theatres to our theatre network between 2014 and 2015, to maintain our market leadership. In addition, we intend to further improve revenue generating capacity of our theatre network. For instance, we plan to expand the coverage and penetration of our theatre ticket system and increase revenue from ticket agency services; we also intend to develop our theatre facility leasing, advertisement, exhibition and logistic services in order to meet the market demand for the premium locations of our theatres and the large number of audiences we serve.

Competition among cinemas has intensified in recent years as a result of the rapid increase in the number of screens in China. We intend to progressively increase our market share by expanding our cinema network with a focus on high-end cinemas in premium locations. We plan to develop approximately 30 new cinemas to our cinema network by the end of 2015. In addition, we strive to improve our return on investment and aim to establish leading market positions in selected geographic areas, including the Beijing-Tianjin region, the Yangtze River Delta, Pearl River Delta, and the Chengdu-Chongqing region. We also intend to continue exploring cooperation opportunities with Poly Real Estate to develop and operate cinemas, by leasing commercial properties developed by Poly Real Estate. Through the above-mentioned measures, we intend to further improve the market reputation of our brand, “Poly Film”.

Enhancing our ability to develop culture products and increasing utilization of advanced technologies to improve customer services.

We strive to strengthen our capacity to develop original repertoires under our performance and theatre management segment. We plan to establish premium brand names for our original repertoires to further expand our performance resource and improve our profitability. Capitalizing on our theatre network across China and our strong brand reputation, which is closely connected with fine art performances, we intend to work with well-known directors, actors and other talents in the art industry in China and overseas to produce and perform a number of premium original or classic performances. We intend to stage our own original repertoires and other classic performances at our theatres and overseas markets to improve our market influence. We also intend to seek financial support from local governments authorities and private funds to share the production costs of original repertoires. In addition, we plan to establish strategic cooperative relationships with domestic and international performance troupes and agents to develop performances or arrange performance tour through consignment agreements, joint investments or profit sharing arrangements to enhance our profit ability. Furthermore, we intend to explore business opportunities of integrating performance and tourism to create synergy and stable sources of revenue.

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We will continue investing in technology upgrades and improvement of management efficiency to provide high quality services to customers.

- In managing our art business and auction segment, we are committed to improving client experience and increasing investment in the following areas: (i) upgrading the IT system of Poly Auction to help our clients conveniently check transaction records and status; (ii) utilizing of internet, portable personal digital equipment and other new media which provide convenient access to our services for customers, (iii) organizing on-line auctions when we deem appropriate and (iv) further improving our database of artworks and clients, aiming to become a major specialist in providing information on the Chinese art industry in the future.
- In managing our performance and theatre management segment, we assist owners in building theatres that are equipped with advanced sounding and lighting technology to enhance the audiences' experience. We intend to further improve the capacity of our existing professional team that specializes in providing choreography, lighting and stage sound services, so that we could offer "one-stop" services to customers.
- In managing our cinema investment and management segment, we believe that screening techniques are pivotal in improving our competitiveness. We will further invest in upgrading and promoting of Poly-Max systems to attract more audiences and increase cinema box office income, and derive revenue through licensing Poly-Max systems to third parties.
- We plan to continue upgrading our information management system to create an integrated platform for our future art gallery chain, theatre and cinemas increase cinema box office income network. Through this, we could integrate our management of business flow, information flow and capital flow and improve our overall management efficiency.

Acquiring assets or business that can create synergies with existing operations.

While attaching great importance to organic growth, we intend to acquire target assets or business which can create synergies with our existing operations when we deem appropriate. For art business and auction segment, to improve our competitiveness in the artwork markets, we may acquire art galleries or institutional artwork dealers with strong sourcing capacity or have rich artwork collections. For the performance and theatre management segments, we may consider acquiring enterprises with abundant performance or possess channels to obtain such resources. For the cinema investment and management segment, we may consider acquiring cinemas with premium locations and strong profitability which can create synergies with our existing cinemas.

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To determine acquisition targets, we will take into account various factors, including growth potential of the target, synergies with our existing business, our future development strategy and our financial and management resources available. We believe through acquiring suitable targets, we could save time and development costs, and improve our competitiveness. As of the Latest Practicable Date, we did not confirm any acquisitions and have not entered into any legally binding agreement in this respect.

Attracting, motivating and retaining qualified employees to strengthen our competitiveness.

Our capacity to compete effectively in existing businesses and expand into new businesses depends upon our ability to attract, motivate and retain qualified employees. We aim to attract talent in the industry and provide promising career development opportunities through outstanding human resource management, under which our employees could further improve their skill sets. We encourage a diversified enterprise culture. Through exchange programs across different internal departments and regions, we intend to provide outstanding employees with career development opportunities, which in turn will allow us to broaden our business network and create a collaborative workforce with leading experiences in the industry.

In particular, for art business and auction segment we focus on maintaining and expanding the number of our internal and external artwork experts, whom we have invested considerable resources to enable to acquire the necessary academic knowledge and practical experience. We consider our experts as one of the most valuable assets of our Company and we provide our internal experts with various training opportunities to improve their relevant skills. We also intend to establish performance-based remuneration and reward systems to motivate and retain qualified employees. In addition, we have implemented a market-oriented incentives plan that allows us to reward employees based on merits and create closer alignment between employees' and Shareholders' interests.

BUSINESS

OUR BUSINESS

We mainly operate in three business segments: the art business and auction segment, the performance and theatre management segment and the cinema investment and management segment. The following table sets out the details of our revenue, gross profit and reportable segment profit by business segments and our gross profit margin and reportable segment profit margin for the periods indicated.

	Year ended December 31,						Ten months ended October 31,			
	2010		2011		2012		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(unaudited)										
(RMB in millions, except for percentages)										
Revenue										
Art business and auction	680.3	55.9	1,087.2	61.8	792.7	48.1	603.2	48.6	636.7	43.7
Performance and theatre management	390.0	32.1	486.4	27.7	607.6	36.8	452.6	36.5	580.5	39.9
Cinema investment and management ⁽¹⁾	145.1	11.9	183.2	10.4	249.6	15.1	185.2	14.9	238.4	16.4
Others ⁽²⁾	0.7	0.1	1.4	0.1	0.0	0.0	0.0	0.0	–	–
Total	1,216.1	100.0	1,758.2	100.0	1,649.9	100.0	1,241.0	100.0	1,455.6	100.0
Gross Profit										
Art business and auction	499.6	75.4	838.0	80.3	569.5	70.2	471.3	71.1	469.6	67.9
Performance and theatre management	134.0	20.3	167.6	16.1	203.8	25.1	167.1	25.2	198.4	28.7
Cinema investment and management ⁽¹⁾	27.6	4.2	36.3	3.5	38.5	4.7	24.5	3.7	23.8	3.4
Others ⁽²⁾	0.4	0.1	1.4	0.1	0.0	0.0	0.0	0.0	–	–
Total	661.6	100.0	1,043.3	100.0	811.8	100.0	662.9	100.0	691.8	100.0
Reportable Segment Profit										
Art business and auction	445.8	89.5	759.8	93.9	469.0	87.0	391.5	85.8	359.7	79.1
Performance and theatre management	29.4	5.9	26.5	3.3	35.3	6.5	46.1	10.1	60.2	13.2
Cinema investment and management	23.1	4.6	22.5	2.8	34.9	6.5	18.5	4.1	34.6	7.7
Total⁽³⁾	498.3	100.0	808.8	100.0	539.2	100.0	456.1	100.0	454.5	100.0

	Year ended December 31,			Ten months ended	
	2010	2011	2012	2012	2013
	(unaudited)				
Gross Profit Margin (%)					
Art business and auction	73.4	77.1	71.8	78.1	73.8
Performance and theatre management	34.4	34.5	33.5	36.9	34.2
Cinema investment and management	19.0	19.8	15.4	13.2	10.0
Total	54.4	59.3	49.2	53.4	47.5
Reportable Segment Profit Margin (%)					
Art business and auction	65.5	69.9	59.2	64.9	56.5
Performance and theatre management	7.5	5.4	5.8	10.2	10.4
Cinema investment and management	15.9	12.3	14.0	10.0	14.5
Total	41.0	46.0	32.7	36.8	31.2

Notes:

- (1) Prior to June 2013, we owned 51% of the equity interest of Poly Wanhe Cinema Circuit, through which, we operated cinema circuit business. According to the cinema circuit agreement, franchised cinemas shall distribute a portion of their net box office income to the Poly Wanhe Cinema Circuit, after deducting a 3.3% tax and a 5% special movie fund levy from their gross cinema box office income. The Poly Wanhe Cinema Circuit shall further distribute the amount it received from its franchised cinemas with movie producers and distributors according to respective agreements. We disposed all of our equity interest in Poly Wanhe Cinema Circuit in June 2013. For details, please see the sections headed “Our History and Reorganization”, “Relationship with our Controlling Shareholder” and “Connected Transactions”.
- (2) Others mainly comprises revenue or profits unallocated to the three business segments, including those generated by our headquarters during the Track Record Period.
- (3) Please see Appendix I for reconciliations of reportable segment revenue and profit to our consolidated revenue and consolidated profit before taxation, respectively.

BUSINESS

Art Business and Auction Segment

Through our three main operations under this business segment, namely, auction operation, art business operation and art investment consultation and other service, we primarily provide diversified groups of clients with comprehensive services that cover key sectors along the value chain of the artwork industry, including authentication, valuation, auction, sales, investment and financing of a broad range of artworks. In addition, during the Track Record Period, we derived revenue from Poly Auction Guangdong from (i) auction services from properties other than artworks, such as real estate, equipment and office facilities and (ii) consulting services for clients' asset acquisition, disposal, restructuring and other transactions.

The table below sets forth the revenue of our art business and auction segment.

	Year ended December 31,						Ten months ended October 31,			
	2010		2011		2012		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(unaudited)									
	(RMB in millions, except for percentage)									
Revenue										
Auction ⁽¹⁾	546.5	80.3	897.9	82.5	619.9	78.2	523.2	86.7	586.3	92.0
Art business	133.8	19.7	185.4	17.1	107.3	13.5	73.4	12.2	39.2	6.2
Art investment consultation and other services ⁽²⁾	–	–	3.9	0.4	65.5	8.3	6.6	1.1	11.2	1.8
Total	680.3	100.0	1,087.2	100.0	792.7	100.0	603.2	100.0	636.7	100.0

Notes:

- (1) Including commissions derived through Poly Auction Guangdong from auction services for items other than artworks, such as real estate, equipment and office facilities, which amounted to approximately RMB10.9 million, RMB3.8 million, RMB3.0 million and RMB4.9 million, respectively, during the Track Record Period.
- (2) In 2012, we provided consulting services through our subsidiary, Poly Auction Guangdong to two independent third party customers regarding their acquisitions of other companies' equities, which generated revenue of RMB56.4 million. Poly Auction Guangdong provided the above mentioned services through its wholly-owned subsidiary, Guangdong Poly Asset Management Co., Ltd. (廣東保利資產管理有限公司), who holds valid permits and licenses to conduct the relevant services in China. Guangdong Poly Asset Management Co., Ltd. functioned as an agent by communicating between sellers and potential buyers, promoting sales and collecting agent fees upon completion of transactions. None of the sellers or buyers held any artworks or conducted art related business.

Please see the subsection headed “– Our Competitive Strength – We have built an integrated business model with synergies among operations within art business and action segment”.

Auction Operation

In managing our auction operation, we act as agent by sourcing and accepting cultural relics, paintings, sculptures, jewelry and other premium consumable goods, such as watches and wine (collectively, “artworks”) on consignment. We stimulate market demand through professional marketing techniques and match sellers to buyers at art auctions or private sales.

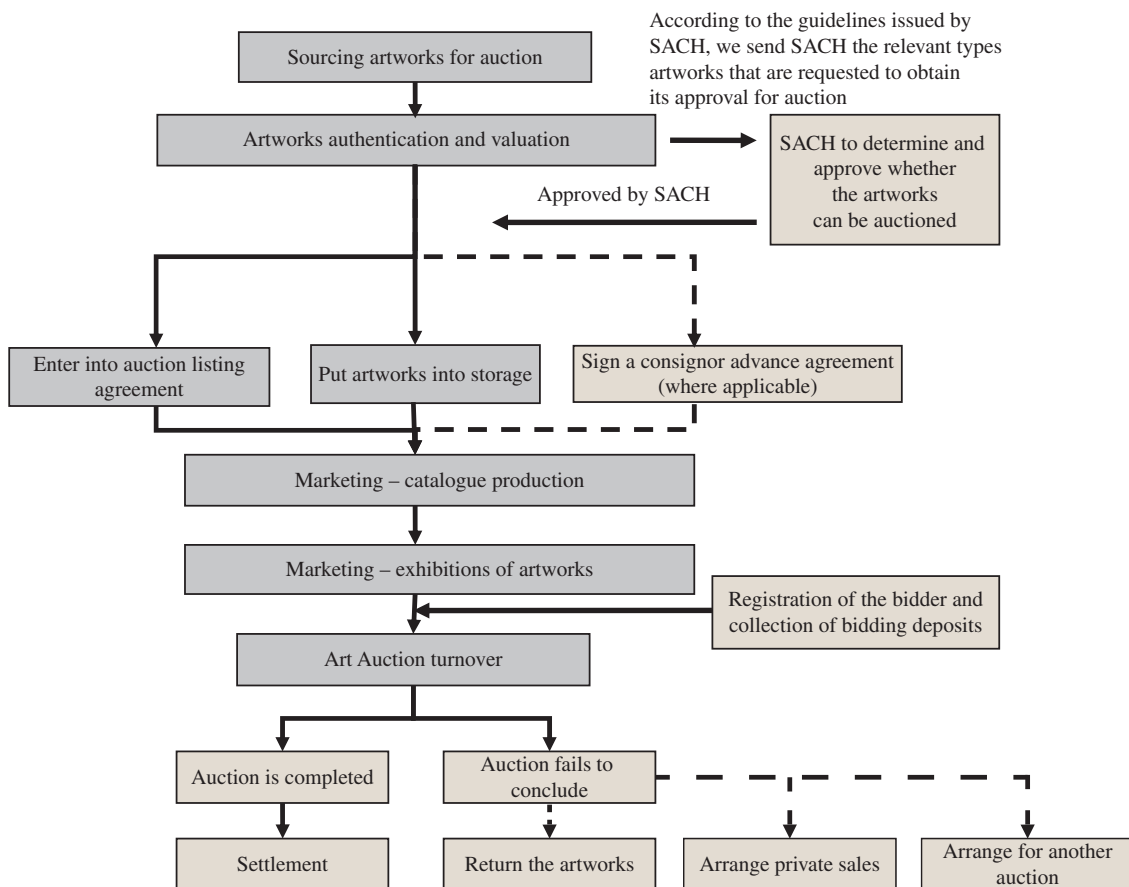
BUSINESS

We normally collect commissions from both buyers and sellers upon settlement of auction sales. In addition, through Poly Auction Guangdong, we organize and receive commission income from non-artwork auctions and real estate auctions.

We believe we have a distinguished edge over our competitors in terms of our brand reputation and client base, through which, we have increased the number and quality of the artworks we are able to source for auction, and attracted more high quality clients to participate in our art auctions, which in turn determined the art auction turnover and commission income we could generate. Capitalizing on our extensive experience in operating art auctions, quality and efficient services and well-maintained long-term relationships with a large and diverse client base, we have successfully established a well-recognized market brand and a leading market position.

According to ARTRON in terms of aggregate art auction turnover, we were the largest art auctioneer in China (including Hong Kong) in 2010, 2011 and 2012 and the six months ended June 30, 2013. For years ended December 31, 2010, 2011 and 2012 and the ten months ended October 31, 2013, our aggregate art auction turnover in China (including Hong Kong) was RMB9,035.9 million, RMB12,102.1 million, RMB6,495.5 million and RMB5,044.0 million, respectively.

The following chart sets out the main procedures of our auction operation.



BUSINESS

- ***Sourcing artworks for auction.*** Before holding an art auction, we source artworks by organizing public events or through private contact with key clients. We maintain good long-term relationships with famous collectors in the PRC and overseas, so that we are able to gain insight into the composition of their collections and their demand for transactions. In addition, we also accumulate information on potential clients through providing authentication services to collectors from time to time. As a result, we have established a database covering a large and diverse client base, which has enhanced our ability to source artworks and organize art auctions.
- ***Authentication and valuation of artworks.*** Prior to entering into auction listing agreements with consignors, we generally authenticate and value the artworks in accordance with our internal control procedures. With respect to artworks consigned for art auction, we do not charge clients for our authentication work or issue any authentication reports. We request the consignor to give warranty for the authenticity and ownership of the artworks in auction listing agreement based on the authentication and valuation results. Based on such results, we determine whether particular artworks would be put on auction and determine the auction reserve price of the artworks through negotiations with the consignor. Please see the section headed “– Internal Control and Risk Management”.

