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Maoye International Holdings Limited
茂業國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 848)

PROPOSED ISSUE OF USD DENOMINATED SENIOR GUARANTEED NOTES

This is an announcement made pursuant to the Inside Information provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571) and Rule 13.09 of the Listing Rules.

The Company proposes to conduct an international offering of the Notes and will commence a series of roadshow presentations to professional investors only. The Notes are expected to be issued by the Company and guaranteed by the Subsidiary Guarantors.

The completion of the Proposed Notes Issue is subject to market conditions and investors' interest. Citi, Deutsche Bank, Goldman Sachs and J.P. Morgan, as joint lead managers and joint bookrunners, are managing the Proposed Notes Issue. If the Notes are issued, the Company intends to use the net proceeds of the proposed issue of the Notes primarily to refinance existing indebtedness and the remainder for general corporate purposes.

In connection with the Proposed Notes Issue, the Company will provide certain professional investors with certain corporate and financial information regarding the Group, which information may not necessarily have been made public previously. For purposes of equal, effective and timely dissemination of information to shareholders and investment community, an extract of such information is attached to this announcement, and a copy of this announcement will be available on the Company's website at www.maoye.cn.

The Company is in the process of applying to the Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issue to professional investors only, and has received the eligibility letter from the Stock Exchange for the listing of the Notes. Listing of the Notes on the Stock Exchange is not to be taken as an indication of the merits of the Company, the Group or the Notes.

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialize. Investors and shareholders of the Company are advised to exercise caution when dealing in the securities of the Company.

Further announcements in respect of the Proposed Notes Issue will be made by the Company should a purchase agreement in respect of the Proposed Notes Issue be signed.

This is an announcement made pursuant to the Inside Information provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571) and Rule 13.09 of the Listing Rules.

THE PROPOSED NOTES ISSUE

Introduction

The Company proposes to conduct an international offering of the Notes and will commence a series of roadshow presentations to professional investors only. The Notes are expected to be issued by the Company and guaranteed by the Subsidiary Guarantors.

The completion of the Proposed Notes Issue is subject to market conditions and investors' interest. Citi, Deutsche Bank, Goldman Sachs and J.P. Morgan, as joint lead managers and joint bookrunners, are managing the Proposed Notes Issue.

The Notes have not been, and will not be, registered under the U.S. Securities Act. The Notes will be offered or sold (i) in the United States only to qualified institutional buyers, as defined in, in reliance on, Rule 144A under the U.S. Securities Act or (ii) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act. None of the Notes will be offered to the public in Hong Kong nor will the Notes be placed to any connected persons of the Company.

In connection with the Proposed Notes Issue, the Company will provide certain professional investors with certain corporate and financial information regarding the Group, which information may not necessarily have been made public previously. For purposes of equal, effective and timely dissemination of information to shareholders and investment community, an extract of such information is attached to this announcement, and a copy of this announcement will be available on the Company's website at www.maoye.cn.

Reasons for the Proposed Notes Issue and proposed use of proceeds

The Company is principally engaged in the operation and management of department stores and property development in PRC, and is a leading department store chain operator in the affluent regions throughout the PRC. Currently, the Company is focused on developing future department stores mainly in the second- and third-tier cities in the most economically developed regions and the regions with high economic growth in PRC.

If the Notes are issued, the Company intends to use the net proceeds of the issue of the Notes primarily to refinance existing indebtedness and the remainder for general corporate purposes.

The Directors (including the independent non-executive Directors) consider that the Proposed Notes Issue represents a good opportunity to raise additional funds for the Company and is in the interest of the Company and shareholders of the Company as a whole.

Proposed listing

The Company is in the process of applying to the Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issue to professional investors only, and has received the eligibility letter from the Stock Exchange for the listing of the Notes. Listing of the Notes on the Stock Exchange is not to be taken as an indication of the merits of the Company, the Group or the Notes.

GENERAL

As no binding agreement in relation to the Proposed Notes Issue has been entered into as at the date of this announcement, the Proposed Notes Issue may or may not materialize. Investors and shareholders of the Company are advised to exercise caution when dealing in the securities of the Company.

Further announcements in respect of the Proposed Notes Issue will be made by the Company should a subscription agreement in respect of the Proposed Notes Issue is signed.

DEFINITIONS

"Board"	the board of directors of the Company;
"Citi"	Citigroup Global Markets Inc., one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Notes;
"Company"	Maoye International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange;
"connected person"	has the meaning ascribed to it under the Listing Rules;
"Deutsche Bank"	Deutsche Bank AG, Singapore Branch, one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Notes;

"Goldman Sachs"	Goldman Sachs (Asia) L.L.C., one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Notes;
"Group"	the Company and its subsidiaries from time to time;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"J.P. Morgan"	J.P. Morgan Securities plc, one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Notes;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Notes"	the United States dollar denominated senior notes expected to be issued by the Company and guaranteed by the Subsidiary Guarantors;
"PRC"	the People's Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
"Proposed Notes Issue"	the proposed issue of the Notes;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subsidiary Guarantors"	the subsidiaries of the Company incorporated outside of the PRC which are expected to provide a guarantee for the repayment of the Notes;
"United States"	the United States of America, its territories and possessions and all areas subject to its jurisdiction; and
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

By Order of the Board
Maoye International Holdings Limited
Mr. Huang Mao Ru
Chairman

Hong Kong, 19 June 2013

As at the date of this announcement, the Board comprises four executive directors, namely, Mr. Huang Mao Ru, Mr. Zhong Pengyi, Ms. Wang Fuqin and Mr. Wang Bin; and three independent non-executive directors, namely, Mr. Chow Chan Lum, Mr. Pao Ping Wing and Mr. Leung Hon Chuen.

APPENDIX

EXTRACT OF OFFERING MEMORANDUM

As used in this appendix to this announcement, references to “we”, “us”, “our” and the “Company” are to Maoye International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, and its subsidiaries, as the context requires. The term “our Group”, refers to Maoye International Holdings Limited and its subsidiaries.

As used in the appendix to this announcement, references to:

- “Controlling Shareholder Group” refers to Mr. Huang Mao Ru, his associates and companies majority owned or controlled by him and his associates, including MOY International Holdings Limited, Maoye Holdings Limited and Richon Holdings Limited, but other than our Group;

- “Hong Kong dollars”, “HK dollars”, and “HK$” are to the lawful currency of Hong Kong, references herein to “Renminbi” or “RMB” are to the lawful currency of the PRC and references herein to “US dollars”, “USD” or “US$” are to the lawful currency of the United States of America. For convenience only, all transactions in this Offering Memorandum from RMB to US$ were made at the rate of RMB6.2301 to US$1, as set forth in the H.10 statistical release of the U.S. Federal Reserve Board as of December 31, 2012;

- “HKSE” and “Hong Kong Stock Exchange” mean the Stock Exchange of Hong Kong Limited, “Listing Rules” means the Hong Kong Stock Exchange Listing Rules;

- “Non-subsidiary Guarantors” are our existing subsidiaries that are organised under the laws of the PRC;

- “sq.m.” are to square meter;

- “the “PRC” and “China” are to the People’s Republic of China and, for the purposes of this appendix, except where the context requires, do not include the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”), or Taiwan. “PRC government” or the “State” means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or, where the context requires, any of them; and

- "Total Sales Proceeds" refer to the sum of total sales proceeds from concessionaire sales and revenue from direct sales at our department stores, references herein to "Total Department Store Revenue" refer to the sum of commission from concessionaire sales, revenue from direct sales, and rental income from store leases at our department stores, reference herein to "average concession rate" refers to commission from concessionaire sales divided by total sales proceeds from concessionaire sales, references herein to "comprehensive gross margin" refers to the aggregate amount of commission from concessionaire sales, revenue from direct sales, other income from concessionaires and suppliers (including administration and management fee income, promotion income and credit card handling fees) minus cost of inventories, divided by the Total Sales Proceeds.

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2012 and as adjusted to give effect to the issuance of the Notes offered hereby. You should read this table in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2012, and related notes included elsewhere in this Offering Memorandum.

	As of December 31, 2012			
	Actual		As Adjusted	
	RMB	*US$*	*RMB*	*US$*
		(in millions)		
Long-term indebtedness				
Indebtedness — due after one year	2,370.5	380.5	2,370.5	380.5
Notes offered hereby	—	—		
Total	2,370.5	380.5		
Equity				
Equity attributable to owners of the parent				
Issued capital	480.4	77.1	480.4	77.1
Equity component of convertible bonds..	119.1	19.1	119.1	19.1
Reserves	4,791.0	1,279.4	4,791.0	1,279.4
Proposed final dividend	100.1	16.1	100.1	16.1
Non-controlling interests	1,374.2	220.6	1,374.2	220.6
Total	7,044.9	1,130.8	7,044.9	1,130.8
Total capitalization [(1)]	9,415.3	1,189.9		

Notes:

1. Total capitalization equals long-term indebtedness plus total equity.

For details of changes to our capitalization and indebtedness since December 31, 2012, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Development" in this Offering Memorandum.

Except as disclosed in this Offering Memorandum, there have been no material changes in our capitalization and indebtedness since December 31, 2012.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected consolidated income statement data for the years ended December 31, 2010, 2011 and 2012 and the selected consolidated statement of financial position data as of December 31, 2010, 2011 and 2012 set forth below have been derived from our consolidated financial statements for such years and as of such dates, as audited by Ernst & Young, independent certified public accountants, and included elsewhere in this Offering Memorandum. Our financial statements have been prepared and presented in accordance with IFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions.

The selected financial data below should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those statements.

Consolidated Income Statement

	Year ended December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000)* *(unaudited)*
REVENUE	2,197,282	3,357,024	3,542,719	568,646
Other income	551,068	766,308	807,139	129,555
Total operating revenue	2,748,350	4,123,332	4,349,858	698,201
Cost of sales	(747,147)	(1,335,146)	(1,444,402)	(231,843)
Employee expenses	(245,640)	(375,494)	(369,699)	(59,341)
Depreciation and amortization	(211,107)	(326,202)	(343,603)	(55,152)
Operating lease rental expenses	(172,829)	(216,236)	(237,245)	(38,080)
Other operating expenses	(488,437)	(772,064)	(859,531)	(137,964)
Other gains	34,251	107,873	274,427	44,049
Operating profit	917,441	1,206,063	1,369,805	219,870
Finance costs	(113,780)	(188,793)	(132,815)	(21,318)
Share of profits and losses of associates	1,659	498	(76)	(12)
PROFIT BEFORE TAX	805,320	1,017,768	1,236,914	198,540
Income tax expense	(197,840)	(282,879)	(338,360)	(54,311)
PROFIT FOR THE YEAR	624,086	734,889	898,554	144,229
Attributable to:				
Owners of the parent	576,597	640,312	801,820	128,702
Non-controlling interests	47,489	94,577	96,734	15,527
	624,086	734,889	898,554	144,229

Consolidated Statement of Financial Position

	As of December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000)* *(unaudited)*
NON-CURRENT ASSETS				
Property, plant and equipment	2,437,213	3,646,710	4,240,296	680,614
Investment properties	292,199	428,221	509,298	81,748
Land lease prepayments	3,657,010	3,963,985	3,717,176	596,648
Goodwill	537,050	641,680	641,680	102,997
Other intangible assets	4,148	6,823	5,818	934
Investments in associates	11,904	12,260	12,049	1,934
Available-for-sale equity investments	635,398	782,205	960,150	154,115
Prepayments	1,115,458	1,102,725	709,930	113,952
Other assets	2,458	2,458	—	—
Loan and receivable	—	—	107,500	17,255
Deferred tax assets	61,647	83,907	140,622	22,571
Total non-current assets	8,754,485	10,670,974	11,044,519	1,772,768
CURRENT ASSETS				
Inventories	166,419	281,977	279,147	44,806
Completed properties held for sale	485,287	524,734	620,549	99,605
Properties under development	1,177,562	1,791,198	4,069,573	653,212
Equity investments at fair value through profit or loss	11,271	8,674	959	154
Trade receivables	15,794	47,912	36,842	5,914
Prepayments, deposits and other receivables	402,778	587,945	625,117	100,338
Due from related parties	9,919	43,772	96,654	15,514
Pledged deposits	1,350	1,530	40,155	6,445
Cash and cash equivalents	1,024,073	1,425,837	1,482,500	237,958
Total current assets	3,294,453	4,713,579	7,251,496	1,163,946

