

Report on compliance with the Corporate Governance Rules  
of the Warsaw Stock Exchange  
for the year 2009  
in Cinema City International N.V.

## **Introduction**

In compliance with § 29 sec. 5 of the Warsaw Stock Exchange Rules and following the provisions of the Warsaw Stock Exchange Management Board's Resolution no 718/2009 dated December 16, 2009 Cinema City International N.V. (the "Company") hereby presents a report on compliance with the Warsaw Stock Exchange Corporate Governance Rules compiled in the Code of Best Practice for WSE Listed Companies for the year 2009.

For information on the Company's compliance with Tabaksblat Code, *i.e.*, the Corporate Governance Rules in force in The Netherlands, please refer to the Company's Annual Report for 2009.

## **I. RECOMMENDATIONS AND RULES THAT WERE NOT COMPLIED WITH BY THE COMPANY IN 2009**

The Company is incorporated and exists under the laws of The Netherlands and therefore, is subject to Dutch corporate law. Consequently, mainly due to differences between the Polish and Dutch corporate law, the Company did not comply fully with the following rules and recommendations for best practice for WSE-listed companies:

### **I. Recommendations for best practice for WSE-listed companies**

#### **Recommendation No. 1**

The Company conducts a transparent information policy using traditional and modern technologies to communicate with the capital market community, but in 2009 it did not provide the on-line broadcasts of General Meetings over the Internet and did not record General Meetings. The reason for this was the fact that all Shareholders registered for the General Meetings appointed as proxies the persons indicated by the Company and sent their voting instructions to such proxies. Therefore, in the opinion of the Company, there was no need for recording and broadcasting the General Meetings held in 2009. If the Company's Shareholders decide to attend the General Meetings in person in the future, the Company will make all the efforts to ensure that such meetings are recorded and broadcast on its website.

### **II. Best Practice for Management Boards of Listed Companies**

#### **Best Practice No. 1 (with respect to point 12).**

A company operates a corporate website in Polish and in English and publishes on its website all the information and documents required by the Warsaw Stock Exchange Corporate Governance Rules except the information about the projected cost to be incurred by the Company in connection with an employee incentive scheme based on shares from to its introduction.

In 2006 the Company introduced the 2006 Long-Term Incentive Plan ("Stock Option Plan") based on its shares which entitles the eligible employees, directors and managers of the Company and its subsidiaries to options for the Company's shares. Because of the legal nature of the Stock Option Plan that is based on options for the Company's shares, option validity (maximum of 10 years from the option grant), discretion given to each eligible optionee with respect to the option exercise and the option exercise date, and the right of the Company to meet its obligations

arising from the Stock Option Plan by a new share issue or transfer by the Company of its treasury shares to the eligible optionees as well as of the fluctuations in the level of fees charged by financial institutions in connection with the implementation and realisation of the Stock Option Plan, the Company does not provide information on the projected costs to be incurred by it in connection with the implementation of the Stock Option Plan. These costs are mainly generated at the moment the option is exercised by the eligible optionees.

Information on the costs incurred in a given year in connection with the Stock Option Plan is provided in the Company's financial statements.

The Company will not comply with this best practice on a permanent basis.

### **III. Best Practice for Supervisory Board Members**

#### **Best Practice No. 1 (with respect to point 1).**

Each year the Supervisory Board prepares the annual report on the activity of the Supervisory Board which constitutes a part of the Annual Report of the Company. The report is prepared in accordance with the requirements of Dutch law and regulations and describes in particular the composition as well as the work of the Supervisory Board and its committees.

The report of the Supervisory Board published in 2009 did not include a section on the assessment of the Company's standing and evaluation of the internal control system and the significant risk management system of the Company. The detailed information in this respect was provided in the Management Board's report in the Annual Report.

The Supervisory Board, especially through its audit committee, together with the Company's external auditor, supervises the Company's standings and the internal control system and the significant risk management system implemented by the Company.

## **II. GENERAL MEETINGS OF SHAREHOLDERS, ITS KEY POWERS, THE RIGHTS OF SHAREHOLDERS AND HOW THE RIGHTS ARE EXECUTED.**

*The sections below should be read in conjunction with the Company's articles of association (the "Articles of Association") which document is available on the Company's website at: [www.cinemacity.nl](http://www.cinemacity.nl).*

The general meetings of the shareholders of the Company (the "General Meeting") take the form of the annual general meeting (the "Annual General Meeting") or the extraordinary general meeting (the "Extraordinary General Meeting").