According to the relevant PRC laws and regulations including the guidelines issued by SACH, we need to send SACH relevant types of artworks that are requested to be approved by SACH for auction. SACH will review and determine whether relevant artworks are cultural relics or whether they are suitable for auction. Pursuant to our policies, our employees are required to report to our managers if they identify any artwork consigned for art auction as being cultural relics based on the relevant PRC laws and regulations, including *PRC Law on Protection of Cultural Relics* (中國文物保護法), *Provisional Management Rules on Auction of Cultural Relics* (文物拍賣管理暫行規定) and *Provisional Measures on Recognizing Cultural Relics* (文物認定管理暫行辦法). Our managers will also review each artwork consigned for art auction to screen for any artwork that is required to be submitted to SACH for review and approval based on relevant laws and regulations including the guidelines issued by SACH. For cultural relics that are determined to be unsuitable for auction, we will terminate negotiations with the prospective sellers. We attach great importance to the observation of relevant laws and regulations in our operations. During the Track Record Period, we have not been subject to any penalty due to auction of cultural relics that were unsuitable for sales. Please see the section headed “Regulatory Overview”.

For detailed discussion on applicable laws and regulations on authenticity and ownership of artworks for auction and our internal control procedures in this regard, please see the section headed “– Internal Control and Risk Management – Authentication and Valuation of Artworks”. Please see the sections headed “Regulatory Overview” and “Risk Factors – Our business is subject to risks relating to the authentication, valuation on relevant prices and management’s determination of artworks which rely on subjective judgment of our management and experts” and “Risk Factors – We are exposed to losses in the event of title claims arising from sale of artworks”.

BUSINESS

- **Auction listing agreement.** After we enter into an auction listing agreement with the consignor, which determines the auction reserve price and seller's commission rate, we accept the relevant artworks and put them into our storage facilities. During the Track Record Period, we may enter into a consignor advance agreement with consignor upon its requests, according to which relevant consignor advances are secured by artworks to be auctioned. The amount of consignor advances is determined through negotiation, which is generally no more than 30% of the valuation provided by our experts. For details, please see the sections headed “– Art business and auction segment – Pricing” and “– Internal control and risk management – Consignor Advances”.
- **Marketing.** Prior to art auctions, we conduct various marketing events to stimulate market demand for the relevant artworks, including (i) preparing introduction materials based on opinions from experts in the relevant art sector; (ii) producing and distributing an auction catalogue of artworks consigned for art auction and (iii) organizing preview exhibition and other marketing events. In recent years, we utilize internet and other digital technologies to create and distribute marketing materials and publish results of auctions, in order to enhance our marketing efficiency.
- **Auction catalogue production.** We engage professional parties to design and print the auction catalogues, which include various information about the artworks consigned for auctions including collection photos, auction series number, artist, time of creation and range of valuation. We deliver the auction catalogues to selected target customers so that potential buyers can have access to relevant information prior to the auction.
- **Electronic auction catalogue.** As one of the market leaders in China's art auction industry, we seek to reach beyond traditional communication boundaries to utilize the latest technology in our sales and marketing efforts to provide a better experience for potential buyers. Our auction catalogues are available in both printed and digital forms and can be conveniently viewed on the official website of Poly Auction Beijing at “www.polypm.com.cn”, as well as other well-known mainstream art news platforms in China, such as “www.artron.net” and “collection.sina.com.cn”. We also utilize other social media platforms such as WeChat and Weibo to publicize our marketing events and advertise key artworks consigned for auction so that our marketing efforts can reach a more focused target group for improved marketing effect. In addition, we have developed electronic applications for portable gadgets such as iPhones, iPads and Android phones, so that our potential clients can conveniently view 3D auction catalogues and get real time updates on auctions.
- **Preview exhibition.** Prior to the auction, we generally organize free preview exhibition of the artworks to be auctioned so that the potential buyers can directly view and authenticate them. Preview exhibition of large auctions such as the Spring Auction or the Autumn Auction usually last three to seven days.

BUSINESS

- **Auction.** We enter into bidding agreements with the bidders prior to the auctions, according to which we examine their identification documents, collect bidding deposits and grant a bidding paddle to them. For our operations in the PRC, after a bidder secures an artwork at a hammer price, we will sign a sales confirmation agreement with the bidder on the site of the auction and make settlement after the auction.

If any artwork is not sold at a price equal to or higher than the auction reserve price, the auction fails to conclude. Under such circumstances, we may return the artworks to the consignor, or put them up for private sales on behalf of the consignor, or arrange for such artworks to enter another auction upon acceptance of the consignor's new consignment. We determine the commission for private sales through separate negotiations with the sellers and buyers.

- **Settlement.** Following the sale at the auctions, we will collect purchasing price of the artwork (hammer price plus buyer's commission, but excluding the paid bidding deposit, if applicable) from the buyer and remit net sale proceeds (hammer price excluding seller's commission, consignor advances with accrued interest and prepayments of auctioned artwork, where applicable) to the consignor. Normally, artworks are delivered to the buyer only after we receive full payment for the artworks. However, we may deliver auctioned artworks to buyer prior to receiving full payment according to our policy. Please see sections headed “– Internal Control and Risk Management – Settlement” and “Risk Factors – Our results of operations could be adversely affected by buyer's default in making payment in due course”. According to the terms of the auction listing agreement, we are not obliged to pay the consignor prior to receiving full payment from the buyer but can act as the agent of the consignor to chase for outstanding payment.

For details about consignor advances, prepayments of auctioned artworks and settlement, please see the section headed “– Internal Control and Risk Management”.

The table below sets forth the breakdown of auction turnover from our auction of artworks by nature of relevant artworks for the periods indicated.

	Year ended December 31,			Ten months ended
	2010	2011	2012	October 31, 2013
	(RMB in millions)			
Auction turnover				
Antiques and artworks	1,993.7	3,316.2	1,498.5	1,061.0
Chinese calligraphy and painting	6,022.1	6,365.1	3,554.5	2,924.7
Oil painting and sculpture	775.4	1,583.1	836.4	683.8
Luxuries and others	244.7	837.7	606.1	374.6
Total	9,035.9	12,102.1	6,495.5	5,044.1

BUSINESS

Overseas operations

To improve our competitiveness in the art business and auction segment, in particular, our capacity to source premium artworks, we actively develop our presence in overseas markets. In addition, we hold marketing events and client meetings from time to time in China and globally, including in overseas, including Hong Kong, the United States, Japan and Taiwan – where we had subsidiaries and representative offices as of October 31, 2013, and in other regions such as Macau, Germany and other countries in Europe and Southeast Asia. We established Poly Auction Hong Kong in October 2012, through which, we organize auctions in Hong Kong covering a variety of artworks including Chinese modern and contemporary art, ancient Chinese painting and calligraphy, Chinese antiques and curios, jewellery, clocks and watches. For the year ended December 31, 2012 and the ten months ended October 31, 2013, our art auction turnover in Hong Kong amounted to HK\$519.0 million and HK\$1,701.7 million, respectively.

The table below sets forth the geographic breakdown of the number of auction sessions and revenue for our auction operation for the periods indicated.

	Year ended December 31,			Ten months ended October 31,
	2010	2011	2012	2013
<i>Number of Auction Sessions</i>				
China	88	135	116	93
Hong Kong	–	–	4	22
Total	88	135	120	115
<i>Revenue from auction operations (RMB in millions)</i>				
China	546.5	897.9	602.8	431.6
Hong Kong	–	–	17.1	154.7
Total	546.5	897.9	619.9	586.3

In October 2013, Poly Auction Hong Kong conducted its 2013 Autumn Auction which recorded a total auction turnover of approximately HK\$989.1 million, representing an increase of 90.6% from the total auction turnover of its 2012 Autumn Auction.

Leveraging our extensive understanding of Chinese traditional culture, our strategic focus on sourcing of quality artworks and our professional team specializing in authentication and auction of artworks, we believe that we are well-positioned to discover artworks around the world and introduce promising and innovative young artists in China to the global market, thus enhance our international brand reputation and competitiveness. Our overseas business activities require us to comply with foreign laws. In particular, to comply with relevant regulatory requirements and market practice in Hong Kong that are different from those in the PRC, we have adopted certain different measures for our auction operations in Hong Kong. However, the market practice in Hong Kong is similar with that in other overseas markets.

BUSINESS

The table below sets forth key differences of auction operations in the PRC and Hong Kong.

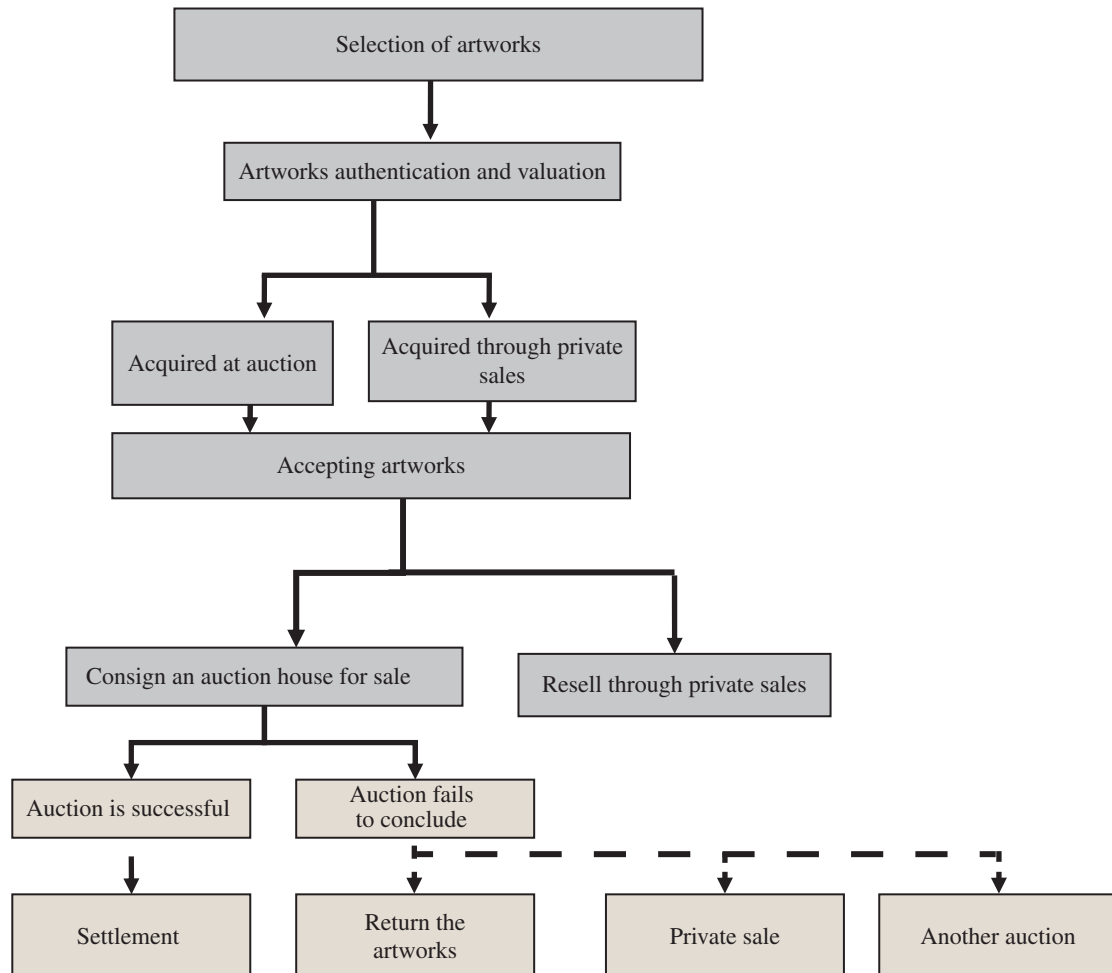
Matter	Our Practice in the PRC	Our Practice in Hong Kong
Review of artworks to be auctioned	As disclosed in detail in the subsection headed “– Auction Operation – Authentication and valuation of artworks” above, according to relevant PRC laws and regulations including the guidelines issued by SACH, we need to send to SACH the relevant types of artworks that are requested to be approved by SACH for auction. SACH will review and determine whether relevant artworks are cultural relics or whether they are suitable for auction.	We are not requested to obtain approval from government authorities for auction of artworks, as long as relevant items are not prohibited for sales under Hong Kong laws.
Liability of the ownership of the artwork consigned	As advised by our PRC legal advisors, as long as we perform reasonable verification regarding the ownership of the relevant artwork, we are not liable for ownership of the relevant artworks consigned to us for sale under PRC laws and regulations. We normally rule out guarantees by us of ownership of artworks in our bidding agreement or disclaim any warranties to the authenticity of the artwork from us, which preclude us from liability in relation to the ownership or authenticity of the relevant artworks. Please also see section headed “Business – Internal Control and Risk Management”.	The sellers are required to give certain irrevocable title warranties to us and the buyers which are set out in the Condition of Business published in our auction catalogues. Such warranties include warranties as to the sellers’ absolute ownership of the artworks or legal right to dispose of the artworks and the auction of the artworks not being in violation of any applicable laws and regulations.
Tax and tariff	Our auction operations in the PRC are subject to various taxes in the PRC and importation of artworks into China is subject to an import tariff. Please also see section headed “Regulatory Overview” and “Risk Factors – Unexpected changes in applicable PRC taxes and tariff or the implementation measures or policies currently adopted by relevant PRC government authorities may materially and adversely affect our results of operations”.	Our auction operations in Hong Kong are subject to relevant taxes in Hong Kong. Importation of artworks in Hong Kong is not subject to import tariff.
Auction procedures and internal policies	<p>We have established a set of internal rules and policies governing each step of our auction operations. For details, please see section headed “Internal Control and Risk Management”.</p> <p>In particular, for our auction sales in the PRC, we will sign a sales confirmation agreement with the relevant winning bidder on the site of the auction.</p> <p>We do not guarantee to the consignor a minimum sale price in connection with the sale of property at auction.</p>	Similarly as our subsidiaries in the PRC, Poly Auction Hong Kong also follows our internal rules and policies, except that we do not request winning bidders to enter into sales confirmation agreements in line with the market practice in Hong Kong. Although certain international auction houses may guarantee to the consignor a minimum sale price in connection with the sale of property at auction, we do not provide such service in Hong Kong in line with our internal policies.

Art Business Operation

Leveraging our leading market position in auction market in China, and in particular, our brand reputation, large and diverse client base, extensive business network and the team of professionals specializing in authentication, valuation, marketing and auction of artworks, we have successfully developed our art business operation.

In managing our art business operation, we purchase artworks which we believe are undervalued or that have appreciation potential at auctions or through private sales and resell them at an appropriate time for profit. For years ended December 31, 2010, 2011 and 2012 and the ten months ended October 31, 2013, our revenue generated from art business operation was RMB133.8 million, RMB185.4 million, RMB107.3 million and RMB39.2 million, respectively. During the same period, our cost of inventories, or the book value of our sold artworks in inventory, was RMB85.3 million, RMB106.0 million, RMB49.6 million and RMB22.6 million, respectively.

The following chart sets out the main procedures of our art business operation.



BUSINESS

We acquire artworks through participating in auctions or directly from clients through private sales in China and overseas markets. After obtaining the relevant information on the artworks, our experts will authenticate and value them and provide us with a written opinion. For details on authentication and valuation procedures, please see the section headed “– Internal Control and Risk Management”. According to the relevant PRC laws and regulations including the guidelines issued by SACH, we need to send to SACH the relevant types of artworks that are requested to be approved by SACH for auction. SACH will review and determine whether relevant artworks are cultural relics or whether they are suitable for auction. For cultural relics that are determined to be unsuitable for auction, we will terminate negotiations with the relevant sellers. Please see the section headed “Regulatory Overview”.

During the Track Record Period, we sold 148, 185, 217 and 109 pieces of artworks, respectively, under our art business operations.

The table below sets forth breakdown of revenue we generated from our art business operations through auction and private sales for the periods indicated.

	Year ended December 31,			Ten months ended October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Revenue from sales of artworks				
Through auction	116.6	109.9	48.1	31.4
Through private sales	16.5	73.6	50.6	5.3
Revenue from exhibition of artworks . . .	0.7	1.9	8.6	2.5
Total	133.8	185.4	107.3	39.2

We maintain records of our purchased artworks and manage the storage of the relevant artworks in an organized manner, according to classifications including antiques and artwork, Chinese calligraphy and painting, oil painting and sculptures. As of October 31, 2013, we had 913 pieces antiques of artworks, 566 pieces of Chinese calligraphies and paintings and 27 pieces of oil paintings and sculptures. The following table sets forth a summary of our total inventories as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Antiques and artwork	276.4	435.7	485.0	598.4
Chinese calligraphy and painting	53.1	89.2	125.3	147.1
Oil painting and sculptures	6.2	6.2	29.2	29.2
Small value items for resale	3.6	4.4	5.1	5.8
Low value materials	0.7	1.1	1.5	1.7
Drama rights	0.7	2.3	0.9	1.5
Total	340.7	538.9	647.0	783.7

BUSINESS

We purchase artworks under our art business operation through auction or private sales. The table below sets forth break-down of our inventory in terms of source through which we purchased such artworks as of the dates indicated.

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Artworks				
Through auction	284.7	132.7	253.0	378.6
Through private sales	52.8	400.9	389.5	399.4
Others⁽¹⁾	3.2	5.3	4.5	5.7
Total inventories	340.7	538.9	647.0	783.7

Note:

- (1) Others mainly include small value items for resale, low value material and drama rights; small value items for resale mainly included drinks and food we sold through kiosks in our theatres and cinemas.

Prior to purchasing any artwork under our art business operation, we require the seller to prove the authenticity, ownership and legality of the artworks, including records of prior auction sales, opinions issued by experts or government authorities, where applicable. We also conduct due diligence to determine our purchase price and minimize risks associated with such purchase. For details, please see the subsection headed “– Internal Control and Risk Management”. As of the Latest Practicable Date, none of our artwork inventory was cultural relics prohibited for sales. We sell artworks when we deem appropriate based on our judgment on market conditions. The table below sets forth average holding period for our artwork inventory by categories.