	As of December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000)*
				(unaudited)
CURRENT LIABILITIES				
Trade and bill payables	1,688,373	1,953,827	2,194,236	352,199
Deposits received, accruals and other payables	1,611,369	1,972,429	1,930,509	309,868
Interest-bearing bank loans and other borrowings	851,024	1,485,973	3,081,072	494,546
Convertible bonds	—	—	869,681	139,593
Due to related parties	4,249	31,486	102,602	16,469
Income tax payable	115,076	111,253	131,802	21,156
Total current liabilities	4,270,091	5,554,968	8,309,902	1,333,831
NET CURRENT LIABILITIES	(975,638)	(841,389)	(1,058,406)	(169,885)
TOTAL ASSETS LESS CURRENT LIABILITIES	7,778,847	9,829,585	9,986,113	1,602,882
NON-CURRENT LIABILITIES				
Convertible bonds	860,441	844,363	—	—
Interest-bearing bank loans and other borrowings	1,564,776	1,642,698	2,370,459	380,485
Deferred tax liabilities	413,079	597,406	570,775	91,616
Total non-current liabilities	2,838,296	3,084,467	2,941,234	472,101
Net assets	4,940,551	6,745,118	7,044,879	1,130,782
EQUITY				
Equity attributable to owners of the parent				
Issued capital	461,587	481,988	480,407	77,111
Equity component of convertible bonds	119,125	119,125	119,125	19,121
Reserves	3,318,872	4,595,558	4,970,984	797,898
Proposed final dividend...............	—	256,125	100,143	16,074
	3,899,584	5,452,796	5,670,659	910,204
Non-controlling interests	1,040,967	1,292,322	1,374,220	220,578
Total equity................................	4,940,551	6,745,118	7,044,879	1,130,782

Other Financial Data

	As of and for the year ended December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB in '000, except ratio and percentage data)			*(US$ in '000, except ratio and percentage data) (unaudited)*
EBITDA [(1)]	1,121,048	1,524,193	1,694,523	271,991
EBITDA margin [(2)]	51.0%	45.4%	47.8%	47.8%
Total debt [(3)]	3,276,241	3,973,034	6,321,212	1,014,625
Net debt [(4)]	2,252,168	2,547,197	4,838,712	776,667
Total debt to EBITDA ratio [(5)]	2.9	2.6	3.7	3.7
EBITDA to interest ratio [(6)]	9.5	6.6	5.2	5.2

Notes:

1. EBITDA for any period is calculated as operating profit plus depreciation and amortization and less interest income. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe that it is a useful supplement to the cash flow data as a measure of our performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definitions.

The following table sets forth a reconciliation of our profit to our EBITDA for the periods indicated:

	Year ended December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000)* *(unaudited)*
Operating profit	917,441	1,206,063	1,369,805	219,870
Adjustments:				
Depreciation and amortization	211,107	326,202	343,603	55,152
Interest income	(7,500)	(8,072)	(18,885)	(3,031)
EBITDA	1,121,048	1,524,193	1,694,523	271,991

2. EBITDA margin is calculated by dividing EBITDA by revenue.

3. Total debt comprises of bank loans, other borrowings and convertible bonds.

4. Net debt is calculated by subtracting cash and cash equivalents from total debt.

5. Total debt to EBITDA ratio is calculated by dividing total debt by EBITDA.

6. EBITDA to interest ratio is calculated by dividing EBITDA by total interest expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investors should read the following discussion and analysis of our financial condition and results of operations together with our audited consolidated financial statements as of and for each of the years ended December 31, 2010, 2011 and 2012 and the accompanying notes included elsewhere in the Offering Memorandum. Our historical results do not necessarily indicate future results. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties.

GENERAL FACTORS AFFECTING THE RESULTS OF OUR OPERATIONS

The results of our operations are affected by a number of factors, including in particular the factors described below.

Economic and other conditions in our areas of operations and in the PRC in general

Our business depends on consumer demand, which is determined by customers' disposable income as well as the economic and other conditions in our areas of operations. We have strategically expanded our network from Guangdong Province and Shenzhen to other relatively affluent regions with high economic growth, including Sichuan Province, Jiangsu Province, Shandong Province and the Bohai Bay region. The increase in urbanization, per capita disposable income and retail sales in our cities of operations in recent years has been a key driver of our revenue growth. Moreover, as we target the medium to high-end segment of the retail market, the increasing income and standards of living of our target customers have allowed us to increase the relative proportion of high-end merchandise in our product offerings. Our financial performance depends on the continued growth of the Chinese economy, which, in turn, depends on worldwide economic conditions and individual income levels and their impact on the level of consumer spending. The global economic slowdown and turmoil in the global financial markets that started in the second half of 2008 have had a negative impact on the world economy, which in turn has affected the PRC retail industry and other industries. Continued concerns about the systemic impact of potential long-term and wide-spread recessions, energy costs, geopolitical issues and the availability and cost of credit have contributed to increased market volatility and diminished expectations for economic growth around the world.

It is difficult to determine the impact of any global economic slowdown and financial crisis on economic growth in the PRC, the PRC retail industry and our business and financial performance. Our financial performance may continue to be affected by such market volatility in the future.

Expansion of our store network

We have been expanding our department store network through self-developed properties, acquisitions and leases. Our department store network expanded from 15 stores when we listed on the HKSE in 2008 to 39 stores currently. In 2012, we opened two new stores and acquired three parcels of land situated at premium shopping locations in the Jiangsu and Shandong provinces for the expansion of our store network. Currently, we have 13 projects under development.

Opening new stores may at first have a negative impact on our profit margin as new stores are typically less profitable and may incur a loss initially, and it may take a new store several years to build up customer flow and market recognition. Our ability to effectively integrate new stores into our operations will depend on our ability to continue to implement and improve our operational, financial and management information systems on a timely basis and to expand and train our management team. As we enter into new markets, our bargaining power may not be as strong as in regions where we have an established presence. In some regions, the concessionaires or suppliers may have more bargaining power than those in other regions, and may negotiate lower commission rates or higher purchase prices for their goods. The decrease in comprehensive gross margin from 2010 to 2012 was primarily due to the lower commission rates of the newly opened stores in northern China. It is our strategy to continue to expand our store network into the second or third tier cities of the most economically developed regions and the regions with high economic growth in China, which may negatively impact our commission rates and comprehensive gross margin.

For example, the Linyi Renmin Plaza store and Jiangsu Yangzhou store that opened in 2011 incurred net losses in 2012.

Comprehensive gross margin from concessionaire sales and direct sales

We derive our revenue primarily from concessionaire sales and direct sales. In 2010, 2011 and 2012, 51.7%, 45.2% and 45.7%, respectively, of our revenue was attributable to commissions from concessionaire sales, and 36.2%, 42.8% and 39.4%, respectively, of our revenue was attributable to direct sales. In addition, we had administration and management fee income, promotion income and credit card handling fee of RMB529.8 million, RMB719.6 million and RMB749.9 million (US$120.4 million) in aggregate for 2010, 2011 and 2012, respectively. Such other income from concessionaires and suppliers is typically closely related to concessionaires sales and direct sales and is intended to compensate us for utility expenses or providing facilities and administrative and support services. For the years ended December 31, 2010, 2011 and 2012, our comprehensive gross margin was 24.0%, 22.9% and 22.7%, respectively. For the same years, our commission rate from concessionaire sales was 17.5%, 16.9% and 16.7%, respectively.

If the commission rates from concessionaire sales or supplier prices from direct sales fluctuate significantly, this would have a material impact on our comprehensive gross margin. Commission rates from concessionaire sales and supplier prices for direct sales reflect the market supply and demand and the results of negotiation between us and our suppliers. Leveraging our leading position in the PRC retail market, we generally enjoy a strong bargaining position with our concessionaires and suppliers, and we believe we can typically obtain higher commission rates and lower supplier prices than smaller and less prominent retailers in the retail market.

Competition

The retail industry in China, and particularly the operation of department stores, is highly competitive. We face competition from national and international operators of department stores, shopping centres, convenience stores, specialty retailers, discount stores and other retail sites and forms of retail business in the areas in which we currently operate and markets which we intend to enter. Our key competitors include foreign and other local department stores in the cities in which we operate that offer a similar range of merchandise at similar price range or target customers as we do. Competition is typically based on location, shopping environment and amenities, marketing and promotional activities, customer services and pricing. In addition, we face competition from many Internet-based businesses engaged in e-commerce. Increases in consumer spending via the Internet may significantly affect our ability to generate sales in our retail stores.

Our ability to maintain profitability of existing stores

Our financial performance is largely driven by the growth of our existing stores. Performance of existing stores also depends on many factors, including but not limited to macro-economic conditions, our ability to introduce an optimal mix of merchandise which satisfies consumer preferences, our ability to enhance operating efficiency and control costs, and our ability to increase customer flow by introducing a more comprehensive "one-stop" shopping experience at our stores. Our same-store sales proceeds from concessionaire sales increased by 19.7% from 2010 to 2011, compared to 3.7% from 2011 to 2012, mainly due to the weak macro-economic conditions affecting domestic consumption. In addition, any government development plans affecting our premises, such as infrastructure construction, may have an adverse impact on the external traffic flow to our department stores. For example, our Shenzhen Huaqiangbei store experienced slow growth in 2012 due to ongoing subway construction.

Performance of our property development business

We engage in property development activities mainly for our self-owned department store projects to better ensure that the construction, design and facilities of our department stores were carried out at our instructions and tailored to our specific needs and the surroundings and competitive situation at each location. In order to draw customer flow in the locations where we build our stores, we have been increasing the development of commercial complexes which include other developments such as residential buildings and commercial properties. Once the properties are developed and constructed, we keep the department stores for our own operations and sell the remainder for profit. Cash generated from the sales of properties may also provide part of the funding for our liquidity needs, and shorten the time required to generate profits at the new location. Currently, we have 13 projects currently under development.

RECENT DEVELOPMENT

Our Total Sales Proceeds increased by 5.7% from RMB3,041.5 million for the three months ended March 31, 2012 to RMB3,215.5 million for the three months ended March 31, 2013, primarily due to a 6.5% increase in total sales proceeds from concessionaire sales from RMB2,656.7 million for the three months ended March 31, 2012 to RMB2,830.6 million for the three months ended March 31, 2013. The increase in the total sales proceeds from concessionaire sales was primarily driven by an increase in same-store sales. The revenue from our direct sales remained relatively stable at RMB384.8 million for the three months ended March 31, 2012 and RMB384.9 million for the three months ended March 31, 2013.

For the three months ended March 31, 2013, the same-store sales proceeds from concessionaire sales at the 36 stores which we operated throughout each of the three months ended March 31, 2012 and 2013 increased by 4.9% from RMB2,646.1 million for the three months ended March 31, 2012 to RMB2,775.7 million for the three months ended March 31, 2013, of which total same-store sales proceeds from concessionaire sales in the southern China increased by 5.0%, total same-store sales proceeds from concessionaire sales in southwestern China increased by 2.0%, total same-store sales proceeds from concessionaire sales in northern China increased by 6.9% and total same-store sales proceeds from concessionaire sales in eastern China increased by 5.9%.

Our revenue increased by 2.9% from RMB931.6 million for the three months ended March 31, 2012 to RMB958.3 million for the three months ended March 31, 2013, mainly driven by (a) a 3.2% increase in commissions from concessionaire sales from RMB448.1 million for the three months ended March 31, 2012 to RMB462.6 million for the three months ended March 31, 2013 in line with the increase in proceeds from concessionaire sales, and (b) a 22.0% increase in sales of properties from RMB35.6 million for the three months ended March 31, 2012 to RMB43.5 million for the three months ended March 31, 2013, primarily attributable to the sales of properties within the complex of our Shenyang Tiexi store.

Our commission rates decreased from 16.9% for the three months ended March 31, 2012 to 16.3% for the three months ended March 31, 2013, and our comprehensive gross margin decreased from 21.8% for the three months ended March 31, 2012 to 21.1% for the three months ended March 31, 2013 mainly due to (a) an increase in the sales at our stores in northern China which had lower commission rates compared to our stores in other regions, and (b) an increase in the sales of gold products and jewelry which are generally subject to lower commission rates than the sales of other products.

Our other income increased by 5.0% from RMB183.6 million for the three months ended March 31, 2012 to RMB192.8 million for the three months ended March 31, 2013 in line with the growth in Total Sales Proceeds.

Our cost of sales increased by 2.3% from RMB373.2 million for the three months ended March 31, 2012 to RMB381.8 million for the three months ended March 31, 2013, primarily reflecting an increase in purchase of inventories and sales of our properties.

