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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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### OVERVIEW

We were established as a joint stock limited liability company in December 2010 in accordance with PRC laws. Poly Group is one of the promoters of our Company. Immediately prior to the completion of the Global Offering, Poly Group directly and indirectly owns 100% of our issued share capital (68% directly owned by Poly Group while the remaining 32% indirectly owned by Poly Southern, a wholly-owned subsidiary of Poly Group). Immediately after the completion of the Global Offering, Poly Group will directly and indirectly own approximately 67.0% of our enlarged issued share capital, assuming no Over-allotment Option is exercised, and will remain as our Controlling Shareholder.

### DELINEATION OF BUSINESS

#### Business of our Group

Our Group was established as a platform under Poly Group to engage in the culture and art business including art business and auction, performance and theatre management and cinema investment and management.

#### Business of Poly Group

Established in 1992, Poly Group is a large state-owned enterprise under the direct supervision and administration of SASAC. Except for culture and arts business, which Poly Group is engaged through our Group, Poly Group is primarily engaged in military and civilian trade and business, real estate development, investment and exploitation in mineral resource field and the manufacture of civilian explosive equipments and blasting service.

As illustrated above, the Directors are of the view that there is a clear delineation between the business operated by Poly Group and our Group. Our Controlling Shareholder and Directors confirm that as at the date of this prospectus, none of them has any interest in a business which competes with, or is likely to compete with, our business, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules.

#### Non-Competition Undertaking

Poly Group has signed a non-competition undertaking on February 14, 2014 in favour of our Group (the “**Non-competition Undertaking**”). Pursuant to the Non-competition Undertaking, Poly Group has irrevocably undertaken that it would not and will procure that its associates (except any members of our Group) would not, directly or indirectly, whether as principal or agent, either on their own account or in conjunction with or on behalf of any person, firm or company, whether inside or outside the PRC, among other things, carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition with the business of any member of our Group from time to time (the “**Restricted Business**”).

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Poly Group has also undertaken to our Company that, if there is any new business opportunity in the Restricted Business, it shall within a reasonable period of time refer such new business opportunity to our Company. Such business opportunity shall first be offered or made available to us. Poly Group shall not invest, participate, be engaged in and/or operate in such business opportunity unless the Company has declined in writing or failed to respond within thirty (30) days after being notified of such opportunity.

The above undertaking does not apply where:

- Poly Group holds any interests in the shares of any member of the Group or conduct business on behalf of any member of the Group;
- Poly Group holds, directly or indirectly, any equity interests in any companies listed on an accepted stock exchange other than the Group, and such companies are not engaged in the Restricted Business;
- Poly Group holds any equity interests in any company other than the Group, except that:
  - according to the latest audited accounts of the company, the Restricted Business in which the company is engaged (and its related assets) accounts for less than 10% of the consolidated sales or consolidated assets of the company; and
  - the total number of shares held by Poly Group and/or its related parties account for no more than 5% of the shares of the same class issued by the relevant company, and Poly Group and/or its related parties have no right to appoint most of the Directors of the company;
- any opportunity to invest, participate, be engaged in and/or operate any Restricted Business has first been offered or made available by Poly Group and/or its respective associates to us, and after decision by the Company, has declined in writing or failed to respond within thirty (30) days after being notified of such opportunity to invest, participate, be engaged in or operate the Restricted Business.

Pursuant to the Non-competition Undertaking, the above restrictions would only cease to have effect upon the earlier of: (i) the H Shares of our Company cease to be listed on the Stock Exchange; (ii) our Group no longer holds, directly or indirectly, the shares of any listed member of the group which is engaged in the Restricted Business; and (iii) Poly Group ceases to be a Controlling Shareholder.

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### Corporate Governance Measures

To further protect the interests of our minority Shareholders, we will adopt below corporate governance measures to manage any potential conflicts of interest:

- our independent non-executive Directors will review, on an annual basis, the compliance with the Non-competition Undertaking by Poly Group;
- Poly Group undertakes to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-competition Undertaking; Unless invited by a majority of the independent non-executive Directors, executive Directors and senior management shall exclude themselves from any meeting convened to consider any issues arising under the Non-competition Undertaking. Our independent non-executive Directors may engage professional advisors at our Company's cost for advice on matters relating to the Non-competition Undertaking;
- we will disclose in the "corporate governance report" section of our subsequent annual reports on how the Non-competition Undertaking has been complied with;
- we will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance with the Non-competition Undertaking by Poly Group in our subsequent annual reports; and
- we will disclose the annual statement on compliance with the Non-competition Undertaking made by Poly Group in our subsequent annual reports.