	As of December 31,			As of October 31,
	2010	2011	2012	2013
Average holding period⁽¹⁾ (months)				
Antiques and artwork	12	20	21	27
Chinese calligraphy and painting	19	17	22	31
Oil painting and sculptures	23	34	45	55
Total average holding period⁽²⁾ (months)	14	19	21	29

Notes:

- (1) The average holding period is derived through dividing (i) the aggregate months we hold each artwork under relevant category by (ii) the number of artworks.
- (2) The total average holding period is derived through dividing (i) the aggregate months we hold for each artwork in our artwork inventory by (ii) the number of artworks in our artwork inventory.

BUSINESS

The following table sets forth the average return on the sales of our artworks for the periods indicated. The average return on the sales of artworks represents the difference between revenues on each art category sold and the cost of inventory sold during the Track Record Period divided by its cost of inventory sold.

	Years ended December 31,			Ten months ended October 31,
	2010	2011	2012	2013
	Antiques and artwork	27.3%	62.1%	62.3%
Chinese calligraphy and painting	91.8%	126.4%	221.0%	214.2%
Oil painting and sculptures	n/a	n/a	47.2%	n/a
Average	56.1%	73.0%	99.3%	95.6%

For more details on our artwork inventory, please see the section headed “Financial Information – Inventory”, and “– insurance”. Please also see the section headed “Risk Factors – Artworks consigned to us for sale may face risks of theft and damages, which could have a material adverse effect on our business and reputation”. We determine the time of resale based on our judgment of market trends. We resell artworks through our auctions or independent third parties, or through private sales, as we deem appropriate.

Art investment consultation and other services

In line with the growth of the Chinese art market, artworks have become an important component in the investment portfolios of institutions and individuals in China. To meet the ever-increasing demand for artworks collection and investment in China and leveraging our expertise and resources accumulated through operating our auction and art business operation, we have successfully established our market positions under art investment consultation and other services, where we act as investment advisor providing advisory services on authentication, valuation, purchase and sales of artworks, serving primarily financial institutions, enterprises and individuals who participate in transaction of artworks for investment or financing purpose. In addition, during the Track Record Period, we derived revenue from Poly Auction Guangdong from consulting services for clients’ asset acquisition, disposal, restructuring and other transactions. We offer art investment consultation and other services in accordance with applicable PRC laws and regulations, including *PRC Contract Law* (合同法), *PRC Trust Law* (信託法) and *PRC Law on Protection of Cultural Relics* (中國文物保護法). As advised by our PRC legal advisors, the trust plans arrangements we participated in are in compliance with relevant laws and regulations in the PRC. For details on the relevant PRC laws and regulations, please see the section headed “Regulatory Overview” in this prospectus and “Appendix V – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” attached to this prospectus.

On June 18, 2009, we cooperated with SDIC Trust Co., Ltd. and CCB and successfully launched the first artwork investment trust plan in China. We normally provide advisory services for the following two types of artwork trust plans.

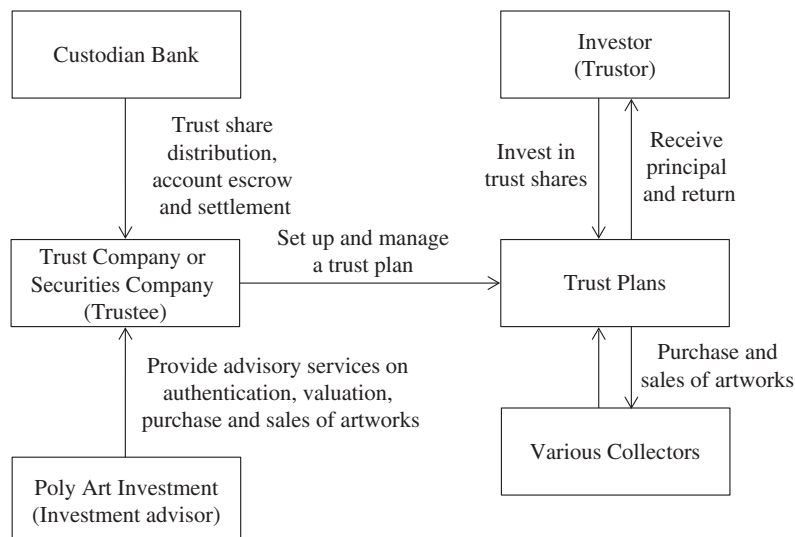
- **Artwork Investment Trust Plan.** We act as an investment advisor assisting trustees to (i) purchase relevant artworks with funds raised and (ii) sell relevant artworks at an appropriate time for profit. We provide comprehensive professional services at each session during the trustee’s purchase and sales of artworks, including

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authentication, valuation and marketing. The trust plans profit from selling the artworks it acquired at the prices higher than its purchasing prices. We receive advisory fees according to the agreement. The terms of artwork investment trust plans normally are five years.

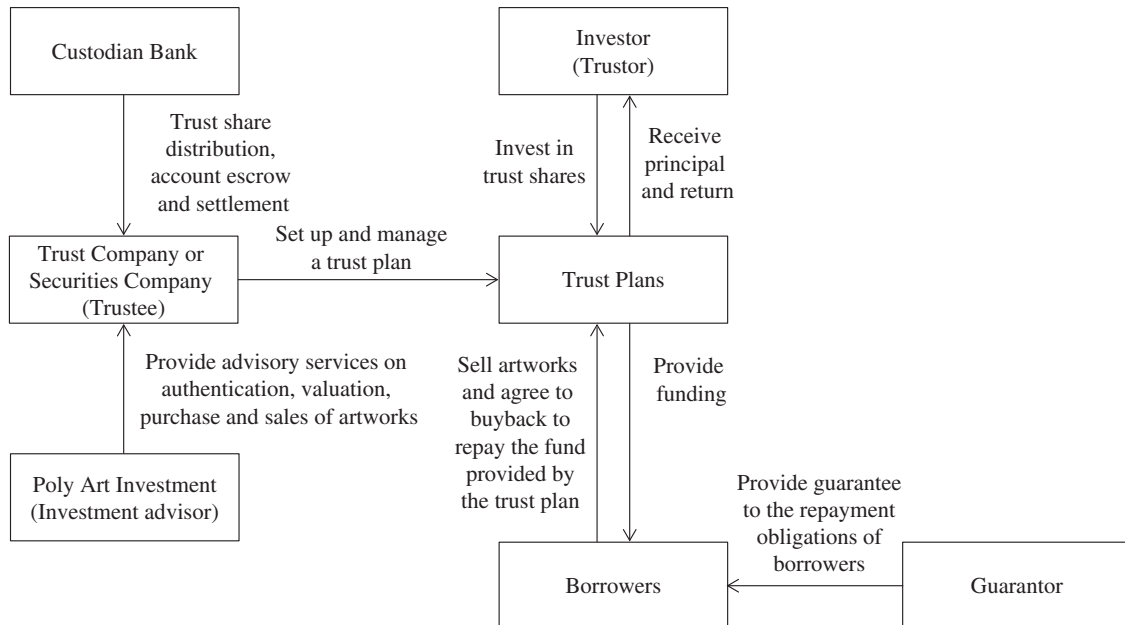
- Artwork Financing Trust Plan.** We act as an investment advisor providing authentication and valuation opinion on relevant artworks. By setting up the trust plans (“Trust Plans”), the trustee (“Trustee”) decides the terms and conditions of the financing arrangement, including the size of the fund to borrowers based on our authentication and valuation results. At the time of establishment of Trust Plans, the Investor (or Trustor) invests money into the Trust Plan and receive principal and return when expiry. At the same time, Trust Plan provides funding (money from investor) to Borrowers and the Borrowers sell artworks to Trust Plan and agree to buyback. Upon expiration of the relevant artwork financing trust plan, the borrower is obliged to purchase the relevant artworks back from the trustee with a premium, through which the relevant trust plans make profit. If the borrower and its guarantor, if applicable, fail to repurchase the relevant artwork at the agreed price, we shall assist the trustee in disposing of the relevant artworks. In addition, we might be liable to pay trustee any deficit should the value of the trust property in monetary form as of the specified date be lower than the aggregate amount of the principal of trust, expected return as agreed in the trust plan, applicable taxes and other incurred costs (exclusive of our expected incentive fees). See the sections “– Internal Control and Risk Management” and “Risk Factors – Upon expiration of artwork financing trust plans, we may be liable to pay the trustee the difference between the total monetary assets under the trust and the aggregate amount of the principal of trust and other expected gains and expenses, which may in turn have a material and adverse effect on our results of operations”. During the Track Record Period and as of the Latest Practicable Date, we have incurred no obligation for such payment. The terms of artwork financing trust plan range from six months to two years.

The chart below sets forth the business model of our operations in providing services to artwork investment trust plans.



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The chart below sets forth the business model of our operations in providing services to artwork financing trust plans.



During the Track Record Period, all of our revenue generated from consulting services to artwork investment and financing trust plans art investment were derived from fixed advisory fees. During the Track Record Period, all the trustees of our artwork investment trust plans and artwork financing trust plans were independent third parties of our Group.

The following table sets forth details of trust plans where we acted as investment advisors as of the dates specified.

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	number	fund size	number	fund size	number	fund size	number	fund size
(RMB in millions, except for number)								
Artwork Investment Trust Plan . . .	1	100.0	2	300.0	3	500.0	3	500.0
Artwork Financing Trust Plan . . .	3	88.5	2	138.3	2	188.3	4	253.0
Total	4	188.5	4	438.3	5	688.3	7	753.0

Generally we are requested to provide authentication and valuation reports with recommended purchasing price to assist the trustee in making investment decisions. Please see the section headed “– Internal Control and Risk Management” and “Risk factors – Our business is subject to risks relating to the authentication, valuation on relevant prices and management’s determination of artworks which rely on subjective judgment of our management and experts”.

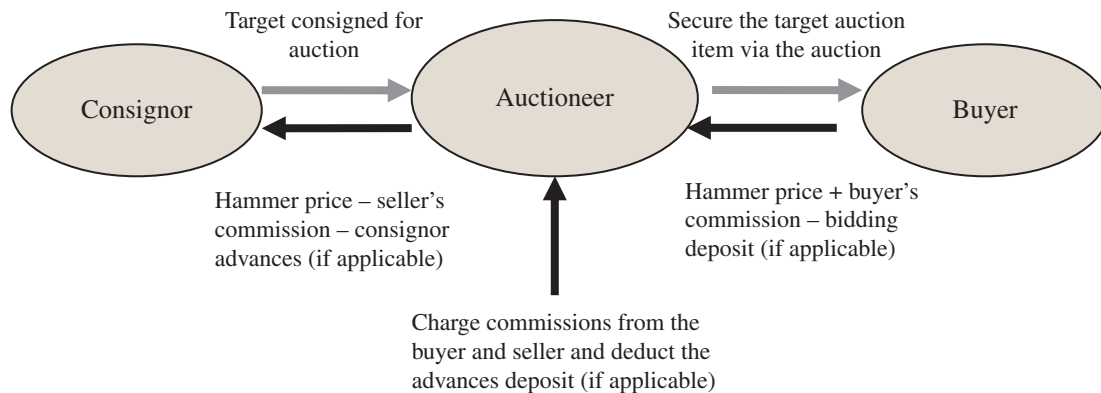
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Our Directors and Sponsor are of the view that the artwork financing trust plan is common in the industry in PRC.

Pricing

Auction Operation

In auction operation, we charge commissions from both buyers and sellers for the auction services we provide. The following chart sets out the main procedures of our artworks settlement and delivery.



We usually specify the auction reserve price and seller's commission in the auction listing agreement. According to industry practice and our internal policies, we generally charge seller's commission at not more than 10% of the hammer price and buyer's commission at not more than 15% of the hammer price. Prior to the 2011 Spring Auction, we used to charge buyer's commission at no more than 12% of the hammer price. Since then, we have raised the buyer's commission rate to not more than 15% of the hammer price, which is in line with industry practice. However, in practice, the actual amount of art auction commission we could recognize for a specific year or period is affected by various factors, including the payment and settlement status of relevant clients. In addition, we may grant favorable commission rates to certain clients with whom we have established long term relationship or for clients who wish to auction artworks with high value. As a result, during the Track Record Period, our average art auction commission rate, which is derived by dividing (i) the auction commission income we recognized for a specific year or period by (ii) the aggregate hammer price of auctioned artworks that were settled during the same year or period, amounted to 14.3%, 14.2%, 14.1% and 17.2%, respectively. For details of our accounting policy on revenue recognition, please see the section headed "Financial Information".

We generally require the buyer to make full payment of the purchasing price (hammer price plus buyer's commission, but excluding the paid bidding deposit, if applicable) within seven days after date of auction, with a credit period normally around 30 days. We may assist parties to enter into payment arrangements for a longer credit period over one year or installment payment for relevant buyers, particularly for buyers who purchased artworks of high value. As of October 31, 2013, the accumulated settlement rate for our auction sales for

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the year ended December 31, 2010, 2011 and 2012 and the ten months ended October 31, 2013 was 74.0%, 55.8%, 55.5% and 52.9%, respectively. (The accumulated settlement rate is derived by dividing (i) the total settled amount of hammer price of artworks that were auctioned through our art auction sales during each of the year or period as of October 31, 2013, with (ii) the total amount of hammer price of our art auction sales during such year or period.) We normally remit the net sale proceeds (hammer price excluding seller's commission, consignor advances with accrued interest and prepayments of auctioned artwork, if applicable) to the seller, upon receiving full payment from the buyer. Artworks are generally delivered to buyer only after we receive full payment from the buyer. For details about consignor advances, prepayments of auctioned artworks and settlement, please see the section headed “– Internal Control and Risk Management”.

Art Business Operation

We make profit by purchasing and reselling the relevant artworks based on our judgment on market trends and experience.

Art investment consultation and other services

According to our agreement with trustees, we usually charge a fixed advisory fee on a yearly basis for both artwork investment trust plans and artwork financing trust plans. For artwork investment trust plans, we are also entitled to an agreed percentage of total return of the trust plan if such amount exceeds the agreed level. For artwork financing trust plans, we are also entitled to collect an agreed percentage of the additional amount of return that exceeds the required return as agreed in the trust plan.

Seasonality

In line with industry practice, we hold two principal auction seasons each year, namely the Spring Auction, which usually takes place between April and July, and the Autumn Auction, which usually takes place between September and December. Each year, the auction turnover derived from the Spring Auction and the Autumn Auction would represent a major portion of the total auction turnover. As a result, our commission income derived from Spring Auctions and Autumn Auctions may represent the large portion of total revenue under this segment. Please see the section headed “Risk Factors – Our results of operations are subject to seasonal fluctuations”.

Sales and Marketing

We rely on our extensive business network, professional and quality services and large and diverse client bases to source high quality artworks, attract more clients to participate in our auction events, discover more artworks which we believe are undervalued, and capture more opportunities to provide advisory services for artwork investment and financing. To promote market interests to our auctions, we utilize different marketing measures at various platforms. Besides holding preview exhibition or client meetings producing and distributing

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auction catalogues, we also market artworks on internet or through social media platforms, all of which could be conveniently accessed by our clients at portable gadgets. In recent years, we also commenced conduct on-line auctions for certain types of artworks to meet clients' demand for more convenient auction experience.

We endeavor to expand our client base, focusing on developing and maintaining long-term relationship with premium clients, including well-known domestic and overseas collectors or families, as well as clients with strong financial capacity. We focus on developing our presence in countries and regions where we can find large pools of high-value Chinese artworks, such as the United States, Japan and Europe. As of October 31, 2013, we had subsidiaries and representative offices in Hong Kong, the United States, Japan and Taiwan. In line with development of our capacity of sourcing artworks in global market, we have commenced organizing art auctions in Hong Kong from autumn of 2012 through Poly Auction Hong Kong.

Furthermore, from time to time, we hold art exhibitions of various themes, which serve as platforms that introduce both the academic and commercial value of various artworks to institutions and individuals in China and overseas. Previous exhibitions included "Chinese Ancient Painting Exhibition of Sung, Yuan, Ming and Ching Dynasties", "The Art of Xu Bei Hong (徐悲鴻)" and "The Art Exhibition in Memorial of Fu Bao Shi (傅抱石)", each focusing on collection, introduction and display of artworks of a specific category or a well-known artist, that were to be sold in subsequent art auction or displayed to facilitate academic research. Through cooperation with educational institutions like Liaoning Province Museum and capitalizing on our extensive business network, we have managed to source and display artworks that are rarely exhibited to the public. To further develop our art business operation, on November 29, 2013, Poly Auction Beijing and Peking University Guanghua School of Management entered into a MOU, according to which, the parties agreed to establish a non-profit research and educational institute in Beijing to i) conduct research into art and art-related industry, ii) develop and promote art education in China, and iii) cultivate talents for the art culture industry. As a result, we believe we have managed to cultivate market interests through increasing public awareness of relevant artworks, which in turn has improved our brand recognition and market leadership.

Performance and Theatre Management Segment

Under performance and theatre management segment, we provide comprehensive services covering key sectors of theatre management, including daily management of theatre, arrangement of performances, lease of theatres and theatre design consultation services. Under this segment, we derive revenue primarily from the theatre box office income from arranging and organizing a variety of performances, theatre management fees from theatre owners and rental fees from third parties for renting theatres.