Our profit for the period decreased by 31.4% from RMB313.4 million for the three months ended March 31, 2012 to RMB214.9 million for the three months ended March 31, 2013. The decrease was primarily because we recorded a RMB150.6 million gain from the disposal of the A-shares of Shenzhen International Enterprises Co., Ltd. during the three months ended March 31, 2012, while we did not record a similar gain from disposal of available-for-sale equity investments during the three months ended March 31, 2013.

Based on our management account, we believe that our performance in April 2013 was generally consistent with our performance in April 2012. Our Total Sales Proceeds and total sales proceeds from concessionaire sales recorded a higher degree of growth in April 2013 from April 2012 compared to the growth in the first quarter of 2013 from the first quarter of 2012.

Our total current assets decreased by 1.5% from RMB7,251.5 million as of December 31, 2012 to RMB7,145.9 million as of March 31, 2013, primarily resulting from a decrease in other receivables due to the completion of acquisitions of the Weifang and Laiwu projects, which was partially offset by an increase in the prepayments made under our property construction contracts. The decrease in our total current assets was also due to a decrease in inventory by RMB36.4 million and a decrease in completed properties held for sale by RMB31.9 million.

Our total current liabilities increased by 2.7% from RMB8,309.9 million as of December 31, 2012 to RMB8,530.4 million as of March 31, 2013, primarily resulting from (a) an increase in deferred income of RMB281.5 million primarily from the pre-sale of our Taiyuan Qinxianjie Project and Taizhou East Square Project (first phase) and (b) an increase in trade and bills payables by RMB70.9 million.

Our interest-bearing bank loans and other borrowings increased by 11.6% from RMB5,451.5 million as of December 31, 2012 to RMB6,085.2 million as of March 31, 2013, primarily because we incurred more long-term bank loans during the three months ended March 31, 2013. The increase reflected our strategy in adjusting the mix of our long-term and short-term loans to further improve our working capital position.

During the three months ended March 31, 2013, our net cash flow from operating activities was RMB270.7 million, our net cash flow used in investing activities was RMB719.4 million and our net cash flow from financing activities was RMB456.0 million.

During the three months ended March 31, 2012, our net cash flow from operating activities was RMB266.2 million, our net cash flow used in investing activities was RMB961.8 million and our net cash flow from financing activities was RMB250.3 million.

The following table sets forth the effective interest rate, maturity and the amount of our borrowings as of the dates indicated.

	31 March 2013 (Unaudited)			31 December 2012 (Audited)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Interest-bearing bank loans	6.00-9.84	2013-2014	940,000	6.30-9.84	2013	1,054,000
Current portion of long term interest-bearing bank loans	6.22-7.68*	2013-2014	412,413	6.52-7.91*	2013	430,915
Convertible bonds	6.51	2013-2015	879,304	6.51	2013-2015	869,681
Other loans	4.71-5.86	2013	1,746,262	4.71-6.57	2013	1,596,157
			3,977,979			3,950,753
Non-current						
Long term interest- bearing bank loans	6.22-7.68*	2014-2022	2,986,560	6.52-7.91*	2014-2020	2,370,459
			2,986,560			2,370,459
			6,964,539			6,321,212

Note:

* Lower of 1.3% over HIBOR and 2.25% below Hong Kong dollar best lending rate.

RESULTS OF OPERATIONS

The table below sets out selected items on our consolidated income statements for the years ended December 31, 2010, 2011 and 2012.

	Year ended December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000)* *(unaudited)*
REVENUE	2,197,282	3,357,024	3,542,719	568,646
Other income	551,068	766,308	807,139	129,555
Total operating revenue	2,748,350	4,123,332	4,349,858	698,201
Cost of sales	(747,147)	(1,335,146)	(1,444,402)	(231,843)
Employee expenses	(245,640)	(375,494)	(369,699)	(59,341)
Depreciation and amortization	(211,107)	(326,202)	(343,603)	(55,152)
Operating lease rental expenses	(172,829)	(216,236)	(237,245)	(38,080)
Other operating expenses	(488,437)	(772,064)	(859,531)	(137,964)
Other gains	34,251	107,873	274,427	44,049
Operating profit	917,441	1,206,063	1,369,805	219,870
Finance costs	(113,780)	(188,793)	(132,815)	(21,318)
Share of profits and losses of associates	1,659	498	(76)	(12)
PROFIT BEFORE TAX	805,320	1,017,768	1,236,914	198,540
Income tax expense	(197,840)	(282,879)	(338,360)	(54,311)
PROFIT FOR THE YEAR	624,086	734,889	898,554	144,229
Attributable to:				
Owners of the parent	576,597	640,312	801,820	128,702
Non-controlling interests	47,489	94,577	96,734	15,527
	624,086	734,889	898,554	144,229

Total Sales Proceeds

Our Total Sales Proceeds represent the sum of total sales proceeds from concessionaire sales and revenue from direct sales at our department stores. Total Sales Proceeds differ from revenue in that Total Sales Proceeds exclude rental income and account for the total sales proceeds from concessionaire sales as opposed to only the commission portion of concessionaire sales. Total Sales Proceeds also do not include any revenue from our other businesses, such as property development. We believe that the Total Sales Proceeds more accurately describe the sales in our department stores for the relevant periods. The following table sets forth a break-down of our Total Sales Proceeds for the years ended December 31, 2010, 2011 and 2012.

	Year ended December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000)*
				(unaudited)
Total sales proceeds from concessionaire sales..................	6,471,245	8,992,880	9,672,014	1,552,465
Revenue from direct sales	795,442	1,436,983	1,395,226	223,949
Total Sales Proceeds	7,266,687	10,429,863	11,067,240	1,776,414

Description of selected income statement line items

Revenue

Components of our revenue are as follows:

- We receive commissions under our concessionaire sales arrangements. Under such arrangements, we allow concessionaires to occupy designated areas of our stores and sell their merchandise in return for commissions at specified percentages of their total sales proceeds (as well as other fees that we include in other income).

- For direct sales, we purchase merchandise for sale in our stores, and all such sales proceeds are included in our revenue. In addition, we generate revenue through consignment arrangements under which we sell merchandise on behalf of our suppliers. The difference between our selling prices and the prices required by the relevant suppliers is included in our revenue from direct sales.

- Under store lease arrangements, we rent designated areas of our stores to third-party operators and receive rental income.
- We provide management services to the Maoye Wuxi store and have received management fee income from it since it was opened in October 2007.
- Our revenue also includes revenue from rental income from investment properties and sale of properties.

The following table sets out the breakdown of our revenue for the years ended December 31, 2010, 2011 and 2012.

	Year ended December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000)* *(unaudited)*
Commissions from concessionaire sales	1,135,013	1,517,865	1,619,309	259,917
Direct sales	795,442	1,436,983	1,395,226	223,949
Rental income from the leasing of shop premises	140,133	167,138	173,006	27,769
Management fee income from the operation of department stores	3,589	3,894	3,871	621
Rental income from investment properties	66,566	129,312	72,948	11,709
Sales of properties	45,610	93,683	272,030	43,664
Others	10,929	8,149	6,329	1,016
Total Revenue	2,197,282	3,357,024	3,542,719	568,645

Other income

Other income primarily consists of income from suppliers and concessionaires (including administration and management fee income, promotion income and credit card handling fees), and interest income on bank deposits. Administration and management fee income from suppliers and concessionaires are closely related to our Total Sales Proceeds and is intended to compensate us for utility expenses or providing facilities as well as administrative and support services. Promotion income includes amounts we charge suppliers and concessionaires for carrying out promotional activities in our stores or the portion of the costs of promotional activities to be borne by suppliers and concessionaires. We receive credit card handling fees from certain concessionaires and suppliers to compensate for the credit card handling charges we pay to credit card companies. The following table sets forth a breakdown of our other income for the years ended December 31, 2010, 2011 and 2012.

	Year ended December 31,			
	2010	2011	2012	2012
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000)*
				(unaudited)
Income from suppliers and concessionaires				
— Administration and management fee income	313,887	424,746	433,539	69,588
— Promotion income	138,114	180,113	189,535	30,422
— Credit card handling fees	77,810	114,693	126,861	20,363
Interest income	7,500	8,072	18,885	3,031
Others	13,757	38,684	38,319	6,151
Total	551,068	766,308	807,139	129,555

Cost of sales

Cost of sales primarily consists of purchases of and changes in inventories for our direct sales and cost of properties sold for our property development business.

Employee expenses

Employee expenses consist of wages, salaries and bonuses, retirement benefit contributions, equity-settled share option expenses (or their reversals) and other employee benefit costs. Our concessionaires and store tenants are responsible for all personnel costs relating to their employees who operate the sales counters in our department stores.

Depreciation and amortization

Depreciation and amortization primarily consists of the depreciation of our buildings and movable property, amortization of our land use rights and depreciation of capitalized renovation expenses.

Operating lease rental expenses

Operating lease rental expenses primarily consist of operating lease rental expenses for our department stores and offices.

Other operating expenses

Other operating expenses primarily consist of utility expenses, promotion and advertising expenses, repair and maintenance expenses, entertainment expenses, office expenses, other tax expenses (including primarily business tax, consumption tax, supplemental tax on value-added tax and real estate tax), professional service charges, auditors' remuneration, bank charges and impairment of inventories and receivables.

Other gains

Other gains primarily consist of gain on disposal of land lease prepayments, gain on disposal of available-for-sale equity investments and share of loss of a department store operation by a fellow subsidiary of our Group.

Finance costs

Finance costs primarily consist of interest expenses relating to our borrowings.

Share of profits and losses of associates

Share of profits and losses of associates primarily consists of share of profit of three local cable television network companies in Guangyuan, Leshan and Ya'an in Sichuan Province.

Income tax

Income tax expense primarily consists of income tax accrued. Our effective tax rate for 2010, 2011 and 2012 was 24.6%, 27.8% and 27.4%, respectively.

Non-controlling interests

Non-controlling interests primarily represent interests in the results and net assets of our subsidiaries attributable to outside equity holders.

Year ended December 31, 2012 compared to year ended December 31, 2011

Total Sales Proceeds

Total Sales Proceeds increased by 6.1% from RMB10,429.9 million in 2011 to RMB11,067.2 million (US$1,776.4 million) in 2012 primarily due to a 7.6% increase in total sales proceeds from concessionaire sales from RMB8,992.9 million in 2011 to RMB9,672.0 million (US$1,552.5 million) in 2012 driven by an increase in same-store sales and expansion of our store network. This was partially offset by a 2.9% decrease in revenue from direct sales from RMB1,437.0 million in 2011 to RMB1,395.2 million (US$223.9 million) in 2012 as a result of our allocation of certain direct sales space to concessionaire sales to achieve higher returns. Our commission rates remained relatively stable at 16.9% in 2011 and 16.7% in 2012. Our comprehensive gross margin remained relatively stable at 22.9% in 2011 and 22.7% in 2012.

For the year ended December 31, 2012, same-store sales proceeds from concessionaire sales at the 30 stores which we operated throughout both 2011 and 2012 increased by 3.7% from RMB8,617.0 million in 2011 to RMB8,934.7 million (US$1,434.1 million) in 2012, of which total same-store sales proceeds from concessionaire sales in the southern China increased by 4.7%, total same-store sales proceeds from concessionaire sales in southwestern China increased by 4.1%, total same-store sales proceeds from concessionaire sales in northern China increased by 4.7% and total same-store sales proceeds from concessionaire sales in eastern China decreased by 5.5%.

Revenue

Revenue increased by 5.5% from RMB3,357.0 million in 2011 to RMB3,542.7 million (US$568.6 million) in 2012, resulting primarily from (a) an increase in sales of properties from RMB93.7 million in 2011 to RMB272.0 million (US$43.7 million) in 2012 primarily due to completion of the Shenyang Tiexi store project and recognition of revenue from sales of the properties within the store complex, and (b) an increase in commissions from concessionaire sales from RMB1,517.9 million in 2011 to RMB1,619.3 million (US$259.9 million) in line with the increase of proceeds from concessionaire sales, partially offset by (a) a decrease in revenue from direct sales from RMB1,437.0 million in 2011 to RMB1,395.2 million (US$223.9 million) mainly because we allocated certain direct sales space to concessionaire sales to achieve higher returns, and (b) a decrease in rental income from investment properties from RMB129.3 million in 2011 to RMB72.9 million (US$11.7 million) in 2012 primarily due to the dispute with Pacific China Holdings Co., Ltd. ("Pacific China").

Other income

Other income increased by 5.3% from RMB766.3 million in 2011 to RMB807.1 million (US$129.5 million) in 2012, resulting primarily from (a) an increase in income from suppliers and concessionaires in 2012 as a result of the growth in our Total Sales Proceeds and the increased use of credit cards and (b) an increase in interest income from RMB8.1 million in 2011 to RMB18.9 million (US$3.0 million) in 2012 primarily due to an increase in deposits.