As at the date hereof all the shares in the Company are ordinary bearer shares, this report does not describe the rights of shareholders holding potential registered shares in the Company.

#### *General Meetings dates*

The Annual General Meeting is held within six months of the end of the Company's financial year (i.e., by 30 June of a given year). The extraordinary Shareholders Meetings can be called by:

- (i) the board of managing directors of the Company (the "Management Board") and/or
- (ii) the board of supervisory directors of the Company (the "Supervisory Board")

as often as the Management Board or the Supervisory Board deems necessary; or

- (iii) the requesting shareholders meeting the requirements provided for in the Articles of Association

The Articles of Association defines situations when the Extraordinary General Meetings can be convened by the shareholders.

#### *Pre-Meetings*

As the Company's shares are listed solely on the Warsaw Stock Exchange, the Company also organizes pre-meetings, which are held in Warsaw usually seven days before the Annual General Meeting. The pre-meeting is the occasion for discussion on the Company's results, plans and draft resolutions of the general meeting agenda between the Polish shareholders and the Management Board and the Supervisory Board. Organization of pre-meetings is not compulsory and no resolutions are taken by the pre-meeting.

#### *Place of the General Meetings and the pre-meetings*

General Meetings can be held in Amsterdam, Rotterdam or Haarlemmermeer (Schiphol). In a meeting held elsewhere, valid resolutions can only be taken if the entire issued capital is represented. The pre-meetings are held in Warsaw.

The convening notice states the place where the General Meeting is to be held.

#### *Convocation*

Convocation takes place not later than on the fifteenth day prior to the day of the General Meeting. The convening notice is published in the Dutch daily (in the past the Company published the convening notice in "Het Financieele Dagblad") and in the current report issued through the Warsaw Stock Exchange system ESPI, which is after available on the Company's website [www.cinemacity.nl](http://www.cinemacity.nl). The convening notice provides details on the date, place, agenda and registration for the General Meeting.

#### *General Meeting-related documentation*

The documents prepared for the purpose of the General Meeting, such as the annual report, shareholders' circulars, proxy forms, proxy voting procedures, reports, biographies of the nominees to the governing bodies of the Company, etc., are made available for inspection of the shareholders at the registered office of the Company in the Netherlands. For the convenience of its shareholders, the Company also makes these documents available at its offices in Warsaw, Poland at 37 Fosa Street and on the Company's website, [www.cinemacity.nl](http://www.cinemacity.nl), both in English and in Polish.

#### *General meeting key powers*

The shareholders at the Annual General Meeting adopt resolutions and discuss the following issues listed in the Company's Articles of Association:

1. adoption of the annual accounts;
2. discussion of any substantial changes in corporate governance;
3. discussion of remuneration policy board of managing directors;
4. discharge of the board of managing directors for the management over the past financial year;
5. discussion of remuneration supervisory board;

6. discharge of the board of supervisory directors for the supervision over the past financial year;
7. policy on additions to reserves and dividends
8. adoption of the profit appropriation;
9. filling of any vacancies;

and any such other motions as the Supervisory Board, the Management Board, or the shareholders or any other persons representing solely or jointly at least one-hundredth of the issued capital or holding shares of the Company, may file and notify with due observance of the provisions of article 35 of the Company's Articles of Association.

The shareholders at the Extraordinary General Meeting adopt resolutions and discuss any items as the Supervisory Board, the Management Board, or the shareholders or any other persons representing solely or jointly at least one-hundredth of the issued capital or holding shares of the Company, may file and notify with due observance of the provisions of article 35 of the Company's Articles of Association.

General Meeting approves resolutions of the Management Board leading to an important change in the Company's or its business enterprise's identity or character, including in any case each decision on:

- a. the transfer of the business of the company or almost the entire business of the company to a third party;
- b. the entering into or termination of any long-term co-operation of the company or any subsidiary of the company with another legal entity or company or as a fully liable partner in a limited or general partnership, if such co-operation or termination is of far-reaching significance for the company; or
- c. the acquisition or disposal of a participation in the capital of a company with a value of at least one third of the amount of the assets according to the balance sheet with explanatory notes, or in case the company prepares a consolidated balance sheet, according to the consolidated balance sheet with explanatory notes, forming part of the most recently adopted annual accounts of the company.

#### *Adopting the resolutions*

The General Meeting adopts only resolutions placed in the agenda. Valid resolutions in respect of matters which were not mentioned on the agenda in the convocation letter or which have not been published in the same manner and with due observance of the period set for convocation, can only be taken by unanimous votes in a meeting where the entire issued capital is represented.