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The table below sets forth details of our revenue of performance and theatre management segment.

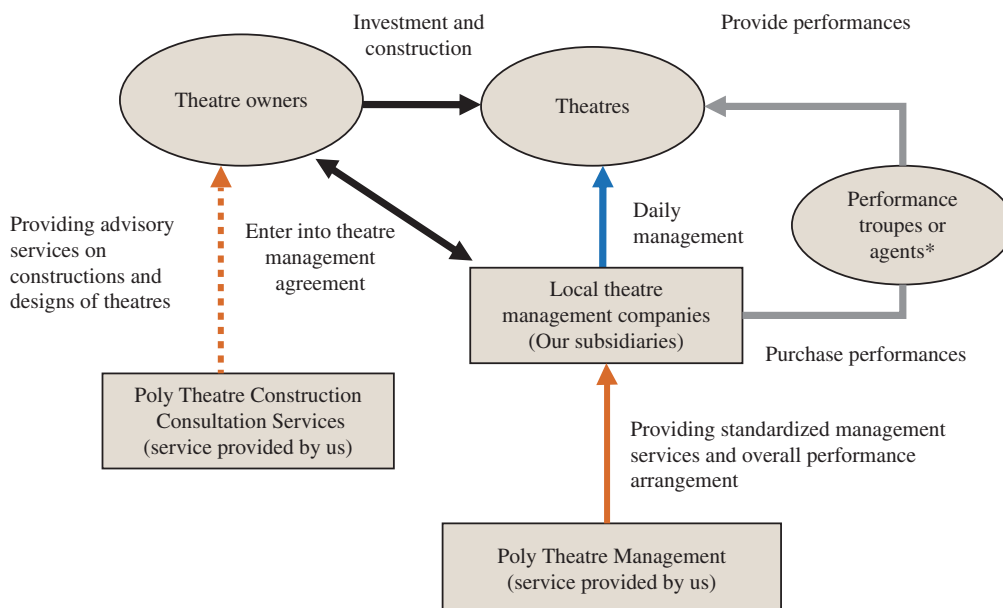
	Year ended December 31,						Ten months ended October 31,			
	2010		2011		2012		2012		2013	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(unaudited)									
	(RMB in millions, except for percentages)									
Revenue										
Theatre box office income . . .	131.5	33.7	143.0	29.4	200.2	32.9	139.1	30.7	200.6	34.6
Theatre management fees . . .	177.5	45.5	239.5	49.2	295.7	48.7	231.4	51.2	287.7	49.5
Theatre rental.	61.6	15.8	78.1	16.1	86.8	14.3	62.2	13.7	68.8	11.9
Others ⁽¹⁾	19.4	5.0	25.8	5.3	24.9	4.1	19.9	4.4	23.4	4.0
Total	390.0	100.0	486.4	100.0	607.6	100.0	452.6	100.0	580.5	100.0

Note:

(1) Primarily includes income generated from theatre construction consultation services.

We generally enter into theatre management agreements to manage high-end theatres with over 1,000 seating capacity. Capitalizing on our premium brand and theatre management experience, we were able to rapidly expand the number of our theatres under management and maintain good relationship with local government authorities and theatre owners.

The following chart sets out the main flow of our theatre management business.



* We also produce our own original repertoires under this business segment.

Theatres

We strategically select and manage those theatres located in cities with advanced economies, comparatively high per capita GDP or supported by local government authorities with strong financial capacity, including those cities that are recognized as pilot cities to conduct reform of the national culture system in China. We believe these areas are satisfactory destinations for our performance operation as a result of the comparatively developed local performance markets and strong appetite for performances. While focusing on operating theatres in first-and second-tier cities, such as Beijing, Shanghai, Shenzhen, Chongqing and Wuhan, we also have a presence in promising cities enjoying convenient transport connections with cities where our existing theatres are located, including Yichun, Yingkou, Kunshan, Changshu, Ji'an and Taiyuan. The strategic layout of our theatre network enables us to arrange performance agendas in a more cost-efficient manner, through which we could have our performances reach audiences residing in a large area within a shorter period of time and with comparatively low travelling costs. As a result, we have improved our market influence and pricing power when we negotiate with performance troupes or agents. For details, please see the section headed “– Performance and theatre management segment – Sales and Marketing”.

As of December 31, 2010, 2011 and 2012, we managed 18, 21 and 27 high-end theatres, respectively. For years ended December 31, 2010, 2011 and 2012 and the ten months ended October 31, 2013, we have completed over 2,750, 3,031, 3,600 and 3,544 performances, respectively, and recorded approximately 2.8 million, 3.2 million, 4.0 million and 3.5 million audience visits, respectively.

As of October 31, 2013, we managed 31 high-end theatres located in 29 cities in China. In addition, as of October 31, 2013, we had four theatres under construction where we have already entered into theatre management agreements with the relevant owners.

The map below sets out the location of theatres we operated as of October 31, 2013.



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The table below sets forth details about 31 theatres managed by us that were in operations as of October 31, 2013.

Name	Location	Introduction	Gross floor area (m ²)	Date commenced operations	Expiration date of current theatre management agreement
Beijing Poly Theatre	Beijing	One hall with over 1,500 seats.	7,400	October 10, 2003	December 31, 2015 ⁽¹⁾
Shanghai Oriental Art Centre	Shanghai	Three halls, with 1,953 seats, 1,015 seats and 333 seats, respectively.	39,964	March 31, 2004	June 30, 2015
Forbidden City Theatre	Beijing	One hall with over 1,419 seats.	11,800	May 10, 2004	December 31, 2017
Dongguan Poly Yulan Theatre	Dongguan, Guangdong	Two halls, with 1,608 seats and 400 seats, respectively.	40,257	November 24, 2005	December 31, 2016
Wuhan Quintai Grand Theatre	Wuhan, Hubei	Two halls, with 1,802 seats and 400 seats, respectively.	65,650	June 22, 2007	December 31, 2015
Shenzhen Poly Theatre	Shenzhen, Guangdong	One hall with 1,551 seats.	15,000	August 15, 2007	December 31, 2015
Henan Art Centre	Zhengzhou, Henan	Three halls, with 1,820 seats, 800 seats and 380 seats, respectively.	77,400	September 12, 2008	December 31, 2014
Yantai Grand Theatre	Yantai, Shandong	One hall with 1,320 seats.	16,000	May 19, 2009	December 31, 2015
Huizhou Culture & Art Centre	Huizhou, Guangdong	Three halls, with 1,359 seats, 290 seats and 519 seats, respectively.	40,224	May 20, 2009	December 31, 2015
Changzhou Grand Theatre	Changzhou, Jiangsu	Two halls, with 1,526 seats and 420 seats, respectively.	51,000	May 26, 2009	December 31, 2015
Chongqing Grand Theatre	Chongqing	Two halls, with 1,800 seats and 950 seats, respectively.	100,000	July 20, 2009	December 31, 2014
Taizhou Grand Theatre	Taizhou, Jiangsu	One hall with 1,149 seats.	26,500	July 31, 2009	December 31, 2015
Wenzhou Grand Theatre	Wenzhou, Zhejiang	Three halls with 1,425 seats, 664 seats and 150 seats, respectively.	36,000	September 9, 2009	December 31, 2014
Hefei Grand Theatre	Hefei, Anhui	Three halls with 1,515 seats, 975 seats and 456 seats, respectively.	60,000	September 28, 2009	December 31, 2015
Wuhan Quintai Concert Hall	Wuhan, Hubei	Two halls with 1,604 seats and 405 seats, respectively.	36,858	November 16, 2009	December 31, 2015
Ma'anshan Grand Theatre	Ma'anshan, Anhui	Three halls with 1,153 seats, 684 seats and 408 seats, respectively.	25,000	July 22, 2010	December 31, 2016
Qingdao Grand Theatre	Qingdao, Shandong	Three halls with 1,601 seats, 1,200 seats and 448 seats, respectively.	66,000	August 27, 2010	December 31, 2016
Lishui Grand Theatre	Lishui, Zhejiang	One hall with 1,303 seats.	34,800	December 29, 2010	December 31, 2015
Wulanqiate Grand Theatre	Hohhot, Inner Mongolia	One hall with 1,292 seats.	39,000	March 14, 2011	December 31, 2016
Zhangjiagang Grand Theatre	Zhangjiagang, Jiangsu	One hall with 1,167 seats.	22,117	October 8, 2011	December 31, 2017
Yichun Grand Theatre	Yichun, Jiangxi	One hall with 1,632 seats.	32,000	December 22, 2011	December 31, 2017
Wuxi Grand Theatre	Wuxi, Jiangsu	Two halls with 1,618 seats and 700 seats, respectively.	78,000	January 17, 2012	December 31, 2019
Bayuquan Grand Theatre	Yingkou, Liaoning	Two halls with 1,600 seats and 800 seats, respectively.	24,644	May 16, 2012	December 31, 2019
Kunshan Grand Theatre	Kunshan, Jiangsu	Two halls with 1,400 seats and 270 seats, respectively.	43,018	July 19, 2012	December 31, 2018
Ji'an Grand Theatre	Ji'an, Jiangxi	One hall with 1,090 seats.	13,100	August 3, 2012	December 31, 2017
Changshu Grand Theatre	Changshu, Jiangsu	One hall with 1,160 seats.	21,000	November 19, 2012	December 31, 2018
Handan Grand Theatre	Handan, Hebei	Two halls with 1,550 seats and 562 seats, respectively.	47,000	January 14, 2013	December 31, 2018

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Name	Location	Introduction	Gross floor area (m ²)	Date commenced operations	Expiration date of current theatre management agreement
Dalian Poly Theatre	Dalian, Liaoning	One hall with 1,200 seats.	5,500	February 16, 2013	December 31, 2022
Ningbo Grand Theatre	Ningbo, Zhejiang	One hall with 1,565 seats.	23,000	January 14, 2013	December 31, 2017
Shanxi Grand Theatre	Taiyuan, Shanxi	Three halls, with 1,538 seats, 1,286 seats and 458 seats, respectively.	86,000	May 31, 2013	August 31, 2019
Weifang Art Center	Weifang, Shandong	Three halls, with 1,552 seats, 1,000 seats and 187 seats.	49,000	August 30, 2013	December 31, 2019

Note:

- (1) We entered into leasing agreement with the owner of Beijing Poly Theatre for our operations of theatre business.

The table below sets forth details of our theatres that we have signed theatre management agreement as of October 31, 2013, which have not completed construction/renovation yet.

Name	Location	Introduction	Gross floor area (m ²)	Status	Expected date to commence operations	Expiration date of current theatre management agreement
Shanghai Poly Grand Theatre	Shanghai	Two halls, with 1,500 seats and 500 seats, respectively.	50,000	Under construction	by the end of 2014	April 30, 2020
Yixing Grand Theatre	Yixing, Jiangsu	Two halls, with 1,200 seats and 600 seats, respectively.	75,000	Under construction	by the end of 2014	December 31, 2022
Weihai Conference Center Grand Theatre*	Weihai, Shandong	Two halls, with 1,000 seats and 200 seats, respectively	32,000	Under construction	at the beginning of 2014	December 31, 2019
Zhoushan Putuo Grand Theatre	Zhoushan, Zhejiang	Three halls, with 1,160 seats, 279 seats and 300 seats, respectively.	26,000	Under construction	by the end of 2014	December 31, 2019

Note:

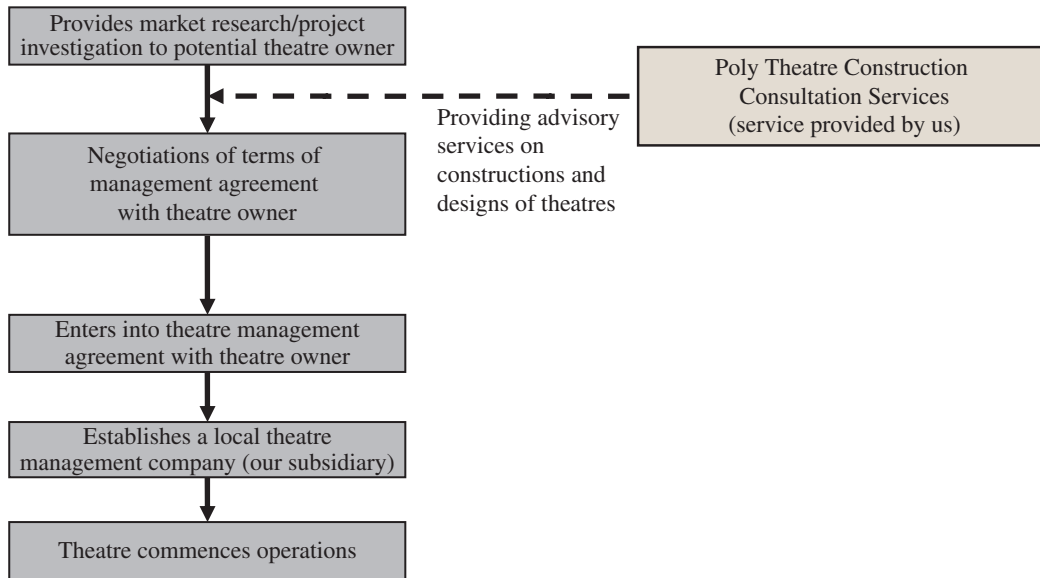
- * As of the Latest Practicable Date, Weihai Conference Center Grand Theatre has completed construction and has commenced its commercial operation.

Theatre Management

We generally negotiate terms and conditions of theatre management agreements with theatre owners after completing local performance markets research. Upon signing of the agreement, we establish a theatre management company to prepare for the commencement of operations and manage daily operations of the relevant theatres. During the Track Record Period, we have received high recognition from theatre owners and successfully renewed all previous theatre management agreements upon their expiration.

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The following chart sets out the main mechanism of our theatre management.



Based on our extensive experience, we have formulated comprehensive internal procedures, which cover key aspects of theatre operation and management. For instance, to assist our management team in conducting standard and effective operation appraisals in different theatres, we draw up quantitative measures for customer satisfaction, attendance, theatre box office income and cost control.

In selecting theatre management companies, the theatre owners take into account various factors, including reputation and experience of the theatre management companies, capacity of the theatre management companies to introduce performances in accordance with the requested number and quality and the arrangement of sharing rental income of the theatre, where applicable. Theatre owners generally request the theatre management companies to meet the requested management standards, including customer satisfaction, attendance and theatre box office ticket prices. Failure to meet these standards may lead to penalty or termination of relevant agreement. During the Track Record Period and as of the Latest Practicable Date, we have not experienced any failure in meeting the requested standards that led to material disputes, penalty or termination of relevant agreements and have successfully renewed all existing agreements upon expiration of such.

In addition, the theatre owners may, where applicable, set forth various conditions in the theatre management agreements, which may affect the amount of theatre management fees we could collect. For details of these terms and conditions, please see the subsection headed “– Pricing – Theatre Management Fees”. Please also see the section headed “Risk Factors – If we are unable to renew relevant theatre management agreements with the theatre owners, our business, financial positions and results of operations may be materially and adversely affected”.

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The following table sets forth the key terms of the theatre management agreements which we generally enter into with theatre owners. For more information on the expiration dates of the theatre management agreements we enter into with relevant theatres, please see the subsection headed “– Theatres” above.

- **Duration** Five to eight years
- **Theatre Management standards** The agreement would normally set forth the management standards, including the number and the category of the performance we will provide, the target attendance rate and the maximum average ticket price.
- **Termination Clause** The agreement may be terminated by the theatre owner after a specified notice period if we fail to meet the theatre operation and management standards. Please also see section headed “Risk Factors – If we are unable to renew relevant theatre management agreements with the theatre owners, our business, financial position and results of operations may be materially and adversely affected”.
- **Management fee** The theatre owner would typically pay us a theatre management fee for our daily operations. In some agreements, we may agree to pay the theatre owners a fixed share of our rental income or a lump sum payment as consideration for the utilization of equipment or facilities in the theatre.

For details on terms and conditions to determine theatre management fees, please see the section headed “– Pricing” below.
- **Other material rights and obligations** We are responsible for the daily operation of the theatres, through which we generate income and bear expenses. Our responsibilities include, without limitation, managing and maintaining all the equipment and training the staff.

The theatre owners have the right to supervise the theatre operation, management and services, and examine the annual working plan and performance plan. They shall also assist us to obtain all the licenses necessary for our operation, management and services.

According to our theatre management agreements, we did not share box office income with theatre owners but shall be liable for property service fees and other costs in relation to theatre management. However, on a case by case basis, we may agree to provide various benefits to theatre owners after taking into various factors into account, including development of local culture market, competition, location and standard of facilities of the respective theatre and our overall development strategy in that region. For instance, for certain theatres, we may agree to (i) provide certain number of tickets with discounted prices to employees of theatre owners; (ii) pay theatre owners with facility utilization fees in a fixed amount or an agreed percentage of profit, if applicable and/or (iii) provide on-job trainings on theatre management skills for personnel assigned by theatre owners.