Further, any transaction that is proposed between our Group and Poly Group and/or their respective associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent Shareholders' approval requirements.

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### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

#### Operational Independence

Our Company makes business decision independently. We have established our own organizational structure with independent departments, each with specific areas of responsibilities. We maintain a set of comprehensive internal control procedure to facilitate the effective operation of our business. Our operational functions, such as cash and accounting management, invoicing and billing, are run independently of Poly Group and their associates. We have independent access to customers and suppliers and are not dependent on Poly Group or their associates with respect to supplies for our business operation. We have our own employee headcount for our operations and our own management of human resources.

Save as the trademark licensed to us under the trademark license agreement disclosed in the section headed “Connected Transactions”, we have obtained all the licenses, approvals and permits from appropriate regulatory authorities that are material for our business operations.

The Group has entered into certain continuing connected transactions with Poly Group, pursuant to which, we may provide certain services or commodities to Poly Group, and vice versa. We provide services or commodities to Poly Group on non-exclusive basis and can be provided to Independent Third Parties. The services that Poly Group provides to us are also on non-exclusive basis, and we can readily obtain the services from Independent Third Parties.

The Group has secured the long-term lease of properties with Poly Group and their associates for its cinema and theatre operation, details of which are set out in the section headed “Connected Transactions”. These lease agreements were entered into on normal commercial terms after arm’s length negotiations. Our Directors believe that in the event that Poly Group ceases to lease any of the properties to us, we would be able to find suitable alternative premise from Independent Third Parties in the same region without substantial undue delay or inconvenience.

The Group has also entered into the Cinema Box Office Income Sharing Framework Agreement with Poly Group, details of which are set out in the section headed “Connected Transactions”. Due to the PRC regulatory restriction imposed on foreign investment into China’s cinema circuit companies, the Group had to dispose of the cinema circuit business from the listed group in preparation for the Listing. Therefore, as part of the Reorganization, the Group transferred its 51% equity interest in Poly Wanhe Cinema Circuit to the Controlling Shareholder, on the basis of audited net assets value as of June 2013, of which the audit was performed by an independent local accounting firm. In view of the following factors, our Directors are of the view that such connected transaction will not affect our operational independence because: (i) such arrangement complied with the applicable PRC laws and regulations and is in line with market practice in China’s film industry; (ii) the disposal of Poly Wanhe Cinema Circuit by our Group to Poly Group and the occurrence of the continuing connected transaction under the Cinema Box Office Income Sharing Framework Agreement was resulted from the PRC regulatory restriction; (iii) in the event that Poly Group ceases to

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provide film prints to us in the future, we are able to cooperate with independent cinema circuit companies which are readily available in the market and they will provide us with film prints on comparable terms; and (iv) Poly Group has undertaken to us that it will not transfer the 51% equity interest held by it in Poly Wanhe Cinema Circuit, as well as the assets and business of Poly Wanhe Cinema Circuit, to any third party other than the Company and/or its subsidiaries without obtaining prior written consent from the Company, and granted the Company the right to acquire the 51% equity interest of Poly Wanhe Cinema Circuit once the relevant regulatory restriction is lifted in the future.

Despite the continuation of the connected transactions, we will be able to function and operate independently from Poly Group as we do not place undue reliance on Poly Group in respect of the continuing connected transactions after the Listing.

### Management Independence

We are able to carry on our business independently from Poly Group from a management perspective. Our Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. As of the Latest Practicable Date, save as disclosed below, our executive Directors and senior management team have not hold any directorship or senior management role within Poly Group and their associates. Set below is a table summarizing the positions held by the Directors at our Company and Poly Group and its associates.

<u>Name of Directors</u>	<u>Position with the Company</u>	<u>Position with Poly Group and its associates as at the Latest Practicable Date</u>
Chen Hongsheng (陳洪生) . . .	Chairman of the Board and executive Director	<ul style="list-style-type: none"><li>• director of Poly Property</li><li>• director of Poly (Hong Kong) Holdings Limited</li><li>• director of Poly Energy Holdings Co., Ltd.</li></ul>
Zhang Zhengao (張振高) . . . .	Executive Director	<ul style="list-style-type: none"><li>• director and general manager of Poly Group</li><li>• chairman of Poly Tech</li><li>• chairman of Poly Energy Holdings Co., Ltd.</li><li>• director of Poly Southern</li><li>• director of Poly Real Estate</li></ul>