Resolutions are passed by an absolute majority of the votes cast, unless the Dutch law or the Articles of Association prescribe a greater majority.

The agenda contains such business as may be placed thereon by the Management Board and/or the Supervisory Board.

The agenda can contain such items as requested in writing by one or more persons entitled to attend the General Meeting, representing solely or jointly at least one-hundredth of the issued capital or

holding shares of the Company which according to the official price list of the regulated stock exchange represent a value of at least fifty million euros (EUR 50,000,000.--), at least sixty days before the date of the General Meeting.

#### *Challenging resolutions of General Meetings*

Under Dutch law and the conflict of law rules, a resolution of the General Meeting may only be appealed to a Dutch court in accordance with the Dutch company and civil proceedings law. Pursuant to Dutch law, a resolution of the General Meeting may be appealed if the resolution is (i) in conflict with the statutory law, provisions of the Articles of Association on the proceedings for taking resolutions, (ii) in conflict with principles of reasonableness and fairness as set forth in Art. 2.8 of the Dutch Civil Code; or (iii) in conflict with the internal regulation of the Company itself (inter alia the Articles of Association). Art. 2.8 of the Dutch Civil Code includes a general clause which appeals for the exercise of corporate rights and obligations in compliance with principles of reasonableness and fairness. The plaintiff should furthermore show a legal interest in appealing against the resolution. Generally the appeal should be filed with a district court having jurisdiction over the Company's statutory seat, and Dutch civil proceedings rules shall be applicable. Generally, the appeal will be subject to court fees. If the court finds in favour of the appealing party, the resolution can be nullified (*vernietigd*). Furthermore, Dutch law provides for a right to challenge a resolution taken by other governing bodies of a Dutch company (i.e. the board of directors) on the same grounds as specified above. The same appeal procedure would apply.

#### *Voting*

All voting takes place orally unless the chairman decides on a voting in writing or any person entitled to vote requests a voting in writing. A voting in writing takes place by means of unsigned ballot papers. Votes by acclamation are allowed unless one of the persons present and entitled to vote objects.

If no absolute majority is reached by a vote taken with respect to the election of persons, a second vote shall be taken whereby the voters are not required to vote for the previous candidates. If, again, no one has gained an absolute majority of the votes, new votes shall be held until either one person has gained an absolute majority or, if the vote was between two persons, the votes are equally divided. Such new votes (except for the second vote) shall only take place between the candidates who were voted for in the previous vote, except for the person who received the least number of votes. If in the previous vote two or more persons have the least number of votes, it shall be decided by lot who cannot be voted for at the new vote. If, in the event of an election between two candidates, the votes are equally divided, it shall be decided by lot who has been elected

#### *The rights of Shareholders and how the rights are executed*

Shareholders have the following rights at or in connection with the General Meeting:

1. The right to convene the General Meeting.  
Shareholders representing at least one-tenth of the issued capital have a right to convene an Extraordinary General Meeting in case when they have requested the Management Board to call a General Meeting in writing, exactly stating the matters to be discussed, and the Management Board has not taken the necessary steps. In this case the General Meeting can be held within six weeks after the request.

Shareholders representing more than half of the issued capital can call the general meeting without requesting the management board.

2. the right to put an item in the agenda of the General Meeting

One or more persons entitled to attend the General Meeting, representing solely or jointly at least one-hundredth of the issued capital or holding shares of the Company which according to the official price list of the regulated stock exchange represent a value of at least fifty million euro (EUR 50,000,000.--) can request in writing, at least sixty days before the date of the meeting, to put an item in the general meeting agenda.

3. The right to attend the General Meeting, address the meeting and exercise their voting rights thereat

Every person entitled to vote and every usufructuary and pledgee having voting rights is authorized to attend the General Meeting, address the meeting and exercise their voting rights thereat. Each shareholder that has complied with the conditions as set out in the notification to attend the General Meeting of Shareholders is then entitled to attend the General Meeting of Shareholders, to address the meeting and to exercise his or her voting rights, in accordance with the Articles of Association. Shareholders that have duly registered at the record date may be represented in a meeting by a proxy authorised in writing, provided that the power of attorney has been received by the Management Board no later than on the date mentioned in the notice of the relevant meeting. In both instances, this date shall not be earlier than the seventh day prior to the date of the General Meeting of Shareholders.