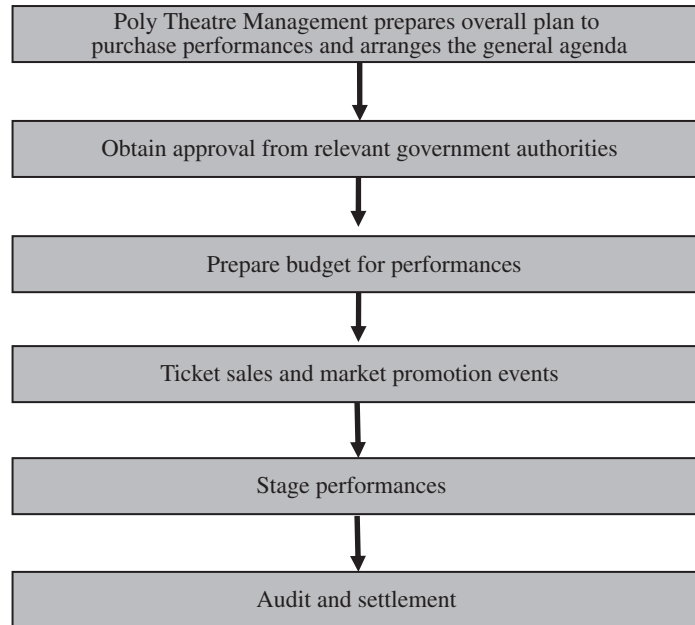
For Beijing Poly Theatre, we entered into a three-year lease agreement in 2012 with the theatre owner, whereby we make annual rental payments to the theatre owner in return for the right to arrange performances and collect box office sales. We also bear the maintenance cost. We may terminate the lease agreement with a penalty payment equal to two-thirds of the total remaining rental payment.

Purchase and Production of Performances

We purchase performances through entering into buyout agreements or income-sharing agreements with performance troupes or agents. Under buyout agreements, we make a lump-sum payment based on our estimation of the number of shows to be held, locations of relevant theatres and other expenses, such as accommodation and travelling expenses of actors. Under income-sharing agreements, we share the theatre box office income with the performance troupes or agents according to the formula agreed upon among the parties and set forth in agreements.

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The following chart sets out the main procedures of performance arrangement.



- At the end of each year, our local theatre management companies submit the numbers of the category A, category B and category C performances they need to purchase in the forthcoming year to Poly Theatre Management for consolidation. Based on this information, Poly Theatre Management prepares an overall plan to purchase performances of different categories and a general agenda for each theatre in the coming year.
- Category A performances mainly include performances provided by high level, award-winning performance troupes, who are usually nationally or internationally acknowledged performers; category B performances mainly include performances provided by provincial performance troupes, which has been awarded with provincial prizes; and category C performances mainly include those performances other than category A or category B performances, such as experimental dramas and small-scale artistic performances.
- For performances we need to purchase from overseas markets, we shall apply for purchase approval from the relevant national government authorities overseeing the culture and art industries and make filing at relevant local government authorities. For domestic performances, we only need to file such performances with relevant local government authorities.
- We prepare budget and marketing plans for relevant performances after obtaining relevant approvals and completion of filings.
- Upon completion of the performances, the financial department of relevant local theatre management company shall examine the total income and expenditures occurred and report the results to Poly Theatre Management for records, who will use such results as a reference to prepare further plans.

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We focus on introducing well-known domestic and international performances that embody the elegance of fine art. By introducing such performances, we strive to provide our audiences an exceptional experience in our theatres. These performances include symphonies, ballets, operas, plays, dramas and concerts. The fine art performances we have introduced during the Track Record Period, such as “Cats”, “Swan Lake” and music concerts performed by Berlin Philharmonic Orchestra and London Symphony Orchestra, have turned out to be theatre box office hits. In recent years, we also successfully launched popular art shows in our theatres, such as vocal concerts of popular Chinese singer, Qiqin, which brought us satisfactory theatre box office income. Furthermore, we attach importance to promote and introduce classic Chinese art. Cooperating with National Theatre of China (中國國家話劇院), we have put on “Four Generations under One Roof”, a classical drama adapted from a famous Chinese novel with the same name, which generated good theatre box office income in our theatres and several overseas theatres.

In recent years, capitalizing on our experience and resources in operating performances and managing theatres, we started producing our original repertoires that has received positive feedbacks from public and good theatre box office income. For example, in 2011, we launched the musical “Wanderings of San Mao” (三毛流浪記). As of October 31, 2013, it has been played for over 100 times in China, recording approximately 80,000 audience visits. In 2011, this musical has won nine awards from Department of Culture Guangdong Province in Guangdong Art Festival, including excellent play (first prize), excellent editor, excellent performance, excellent director and excellent music.

Theatre Construction Consultation Services

We provide advisory services on construction, design and equipment installation of theatres. We believe that our ability to provide theatre construction consultation services create synergies among different operations under our performance and theatre management segment and helps us in engaging with theatre owners at an early stage, when the theatre is still under design or construction. As a result, we are well-positioned to compete for theatre management agreements in respect of the relevant theatres, which further enhances our competitiveness. Among all 35 theatres to which we have entered into theatre management agreements as of October 31, 2013, we had previously provided theatre construction consultation services to 26 of them. In addition, as of October 31, 2013, we were providing theatre construction consultation services for another 29 theatres.

The following table sets forth the key terms of the theatre construction consultation agreements we generally enter into with theatre owners.

- | | |
|--|--|
| • Duration | Eight to thirty months |
| • Theatre construction consultation services fee | The theatre construction consultation service fee is calculated based on (i) the project’s construction scale, (ii) our workload and (iii) technical personnel involved in the project. We may also consider the region’s economy and travel expenses. |

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- Termination Clause A theatre construction consultation agreement may be terminated if we fail to meet the quality of services required under the agreement.
- Other material rights and obligations We normally provide the theatre construction contractor with (i) construction advisory services, (ii) technical supervision; and (iii) theatre construction supervision. The scope of our services includes providing technical planning with respect to the lighting, sound and decoration of the theatres.

Pricing

In managing our performance and theatre management segment, we derive revenue primarily from following sources:

Theatre box office income

We derive theatre box office income through organizing various performances. We take various factors into account when we decide the ticket prices, including (i) our purchasing costs or the percentage of theatre box office income we can share according to our arrangement with the performance troupe or agent; (ii) our expenses relating to the arrangement of respective performances, such as travel costs of the performance troupes, application fees at relevant government authorities; and (iii) our judgment on market trend and audiences' preference based on our experience. Where applicable, we also take into account (i) the restrictions on highest annual average ticket price set forth in the relevant theatre management agreements and (ii) our overall agenda for the relevant theatre during that year, to determine ticket price of a specific performance.

Theatre management fees

We normally receive theatre management fees from theatre owners for management services we provide, the amount of which is determined through negotiation and specified in the relevant theatre management agreement. However, as of the Latest Practicable Date, two theatres located with premium locations, which has an established strong market reputation in local markets, namely Beijing Poly Theatre and Forbidden City Concert Hall, theatre owners did not pay any theatre management fees to us, nor should we receive any other payments from relevant theatre owners for management of these theatres in accordance with the relevant theatre management agreements.

We determine the amount of theatre management fees based on certain factors, including the local economic development, scale of the relevant theatre, our estimated management and operation costs, the compulsory numbers of performances we need to provide under each category and restrictions on the highest annual average ticket prices for shows. Generally, the compulsory number of performances we need to provide under each category vary as a result of economic conditions and local market preference and the facilities of the relevant theatres.

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Theatre owners generally have similar requests on allocation of different categories of performances, with category A and category B performances shall account for no less than 30% and 40%, respectively, of the total number of performances provided each year. Please see the section headed “Risk Factors – If we are unable to renew relevant theatre management agreements with the theatre owners, our business, financial position and results of operations may be materially and adversely affected”.

Theatre rental

We charge third parties for renting theatres as venues for the organization of various events or performances.

Theatre Construction consultation services fee

We determine the prices of our construction consultation services based on the complexity of the project and our agreed scope of work.

We also generate revenue through providing a variety of auxiliary goods or services such as selling derivative products and souvenirs of plays and acting as the ticket agency.

Seasonality

Demands for theatre performances are generally higher in the second half of the year and peaks during holiday seasons, especially from September to October (Mid-Autumn Festival and China’s National Day holidays) and from December to January (Christmas and New Year). Please see the section headed “Risk Factors – Our results of operations are subject to seasonal fluctuations”.

Sales and Marketing

As a result of our premium brand name, proven track record and well-recognized capacity in providing theatre management services, we, from time to time, are invited by the local government authorities to manage and operate new theatres. We purchase and arrange performances, or design overall marketing plans for our original repertoires through Performance Operating Centre of Poly Theatre Management. Poly Theatre Management then allocate and distribute performance resources to each of our directly managed theatres. On the other hand, tailored to meet local market preferences and demand, local theatre management companies prepares detailed marketing and advertising plans and determines ticket price for each performance based on factors such as estimated attendance, annual agenda and local competition.

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The strategic layout of our theatre network and strong capacity of our theatre management team enable us to provide performing tour opportunities with multi-city and multi-performance choices and have our uniform performances reach audiences residing in a large area within a shorter period of time and with comparatively low travelling costs, which further improve our profits and market leadership. We believe that this advantage helps us to obtain strong market influence and pricing power when we negotiate with performance troupes or agents to purchase performances. In addition, our strong marketing capacity and premium reputation continuously attract attention from international and domestic elite performance troupes and agencies, ensuring a sustainable development of our operations.

In addition, we value the balance between the commercial benefit and the social effect that our performances create. Through our theatres, we actively promote performances that can nurture public virtues and their capacity to appreciate fine arts. We believe that through these activities, we are able to enhance our brand awareness and public influence and therefore improve our market competitiveness. For instance, since 2005, we have presented performance series named “Gateway to Art” at the Forbidden City Concert Hall between July and September each year, which are specially tailored for young people and have received positive recognition from the public. This series of performances are held with support from relevant government authorities in Beijing and have provided the public with renowned domestic and overseas cultural performances, including Chinese traditional music performances, orchestra and piano solo performances.

Cinema Investment and Management Segment

During the Track Record Period, we invested, developed and operated cinemas and joined Poly Wanhe Cinema Circuit to secure film prints. We derive revenue primarily through the cinema box office income, and partly from providing a variety of auxiliary goods or services such as selling derivative products and souvenirs of movies and advertisement services.

In June 2013, due to PRC regulatory restriction imposed on foreign investment into China’s cinema circuit companies, we disposed of and transferred 51% equity interest in Poly Wanhe Cinema Circuit to our Controlling Shareholder. After the Disposal, we no longer engage in the cinema circuit business, as a result of which, we will no longer receive revenue or incur costs in relation to franchised cinemas. For more details, please see the sections headed “Our History and Reorganization”, “Relationship with our Controlling Shareholder” and “Connected Transactions”.

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The table below sets forth details of our revenue of cinema investment and management segment.

	Year ended December 31,						Ten months ended October 31,			
	2010		2011		2012		2012		2013	
	(unaudited)									
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(RMB in millions, except for percentage)										
Revenue										
Cinema box office income from self-operated cinemas ⁽¹⁾	81.2	55.9	101.0	55.1	135.6	54.3	104.8	56.6	142.5	59.8
Circuit income from franchised cinemas ⁽²⁾	50.0	34.5	62.2	34.0	88.5	35.5	63.4	34.2	69.6	29.2
Others ⁽³⁾	13.9	9.6	20.0	10.9	25.5	10.2	17.0	9.2	26.3	11.0
Total	145.1	100.0	183.2	100.0	249.6	100.0	185.2	100.0	238.4	100.0

Notes:

- (1) Cinema box office income from self-operated cinema represented the amount equals to gross cinema box office income after deduction of 3.3% tax. During the Track Record Period, we shall share a portion of net cinema box office income – being the gross cinema box office income net of the 3.3% tax and 5% special movie fund levy – generated from our self-operated cinemas to Poly Wanhe Cinema Circuit according to relevant cinema circuit agreements. Poly Wanhe Cinema Circuit shall further distribute the amount it received with movie producers and distributors. During the Track Record Period, the portion of net cinema box office income paid by our self-operated cinemas to Poly Wanhe Cinema Circuit amounted to RMB17.5 million, RMB44.6 million, RMB60.4 million and RMB63.2 million, respectively. For details, please see the subsection headed “– Cinema Investment and Management Segment – Pricing”.
- (2) Circuit income from franchised cinema represented the share of net cinema box office income – being the gross cinema box office income net of the 3.3% tax and 5% special movie fund levy – generated from franchise cinemas, which were collected by Poly Wanhe Cinema Circuit according to relevant cinema circuit agreements it entered into with the relevant franchised cinemas. Poly Wanhe Cinema Circuit shall further distribute the amount it received from franchise cinemas with movie producers and distributors. For details, please see the subsection headed “– Cinema Investment and Management Segment – Pricing”.
- (3) It represented revenue generated from providing a variety of auxiliary goods or services such as selling derivative products and souvenirs of movies and advertisement services.

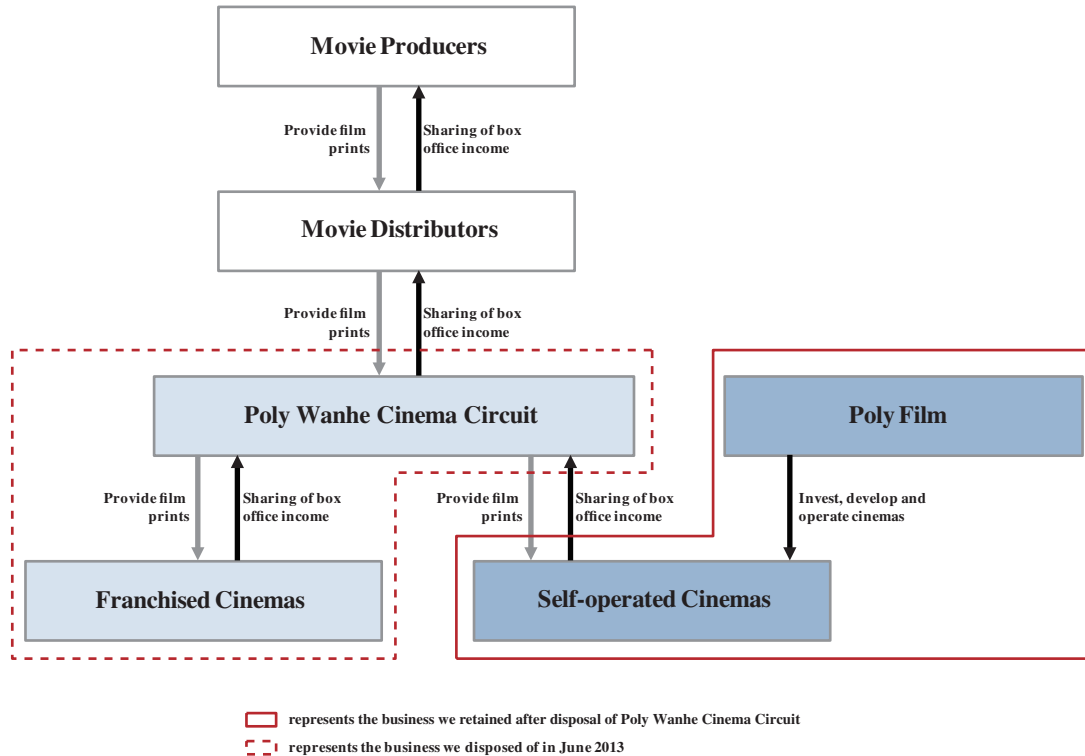
The distribution of imported movies and major domestic movies in China is primarily conducted through cinema circuits. Individual cinemas normally need to join a cinema circuit in order to obtain film prints for screening. According to relevant PRC laws and regulations, an individual cinema could only join one cinema circuit. Please see the section headed “Regulatory Overview”. For details on operation flow of the cinema circuit system in China, please see the section headed “Industry Overview – The Cinema Investment and Management Industry in China – The Cinema Circuit System”.

We obtain film prints from Poly Wanhe Cinema Circuit for screening. Poly Wanhe Cinema Circuit obtains and further distributes film prints to its franchised cinemas, including our self-operated cinemas, according to its agreements with distributors, which stipulates the number of film prints it can obtain, the period of time a movie could be screened in a geographic market, the aggregated times a movie shall be screened and the sharing of cinema

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box office income among relevant parties. Normally, upon agreement with Poly Wanhe Cinema Circuit, our individual cinemas will have control over detailed arrangement of time slots for screening and relevant prices, taking into account various factors, including consumer preference, cinema facilities and local competition. For details, please see the section headed “– Cinema Investment and Management Segment – Pricing”.

The following chart sets out the procedures of our cinema investment and management segment as of the Latest Practicable Date.



Based on cinema circuit agreements we entered into with Poly Wanhe Cinema Circuit, we shall distribute the net cinema box office income to Poly Wanhe Cinema Circuit according to the agreed percentage set in agreements. As a result, after the disposal of Poly Wanhe Cinema Circuit, our revenue under cinema investment and management segment primarily consisted of the net box office income our self-operated cinemas retain based on cinema circuit management agreements that they entered into with Poly Wanhe Cinema Circuit. Net cinema box office income was calculated by deducting a 3.3% tax and a 5% special movie fund levy from the gross cinema box office income. For details on the arrangement of sharing of cinema box office income, please see the section headed “– Pricing” below. Please also see the section headed “Industry Overview – The Cinema Investment and Management Industry in China – The Cinema Circuit System”.