Cost of sales

Cost of sales increased by 8.2% from RMB1,335.1 million in 2011 to RMB1,444.4 million (US$231.8 million) in 2012, primarily due to an increase in cost of properties sold resulting from an overall increase of property sales, partially offset by a decrease in purchases of inventories in line with the decrease in direct sales.

Employee expenses

Employee expenses decreased by 1.5% from RMB375.5 million in 2011 to RMB369.7 million (US$59.3 million) in 2012, primarily due to the reversal of share option expenses of RMB25.5 million in 2012.

Depreciation and amortization

Depreciation and amortization increased by 5.3% from RMB326.2 million in 2011 to RMB343.6 million (US$55.2 million) in 2012, primarily due to an increase in property depreciation because we opened a new store in Shenyang Province in the second half of 2012 and upgraded certain other self-owned stores between 2011 and 2012.

Operating lease rental expenses

Operating lease rental expenses increased by 9.7% from RMB216.2 million in 2011 to RMB237.2 million (US$38.1 million) in 2012, primarily due to an increase in the operating area of properties leased for operation in our Jiangsu Liyang store in 2012.

Other operating expenses

Other operating expenses increased by 11.3% from RMB772.1 million in 2011 to RMB859.5 million (US$138.0 million) in 2012, primarily due to (a) the launch of two new stores in the second half of 2012, (b) an increase in business taxes and surcharges as a result of higher property sales, (c) an increase in professional service fees in connection with the asset reorganization of Bohai Logistics and (d) an increase in impairment of other receivables as some of our debtors were in financial difficulties or in default on payments.

Other gains

Other gains increased by 154.4% from RMB107.9 million in 2011 to RMB274.4 million (US$44.0 million) in 2012, primarily due to an investment gain of approximately RMB174.0 million on the disposal of shares in Shenzhen International Enterprises Co., Ltd (a company listed on the Shenzhen Stock Exchange, stock code: 000056) in the first half of 2012.

Operating profit

As a result of the foregoing, operating profit increased by 13.6% from RMB1,206.1 million in 2011 to RMB1,369.8 million (US$219.9 million) in 2012.

Finance costs

Finance costs decreased by 29.7% from RMB188.8 million in 2011 to RMB132.8 million (US$21.3 million) in 2012, primarily due to an increase in capitalized interest recognized in relation to our property development projects in 2012 compared to 2011, partially offset by an increase in interest on bank loans from RMB178.0 million in 2011 to RMB274.4 million (US$44.0 million) in 2012 due to our increased bank loans.

Share of profits and losses of associates

We had a share of losses of associates in the amount of RMB0.08 million (US$0.01 million) in 2012 primarily due to a loss incurred by one of the television companies in Guangyuan. We had a share of profits of associates in the amount of RMB0.5 million in 2011 primarily as a result of profits earned by the two television companies.

Profit before income tax

As a result of the foregoing, profit before income tax increased by 21.5% from RMB1,017.8 million in 2011 to RMB1,236.9 million (US$198.5 million) in 2012.

Income tax

Our income tax expense increased by 19.6% from RMB282.9 million in 2011 to RMB338.4 million (US$54.3 million) in 2012, primarily due to the increase of profit before tax. Our effective tax rate remained stable at 27.4% in 2011 compared to 27.8% in 2012.

Profit for the year

As a result of the foregoing, profit for the year increased by 22.3% from RMB734.9 million in 2011 to RMB898.6 million (US$144.2 million) in 2012.

Non-controlling interests

Our non-controlling interests increased slightly by 2.2% from RMB94.6 million in 2011 to RMB96.7 million (US$15.5 million) in 2012 primarily due to the increase of profit of Bohai Logistics.

Profit attributable to our shareholders

As a result of the foregoing, profit attributable to our shareholders increased by 25.2% from RMB640.3 million in 2011 to RMB801.8 million (US$128.7 million) in 2012.

Year ended December 31, 2011 compared to year ended December 31, 2010

Total Sales Proceeds

In 2011, our Total Sales Proceeds increased by 43.5% from RMB7,266.7 million in 2010 to RMB10,429.9 million in 2011 primarily due to (a) a 39.0% increase in total sales proceeds from concessionaire sales from RMB6,471.2 million in 2010 to RMB8,992.9 million in 2011, and (b) a 80.7% increase in revenue from direct sales from RMB795.4 million in 2010 to RMB1,437.0 million in 2011. The increase in our Total Sales Proceeds was primarily driven by increased domestic consumption across the PRC, as well as expansion of our store network. Our commission rates decreased from 17.5% in 2010 to 16.9% in 2011, and our comprehensive gross margin decreased from 24.0% in 2010 to 22.9% in 2011, primarily due to the lower commission rates of the newly opened stores in northern China.

In 2011, the same-store sales proceeds from concessionaire sales at the 20 stores which we operated throughout both 2011 and 2010 increased by 19.7% from RMB5,844.4 million in 2010 to RMB6,996.2 million in 2011, of which total same-store sales proceeds from concessionaire sales in the southern China increased by 18.3%, total same-store sales proceeds from concessionaire sales in southwestern China increased by 19.1%, total same-store sales proceeds from concessionaire sales in the northern China increased by 23.3% and total same-store sales proceeds from concessionaire sales in the eastern China increased by 27.5%.

Revenue

Revenue increased by 52.8% from RMB2,197.3 million in 2010 to RMB3,357.0 million in 2011, driven by (a) growth in our Total Sales Proceeds and (b) an increase of rental income from investment properties from RMB66.6 million in 2010 to RMB 129.3 million in 2011 primarily due to rental income of Zibo Dongtai Building Co. Ltd. ("Zibo Dongtai") which we acquired in January 2011, and Bohai Logistics, which contributed to our rental income for the entire year of 2011 as compared to a portion of 2010 after we acquired it in June 2010.

Other income

Other income increased by 39.1% from RMB551.1 million in 2010 to RMB766.3 million in 2011, primarily driven by growth in total sales proceeds from concessionaire sales.

Cost of sales

Cost of sales increased by 78.7% from RMB747.1 million in 2010 to RMB1,335.1 million in 2011, primarily due to (a) the growth of direct sales business by 80.7% in 2011 as compared to 2010, (b) the inclusion of cost of sales of Zibo Dongtai, which we acquired in January 2011, and (c) the recognition of the entire year's cost of sales for Bohai Logistics as compared to a portion of 2010 after we acquired it.

Employee expenses

Employee expenses increased by 52.9% from RMB245.6 million in 2010 to RMB375.5 million in 2011 primarily as a result of the inclusion of staff costs for Zibo Dongtai and Bohai Logistics, as well as new stores which we opened in 2011, including Jiangsu Yangzhou store, Shandong Heze store, and Shandong Linyin store. Staff costs for the new stores and newly acquired companies increased by RMB128.7 million. Same-store staff costs increased by RMB34.6 million, which represents an increase of 24.5% as compared with the same period in 2010. In addition, since the results performance in 2011 did not fulfil the exercise conditions of share options, the share option expenses in 2011 decreased by RMB33.4 million as compared to 2010.

Depreciation and amortization

Depreciation and amortization increased by 54.5% from RMB211.1 million in 2010 to RMB326.2 million in 2011 primarily due to the depreciation of properties acquired and self-constructed in 2011.

Operating lease rental expenses

Operating lease rental expenses increased by 25.1% from RMB172.8 million in 2010 to RMB216.2 million in 2011, primarily due to the rental expenses for our Shenyang Jinlang store, which was opened in late 2010 and contributed only to a portion of our rental expenses in 2010 compared to the entire year in 2011, and the rental expenses for stores operated by newly acquired companies, including Zibo Dongtai and Bohai Logistics.

Other operating expenses

Other operating expenses increased by 58.1% from RMB488.4 million in 2010 to RMB772.1 million in 2011, primarily because we opened and acquired new stores in 2011. Other operating expenses of new stores increased by RMB126.3 million, and other operating expenses of same-stores increased by RMB96.5 million due to an increase in sales. Other operating expenses of other nonstore companies increased by RMB60.9 million primarily due to the new property development projects.

Other gains

Other gains increased by 214.9% from RMB34.3 million in 2010 to RMB107.9 million in 2011 primarily due to (a) payment to us by Shenyang Maoye Property Company Limited ("Maoye Property") for its share of 80% of the loss of Jinlang Store in Shenyang; and (b) gains of RMB20.3 million from disposal of available-for-sale equity investments. On July 15, 2011, Shenyang Maoye Department Store Limited ("Shenyang Maoye"), a wholly owned subsidiary of our Company, entered into a joint operation agreement (the "Joint Operation Agreement") with Maoye Property, a connected party of our Company. Pursuant to the Joint Operation Agreement, if Shenyang Maoye suffers a loss during the period from January 1, 2011 to December 31, 2013 in its operation in the Jinlang store, Maoye Property will pay to Shenyang Maoye an amount equivalent to 80% of the loss before tax to Shenyang Maoye, subject to an annual cap of RMB38.0 million.

Operating profit

As a result of the foregoing, operating profit increased by 31.5% from RMB917.4 million in 2010 to RMB1,206.1 million in 2011.

Finance costs

Finance costs increased by 65.9% from RMB113.8 million in 2010 to RMB188.8 million in 2011 primarily because of an increase in bank loans.

Share of profits and losses of associates

We had share of losses of associates in the amount of RMB1.7 million in 2010 and share of profits of associates in the amount of RMB0.5 million in 2011.

Profit before income tax

As a result of the foregoing, profit before income tax increased by 26.4% from RMB805.3 million in 2010 to RMB1,017.8 million in 2011.

Income tax

Income tax increased by 43.0% from RMB197.8 million in 2010 to RMB282.9 million in 2011. Our effective tax rate increased from 24.5% in 2010 to 27.8% in 2012 because (a) the share option expenses and financial costs associated with our convertible bond issued in 2010 could not offset the domestic enterprise income tax, and (b) the increase in the enterprise income tax rate applicable to Shenzhen and Zhuhai regions increased from 22.0% in 2010 to 24.0% in 2011.

Profit for the year

As a result of the foregoing, profit for the year increased by 17.8% from RMB624.1 million in 2010 to RMB734.9 million in 2011 primarily because of the increase in our profit before income tax.

Non-controlling interests

Non-controlling interests increased by 99.2% from RMB47.5 million in 2010 to RMB94.6 million in 2011 primarily because we recorded non-controlling interests for Bohai Logistics for the entire year in 2011, while it only contributed to a portion of our non-controlling interests in 2010 after the acquisition in June 2010.

Profit attributable to our shareholders

As a result of the foregoing, profit attributable to our shareholders increased by 11.1% from RMB576.6 million in 2010 to RMB640.3 million in 2011.

SEGMENT INFORMATION

We operate in the following business segments:

- the operation of department stores segment comprises concessionaire sales, direct sales of merchandise and leasing out of commercial properties for the operation of department stores by third parties;

- the property development segment is principally engaged in the development and sale of commercial and residential properties as well as the leasing out of commercial properties other than for the operation of department stores; and

- the "others" segment comprises, principally, operations of hotels and the provision of ancillary services, the provision of advertising services and the construction of television networks.

The following table sets forth the revenue and segment results of our business segments for the years ended December 31, 2010, 2011 and 2012.

	Year ended December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000)* *(unaudited)*
Segment revenue				
Operation of department stores.....	2,604,212	3,875,441	3,981,415	639,061
Property development..................	133,310	252,138	374,000	60,031
Others	18,768	16,416	14,921	2,395
Segment profit (loss)				
Operation of department stores.....	639,637	819,196	968,205	155,408
Property development[1]	(29,094)	(91,070)	(65,936)	(10,583)
Others	(3,063)	6,763	(3,715)	(596)

Note:

1. Our property development segment was at loss in 2010, 2011 and 2012 primarily because most of our property development projects were under construction during these years.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds have been cash generated from operations and borrowings, as well as equity contribution provided by our shareholders, funds raised in the capital markets and proceeds from the sale of available-for-sale equity securities. Our primary uses of funds have been our operating expenses, expenditures incurred in connection with opening new stores, acquisitions of or investments in other department stores, purchases of other fixed assets, acquisitions of equity interests in our subsidiaries and associates, working capital and debt servicing.

Our liquidity will primarily depend on our ability to generate cash flow from operations and obtain external financing to meet our debt obligations as they become due as well as our future capital expenditures. Our operating cash flows may be adversely affected by numerous factors beyond our control. Our ability to obtain external financing also depends on numerous factors, including our financial performance and creditworthiness as well as our relationships with lenders.