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Name of Directors	Position with the Company	Position with Poly Group and its associates as at the Latest Practicable Date
Wang Lin (王林) . . . . .	Non-executive Director	<ul style="list-style-type: none"> <li>• director and general manager of Poly Tech</li> <li>• vice general manager of Poly Group</li> <li>• chairman of China Xinshidai Science &amp; Technology Limited Company</li> <li>• vice chairman of Liaoning Poly Special Vehicles Co., Ltd.</li> <li>• director of Poly Energy Holdings Limited</li> <li>• chairman of Poly Mining Investment Co., Ltd.</li> <li>• chairman of Sino Africa Investment and Development Co., Ltd.</li> <li>• director of PTI International Group Ltd. (PTI)</li> <li>• director of Jilin Poly Medium-Testing Co., Ltd.</li> <li>• director of Poly International Development Co., Ltd.</li> <li>• director of Poly Mining International Investment Corporation Limited</li> <li>• director of Poly Mining (Asia-Pacific) Investments Co., Ltd.</li> <li>• chairman of PMMI International Ltd. (PMMI)</li> <li>• chairman of MYANMAR POLY</li> <li>• director of PTICA International Ltd. (PTICA)</li> <li>• director of PTIAL International Ltd. (PTIAL)</li> </ul>
Zhao Zigao (趙子高) . . . . .	Non-executive Director	<ul style="list-style-type: none"> <li>• director of Poly Tech</li> <li>• director of Poly Chemical Industry Holdings Co., Ltd.</li> </ul>

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As set out above, two of our four executive Directors and both of our non-executive Directors hold certain positions within Poly Group and their associates. However, our Directors are of the view that there are sufficient and effective control mechanisms to ensure that these two executive Directors and two non-executive Directors discharge their duties appropriately and safeguard the interests of our Shareholders as a whole on the following grounds:

- none of our non-executive Directors involve in the daily management and operation in our Group. The daily management and operation of the Group is managed by our executive Directors and senior management, save as disclosed below, none of whom holds any position in Poly Group and its associates and are our full-time employees;
- each of our Directors is aware of his/her fiduciary duties as a Director of our Company which require, among other things, that he/she acts for the benefit and in the best interests of our Company and do not allow any conflict between his duties as a Director and his/her personal interest. The decision-making mechanism of the Board set out in the Articles of Association includes provisions to avoid conflicts of interest. In the event that there is a potential conflict of interest between our Group and our Directors or their respective associates, arising out of any transaction to be entered into, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. Further, when considering connected transactions, our independent non-executive Directors will review the relevant transactions;
- none of our three independent non-executive Directors has any relationship with Poly Group and its associates; and
- among our six senior management members, only one member (namely Mr. Liu Debin (柳德彬)) has a position (i.e. chairman of the board) in Poly Wanhe Cinema Circuit which used to be a subsidiary of our Company, but he is not involved in daily management and operation of Poly Wanhe Cinema Circuit.

Therefore, there are sufficient non-overlapping directors who are independent and have relevant experience to allow the proper functioning of the Board.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently and are of the view that we are capable of managing our business independently from Poly Group after the Global Offering.

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### Financial Independence

Our Group has established an independent finance department with a team of independent financial staff, as well as a sound and independent financial system and makes financial decisions according to our Group's own business needs.

Immediately following the Listing, our Group expects to retain a non-trade payable due to Poly Group of approximately RMB46.06 million (the "**Payable**"). Our Directors and Sole Sponsor are of the view that the amount will not affect our financial independence based on the following reasons:

- the Payable was not generated during our ordinary course of business operations. From 2008 to 2010, our Company had purchased certain art products from its then subsidiary, Poly Art Museum which has created an intra-group payable between our Company and Poly Art Museum. In preparation for the Listing, our Group had to transfer Poly Art Museum to Poly Group since non-profit organizations such as museums cannot be included into the scope of the listing group pursuant to applicable PRC regulatory restriction. During the transfer, the payable due to Poly Art Museum which used to be part of our Group was transferred to Poly Group at the same time and the Payable had been created consequently; our Company is still in the process of discussing and negotiating with Poly Group for the settlement of the Payable and Poly Group has not requested our Company to settle the Payable as of the Latest Practicable Date; and
- the Company has a strong financing position and the amount of the Payable is insignificant. For the year ended December 31, 2012 and the ten months ended October 31, 2013, the net profit of the Company was approximately RMB386.3 million and RMB308.2 million, respectively. As of October 31, 2013, the total cash and cash equivalents of the Company amounted to approximately RMB773.9 million. As a result, our business operation and financial condition will not be materially and adversely affected should our Group settle the Payable.

Save as disclosed above, we have settled all amounts due to Poly Group of a non-trade nature and released all guarantees provided to us by Poly Group prior to the Listing.

Notwithstanding the Payable, the Company considers that, by the time of the Listing, the Company will be able to operate financially independently of Poly Group.