Pricing***Sharing of Cinema Box Office Income***

Member cinemas of Poly Wanhe Cinema Circuit shall distribute the net cinema box office income to Poly Wanhe Cinema Circuit according to the agreed percentage set in the cinema circuit agreements, after deducting a 3.3% tax and a 5% special movie fund levy from the gross cinema box office income. For the years ended December 31, 2010, 2011 and 2012 and the ten months ended October 31, 2013, the portion of net cinema box office income paid by our self-operated cinemas to Poly Wanhe Cinema Circuit amounted to RMB17.5 million, RMB44.6 million, RMB60.4 million and RMB63.2 million, respectively. During 2010, a number of our self-operated cinemas had joined Poly Wanhe Cinema Circuit only in the second half of that year, resulting in a smaller amount we paid to Poly Wanhe Cinema Circuit that year.

Poly Wanhe Cinema Circuit shall further share the amount it received from its member cinemas with movie distributors according to relevant agreements. Direct costs related with movie screening will be borne by the cinemas.

In line with the industry standard, our self-operated cinemas generally get approximately 50-55% of the net cinema box office income and Poly Wanhe Cinema Circuit generally get approximately 1-5% of the net cinema box office income. The remaining portion of net cinema box office income are shared between movie producers and distributors. In practice, the sharing of net cinema box office income among cinemas, cinema circuit, movie producers and distributors in respect of an individual movie varies based on many factors, including the types of movies being screened and pricing power of different parties.

Leasing Expenses

We develop cinemas primarily on leased commercial properties with leasing agreements that have valid periods between 15 and 20 years. We generally agree to pay rent annually (i) in a fixed amount or (ii) with an agreed percentage of aggregate annual net cinema box office income of the relevant cinema, whichever is higher. In addition, we also operate cinemas developed and owned by third parties through entering into leasing agreements with relevant cinema owners.

Management of Cinemas

As of October 31, 2013, we had 17 cinemas that were located in nine cities in China, including three cinemas pending for commercial operations, and have entered into leasing agreements or MOUs in respect of another 25 cinemas across China.

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The table below sets forth details of our 17 cinemas as of October 31, 2013.

Cinema	Location	Date commenced operation	Introduction
Shenzhen Poly International cinema	Shenzhen, Guangdong Province	December 2007	Ten screens, including six 3D screens and one Poly-Max screen. It has 2,560 seats.
Beijing Wanyuan cinema	Beijing	December 2008	Four screens, including three 3D screens. It has 548 seats.
Foshan Poly International cinema	Foshan, Guangdong Province	April 2009	Seven 3D screens and 1,205 seats.
Beijing Poly International cinema (Care City)	Beijing	August 2010	Seven screens, including five 3D screens and one Poly-Max screen. It has 1,330 seats.
China Science and Technology Museum cinema ⁽¹⁾	Beijing	December 2010	Two screens, including one 3D screen and one Poly-Max screen. It has 828 seats.
Guangzhou Poly International cinema	Guangzhou, Guangdong Province	December 2011	Five 3D screens and 1,052 seats.
Beijing Poly International cinema (Daxing)	Beijing	July 2012	Eight screens, including six 3D screens and one Poly-Max screen. It has 1,355 seats.
Rizhao Poly International cinema	Rizhao, Shandong Province	February 2013	Five screens, including four 3D screens. It has 944 seats.
Shanghai Poly International cinema (Nanxiang)	Shanghai	February 2013	Six screens, including five 3D screens and 1,112 seats.
Kunshan Poly International cinema ⁽¹⁾	Kunshan, Jiangsu Province	March 2013	Eight screens, including six 3D screens and one IMAX screen. It has 1,055 seats.
Wuxi Poly International cinema	Wuxi, Jiangsu Province	June 2013	Ten screens, including four 3D screens and one IMAX screen. It has 2,504 seats.
Beijing Poly International cinema (Beiyuan)	Beijing	August 2013	Six screens and 1,149 seats.
Beijing Poly International cinema (Xisanqi)	Beijing	August 2013	Seven screens, including six 3D screens. It has 1,330 seats.
Shenzhen Dazhonghua cinema	Shenzhen	October 2013	Five 3D screens and 1,233 seats.
Shanghai Baolong International Cinema*	Shanghai	under construction	Seven 3D screens and 1,150 seats. We expect to commence commercial operations by June 2014.
Beijing Poly International cinema* (Dongzhimen)	Beijing	under construction	11 screens and 1,801 seats. We expect to commence commercial operations by the end of 2014.
Changsha Xiyongmen cinema ⁽²⁾	Changsha	under construction	14 screens, including 12 3D screens, one Poly-Max screen and 1,790 seats.

* Cinemas that were under construction and pending for commercial operations as of October 31, 2013

(1) We operate these two cinemas through entering into leasing agreements with relevant cinema owners.

(2) Changsha Xiyongmen cinema has commenced its operation on December 28, 2013.

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As of December 31, 2010, 2011 and 2012 and October 31, 2013, Poly Wanhe Cinema Circuit had 39, 55, 62, and 76 franchised cinemas, respectively. As of December 31, 2010, 2011 and 2012 and October 31, 2013, we had five, six, seven, and 17 self-operated cinemas, respectively.

Besides the 14 cinemas in operations as of October 31, 2013, one additional cinema has commenced its operation for the two month period between October 31, 2013 and December 31, 2013. We plan to establish and/or commence operations of 21 and five additional cinemas by the end of 2014 and 2015, respectively. The estimated total expenses for development of additional cinemas for the year ended December 31, 2013 was RMB130.7 million. We expect to incur approximately RMB411.0 million and RMB169.6 million for the year ending December 31, 2014 and 2015, for the development of additional cinemas.

During the Track Record Period, we had opened 11 self-operated cinemas for which we incurred total capital expenses of approximately RMB196.6 million as of October 31, 2013. For the self-operated cinemas we developed by ourselves, for which our investment have been repaid, the average historical payback period was around 2.3 years.

Cinema Circuit Agreements

We enter into a cinema circuit agreement with Poly Wanhe Cinema Circuit, the managing company of Poly Wanhe Cinema Circuit, according to which, we are required to exclusively screen the movies provided by Poly Wanhe Cinema Circuit. We are also requested to meet the standards of Poly Wanhe Cinema Circuit on facilities of cinemas, including the ticket counting system and screening facilities. Poly Wanhe Cinema Circuit may also ask us to participate in marketing activities it organizes for all of its member cinemas with respect to a specific movie.

Poly-Max

We believe that movie screening technology is vital to the success of our cinema investment and management business. To capture the increasing demand for wide screens and 3D movies in China, we have developed a Poly-Max movie screening equipment and technology, or Poly-Max system, which has integrated huge screens with picture control technologies that allow screening of images in high definition and high brightness, advanced surround sound equipment and other equipments and technologies that can improve audiences' experience, including seats in theatres with specially designed curve, equipment to spread fragrance in the theatres and post-production screen subtitling system. In May 2013, we applied for patent rights for Poly-Max system in China.

As of October 31, 2013, we utilized the Poly-Max system in five of our cinemas.

Seasonality

Audience's demand for movies is generally higher during public holidays and traditional festivals in China, Our revenue under this business segment is comparatively higher in relevant periods. According to our experience, peak seasons for demand for movies are usually during periods of New Year and Spring Festival holidays (between January and February), summer time (between July and August), and Mid-Autumn Festival, National Day holidays and Christmas holidays (between October and December). Please see the section headed "Risk Factors – Our results of operations are subject to seasonal fluctuations".

Sales and Marketing

We generally work with Poly Wanhe Cinema Circuit to participate in marketing activities for the entire cinema circuit. Poly Wanhe Cinema Circuit provides publicity materials of relevant movies and prepares the overall plan for marketing activities. On the other hand, upon agreement with Poly Wanhe Cinema Circuit, we can determine the agenda for movies to be screened in each cinema and adjust ticket prices for each time slot based on market interest, our movie screening facilities and competition in local market in order to maximize our cinema box office income and improve our profitability. In addition, we established a city-wide membership program among the six self-operated cinemas in Beijing, which we believe has helped to improve customers' loyalty.

Cinema Membership Card and Group Ticket Coupon

To improve business operations, we allow our cinemas to determine detailed policies in terms of movie ticket prices, program of cinema membership card and group ticket coupon based on various factors, including (i) our general membership/tickets pricing policies and (ii) competitions in the local market. We request each cinema to submit its draft membership/ticket pricing policies and program to our headquarters for approval.

We generally request clients to make deposits of RMB500 to RMB2,000 to obtain membership cards of different categories, which allow the relevant card holders to enjoy various benefits, during the valid period of their membership, including utilizing the deposits to purchase a limited number of movie tickets to be filmed at specified time slots with discount or purchase souvenir at cinemas with discount. We generally set a valid period of one year for the cardholder membership but may remove such restrictions for cinemas that are located in markets where we face strong competition. The one-year valid period we set upon the cinema membership cards only affects the membership status of the relevant card holders. We do not set limitations on the holding period for the outstanding balance contained in the accounts of cinema membership cards, which we record as receipt in advance. In addition, as advised by our PRC legal advisors, we do not need to register our cinema membership card program with PRC government authorities in accordance with relevant PRC laws and regulations. As of December 31, 2010, 2011 and 2012 and October 31, 2013, the amount of outstanding deposits of membership cards, which we recorded under receipts in advance, amounted to RMB11.7 million, RMB16.4 million, RMB23.0 million and RMB33.4 million, respectively.

We also allow our cinemas to issue different types of group ticket coupons to clients, who shall purchase a requested number of coupons with a lump-sum payment. The coupon holders could redeem the coupons, without additional charge, for tickets in accordance with terms and conditions set forth in the relevant coupons, where the timing and types of movies that the relevant coupons could be redeemed for where specified. We generally request group ticket coupons to be redeemed within one year. As of December 31, 2010, 2011 and 2012 and October 31, 2013, the proceeds of outstanding group ticket coupons, which we recorded under receipts in advance, amounted to RMB10.7 million, RMB6.2 million, RMB5.5 million and RMB9.8 million, respectively. As advised by our PRC legal advisors, our group ticket coupons are not pre-paid cards under relevant PRC laws and regulations, because such coupons could not be recharged or used for multiple times. In addition, as advised by our PRC legal advisors, there is no prohibition on issuance of group ticket coupons under the PRC laws and regulations.

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As advised by our PRC legal advisors, our practice of cinema membership card program and group ticket coupon program are in compliance with relevant PRC laws and regulations, including *Opinions on Management of Commercial Pre-paid Card* (關於規範商業預付卡管理的意見) and Contract Law of the PRC. For details of relevant PRC laws and regulations, please see section headed “Regulatory Overview”.

CUSTOMERS

In our art business and auction segment, our customers primarily include sellers and buyers who consign or purchase artworks in the auctions organized by us, buyers to whom we sell artworks as principal under our art business operation and trustees of artwork trust plans to whom we provide investment advisory service under art investment consultation and other services. In managing our performance and theatre management segment, our customer include theatre owners, audiences to whom we sell tickets for performances and third parties to rent our theatres. Under cinema investment and management segment, our customers include audience to whom we sell tickets for movies.

During the Track Record Period, our revenue derived from our five largest customers accounted for less than 30% of our total revenue. As of the Latest Practicable Date and during the Track Record Period, none of our Directors, their associates or any of our Shareholders (which to the knowledge of our Directors owns more than 5% of our share capital) held any interests in any of our five largest customers.

INVENTORY MANAGEMENT

Our inventory mainly consists of artworks we purchased for the purpose of resale, including antiques and artwork, Chinese calligraphy and painting, oil painting and sculptures. Other inventories include small value items for resale, low value materials and drama rights. Although all items held in inventory are available for immediate sale, the timing of the eventual sale is difficult to predict due to the high value and unique nature of each item, as well as the ever changing trend of the global art market.

Different types of artwork require different and specific storage conditions, including temperature, humidity and light, to prevent damages. We engage professional facilitators to provide a security supervision service. We conduct stocktaking and valuation on artworks in inventory every quarter with assistance from our internal experts. Each year, we engage independent third parties to conduct stocktaking and valuation of our inventory. The valuation of artworks will depend on a complex array of factors, including (i) whether the artwork is expected to be offered at auctions or private sale; (ii) the supply and demand for artworks, taking into account economic conditions and changing trends in the art market within which collecting categories and artists are most sought after; and (iii) recent sale prices achieved in the art market for comparable artworks within a particular collecting category and/or by a particular artist. We have established a set of strict rules on provision of inventory. For instance, if we found, during the stocktaking and valuation, that (i) market price of inventory decreased and is not expected to increase in the near future or (ii) the inventory damaged or discolored, which lead to a decrease in the value of the relevant item, we will make provisions accordingly. During the Track Record Period, we have not made provisions to our inventory. Please see the sections headed “Financial Information – Certain Items in the Consolidated Balance Sheet – Inventory” and “Risk Factors – The quality and quantity of artworks that are available for auction, collection or resale are influenced by various uncertainties, which may cause sharp fluctuations in our financial condition and results of operations”.

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SUPPLIERS

In managing our art business and auction segment, our suppliers mainly include sellers from whom we purchase artworks as principal, landlords providing venue for preview exhibition and suppliers from whom we purchase printing and delivery services for auction catalogues. In managing our performance and theatre management segment, our suppliers mainly include performance troupes and agents from whom we purchase performances. In managing our cinema investment and management segment, our suppliers mainly include cinema circuits from whom we get film prints for screening, landlords from whom we lease commercial properties to develop cinemas and suppliers who sell movie screening equipment and other ancillary materials to us.

During the Track Record Period, our five largest suppliers together accounted for 27.7%, 33.6%, 23.1% and 22.1%, respectively, of our total purchases and our single largest supplier accounted for 17.2%, 12.8%, 13.8% and 12.9%, respectively. As of the Latest Practicable Date and during the Track Record Period, none of our Directors, their associates or any of our Shareholders (which to the knowledge of our Directors owns more than 5% of our share capital) held any interests in any of our five largest suppliers.

COMPETITION

For our art business and auction segment, we mainly compete against domestic and overseas auction houses in China and overseas markets with capacities for collection, authentication, and valuation of artworks, including Christie's Hong Kong, Sotheby's Hong Kong, China Guardian, Beijing Hanhai and Beijing Council. Some of our competitors have competitive advantages over us in terms of their financial capacity, network coverage and brand recognition. Currently, international leading players such as Christie's and Sotheby's are using Hong Kong as a base to facilitate the Chinese art business and a platform to attract Chinese customers. In September 2012, Sotheby's had taken a step further in cooperating with Beijing Gehua Fine Art Company (北京歌華美術公司) for the establishment of its joint venture, Sotheby's (Beijing) Auction Co., Ltd, which became the first international auctioneer with operations in mainland China. In April 2013, Christie's became the first enterprise with auction license to conduct auction operation independently in mainland China. Although the domestic market in China is currently safeguarded by the *PRC Law on Protection of Cultural Relics* (中國文物保護法) which prohibits foreign enterprises from engaging in auction of culture relics, there is no assurance that the PRC government authorities may not amend such restriction in the future which could result in greater competition in the art industry in China. Please see the section headed "Industry Overview". Despite the emerging competition landscape, we believe that we could maintain and further develop our leading market position by capitalizing on our expertise in artwork authentication that we have accumulated through years of experience, our thorough understanding of the Chinese culture and profound insight of the trends of China's artwork market, our premium branding established through joint efforts of our professional team, our high-end customer base, and extensive global business network.

For our performance and theatre management segment, we compete against other theatre management companies in China in terms of performance resources, coverage of theatre networks and brand recognition. Some competitors have strong capacities in purchasing or producing performances, including CPAA Theatres. We believe that we have successfully

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distinguished ourselves from other competitors by our extensive business network comprising high-end theatres strategically located in key cities in China where we directly manage through our subsidiaries. Our direct management structure allows us to effectively allocate resources and efficiently distribute performances. It also further enhances our well-recognized brand, which is established upon our experiences and expertise, unified management and service standards, and our capacities of providing comprehensive theatre management services, including theatre construction consultation services. Alliance of theatres is another business model where individual theatres share performances, according to franchise agreements, where cooperation among theatres for agenda preparation, marketing plan and overall management are subject to more uncertainties compared to the business model we adopt.

For our cinema investment and management segment, we mainly compete against other cinema operators with operations in regions where we operate cinemas. We intend to improve our bargaining power and market share by increasing the number of cinemas and enhancing the market influence of our brand.

Please also see the sections headed “Industry Overview” and “Risk Factors – All our business segments may be the adversely affected by competition”.

INFORMATION TECHNOLOGY

We rely on our IT systems to manage our business. In managing our art business and auction segment, we have established an electronic artworks database which allows us to keep track of historical trading prices and authentication and valuation results of a large variety of artworks collectors and buyers. In addition, we utilized the latest technology to efficiently deliver high-quality catalogue viewing experience and on-time updates about our artworks to potential buyers. In addition, we have established an IT system enabling buyers to track storage and delivery status of the artworks they purchased during auctions and allowing consignors to get updates on payment status. For details, please see the section headed “– Art business and auction segment – Sales and Marketing”.

In managing our performance and theatre management segment and cinema investment and management segment, we rely on our IT systems, in particular, our ticketing and payment system, to support on-line ticket booking, payment, theatre and cinema box office income recording, which we believe has improved our management efficiency and audiences’ ticket-purchasing experience. Please see the section headed “Risk Factors – A failure in our IT systems could disrupt our operations, result in leakage of confidential information, damage our reputation and cause losses”.