Cash flow

The following table sets out selected cash flow data from our consolidated cash flow statements for the years ended December 31, 2010, 2011 and 2012.

	Year ended December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000) (unaudited)*
Net cash flows from operating activities	1,663,535	807,580	302,351	48,531
Net cash flows (used in) investing activities	(2,292,638)	(1,631,559)	(1,774,087)	(284,761)
Net cash flows generated from/(used in) financing activities	1,201,100	1,217,749	1,518,188	243,686
Net increase/(decrease) in cash and cash equivalents	571,997	393,770	46,452	7,456

Cash flows from operating activities

In 2012, our net cash flows from operating activities was RMB302.4 million (US$48.5 million), which was mainly attributable to our profit before tax of RMB1,236.9 million (US$198.5 million), as adjusted for income statement items with no operating cash effect, and the negative effects of changes in working capital. The negative effects of changes in working capital primarily consisted of RMB1,642.7 million (US$263.7 million) additions of properties under development, partially offset by (a) a RMB240.4 million (US$38.6 million) increase in trade and bills payables as a result of our revenue growth and longer credit period extended by our suppliers, (b) a RMB218.3 million (US$35.0 million) increase in deposits received, accruals and other payables primarily due to pre-sale of properties under the Shanxi Taiyuan Qinxianjie project and the Jiangsu Taizhou East Square project, (c) a RMB185.4 million (US$29.8 million) decrease in completed properties held for sale due to completion of the sale of properties under the Shenyang Tiexi project, and (d) a RMB131.1 million (US$21.0 million) decrease in prepayments and other receivables primarily due to a decrease in lease expenses for 2013 as we made the payment in the next year upon agreement of the lessor.

In 2011, our net cash flows from operating activities was RMB807.6 million, which was mainly attributable to our profit before tax of RMB1,017.8 million, as adjusted for income statement items with no operating cash effect, and the negative effects of changes in working capital. The negative effects of changes in working capital primarily consisted of (a) RMB603.8 million additions of properties under development and (b) a RMB205.6 million increase in prepayments and other receivables primarily due to prepayment of lease expenses for 2012, partially offset by (a) a RMB364.7 million increase in deposits received, accruals and other payables primarily due to presale of properties under the Shenyang Tiexi project and (b) a RMB85.8 million increase in trade and bills payables in line with our revenue growth.

In 2010, our net cash flows from operating activities RMB1,663.5 million, which was mainly attributable to our profit before tax of RMB805.3 million, as adjusted for income statement items with no operating cash effect, and the positive effects of changes in working capital. The positive effects of changes in working capital primarily consisted of (a) a RMB508.2 million increase in trade and bills payable primarily due to recognition of trade and bills payables of Bohai Logistics which we acquired in 2010, and (b) a RMB160.1 million increase in deposits received, accruals and other payables due to recognition of the deposits received, accruals and other payables of Bohai Logistics, which we acquired in 2010, partially offset by RMB95.1 million additions to properties under development.

Cash flow used in investing activities

In 2012, our net cash used in investing activities was RMB1,774.1 million (US$284.8 million). Our net cash outflow resulted primarily from (a) payments for property, plant and equipment in the amount of RMB639.8 million (US$102.7 million) primarily due to payments in connection with our 13 property development projects, (b) purchase of available-for-sale equity investments in the amount of RMB480.2 million (US$77.1 million), (c) purchase of land lease prepayment in the amount of RMB431.5 million (US$69.3 million) and prepayment for land lease prepayments in the amount of RMB361.4 million in relation to purchase of land parcels in Nanjing City in Jiangsu Province, Laiwu City in Shandong Province, and Weifang City in Shandong Province, partially offset by proceeds from disposal of available-for-sale equity investments in the amount of RMB331.6 million (US$53.2 million).

In 2011, our net cash flow used in investing activities was RMB1,631.6 million. Our net cash flow outflow resulted primarily from (a) payments for properties and equipment in the amount of RMB666.8 million primarily due to payments in connection with our 13 property development projects, (b) prepayment for land lease prepayment in the amount of RMB286.6 million and purchase of land lease prepayments in the amount of RMB284.7 million in relation to our purchase of land parcels in Baotou in Inner Mongolia, and (c) purchase of available-for-sale equity investments in the amount of RMB163.7 million.

In 2010, our net cash flow used in investing activities was RMB2,292.6 million. Our net cash outflow resulted primarily from (a) prepayment for land lease prepayments in the amount of RMB763.0 million and purchase of land lease prepayments in the amount of RMB479.6 million primarily due to our purchases of land parcels in Huaian City in Jiangsu Province and Taizhou City in Jiangsu Province, (b) payments for plant and equipment in the amount of RMB528.7 million primarily due to the opening of Changzhou Wujin store, Chengdu Qingjiang store, Shenzhen Friendship City store, Shenyan Jinlang store and Baoding Guomao store, and (c) acquisition of subsidiaries in the amount of RMB299.4 million.

Cash flow from financing activities

In 2012, our net cash flow from financing activities was RMB1,518.2 million (US$243.7 million). Our net cash inflow resulted primarily from proceeds from bank loans and other borrowings in the amount of RMB4,167.9 million (US$669.0 million), partially offset by (a) repayment of bank loans in the amount of RMB1,845.0 million, (b) interest paid in the amount of RMB334.1 million (US$53.6 million) and (c) final dividend for 2011 and interim dividend for the six months ended June 30, 2012 in the amount of RMB256.1 million (US$41.1 million) and RMB139.3 million (US$22.4 million), respectively.

In 2011, we had net cash from financing activities of RMB1,217.7 million. Our net cash inflow resulted primarily from (a) proceeds from bank loans and other borrowings of RMB1,642.0 million and (b) proceeds from placement of shares in the amount of RMB969.6 million, partially offset by (a) repayment of bank loans in the amount of RMB1,119.5 million, (b) interest paid in the amount of RMB162.9 million and (c) repurchase of shares in the amount of RMB89.3 million.

In 2010, we had net cash inflow from financing activities of RMB1,201.1 million. Our net cash inflow resulted primarily (a) from proceeds from bank loans and other borrowing in the amount of RMB1,182.1 million, and (b) proceeds from issue of convertible bonds of RMB976.4 million, partially offset by (a) repayment of bank loans in the amount of RMB756.0 million, (b) interest paid in the amount of RMB105.5 million and (c) final dividend for the year of 2009 and interim dividend for the six months ended June 30, 2009 in the amount of RMB67.8 million and RMB81.0 million, respectively.

Available-for-sale equity investments

Our available-for-sale equity investments in listed companies amounted to RMB512.2 million, RMB526.6 million and RMB804.5 million (US$129.1 million) as of December 31, 2010, 2011 and 2012, respectively. As of December 31, 2012, our available-for-sale equity investments consisted mainly of listed equity securities of 7.03% equity interest in Shenzhen International Enterprises Co. Ltd. (深圳市國際企業股份有限公司), 10.24% equity interest in Shen Yang Commercial City Co., Ltd. (瀋陽商業城股份有限公司) and 4.89% equity interest in Dashang Co. Ltd. (大商股份有限公司).

The total cost of our investments in the above companies was RMB621.5 million, which was financed by cash inflow from operations. As of December 31, 2012, the total market value of the shares held by us in the three above-mentioned A share and B share listed companies amounted to approximately RMB804.5 million (US$129.1 million), representing an increase of 29.4% compared with the total cost of investments.

We assess at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. In making our assessments, we consider factors including financial performance of our company, recent arm's length market transaction, current fair value of another investment that is substantially the same, the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics, the share of net book value of the unquoted equity investments held, and any other information that may have an impact on our company's fair value.

Inventory

As at December 31, 2010, 2011 and 2012, we had inventories of RMB166.4 million, RMB282.0 million and RMB279.1 million (US$44.8 million), respectively. The increase in inventories from 2010 to 2011 and decrease in inventories from 2011 to 2012 were in line with the increase and decrease of our direct sales during the respective years.

Trade receivables

We do not have any trade receivables in our department store business as substantially all of our sales are paid at the time of purchase by cash, debit cards or credit cards. The credit terms offered to our customers on the sales of properties and other businesses are generally three months to one year. We had trade receivables from our other businesses of RMB15.8 million, RMB47.9 million and RMB36.8 million (US$5.9 million) as of December 31, 2010, 2011 and 2012, respectively. The increase in trade receivables from 2010 to 2011 was primarily due to sale of properties of projects owned by Bohai Logistics, and the decrease in trade receivables from 2011 to 2012 was primarily due to collection of trade receivables in relation to such sale of properties.

Other receivables

As at December 31, 2010, 2011 and 2012, we had other receivables of RMB231.3 million, RMB251.3 million and RMB447.4 million (US$71.8 million), respectively. Our other receivables increased from 2010 to 2011 in line with our growth. Impairment of other receivables remained flat at RMB16.4 million in 2011 and 2010. Our other receivables increased from 2011 to 2012 primarily due to the prepayment of consideration for an acquisition, which transaction did not complete during 2012, partially offset by an increase in impairment of other receivables from RMB16.4 million in 2011 to RMB32.5 million (US$5.2 million) in 2012, primarily as a result of debtors which were in financial difficulties or in default on payments.

We estimate the provisions for impairment of other receivables by assessing their recoverability based on credit history and prevailing market conditions, which requires the use of estimates and judgements. Provisions are applied to other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of other receivables and thus the impairment loss in the period in which such estimate is changed. We reassess the provisions at each balance sheet date.

Trade and bills payables

As at December 31, 2010, 2011 and 2012, we had trade and bills payable of RMB1,688.4 million, RMB1,953.8 million, and RMB2,194.2 million (US$352.2 million), respectively. The increase of trade and bills payables from 2010 to 2012 was in line with our revenue growth.

Other payables

Our other payables in recent years mainly comprised payments contracted but not yet paid, deposits and other items. Payments contracted but not yet paid included interest payments, administrative expenses, telephone charges and payments to be made for fixed assets acquired. Deposits mainly represented the decoration deposits or other deposits received from concessionaires and other suppliers. Other items included payables incurred by our subsidiaries such as amounts payable for transfer of shareholding interests. As at December 31, 2010, 2011 and 2012, we had other payables of RMB737.7 million, RMB761.5 million and RMB522.2 million (US$83.3 million), respectively. The increase in other payables from 2010 to 2011 was primarily due to payables in relation to purchase of land, and the decrease in other payables from 2011 to 2012 was primarily because we paid the consideration for the purchases of two parcels of land.

BORROWINGS AND INDEBTEDNESS

Our short-term and long-term borrowings are primarily in the form of bank loans. We finance a significant portion of our business operations and capital expenditures with borrowings obtained from commercial banks in China and the issue of convertible bonds. In view of our creditworthiness and the current availability of funds in China, we believe that we are able to continue to obtain sufficient financing from PRC financial institutions. If, however, we are unable to roll over, extend or refinance in a timely manner a significant amount of our borrowings, we may be unable to meet our debt servicing, accounts payable and other obligations. As of the date of this Offering Memorandum, except for our indebtedness under our convertible bonds and an offshore loan denominated in HK dollars, all our borrowings are denominated in Renminbi.

On October 13, 2010, we issued five-year HK$1,165.0 million convertible bonds bearing interest of 3% per annum, which is payable half-yearly in arrears on April 13 and October 13. The convertible bonds are (a) convertible at the option of the bondholders into ordinary shares on or after November 23, 2010 up to and including October 3, 2015, on the basis of one ordinary share with nominal value of HK$0.1 each at an initial conversion price of HK$4.212, subject to adjustments in certain events.

The table below sets forth our borrowings as of the dates indicated.

	As of December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000)* *(unaudited)*
Current:				
Interest-bearing bank loans — secured	189,000	975,000	1,054,000	169,179
Current portion of long term interest-bearing bank loans — secured	662,024	510,973	430,915	69,167
Convertible bonds	—	—	869,681	139,593
Other loans	—	—	1,596,157	256,201
Subtotal	851,024	1,485,973	3,950,753	634,140
Non-current				
Long term interest-bearing bank loans — secured	1,564,776	1,642,698	2,370,459	380,485
Convertible bonds	860,441	844,363	—	—
Subtotal	2,425,217	2,487,061	2,370,459	380,485
Total	3,276,241	3,973,034	6,321,212	1,014,625

The following table sets forth a breakdown of our borrowings by maturity date as of the dates indicated.