At the General Meeting, each person present with voting rights must sign the attendance list. Shareholder can also attend the General Meeting and execute his rights through the proxy designated by the Company. The Company indicates persons who are ready to act as proxies and who may be given by shareholders voting instructions, which allows Shareholders to vote without travelling to the Netherlands. The Company bear costs of the proxy indicated by the Company.

Each share carried one vote.

4. The right to inspect the materials prepared for the purpose of the General Meeting.

The documents prepared for the purpose of the General Meeting, such as the annual report, shareholders' circulars, proxy forms, proxy voting procedures, reports, biographies of the nominees to the governing bodies of the Company, etc., are made available for inspection of the shareholders at the registered office of the Company in the Netherlands. For the convenience of its shareholders, the Company also makes these documents available at its offices in Warsaw, Poland at 37 Fosa Street and on the Company's website, [www.cinemacity.nl](http://www.cinemacity.nl), both in English and in Polish.

5. The right to challenge the adopted resolution

Please refer to section Challenging resolutions of General Meetings above

6. The right to review the minutes of the general meeting

The minutes of the general meeting are made available, on request, to shareholders no later than three months after the end of the meeting, after which the shareholders shall have the opportunity to react to the report in the following three months.

### **III. COMPOSITION, TERMS OF REFERENCE OF THE MANAGING AND SUPERVISING BODIES AND THE COMMITTEES.**

Management board

*Members of the management board*

Moshe J. Greidinger – Chief Executive Officer  
Amos Weltsch – Chief Operating Officer  
Israel Greidinger – Chief Financial Officer

During the General meeting of shareholders in September 2008, Messrs Moshe Greidinger, Israel Greidinger and Amos Weltsch were re-appointed as Management Board Directors. Their current term of 4 years will expire in June 2012.

#### *Appointment and dismissal*

Members of the management board are appointed by the general meeting. Unless the general meeting explicitly resolves otherwise a managing director is appointed for a period of four years. A resolution by the general meeting to deviate from the four year term shall require a majority of at least two-thirds of the votes cast.

The general meeting at all times have the power to suspend or dismiss each managing director. Each managing director may at all times be suspended by the board of supervisory directors. The suspension may at all times be canceled by the general meeting. Any such suspension may be extended several times but the total term of the suspension may not exceed three months. The suspension shall expire on lapse of this period if no resolution has been adopted either to lift the suspension or to dismiss the managing director.

#### *Powers of the management board*

1. The board of managing directors shall be in charge of managing the company, subject to the restrictions set forth in the Company's articles of association.
2. The board of managing directors represent the company. The authority to represent the company shall also be vested in two managing directors acting jointly.
3. The board of managing directors may appoint officers and grant them a general or special power of attorney.

#### *Meetings*

The board of managing directors shall meet as often as a managing director may deem necessary.

#### *Adopting resolutions*

In the meeting of the board of managing directors each managing director has a right to cast one vote. All resolutions by the board of managing directors shall be adopted by an absolute majority of the votes cast. A managing director may grant another managing director a written proxy to represent him at the meeting. The board of managing directors may adopt resolutions without holding a meeting, provided that the resolution is adopted in writing and all managing directors have expressed themselves.

#### Supervisory Board

##### *Members of the supervisory board*

Coleman K. Greidinger - Chairman of the Supervisory Board,  
Yair Shilhav,

Scott S. Rosenblum,  
Arthur F. Pierce,  
Caroline M. Twist,  
Peter J. Weishut

In June 2009, the General meeting of shareholders reappointed Mr Peter Weishut as Supervisory Directors of the Company. Their new term will expire in June 2013.

In order to secure continuity within the Board, the Supervisory Board has adopted an arrangement that provides for a staggered expiration of individual terms. Under this arrangement, the reappointment for a four year term of one member of the Supervisory Board will be scheduled prematurely for the upcoming Annual General Meeting of shareholders. This will be repeated for each Supervisory Board member at the occasion of the Annual General Meetings of shareholders .

#### *Independent supervising directors*

The company has a board of supervisory directors, consisting of at least three (3) and at most six (6) natural persons of which at least two (2) supervisory directors shall be independent. The criteria of independence are set forth in the Company's statute. In 2008 the following supervisory directors met the criteria of independency: Yair Shilhav, Caroline M. Twist, Peter J. Weishut and Frank Pierce.