INTERNAL CONTROL AND RISK MANAGEMENT

Governance Structure

We attach great importance to our internal control and risk management system, through which we identify, evaluate and manage various risks inherent to our business operations. Our Board of Directors supervise the overall operations of our internal control system supported by our Audit Committee and our Art Committee. We have also established a set of internal control and risk management rules regulating our daily operations. The following table illustrates the responsibilities of our key organizations in charge of internal control and risk management matters.

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Key Organization	Main Responsibility
Audit Committee	<p>The Audit Committee is the highest level of our risk management and internal control structure. Organized under our Board, the Audit Committee is designed to assist our Board in overseeing our compliance measures with respect to compliance with the laws and regulations applicable to our business operations, including those in relation to financial and accounting matters. The Audit Committee is mainly responsible for:</p> <ul style="list-style-type: none">• the communication between our external and internal auditors;• the supervision and reviewing of our audit work;• reviewing and modifying our internal control policies; and• ensuring all risks associated with our business activities are identified and controlled. <p>As of the Latest Practicable Date, the Audit Committee consisted of three Directors: Ms. Li Xiaohui (independent non-executive Director), Mr. Zhao Zigao (non-executive Director) and Mr. Yip Wai Ming (independent non-executive Director). Ms. Li Xiaohui currently serves as the chairman of the Audit Committee. They have long-term professional experience in the financial management, securities and/or investment management industries. For more details about their background, please see the section headed “Directors, Supervisors and Senior Management”.</p>
Art Committee	<p>Organized under our Board, the Art Committee is designed to assist our Board in overseeing operations in the culture and art industries. The Art Committee is mainly responsible for:</p> <ul style="list-style-type: none">• conducting research and making proposals on our plans for investments and our operations involving culture and arts;• conducting research and making proposals on important projects which involve culture and arts and need to be approved by the Board of Directors pursuant to the Articles of Association;• conducting research and making proposals on important projects of significant international influence; and• conducting research and making proposals on the projects for which the management consider necessary to obtain the opinions of the Art Committee. <p>In particular, the Art Committee receives support from an artwork investment committee comprising 72 internal and external experts as of September 30, 2013, who take charge of providing artwork authentication and valuation advice to our management in managing various operations under art business and auction segment in accordance with our internal regulations. For details, please see the subsections headed “– Authentication and Valuation of Artworks” and “– Price Determination” below.</p> <p>As of the Latest Practicable Date, the Art Committee consisted of three Directors: Mr. Li Nan (executive Director), Mr. Jiang Yingchun (executive Director) and Li Boqian (independent non-executive Director). Mr. Li Nan currently serves as the chairman of the Art Committee. They have long-term professional experience in the culture and art industries. For more details about their background, please see the section headed “Directors, Supervisors and Senior Management”.</p>

Authentication and Valuation of Artworks

As of October 31, 2013, our artwork investment committee comprised of 72 experts, among whom, 52 were academic experts and 20 were market specialists. Among experts in our artwork investment committee, there were 16 internal experts and 56 external experts. Divided into five different teams, namely, painting and calligraphy, porcelain, bronze vessels, Buddhism art and craftwork teams, these experts are able to provide professional advice on authentication and valuation of different types of artworks. We do not enter into employment agreements with external experts in compliance with relevant PRC laws and regulations. Our experts generally are not liable for their independent opinions as we only use their opinions as reference to make judgment in accordance with our internal rules and regulations. For details, please see the subsection headed “– Internal Control and Risk Management”. Besides this, we also work closely with other external specialists and organizations to obtain relevant advice when we encounter difficulty in evaluating certain artworks. When we determine the composition of the expert team to conduct authentication and valuation work for a specific artwork, we will select those experts with expertise on a specific category of artwork and outstanding market reputation. Leveraging their reputations in the industry, some of our external experts are also invited by other auction houses from time to time to provide their opinions on authentication and valuation of artworks. Capitalizing on our strong experts team consisting of both internal and external specialists and our stringent internal control procedures governing authentication and valuation of artworks, we have successfully established a strong brand name in the art market in China. During the Track Record Period and as of the Latest Practicable Date, we have not been subject to any litigation or allegation where we were asked to be liable for economic damages associated with authentication or valuation of artworks we were consigned to sell or the artworks purchased or sold by us or trust plans where we acted as investment advisor.

- **Authenticity and ownership of artworks.** Prior to accepting artworks consigned to us for auction or purchasing artworks as principal, we conduct a series of due diligence on the background of the relevant artworks through our experts, including checking previous transaction history and consulting industry experts who are familiar with the specific type of artworks.

The authentication process is generally conducted by two to three members of our artwork investment committee on a back-to-back basis, where each of the members shall provide his or her independent authentication opinion without knowing the identity of the other selected members. We select members based on their relevant expertise and experience on particular type of artworks. Each specialist will be granted with a veto right, as a result of which, we will not proceed with purchase or consignment of relevant artwork, if any member holds a negative view on authenticity of such artwork. The following factors are generally taken into account when our experts determine the authenticity of the relevant artwork: (i) independent judgment made by our experts based on their professional knowledge and experience, (ii) opinion of the living artist; (iii) precedents of authenticity opinion issued by other domestic or overseas auction houses; (iv) judicial judgement or

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arbitration results regarding relevant artwork. In managing our art business operation, in accordance with our risk management procedures, we will not proceed with the transaction when our committee members cannot reach consensus on authentication of an artwork. In managing auction operation and art business operation, we do not charge consignors or buyers for the authentication work we conducted. In addition, we generally ask the consignors or sellers to give written representation and warranties on authenticity and ownership of the relevant artworks. For auctions conducted in Hong Kong, the sellers are required to give certain irrevocable title warranties to us and the buyers which are set out in the Condition of Business published in our auction catalogues. Such warranties include the sellers' absolute ownership or legal right to dispose of the artworks and the auction of the artworks not being in violation of any applicable laws and regulations. We will not accept any artwork which we know is subject to title disputes or legal impediments. For details, please see "Risk Factors – We are exposed to losses in the event of title claims arising from sale of artworks".

In managing our art investment consultation and other services, we, as investment advisor, are required to issue written opinions on authenticity of artworks to assist the trustees in making purchasing decisions. According to the relevant agreements, we are liable for economic damages incurred by the trustee should the court determines that our authenticated artworks are actually counterfeits. Please see the section headed "Risk Factors – Our business is subject to risks relating to the authentication and valuation results of artworks which are prepared based on judgment from our management and experts".

In addition, during the preview exhibition, we may receive inquiries on the artworks' authentication, ownership or suitability for auction. In these cases, we will ask relevant parties, including sellers, to present supporting documents for our further investigation. We may, after consulting with our experts and negotiation with the relevant seller discontinue the auction proceeding.

For artworks, there is no objective or quantified industry standard that allow for the verification of ownership authentication. In addition, in recent years, techniques of counterfeiting are continuously changing and becoming increasingly difficult to identify. As advised by our PRC legal advisors, as long as we perform reasonable verification regarding the ownership of the relevant artwork, we are not liable for ownership of the relevant artworks consigned to us for sale under PRC laws and regulations. In addition, according to the *Auction Law of the PRC* (中華人民共和國拍賣法), auction houses are not liable for authenticity or quality of auctioned goods as long as it makes relevant disclaimers before auction, unless it commits fraud. Hence, we normally disclaim any warranties or guarantees by us of ownership of artworks in our bidding agreement or as well as disclaim any warranties to the authenticity of the artwork from us, which preclude us from liability in relation to the ownership or authenticity of the relevant artworks. Please also see the section headed "Risk Factors – Our business is subject to risks relating to the authentication, valuation on relevant prices and management's determination of artworks which rely on subjective judgment of our management and experts".

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- **Valuation of artworks.** We generally select two to three members of our artwork investment committee consisting of both market specialist and academic experts familiar with relevant types of artworks to conduct valuation. The process will be conducted on a back-to-back basis, where each of the members shall produce his or her independent opinion without knowing the identity of other selected members. Following factors are generally taken into account when our experts determine the valuation of the relevant artwork, such as (i) historical transaction prices of the particular artwork or artworks of the relevant type; (ii) current market conditions and (iii) price indicators for the relevant type of artworks released by other professional parties, including ARTRON.

We use valuation provided by our experts, among other things, as a reference to determine auction reserve price under auction operation, purchasing price under art business operation or recommended purchasing price under art investment consultation and other services. Please see the section headed “Risk Factors – Our business is subject to risks relating to the authentication, valuation on relevant prices and management’s determination of artworks which rely on subjective judgment of our management and experts” and “Risk Factors – Upon expiration of artwork financing trust plans, we may be liable to pay the trustee the difference between the total monetary asset under the trust and the aggregate amount of principal of trust and other expected gains and expenses, which may in turn have a material and adverse effect on our results of operations”.

Price Determination

Our management will take various factors into account to determine auction reserve price under auction operation, purchasing price under art business operation or recommended purchasing price under art investment consultation and other services, including (i) valuation opinions issued by experts; (ii) quality of artworks; and (iii) market competition and/or (iv) profit from resale of relevant artworks. Determination of auction reserve price and purchasing price are also subject to negotiation with relevant consignors or sellers, respectively.

Under our art investment consultation and other services, we, as an investment advisor, are required to provide a recommended purchasing price in our valuation report. In addition, according to contractual arrangements in relation to artwork financing trust plans, upon the expiry of the relevant trust plan, we are liable to pay the trustee any deficit should the monetary value of the trust property as of the specified date is lower than the aggregate amount of the principal of trust, expected return as agreed in the trust plan, applicable taxes and other incurred costs (exclusive of our expected incentive fees). As a measure to restrict our risk exposure in this respect, we generally set a recommended purchasing price at 40%-50% discount to market price valued by relevant experts. Please also see the sections headed “Risk Factors – Our business is subject to risks relating to the authentication, valuation and relevant prices and management’s determination of artworks which rely on subjective judgment of our management and experts” and “Risk Factors – Upon expiration of artwork financing trust plans, we may be liable to pay the trustee the difference between the total monetary asset under the trust and the aggregate amount of trust principal and other expected gains and expenses, which may in turn have a material and adverse effect on our results of operations”.

Consignor Advances

During the Track Record Period, to attract attractive artworks and premium clients we may enter into consignor advance agreements with consignors upon requests, according to which we provide consignors with consignor advances. The amount of consignor advances is generally determined through negotiation, which is usually not more than 30% of the valuation provided by our experts. The consignor advances typically carry an annualized interest rate determined through negotiation between parties in accordance with applicable laws and regulations. Upon receipt of full payment of purchasing price from buyers, we will remit net sale proceeds to the consignors, after deducting (i) the relevant consignor advances with interests payable; and (ii) seller's commission from the payment.

If the relevant artworks remain unsold at auction, we will return the artwork to the consignors after obtaining full repayment of the consignor advances with accrued interest. According to consignor advance agreement and applicable laws and regulation, in the event that consignors default in its obligations to make full repayment of the consignor advances, we are entitled to dispose of the consigned artwork through auction or private sales and use the proceeds from the disposal to settle the amount due from the consignors.

Our management closely monitor the process of negotiation, determination and collection of consignor advance. We request managers to submit applications for consignor advance together with valuation reports issued by the experts to general manager of the relevant operating subsidiary for review, who will then submit the reviewed reports to the board of that operating subsidiary for final approval. Upon approval from the board, the relevant manager will then proceed to negotiate with the relevant consignors to determine the amount of consignor advance, which shall not exceed 30% of the valuation provided by our experts. The exact amount of consignor advance listed in the consignor advance agreement shall be approved by the chief finance officer, general manager and chairman of the relevant operating subsidiary. We generally grant a credit period of 180 days for consignor advance. For some high quality customers, we may offer a longer credit period of one to two years, with approval from the board of the relevant operating subsidiary, after taking into account various factors, including settlement status of relevant clients the transaction history of and our business relationship with the relevant clients.

According to our PRC legal advisors, such arrangement is complied with the current PRC Laws and regulations. In addition, as advised by our PRC legal advisors, our practice in providing consignor advances shall not be construed as lending business because the consignor advances for the artworks to be auctioned is paid to the consignors as a security for our performance under the auction listing agreement, which is not a loan facility. Our consignor advances amounted to RMB791.4 million, RMB608.4 million, RMB398.8 million and RMB356.2 million as of December 31, 2010, 2011 and 2012 and October 31, 2013. For details on aging analysis of our consignor advance, please see the section headed "Financial Information – Certain Items in the Consolidated Balance Sheet – Consignor Advance".

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During the Track Record Period, we have not encountered any material defaults from consignors in the repayment of consignor advances. During the Track Record Period, we have not made any provisions for consignor advances.

Prepayments of Auctioned Artwork

According to auction listing agreement, we have no obligation to make payment to the consignor prior to receiving full payment from the buyer. However, upon request from a seller who has good credit record and/or long-term relationship with us, we may make prepayments of auctioned artwork, prior to receiving full payment of purchasing price from the relevant buyer, on the conditions that (i) we have received partial payment of the amount due from such buyer and (ii) we have in our possession the relevant auctioned artwork or other auctioned artwork of the seller, which will be used to secure the prepayments. The amount of prepayments of auctioned artwork is determined through negotiation with the seller, taking into account various factors, including previous transaction record, amount payable to the relevant seller, the nature and auction turnover of the relevant artwork and our overall financial condition. In addition, we may agree to pay a seller an extra amount exceeding partial payment we received from the relevant buyer with approval from appropriate corporate governance authority at the relevant operation subsidiary in accordance with relevant internal control measures.

If the buyer fails to make full payment, upon agreement among parties, the sale may be cancelled and the artworks will be returned to the seller after settlement of prepayments of auctioned artwork and/or consignor advance, if applicable. In addition, we will retain the bidding deposit according to the bidding agreement and return the remaining portion of buyer's partial payment, if applicable. According to the relevant laws and regulations, if the relevant parties fail to reach an agreement to cancel the sale or we have paid seller the full amount of net sale proceeds, we are entitled to dispose of the consigned artwork through auction or private sales upon prior notice to the relevant seller. We will use the proceeds to settle the amount among us and relevant parties.

Our prepayments of auctioned artwork amounted to RMB219.8 million, RMB159.6 million, RMB407.7 million and RMB436.9 million as of December 31, 2010, 2011 and 2012 and October 31, 2013. For details, please see the section headed "Financial Information – Certain Items in the Consolidated Balance Sheet – Deposits, Prepayments and Other Receivables". During the Track Record Period, we have not made any provisions for prepayments of auctioned artwork.

Settlement

We have established measures addressing risks associated with the buyer's defaults in making timely payment of purchasing price after the auction. For instance, prior to the commencement of an auction, we request bidders to enter into bidding agreements pursuant to which we collect bidding deposits. After a bidder secures an artwork at hammer price, we will also sign a sales confirmation agreement with him or her on the site of the auction where we will specify the amount and time of payment. In addition, we may assist parties to enter into payment arrangements for longer credit period over one year or installment payment for relevant buyers, particularly buyers who purchased artworks of high value.

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Certain challenges arised together with the rapid development of the art auction market in China, including failure of certain buyers to make timely payment after the auction sales which led to undue delays in settlement. For details, please refer to the section headed “Industry Overview – The Art Business And Auction Industry In China – Overview – Challenges to the development of the art auction market in China”. We are of the view that the buyers’ defaults in making payment will not cause material and adverse impact on our operations and our Directors are of the opinion that this is in line with the industry practice.

During the operations of our auction, certain buyers who purchased artworks with high value may request for extended credit period or instalment payment. To address requests from these buyers, we may liaise with relevant buyers and sellers to reach a payment arrangements for a longer credit period over one year or installment payment for relevant buyers. As of October 31, 2013, the accumulated settlement rate for our auction sales for the year ended December 31, 2010, 2011 and 2012 and the ten months ended October 31, 2013 was 74.0%, 55.8%, 55.5% and 52.9%, respectively. The accumulated settlement rate is derived by dividing (i) the total amount of hammer price of artworks auctioned through auction sales we held during each of the relevant year or period, which have been settled as of October 31, 2013, with (ii) the total amount of hammer price of artworks auctioned through auction sales we held during such year or period. Please also see the section headed “Risk Factors – Our results of operations could be adversely affected by buyer’s default in making payment in due course”.

We believe that, through adopting our internal control and risk management measures to address risks associated with buyer’s failure in making payment in a timely manner, we could effectively mitigate relevant risks while maintaining a flexible commercial approach to address demands from clients.

We normally only deliver auctioned artworks to buyer after receiving full payment. However, upon request from a buyer who has good credit period and/or long-term relationship with us, we may deliver auctioned artworks to such buyer prior to receiving full payment with approval from our management on the conditions that (i) we have in our possession other artworks that such buyer consigned to us for auction, which can be used secure the relevant outstanding payments; and (ii) the amount of outstanding payment due from such buyer shall not exceed 50% of the aggregate auction turnover of auctioned artworks such buyer consigned to us for auction, which have not been settled as of the date of delivery. Please also see the section headed “Risk Factors – Our results of operations could be adversely affected by buyer’s default in making payment in due course”.

Other Measures

We initiated the following measures to address other major risks inherent in our business operations.

- **Private Sales.** According to our internal policy, we generally arrange private sales for artworks for which auctions fail, upon requests from potential buyers. If the seller agrees to consider private sales, we will enter into an authorization agreement with him to proceed. The commission rate for private sales normally is the same as auction sales. After the buyer and the seller reached an agreement on purchase of the artwork, we will proceed with settlement in accordance with the procedures for auction sales. We believe our strict private sales procedure and commission policy can prevent employees' malpractice.
- **Conflicts of Interest.** We have established specific mechanisms to prevent conflicts of interest. For instance, we forbid our employees to sell their artworks at auctions organized by us and have established strict internal reporting and checking procedures for employees to purchase artworks consigned to us for auction.
- **Customers' Credit.** We have formulated strict internal procedures according to which, we examine the identity documents of potential buyers and sellers prior to auctions. We generally collect bidding deposits from potential buyers, the amount of which is determined by the value of the relevant artworks consigned for auction.