	As of December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(US$'000)* *(unaudited)*
Bank loans repayable:				
Within one year	851,024	1,485,973	3,081,072	494,546
In the second year	372,023	316,714	319,269	51,246
In the third to fifth years, inclusive	614,197	769,123	779,763	125,161
Beyond five years	578,556	556,861	1,271,427	204,078
	2,415,800	3,128,671	5,451,531	875,031
Convertible bonds:				
Within one year	—	—	869,681	139,593
In the second year	—	844,363	—	—
In the third to fifth years, inclusive	860,441	—	—	—
Total	860,441	844,363	869,681	139,593

The following table sets forth the effective interest rate breakdown of our borrowings as of the dates indicated.

	As of December 31,		
	2010	**2011**	**2012**
	(%)	*(%)*	*(%)*
Current:			
Interest-bearing bank loans — secured	5.00 – 9.47	6.48 – 9.47	6.30 – 9.84
Current portion of long term interest-bearing bank loans — secured	5.13 – 6.40*	6.11 – 7.65*	6.52 – 7.91*
Convertible bonds	—	—	6.51
Other loans	—	—	4.71 – 6.57
Non-current			
Long term interest-bearing bank loans — secured	5.13 – 6.40*	6.11 – 7.65*	6.52 – 7.91*
Convertible bonds	6.51	6.51	6.51

*: Lower of 1.3% per annum over 1-month HIBOR and 2.25% per annum below the Hong Kong dollars best lending rate.

As of December 31, 2012, our interest-bearing bank loans amounting to RMB5,451.5 million (US$875.0 million) were secured by our land and buildings, investment properties, land lease prepayments, completed properties held for sale and properties under development with net carrying amounts of approximately RMB712.5 million (US$114.4 million), RMB91.7 million (US$14.7 million), RMB572.5 million (US$91.9 million), RMB318.0 million (US$51.0 million) and RMB910.2 million (US$146.1 million), respectively. As of December 31, 2012, we had total banking facilities of RMB5,181.5 million (US$831.7 million), of which RMB812.3 million (US$130.4 million) were unutilized.

As of March 31, 2013, we had interest-bearing bank loans and other borrowings and convertible bonds as current liabilities in the amount of RMB3,098.7 million and RMB879.3 million respectively.

CAPITAL EXPENDITURES

Our principal capital expenditures mainly relate to our purchase of property, plant and equipment, and land use rights, primarily for the construction or development of our new stores. We have funded our historical capital expenditures through internally generated cash and bank and other borrowings.

Our capital expenditures were RMB4,318.7 million, RMB2,657.1 million and RMB3,377.1 million (US$542.1 million) in 2010, 2011 and 2012, respectively.

We have 13 new store projects currently under development in Chengdu of Sichuan Province; Taiyuan of Shanxi Province; Jinzhou of Liaoning Province; Baoding of Hebei Province; Weifang and Laiwu of Shandong Province; Nanjing, Huaian, Wuxi and Taizhou of Jiangsu Province; and Baotou of Inner Mongolia. We expect to incur substantial capital expenditures in connection with these new store projects.

The table below set forth our capital commitments as of the dates indicated.

	As of December 31,	
	2012	**2012**
	(RMB'000)	*(US$'000)* *(unaudited)*
Contracted, but not provided for, in respect of land and buildings	1,676,702	269,129

We may also incur capital expenditures in acquiring interests in other department stores or properties at prime locations in our target cities if attractive opportunities arise. We expect to finance our capital expenditures for the next 12 months primarily through operating cash flows. Cash requirements relating to our expansion plan may vary significantly based on market opportunities. Our ability to satisfy our capital expenditure requirements may be affected by our financial condition and results of operations and the liquidity of the international and domestic financial markets. We cannot assure you that we will be able to complete our expansion plan on terms acceptable to us or at all or that we will have sufficient financial resources to complete our planned expansions.

CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND OFF BALANCE SHEET TRANSACTIONS

We lease certain of our stores and office premises under noncancellable operating leases from third parties. The leases primarily relate to the rental of premises for our department stores. Our future aggregate minimum lease payments under noncancellable operating leases as of the balance sheet dates indicated are set out below.

	As of December 31,	
	2012	**2012**
	(RMB'000)	*(US$'000)*
		(unaudited)
Within 1 year	184,484	29,612
After 1 year but within 5 years	635,276	101,969
After 5 years	274,650	44,084
	1,094,410	175,665

In addition, on December 11, 2012, Shenzhen Maoye Shangsha entered into an agreement with independent third parties to acquire 100% of the equity in Shangdong Weizhou Property Co., Ltd. at a total consideration of RMB309.5 million (US$49.6 million), which consisted of RMB64.5 million (US$10.3 million) as equity transfer consideration and RMB245 million (US$39.3 million) as repayment of the debt for Shandong Weizhou Property Co., Ltd. Shenzhen Maoye Shangsha paid the amount in relation to the repayment of debt in December 2012, and paid the equity transfer consideration during the first quarter of 2013.

We have not entered into any financial instruments for hedging purposes.

MARKET RISKS

We are exposed to various types of market risks in the normal course of our business, including the following:

Interest rate risk

Our interest rate risk arises primarily from interest-bearing loans and convertible bonds. Borrowings issued at variable rates, and borrowings and convertible bonds issued at fixed rates, expose us to cash flow interest rate risk and fair value interest rate risk, respectively. As of December 31, 2012, substantially all of our bank borrowings are based on variable rates.

Any increase in interest rates will increase the interest rates on our outstanding borrowings and the cost of new borrowings, and therefore may have a material adverse effect on our financial results. The interest rate for our bank borrowings denominated in Renminbi is determined by reference to the benchmark interest rates set by the PBOC. The PBOC has increased the benchmark interest rates on bank deposits and loans several times in recent periods. As of December 31, 2012, the current benchmark interest rate on one-year loans published by the PBOC is 6.0%. We are also exposed to fluctuations in HIBOR, as the interest rates for our long-term loans are linked to HIBOR (for borrowings denominated in HK dollars). We cannot assure you that the PBOC will not raise lending rates or HIBOR will not increase in the future or that our business, financial condition and results of operations will not be adversely affected as a result of these adjustments. We have not used any interest rate swaps to hedge our exposure to interest rate risk.

Foreign exchange rate risk

Our revenue is mostly generated in Renminbi. We have certain cash and bank balances and investments denominated in Hong Kong dollars. The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of Renminbi to the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies.

While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against the U.S. dollar. Fluctuations in the value of Renminbi to the U.S. dollar may adversely affect our cash flows, revenue, earnings and financial position. In addition, if the value of Renminbi appreciates, we would record foreign exchange losses on bank balances and other assets we maintain in non-Renminbi currencies.

We currently do not hedge our foreign exchange risk .

Price risk

Equity price risk is the risk that the fair values of our investments in equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. We are exposed to equity securities price risk because of investments held by us and classified on our consolidated balance sheet as available-for-sale equity investments and equity investments at fair value through profit or loss. We also invest some of our extra cash in securities markets in the PRC, which are recorded as equity investments at fair value through profit or loss on our balance sheet. Our listed equity investments are listed on the Shenzhen and Shanghai stock exchanges and are valued at quoted market prices at the balance sheet dates.

In recent years, there has been significant price fluctuation on many major stock markets, including the exchanges on which our investments in listed equity securities are traded. The decline in the carrying amounts of our listed equity investments subsequent to December 31, 2012 has not been reflected in our financial statements as of December 31, 2012.

Credit risk

We have no significant concentrations of credit risk of trade receivables, other receivables or amounts due from related parties. Sales to retail customers are made in cash or via debit or credit cards. We trade only with recognized and creditworthy third parties and do not require collateral from our counterparties. In addition, we monitor receivable balances on an ongoing basis, and our exposure to bad debts is not significant.

Our other financial assets, including cash and cash equivalents, available-for-sale equity investments, amounts due from associate and other receivables, have maximum exposure equal to the carrying amounts of these assets.

Liquidity risk

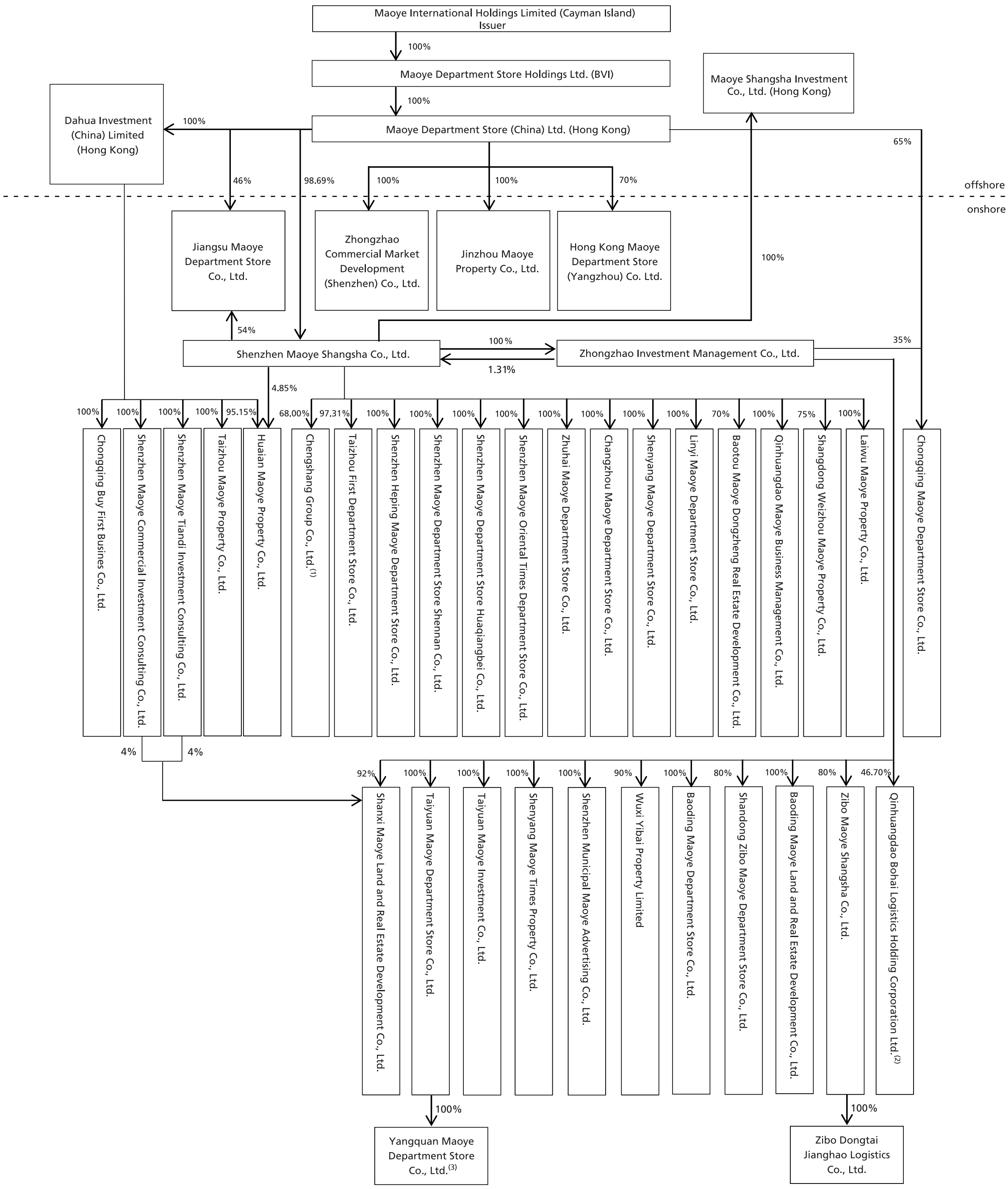
Our policy is to maintain sufficient cash and cash equivalents and have available funding through bank and other borrowings to meet its working capital requirements. We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

Inflation risk

In the past three years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business in recent years. According to the National Bureau of Statistics of China, the change in the Consumer Price Index was 3.3%, 4.1% and 2.6% for 2010, 2011 and 2012 respectively. More recently, however, the PRC economy has shown signs of increasing inflation.

CORPORATE STRUCTURE

Our Company was incorporated in the Cayman Islands with limited liability on August 8, 2007. The shares of our Company were listed on the Main Board of the Stock Exchange on May 5, 2008. The following diagram illustrates a summary of our corporate structure, including our operating subsidiaries as of the date of this Offering Memorandum:



Note:

1. Chengshang Group Co., Ltd. is listed on the Shanghai Stock Exchange (600828).

2. Qinhuangdao Bohai Logistics Holding Corporation Ltd. is listed on the Shenzhen Stock Exchange (000889).

3. Yangquan Maoye Department Store Co., Ltd. is currently in the process of de-registration.

OVERVIEW

We are a leading department store chain operator in affluent regions throughout China. We currently operate and manage 39 stores across eight provinces and municipalities and 19 cities in China, including seven stores in southern China, 11 stores in southwestern China, 12 stores in eastern China and nine stores in northern China.