#### *Appointment and dismissal*

The supervisory directors are appointed by the general meeting. Unless the general meeting explicitly resolves otherwise a supervisory director is appointed for a period of four years, it being understood that this period of appointment expires no later than at the end of the following general meeting to be held in the fourth year after the year of his appointment, or if applicable on a later pension or other contractual termination date in that year. A resolution by the general meeting to appoint for a period exceeding the four years term as described in the previous sentence shall require a majority of at least two-thirds of the votes cast.

After held office for the first period of four years, supervisory directors are eligible for reelection only twice for a full period of four years.

A supervisory director can at any time be suspended and dismissed by the general meeting.

#### *Powers of the supervisory board*

1. The board of supervisory directors supervises the policies of the board of managing directors and the general course of affairs of the company and its affiliated business.
2. The board of supervisory directors gives advice to the board of managing directors.
3. The board of supervisory directors approves decisions to enter into transactions in which there are conflicts of interest with supervisory directors and/or managing directors that are of material significance to the company and/or to the relevant managing director or supervisory director require the approval of the board of supervisory directors.
4. The board of supervisory directors shall have access to the buildings and grounds of the company and be authorized to inspect the books, records and other carriers of data of the company. The board of supervisory directors may appoint one or more persons from their midst or any expert to exercise such powers. The board of supervisory directors may also seek assistance of experts in other case.

### *Meetings*

The board of supervisory directors shall meet as often as a supervisory director or the board of managing directors may deem necessary

### *Adopting resolutions*

In the meeting of the board of supervisory directors each supervisory director has a right to cast one vote. All resolutions by the board of supervisory directors shall be adopted by an absolute majority of the votes cast. In case the votes are equally divided the chairman does not have a decisive vote.

Without prejudice to article 20.5 a supervisory director shall not take part in any discussion or decision-making that involves a subject or transaction in relation to which he has a conflict of interest with the company

The board of supervisory directors may pass resolutions outside a meeting, provided that the resolution is adopted in writing and all supervisory directors have expressed themselves.

### *Committees of the supervisory board*

There are three committees in the supervisory board: audit committee, remuneration committee and appointment committee. All committees are formed and work according to their charters of the governing rules, which are available on the Company's website [www.cinemacity.nl](http://www.cinemacity.nl).

The compositions of the committees are as follows:

#### Audit Committee:

Yair Shilhav – Chairman

Coleman Greidinger – Member

Scott S. Rosenblum - Member

The roles and responsibilities of the Audit Committee are to supervise, monitor and advise the Management Board and Supervisory Board on all matters related to risk management, audit, control and compliance to relevant financial legislation and regulations. The Audit Committee evaluates the performance of external auditors and related costs.

During the year 2009, the Audit Committee has met 6 times. The Audit Committee has also held meetings with the external auditors.

#### Remuneration Committee:

Scott S. Rosenblum – Chairman

Arthur F. Pierce – Member

Caroline M. Twist – Member

It is the primary task of the Remuneration Committee to propose to the Supervisory Board remunerations of the members of the Management Board, including a review and monitoring of the Group's total remuneration policy. During the year 2009, the Remuneration Committee has met twice.

#### Appointment Committee:

Scott S. Rosenblum – Chairman

Arthur F. Pierce – Member

Peter J. Weishut – Member

The primary responsibility of this committee is to advise the Supervisory Board on matters relating to the nominations of both Management and Supervisory Board members. The Appointment Committee regularly reviews the Supervisory Board profile, its effectiveness and composition. The committee also reviews the performance of the members of the Management Board. During the year 2009, the Appointment Committee has met twice.

#### **IV. DESCRIPTION OF BASIC RULES OF THE RISK MANAGEMENT APPLIED IN THE PROCESS OF PREPARATION OF FINANCIAL STATEMENTS.**

Financial data used for preparation of financial statements is generated by the IT systems on the country level. Financial statements of the companies in particular countries are prepared by financial directors responsible for particular country and they are audited by local auditors in each country. Audited financial statements are passed to the group financial director for consolidation and the consolidated statements are audited by the mother company auditor. The financial statements are signed by the Management Board and reviewed by the Audit Committee of the Supervisory Board. Audited financial statements are discussed at a supervisory board meeting attended by the auditors who provide additional information on the audit process and their audit findings.

Moshe J. Greidinger  
*Chief Executive Director*  
*President of the*  
*Management Board*

Amos Weltsch  
*Chief Operating Director*  
*Member of the*  
*Management Board*

Israel Greidinger  
*Chief Financial Director*  
*Member of the*  
*Management Board*