We generally charge bidding deposits of RMB500,000 for auction sessions held during the day and RMB1.0 million for auction sessions held at night, as we generally introduce more artworks of high value for night auction sales in line with industry practice. In addition, we may adjust the amount of bidding deposits based on the category, quality and value of artworks to be auctioned.

We prohibit buyers from participating in bidding on behalf of other people, nor do we allow consignors to bid for artworks they consigned to us for sale by themselves or their agents. These measures ensure the authenticity of transactions and therefore increase the reputation of our brand.

- **Investment Decision on Cinema Projects.** In managing cinema investment and management segment, our management will review reports discussing geographical location, local competitiveness and pedestrian flow of the relevant property where we intend to lease for overall development of our cinemas.

We believe that the measures we use effectively decrease the likelihood of related risks.

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Anti-Money Laundering

We have committed to establishing and enforcing appropriate policies and procedures to prevent money laundering to ensure compliance with all relevant legal and regulatory requirements. Money laundering activities see various activities intended to hide or alter the illegal source of money. Our employees are required to comply with PRC laws and regulations in relation to anti-money laundering. During the Track Record Period and as at the Latest Practicable Date, we have complied with all our material obligations under the relevant legal and regulatory requirements relating to anti-money laundering.

In managing our art business and auction segment, we have implemented strict procedures at each key step of our operation which aim to spot, verify, report and prevent money laundering activities. Prior to establishing business relations with a client, we will verify the authenticity and origin of the relevant artwork. Subsequently, we will verify the identity of the client during the payment stage. For individual and legal person clients, we would request them to provide relevant identification documents and valid business license. Additionally, we have established an investigation and reporting system for single transactions or cumulative daily transactions totaling more than RMB0.8 million or its equivalent in foreign currency and other suspicious transactions. In the event that we suspect a transaction or a customer is potentially connected with money laundering activities, we will immediately report the relevant transaction or customer to our senior management, terminate our relationship with the client and also report such transaction to the relevant investigating authorities where necessary. We believe that our comprehensive internal anti-money laundering policies have substantially mitigated risks our associated with money laundering.

In addition, we have established a risk-based approach in our customer acceptance policy which aims to identify those types of customers who pose a higher than average risk for money laundering. This approach is based on a customer due diligence process that takes into account factors such as the customer's background, the nature of its business and past track record of business activities in artworks transactions, which may suggest that the customer present risks in respect of money laundering. We also request our employees and management to keep timely communication with other relevant authorities or financial institutions in accordance with applicable laws and regulations to control risks of anti-money laundering.

As of the Latest Practicable Date, we have not been subject to any penalty from or investigation initiated by applicable authorities with regards to money laundering activities.

INSURANCE

In line with industry practice and subject to restrictions in the insurance available in China, we do not purchase insurance for artworks we have consigned for auction or purchased as principal. In Hong Kong, we purchase insurance policies for artworks we were consigned for auction or purchased as principal, in line with industry practice in the local market. Please see the section headed "Risk Factors – Insurance coverage for artworks may be difficult to obtain, exposing us to losses for artworks in our possession".

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In our performance and theatre management segment and cinema investment and management segment, we purchase relevant insurance policies for performers and audiences according to industry practice and legal requirement.

QUALITY CONTROL

We strictly abide by laws and regulations governing our operations and have implemented quality control standards and measures. During the Track Record Period and as of the Latest Practicable Date, we have not experienced any material litigation, disputes or arbitration against us in relation to the quality of our service or products.

We believe that the quality of artworks and auction services is the key to our success in auction operation. Premium buyers are only attracted to our art auction by our many high-quality artworks and professional and efficient services, which will in turn improve the profits, brand reputation and market position of our auction operation. In addition, the profitability of our art business operation is determined by our capacity to purchase high-quality artworks with appreciation potential. We believe our quality of services and competitiveness are ensured by our team of professionals comprising both scholars and marketing experts we developed and retained for many years, our long-term relationship with high-quality clients and our strict internal control and quality controls procedures governing authentication and valuation of artworks.

In managing our performance and theatre management segment, we have formulated comprehensive internal procedures on theatre management and operation, based on our extensive experience in managing and operating theatres, which covers all sectors of theatre management, comprising the code of conduct for employees and rules on equipment maintenance and project planning and operations. We draw up indexes for customer satisfaction, equipment utilization, handling of customers' advices and identification of safety and quality accidents, together with a set of quantitative criteria for managing these indexes. As of October 31, 2013, 21 theatres under our management have passed ISO9001 quality management system.

We actively upgrade the facilities and projection technology of our cinemas to enhance the audience's viewing experience, which we expect could in turn improve our profitability. We have established a standard quality management system according to relevant laws and regulations.

PROPERTIES

Our headquarters are located in District A, 25/F, 1 North Street of Chaoyangmen, Dongcheng District, Beijing, China. As of the Latest Practicable Date, we owned two properties with an aggregate GFA of approximately 1,525 square meters. As of the Latest Practicable Date, we also leased 39 material properties with an aggregate GFA of 104,480 square meters in China and one property located in Hong Kong with a GFA of 684.7 square meters.

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Owned Properties

As of the Latest Practicable Date, we owned two properties with an aggregate GFA of approximately 1,525 square meters in the PRC, for which we held valid title certificates. Our PRC legal advisors have confirmed that we possess legal ownership of said properties and are entitled to occupy, use, benefit from and dispose of said properties.

Leased Properties

As of the Latest Practicable Date, our material leased properties comprised 39 properties with an aggregate GFA of approximately 104,480 square meters, all of which were located in PRC. We also leased one property in Hong Kong for office with a GFA of 684.7 square meters. These leased properties are primarily used for our cinema investment and management business in addition to our general office and warehouse operations.

- Of our 39 material leased properties as of the Latest Practicable Date, the relevant property owners had valid title ownership certificates for 26 properties with an aggregate GFA of approximately 50,262 square meters, accounting for approximately 48.1% of the aggregate GFA of our material leased properties.
- Of our 39 material leased properties as of the Latest Practicable Date, the relevant property owners have not obtained valid title ownership certificates for 13 properties with an aggregate GFA of approximately 54,218 square meters, accounting for approximately 51.9% of the aggregate GFA of our material leased properties.
 - Among these relevant 13 material leased properties, eight properties possessed alternate relevant legal certificates confirming valid ownership by the relevant property owners. These eight properties, with an aggregate GFA of approximately 42,224 square meters, account for approximately 40.4% of the aggregate GFA of our material leased properties.

According to our PRC legal advisors, based on the relevant documents and certificates available, our risks associated with the use and occupation of abovementioned eight properties due to property title challenges from third parties were remote.

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- Among these relevant 13 material leased properties, five properties did not possess legal certificates or documents confirming valid ownership by the relevant property owners. These five properties, with an aggregate GFA of approximately 11,994 square meters, account for approximately 11.5% of the aggregate GFA of our material leased properties. As of the Latest Practicable Date, the relevant property owners were in the process of applying for valid title ownership certificates.

The table below set forth details on the five leased properties lacking legal certificates confirming valid ownership by the relevant property owners.

<u>Properties</u>	<u>GFA</u>	<u>Utilization and Status</u>
Three properties	2,680	We primarily used these three properties for warehouses. As a result, we believe we will be able to relocate quickly and with minimal expense, should the legal ownership of the relevant properties by the properties owners be challenged by other third parties.
Two properties	9,313.6	We primarily use these two properties for our Beijing Wanyuan cinema and Beijing Poly International cinema (Dongzhimen). According to our PRC legal advisors, with respect to Beijing Wanyuan cinema, we have the right to seek compensation from the property owner pursuant to the relevant lease agreements in the event of early termination of lease resulting from legal title disputes. If we are required by the relevant authorities to vacate from these two properties prior to the end of the relevant leasing agreements and relocate our cinemas to alternative sites, we believe that the maximum potential cost for relocation, which may be incurred by us, will be no more than RMB34.1 million and our revenue loss attributable to such relocation will be no more than 10.4 million, accounting for approximately 0.27% of our revenue in 2012.

Based on the abovementioned factors, our use and occupation of the relevant land and buildings might be challenged by a third party. However, we have obtained an undertaking issued by our Controlling Shareholder dated November 25, 2013 whereby our Controlling Shareholder agreed to indemnify us against any losses incurred by us and our subsidiaries arising from the relocation of the leased properties due to defective ownership certificates. Our Directors are of the view that, individually or collectively, our 13 material leased properties lacking relevant legal ownership certificates by the relevant property owners are not crucial to our operations. Please see the section headed “Risk Factors – The leases for the properties used by us for our operations have not been properly registered and some of the properties we occupy may not have proper legal titles”.

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Registration of leasing agreements

According to the relevant PRC laws and regulation, we are requested to register leasing agreements with relevant government authorities. As of the Latest Practicable Date, we have not registered leasing agreements with respect to 37 properties out of the 39 material leased properties. As advised by our PRC legal advisors, failure to register such leasing agreements will not affect the validity of the lease contract and the contract is still valid.

Accordingly, this prospectus exempts under the Listing Rules and the Companies Ordinance on property valuation reporting requirements. According to Section 5.01A article, if the listing applicant's property business and the carrying value of non-property businesses is less than 1% and 15%, the prospectus exempt from this requirement. For Sections 342 (1) (b) of Schedule 3 of the Companies Ordinance and section 34 (2) paragraph, the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Chapter 6, there are similar exemption.

QUALIFICATIONS AND LICENSES

We operate in a highly regulated industry. In managing our art business and auction segment, we need to obtain and maintain applicable licenses to conduct art auction and sales of artworks, including cultural relics, upon approval from relevant PRC government authorities, including SACH. In managing our performance and theatre management segment, we need to obtain a license issued by the relevant PRC government authorities to conduct commercial performance. In addition, approval from relevant PRC government authorities shall be obtained prior to introducing performances of foreign performance troupes or individuals into China or establishing performance troupes in China. In managing our cinema investment and management segment, we are requested to obtain license to screen movies. Please see the section headed "Regulatory Overview".

According to the relevant PRC laws and regulations, we are subject to regular examination to renew relevant licenses. During the Track Record Period, we have not experience any delay in approval or renewal of our license that resulted in material adverse effect to our operations. Please see the section headed "Risk Factors – We operate in highly regulated industries. We may not be able to obtain or renew major licenses, permits and approvals required for our operations. The suspension or termination of any of our these licenses, permits or approvals may have a negative impact on our business".

INTELLECTUAL PROPERTY RIGHTS

The current intellectual property rights held by us mainly consist of copyrights of our original repertoires and trademarks that we independently own or licensed to us by our Controlling Shareholder. In addition, we have applied for patents for Poly-Max in May 2013. As of the Latest Practicable Date, our application is still under review. As at October 31, 2013, we had 12 independently owned trademarks. In addition, we have been licensed to use 36 trademarks free of charge that are licensed to us by Poly Group according to an agreement we entered into with Poly Group in May 26, 2013. Please see the section headed "Connected Transactions" and "Appendix VII – Statutory and General Information".

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In addition, we attach great importance to protecting intellectual property rights. For instance, under our art business and auction segment, we compare and authenticate the modern artworks submitted by the consignors and have formulated strict procedures for authenticating artworks to protect the copyright of artworks. In managing our performance and theatre management segment, Poly Theatre Management strictly controls the scripts, detailed plots, character modelling, performance materials and other materials during the process of selecting original scripts and rehearsing to prevent infringement of copyrights. Moreover, all the movies shown in our cinemas are obtained from Poly Wanhe Cinema Circuit in accordance with legally binding agreements. After acquiring the right of screening, we arrange showing of the relevant movies according to relevant agreements whereby we monitor and take actions to prevent breach of relevant intellectual property rights.

We provide regular training to our employees on intellectual property rights to improve their awareness and our ability to prevent potential intellectual property rights infringement. During the Track Record Period and as of the Latest Practicable Date, we have not experienced any litigation, arbitration or investigation in relation to intellectual property rights which caused material adverse effect to our operations.

Trademark Disputes

In 2011, Poly Auction Inc., an independent third party, registered the trademark “POLY” and “保利” in the United States for conducting auction operation in the United States. Further in 2012, Poly Auction Inc. registered the trademark “poly 保利” and “POLY INTERNATIONAL AUCTION CO., LTD 保利國際拍賣有限公司” in Hong Kong. As of the Latest Practicable Date, Poly Auction Inc., together with its related parties, has not conducted any actual auction activities in Hong Kong or elsewhere in the world.

In August 2011, we objected to the registration of Poly Auction Inc. and have submitted relevant documents to the U.S Patent and Trademark Office. In November 2012, the Hong Kong High Court has ruled in favour of us by removing the restraint order imposed on us pursuant to which, we successfully hosted our auctions through Poly Auction Hong Kong in Hong Kong. As of the Latest Practicable Date, the trademark dispute with Poly Auction Inc. is still ongoing with support from Poly Group. We are of the opinion that, the above mentioned disputes with Poly Auction Inc. will not cause any material adverse effect to our art business operation. Please see the section headed “Risk Factors – Failure to protect our own and third-party intellectual property rights could materially and adversely affect our business”.

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EMPLOYEES

As of December 31, 2012 and October 31, 2013, we had 2,842 and 3,205 employees, respectively. The following chart sets out the details about our employees.

	As of December 31, 2012	As of October 31, 2013
Management	372	413
Financial and Accounting	128	181
Technicians	504	515
Marketing and Sales	686	588
Administrative and Logistics	1,152	1,508
Total	2,842	3,205

We enter into employment contracts with our employees where we set forth terms of employment, payments and welfares and their job responsibilities. We also submit welfare payments in accordance with applicable laws and regulations in China or relevant jurisdictions. We maintained good relationships with our employees. During the Track Record Period, we have not experienced any disputes with our employees that could cause a material adverse effect upon our operations.

We highly value the importance of training our employees in order to groom talents for sustained development of our business. For instance, through years of efforts, we have developed and retained a team of experts who specialize in authentication, valuation and marketing of different types of artworks. We regularly invite them to give seminars to our employees to improve the quality of our services to customers. In managing our performance and theatre management segment, we have developed one of the largest teams with specialized skill sets in managing and operating large-scale and high-end theatres with over 1,000 seating capacities in China through on-the-job training.

LEGAL PROCEEDINGS

We are involved in various claims and lawsuits in the ordinary course of our business from time to time. Save as disclosed in this Prospectus, as of the Latest Practicable Date, we are not aware of any litigation, arbitration or investigation against us or our Directors that would cause a material adverse effect to our business operations or financial results.

As advised by our PRC legal advisors, during the Track Record Period and up to the Latest Practicable Date, we have complied with all relevant PRC laws and regulations in all material aspects for our business operations in the PRC.

Litigation with Beijing Huayi Haoge Media Culture Co., Ltd. (北京華億浩歌傳媒文化有限公司)

In December 2011, Beijing Huayi Haoge Media Culture Co., Ltd. (北京華億浩歌傳媒文化有限公司), or Beijing Haoge, filed a suit against us alleging that we had surreptitiously withdrawn the contributed capital of Beijing Poly Huayi Media and Culture Co., Ltd. (北京保利華億傳媒文化有限公司), or Poly Huayi, a joint venture we established with Beijing Haoge. Upon request, the Chinese authorities froze our equity interests in Poly Huayi. As advised by our PRC legal advisors, our directors are of the view that the allegation from Beijing Haoge has no merit, because (i) we had made sufficient capital injection to Poly Huayi, all of which has been verified by relevant authorities, and (ii) there was no surreptitious withdrawing of the contributed capital as we managed the operations of Poly Huayi, including the management of its registered capital in accordance with relevant PRC laws and regulations. As a result, without valid evidence, Beijing Haoge can hardly receive any favorable ruling from the court. In addition, we hold 50% equity interests of Poly Huayi, which is accounted as an investment in joint operation by using equity method. Prior to the beginning of the Track Record Period, due to the losses of Poly Huayi, the carrying value of our investment in Poly Huayi has been reduced to zero and has remained zero during the Track Record Period. On January 9, 2014, the 2nd Intermediate Court of Beijing entered into a judgment in our favor on the basis that the allegation from Beijing Haoge had no merit and our management of registered capital was in compliance with relevant PRC laws and regulation. As of the Latest Practicable Date, Beijing Haoge has not appealed against this judgment.

We have not received any administrative penalty from PRC authorities in relation to the allegation raised by Beijing Haoge. In addition, none of our Company, our Directors or employees has been placed under prosecutor's investigation in relation to the allegation raised by Beijing Haoge. Furthermore, our Controlling Shareholder has agreed to indemnify us from any loss should the court rule in favor of Beijing Haoge.

Based on the above mentioned factors, we are of view that (i) our frozen equity interests in Poly Huayi and (ii) the litigation raised by Beijing Haoge, taken as a whole or treated individually, would not cause material adverse impact on the Group's business, financial results and financial position. Please also see the section headed "Risk Factors – We may be subject to litigation, allegations, complaints and investigations, and our reputation, corporate image and operating results could be adversely affected if such results are adverse to our interests".