Our stores are situated in prime locations in their respective cities. As of March 31, 2013, we owned 63.9% of the gross floor area of the premises for our department stores. We focus on developing future department stores mainly in the second- and third-tier cities in the most economically developed regions and the regions with high economic growth in China. We have developed department stores in Guangdong Province, Jiangsu Province and Shandong Province, the three provinces which command the highest GDP in China, and have expanded our network to other economically developed regions such as Sichuan Province and Bohai Bay region. In particular, we believe we are a leading department store operator in Shenzhen and Qinhuangdao.

Our department stores primarily target China's relatively well-off urban residents. We have positioned ourselves at the medium- to high-end segment of the retail market in China and offer a stylish and diversified merchandise mix designed to cater to the preferences of a wide range of customers. Our department stores carry a large number of well-known brands from China and overseas and offer an extensive range of merchandise. We are a leading department store in the PRC, enjoying strong brand recognition. We believe we operate one of the largest VIP programs in terms of the number of VIP members among major PRC department store operators listed in Hong Kong.

Our department store operations generate revenue predominantly from commissions on concessionaire sales, direct sales and rental income from leasing shop premises. Concessionaire sales refer to arrangements under which we allow suppliers of branded goods (called concessionaires) to occupy designated areas of our stores and sell their merchandise. In return, we receive a commission generally calculated as a percentage of the total sales proceeds of the concessionaires. We believe that selling through concessionary arrangements eliminates our inventory risk and enhances our cashflow, as our concessionaires are responsible for inventory, counter staff and certain other costs, and we collect proceeds before we pay out the concessionaires' portion of the proceeds. We also source and sell merchandise directly and generate rental income from leasing shop premises to operators of other businesses. To enhance customer flow to our stores and provide customers with a "one-stop" shopping experience, we are in the process of introducing more complementary facilities, such as restaurants, coffee shops, hair and beauty salons, kids' playgrounds and cinemas in our department stores. For the years ended December 31, 2010, 2011 and 2012, the revenue generated by our department store operations was RMB2,604.2 million, RMB3,875.4 million and RMB3,981.4 million (US$639.1 million), respectively.

We have always focused on network expansion in affluent cities and have continued to expand our business operations, extend our geographical presence and increase our market share mainly through self-developed properties and acquisitions. We have a proven record and are experienced in integrating acquired department stores into our Group. We acquired Chengshang Group and Bohai Logistics, both A-share listed department store operators, in 2005 and 2010, respectively, and turned each of them around from a loss-making to a profit-making company after only one year of operation after the acquisitions. In addition, we acquired Taizhou First Department Store, which operates a department store in Taizhou, Jiangsu Province, in 2009 and successfully increased its net profit by a multiple of times in the first year of our operation.

We also engage in property development activities mainly for our owned department store projects to better ensure that the construction, design and facilities of our department stores were carried out at our instructions and tailored to our specific needs and the surroundings and competitive situation at each location. In order to draw customer flow in the locations where we build our stores, we have been increasing the development of commercial complexes which include other developments such as residential buildings and commercial properties. Once the properties are developed and constructed, we sell the residential and office areas and keep the department stores for our own operations. For the years ended December 31, 2010, 2011 and 2012, the revenue generated by our property development operations, after intra-segment eliminations, was RMB125.4 million, RMB231.5 million and RMB353.5 million, respectively.

For the years ended December 31, 2010, 2011 and 2012, our total operating revenue was RMB2,748.4 million, RMB4,123.3 million and RMB4,349.9 million, respectively, and our profit attributable to equity holders was RMB624.1 million, RMB734.9 million and RMB898.6 million, respectively.

OUR COMPETITIVE STRENGTHS

We believe the following are our key competitive strengths:

Leading market position in the most economically developed regions and the regions with high economic growth in China

We focus on developing department stores in the second- and third-tier cities in the most economically developed regions and the regions with high economic growth in China. We currently operate and manage 39 stores across eight provinces and municipalities and 19 cities in China. We have developed department stores in Guangdong Province, Jiangsu Province and Shandong Province, the three provinces which command the highest GDP in China. In addition, we have expanded our network to other economically developed regions and regions which benefit from the PRC government's development plans, including Sichuan Province and Bohai Bay region. We believe we are one of the largest and most well-established department store chains in southern and southwestern China, and are well positioned to achieve market leadership in other regions where we have established operations.

In addition, we believe that we have secured a leading position in most of the cities where we have multiple large-sized department stores, in particular Shenzhen and Qinhuangdao. We believe that such leading position provides us with a strong base to benefit from the continuing growth of the economy and urban consumption in China, to attract more customers and, as a result, to further widen our leadership in terms of market share, and to enable us to attract popular concessionaires and other merchandise vendors and negotiate favorable terms with them.

A leading department store operator in the PRC with strong brand recognition supported by a large loyal customer base

We are a leading domestic department store operator in the PRC. We believe that our leading position in southern and southwestern China and our growing market position in other regions where we operate has resulted in strong market recognition of our brand. We believe that our robust brand recognition is reflected in the large number of awards that we have received over the years. The Ministry of Commerce of the PRC (the "MOFCOM") awarded us "Jinding Department Store (金鼎百貨店)" in 2009 and 2010 in recognition of, among other things, the scale, operation and performance of our department stores. We were also recognized as "National

Consumer Most Satisfactory Enterprise in Service Industry (全國(行業)顧客最佳滿意企業)" jointly by the China General Chamber of Commerce and the National Customer Satisfaction Level Appraisal Office in 2009, and as one of "China's Top Ten Most Competitive and Well-known Brands in Department Store Chain Industry (中國百貨連鎖市場最具競爭力十大著名品牌)" by China News Appraisal Centre in 2008.

The high consumer recognition of our brand is also evidenced by the scale of our VIP program. We believe we operate one of the largest VIP programs in terms of the number of VIP members among major PRC department store operators listed in Hong Kong. As of December 31, 2012, we had approximately 3.8 million VIP members. We expect that the continuous growth in the PRC economy, increasing urbanization and increasing domestic consumption will further drive the retail demand in the PRC for mid-to-high end products. With our strong brand recognition in the market, we believe that we are well positioned to capture a significant portion of the growth of the market and further develop our business.

Prime store locations secured by high level of ownership

Our stores are located at prime shopping locations in the main commercial areas of their respective cities, which not only helps attract a high volume and wide range of customers to our stores, but also reinforces our market position and brand recognition in the medium- to high-end retail segment. We own the premises for a majority of our department stores. As of March 31, 2013, we owned the premises of 23 out of 39 of our stores, totalling 719,522 sq.m. in gross floor area and representing approximately 63.9% of the total gross floor area of our department stores (excluding the gross floor area of our managed store), which we believe was one of the largest compared to other major PRC department store operators listed in Hong Kong. We believe that this provides us with the certainty that we will always secure and enjoy the benefits of prime locations for these stores. Operating department stores at self-owned properties makes us less vulnerable to the rising rental market in the PRC, allowing us to reduce the risks and costs from the relocation and the resulting interruption of operations, which would arise from a lease termination, and gives us more flexibility in designing, renovating and modelling our stores to tailor them to concessionaire design requirements. Property ownership also provides us with flexibility to lease our store space to third-party service providers if we consider that it helps to enhance the overall service provided at our stores.

Proven track record and management experience in integrating acquired department stores

We believe that our skills and experience of integrating and nurturing acquired department stores have enabled us to achieve expansion at a relatively low cost over the years. We acquired Chengshang Group, an A-share listed company, in 2005, Taizhou First Department Store, which operates the Taizhou First Department Store in Taizhou, Jiangsu Province, in 2009 and Bohai Logistics, another A-share company which is also the largest commercial department store company in Qinhuangdao, in 2010. We successfully turned around Chengshang Group and Bohai Logistics from loss-making companies to profit-making companies after only one year of operation after we acquired these two companies. The net profit of Bohai Logistics continued to experience strong growth under our operation in 2011 and 2012. Similarly, compared to the fiscal year before we acquired Taizhou First Department Store, we successfully increased the net profit of Taizhou First Department Store by a multiple of times in the first year of its operation.

In particular, we helped Chengshang Group, Taizhou First Department Store and Bohai Logistics to:

- redefine the market position of their department stores;
- adjust merchandise mix and introduce more popular brands to their platforms;
- remodel their stores and upgrade their brand image;
- introduce innovative marketing and promotion measures;
- enhance employee incentive programs to stimulate sales; and
- improve their operation efficiency by bringing in "results-oriented" management approach, streamlining their operations and simplifying their organization structures.

We believe that our track record of identifying, acquiring and successfully integrating suitable acquisition targets demonstrates our management's vision and execution and integration capabilities. Leveraging the knowledge and experience accumulated over the years, we believe we will be able to integrate acquired companies and further expand our network efficiently as we identify suitable targets in the future.

Innovative and effective marketing and promotion

We regularly carry out innovative marketing and promotional activities to enhance our brand and reputation as a promoter of stylish lifestyle, provide an exciting and refreshing shopping experience, encourage frequent and repeated visits by our customers, and stimulate consumption. We hold grand "shopping carnival" events at our stores every year which we believe, in many cities where we operate, have become one of the most high-profile local sales events. We held a shopping carnival at our Shenzhen Maoye Dongmen store in October 2012, during which the store was open for approximately 68 consecutive hours, and we recorded RMB390 million of sales proceeds from the event. Over the years, we have developed the capability to mobilize and consolidate our corporate resources, including front line sales and back-end logistics support, to execute promotional events of this scale.

In addition, we organize events from time to time for selected companies and organizations, offering exclusive shopping hours and occasions for their employees or members. We strategically select those companies and organizations whose employees and members fall within our targeted medium to high-end income bracket to maximize our sales during such events. We have, for example, held events for our bank customers, allowing their employees to shop at our stores exclusively after business hours with special discounts and benefits, and became our VIP members. We have also organized innovative events, such as "kid's MBA" seminars at our stores, which attracted parents and kids to our stores, extended their time spent in our stores and stimulated consumption. In addition, we have developed marketing strategies to quickly reach the increasing number of mobile Internet users, for example, by sharing streaming content feeds on social network platforms to quickly spread our store promotional information over the Internet. In an effort to offer tailor made services to our VIP members, we place particular emphasis on organizing events exclusively for them, such as concerts, charity auctions and wine tasting events and jogging activities to further enhance their loyalty to our brand.

Effective and flexible business model with strong concessionaire relationships

We generate the majority of our sales through concessionaire sales. For the years ended December 31, 2010, 2011 and 2012, total sales proceeds from concessionaire sales represented approximately 89.1%, 86.2% and 87.4%, respectively, of the Total Sales Proceeds. Our commissions from concessionaire sales accounted for approximately 51.7%, 45.2% and 45.7% of our revenue for the same periods. We believe that selling through concessionary arrangements eliminates our inventory risk as concessionaires own, and therefore bear the risk of, inventory. By selling through concessionaires, we are able to reduce our costs in establishing and operating department stores and enhance our cashflow as the concessionaires are responsible for various expenses such as counter staff costs and utility expenses and are required to share renovation expenses. Our cashflow is further enhanced under this business model as we collect the gross proceeds from concessionaire counters before we remit to the concessionaires their portion of the proceeds.

We offer an extensive portfolio of merchandise with a diverse product, price and brand mix from a wide range of renowned and popular international and domestic brands in our department stores. Our concessionaire agreements generally run for 12 to 18 months, which gives us flexibility in adjusting our merchandise mix based on changing market demand. We have established close and long-term business relationships with approximately 3,500 concessionaires and vendors. Through the operation of our central information database of potential and existing merchandise vendors, we aim to maintain flexible relationships with a large pool of suppliers, allowing us to review and adjust our brand and merchandise mix from time to time and diversify our product offerings.

Experienced and dedicated management team

Most of our senior management members have over 15 years of experience in their specialized areas, including department store and real estate management, retail operations and financial management and risk control, and have accumulated a deep understanding of Chinese consumer preferences, excellent merchandising capabilities and strong relationships with concessionaires and other merchandise vendors. They are also highly experienced in managing logistical and regulatory challenges. We believe that our experienced and dedicated management team has been instrumental to the growth of our business. We have rapidly expanded over the years by adding 24 stores to our retail network since we listed on the Hong Kong Stock Exchange in 2008. Some of our stores recorded profits during the first year of their operations. For example, our Shenzhen Nanshan store recorded a net profit in 2009 after we opened the store in June of the same year, and has recorded revenue growth since then. In addition, our success in acquiring, integrating and turning around Chengshang Group and Bohai Logistics and significantly increasing profits of Taizhou First Department Store have also demonstrated the ability of our management to effectively execute our growth strategies.

OUR STRATEGIES

We plan to become the leading nationwide department store chain in China, and to continue to enhance our profitability through the following strategies:

Continuing to strengthen our store network in the most economically developed regions and the regions with high economic growth in China

We plan to continue to expand our store network mainly through self-developed properties and acquisitions, particularly into the second- or third-tier cities of the most economically developed regions and the regions with high economic growth in China. These mainly include cities where we have already developed department stores. Currently, we plan to open 13 new stores during the next five years and we plan to focus on expanding our business in eastern, northern and southwestern China, in order to achieve a leadership position in the regions where we have established a presence but are not yet the market leader. In 2012, we acquired three parcels of land located in premium locations in Nanjing, Jiangsu Province, and Laiwu and Weifang in Shandong Province for the development of our new department stores. For more details, see "— Our Department Store Network — Expansion Plan."

We plan to widen and further distinguish our leading position in our existing areas of operations by adding more new stores in cities where we already operate. Currently, we aim to eventually open three to five department stores, with at least one flagship store, in each city where we establish a presence to achieve economy of scale and enhance the synergies arising from having multiple stores in one area. Our flagship stores, leveraging their scale of operations, can normally consolidate the merchandise requirements of our other stores located in the same area with those of the flagship store and negotiate more effectively with concessionaires and vendors to obtain better terms and increase our influence over the local market. We believe we can benefit from increased bargaining power with concessionaires and other merchandise vendors, and enhance our profitability with higher recognition of market leadership.

Developing our department stores to achieve a more comprehensive "one-stop" shopping experience

Our department stores carry a large number of well-known brands from China and overseas and offer an extensive range of merchandise to appeal to our customers' various shopping preferences. To enhance customer flow to our stores and provide customers with a "one-stop" shopping experience, we plan to increasingly introduce complementary facilities, such as restaurants, coffee shops, hair and beauty salons, kids' playgrounds and cinemas in our department stores. Where the floor area of our existing stores allows and if we consider appropriate, we plan to redesign the floor plan and introduce such facilities into our stores by leasing premises to service providers, from which we collect rental or, in some cases, an amount equivalent to the higher of the agreed rental and a percentage of their profits. We have remodelled our Shenzhen Huaqiangbei store and Nanshan store to include such facilities. In connection with the 13 projects that are currently under construction, we believe that each of them occupies a sufficiently large space and can be developed into a department store offering multiple services. We have included or plan to include in the floor design different combinations of facilities to better target customers in different markets.

In addition, recognizing the challenges presented by Internet-based e-commerce, we plan to differentiate ourselves by focusing on enhancing customers' shopping experience at our stores. We believe that the physical shopping experience remains irreplaceable, especially with respect to certain products such as women's apparel, which require better fitting experiences and services that on-line shopping cannot provide. We plan to further optimize our store layout, renovate our stores and regularly improve our stores' decor. When designing the product mix and arranging our sales floor area, we plan to place more emphasis on the products as to which physical stores have particular strengths relative to on-line retailers, and reduce the product offerings which, in our view, enjoy less of a competitive edge over e-commerce businesses.

We believe that, by providing a wide range of services in our department stores to accommodate our customers' needs as well as a better shopping environment, we will be able to provide our customers with a more comprehensive and enjoyable shopping experience, thereby increasing customer flow at our stores and lengthening the duration of their stay to encourage increased spending.

Continuing to develop distinct market strategies with respect to different stores to cater to local preferences

To further enhance our profitability, we plan to continue to develop market segmentation by adjusting our merchandise mix from time to time to better cater to the preferences of our targeted customers in the high-end and stylish, young and creative, and lifestyle market segments. We plan to develop distinct marketing strategies with respect to different stores, taking into account factors such as consumption patterns and local preferences in our stores' respective locations. Building on our understanding of the market and our sourcing capability, our goal is to present different merchandise mixes for different market segments in order to meet the demands of our targeted customer groups for various brands, styles and prices.

Further enhancing our operating efficiency and achieving cost-savings by consolidating corporate resources and improving our information technology systems

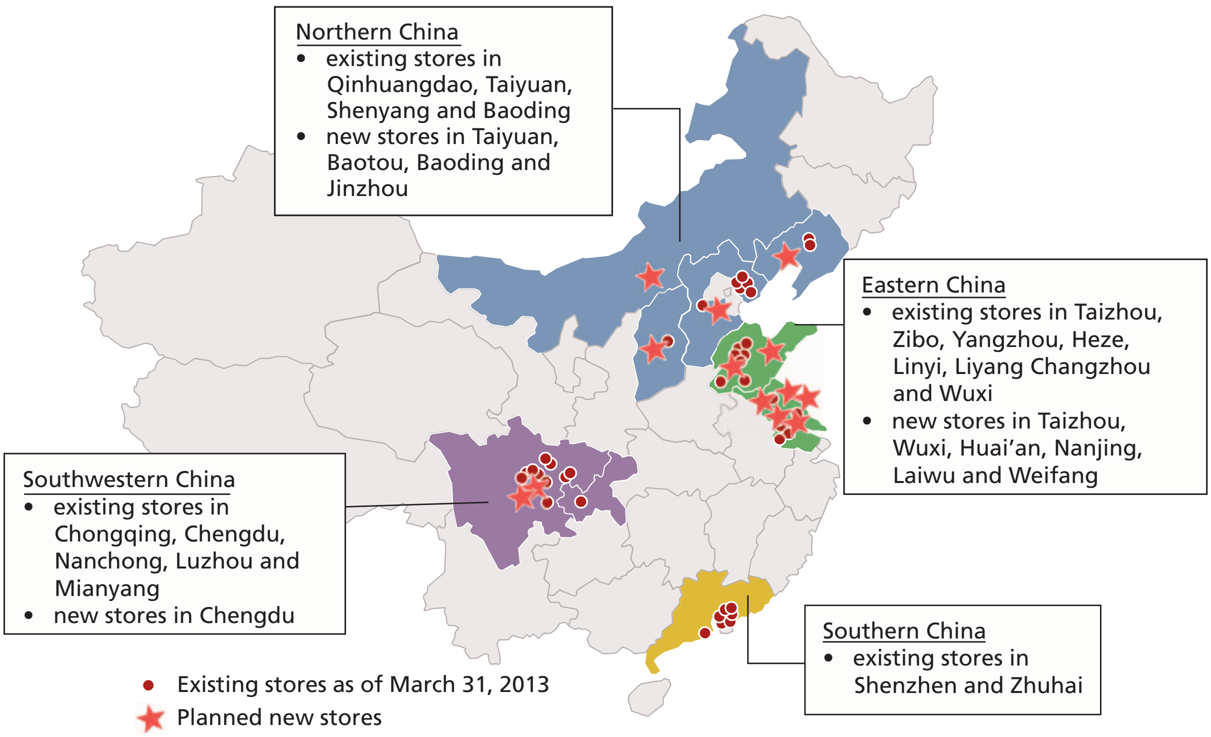
In response to intense competition in the PRC retail industry and the changing economic environment, we initiated a series of management restructurings in 2012 with the aim of further enhancing our operating efficiency. We have established three major business systems to centralize the management of our business, logistics and financial operations, respectively, in order to allocate our corporate resource more efficiently and eliminate potential competition, for example, in promotional and sales events, among our department stores. We plan to continue to streamline our operations under the three business systems structure.

In addition, we consider our IT systems a core competitive strength and plan to further enhance our operating efficiency through continuous upgrades of our IT systems. We have built our Point-of-Sale (POS), supplier management and financial management systems and have introduced an enterprise resource planning (ERP) system to enhance information sharing among our employees and merchandise vendors to improve efficiency. We plan to continue to upgrade or introduce more advanced versions of all these systems. We will also continue to upgrade our data analysis system and customer relationship management system, strengthen our system maintenance and expand the bandwidth of our IT system and enhance its reliability and operational efficiency.

OUR DEPARTMENT STORE NETWORK

We currently operate a network of 39 department stores across eight provinces and municipalities and 19 cities in China, including a store in Wuxi, Jiangsu Province which we manage under a management agreement. We believe that the location of a store is essential to our success, and we believe each of these stores is located at a prime shopping location in a main commercial area of the city in which it operates.

The following map shows the locations of all our department stores as of March 31, 2013 and the new stores that we plan to open in the next five years:



As of March 31, 2013, our total gross floor area amounted to approximately 1,194,695 sq.m., of which 68,292 sq.m were attributable to Maoye Wuxi Qingyang, our managed store. Excluding the gross floor area of the managed store, 63.9% of our store properties by gross floor area were self-owned, 25.7% were leased from connected persons, mainly the Controlling Shareholder Group, and 10.4% were leased from independent third parties.

The following table sets out the geographical location, gross floor area, and years into operation of our self-operated and managed stores as of March 31, 2013, as well as whether the premises for such stores are self-owned or leased.

	Store (City)	Years of Operation under our Group(1)	Gross floor area (sq. m.)	Property ownership
1	Shenzhen Dongmen(2)	16.1	43,726	Owned
			3,710	Leased(3)
2	Shenzhen Outlet(4)	13.5	23,048	Leased(3)
3	Zhuhai Xiangzhou	11.4	23,715	Leased(3)
4	Shenzhen Huaqiangbei	9.5	59,787	Leased(3)
5	Chongqing Jiangbei	8.5	52,281	Leased(3)
6	Chengdu Yanshikou(2)	7.8	53,873	Owned
7	Chengdu Beizhan	7.8	7,204	Owned
8	Chengdu Wuhou	7.8	16,000	Leased(5)
9	Nanchong Wuxing	7.8	25,195	Owned
10	Chengdu Wenjiang	7.8	8,400	Leased(5)
11	Luzhou Baita	7.8	15,115	Leased(5)
12	Shenzhen Shennan	6.8	10,507	Leased(3)
13	Mianyang Linyuan	5.2	21,731	Owned
14	Nanchong Mofanjie(2)	4.6	24,660	Owned
15	Mianyang Xingda	4.6	27,535	Owned
16	Qinhuangdao Jindu	4.6	46,610	Owned
17	Taiyuan Liuxiang	4.3	31,448	Owned
18	Shenzhen Nanshan(2)	3.6	44,871	Owned
19	Chengdu Longquanyi	3.6	8,373	Leased(5)
20	Taizhou First Department Store(2)	3.5	40,358	Owned
21	Changzhou Wujin(6)	3.2	25,321	Leased(3)

	Store (City)	Years of Operation under our Group[1]	Gross floor area (sq. m.)	Property ownership
22	Shenzhen Friendship[6]	2.9	21,000	Leased[3]
23	Qinhuangdao Hualian[2], [6]	2.8	10,355	Owned
24	Qinhuangdao Shangcheng[2], [6]	2.8	26,696	Owned
25	Qinhuangdao Jinyuan[6]	2.8	10,800	Owned
26	Qinhuangdao Xiandai[6]	2.8	36,897	Leased[5]
27	Zibo Jindi Shopping Plaza[6]	2.7	51,266	Owned
28	Shenyang Jinlang[6]	2.5	70,000	Leased[3]
29	Baoding Guomao[6]	2.5	24,826	Owned
30	Jiangsu Yangzhou[6]	2.5	21,485	Owned
31	Zibo Maoye Shopping Plaza[6], [7]	2.4	36,791	Owned
32	Zibo Maoye Building[6], [7]	2.4	21,229	Owned
33	Zibo Taikerong[6], [7]	2.4	25,337	Owned
34	Zibo Maoye Department Store[6], [7]	2.4	8,415	Leased[5]
35	Heze Huihe[6], [7]	2.3	29,426	Owned
36	Linyi Renmin Plaza[6], [7]	1.7	44,500	Owned
37	Shenyang Tiexi[6], [7], [8]	1.0	49,600	Owned
38	Jiangsu Liyang[6], [7], [8]	0.9	24,312	Leased[5]
39	Wuxi Qingyang[6], [7], [8]	5.7	68,292	Managed store

Notes:

1. Operation period was calculated up to March 31, 2013.

2. Properties under mortgage.

3. Leased from our connected parties.

4. Shenzhen Outlet Store includes a higher percentage of discounted or seasonal sale items in its merchandise mix compared to our other department stores.

5. Leased from independent third parties.

6. Excluded from the calculation of our same-store sales proceeds from concessionaire sales for 2010 and 2011.

7. Excluded from the calculation of our same-store sales proceeds from concessionaire sales for 2011 and 2012.

8. Excluded from the calculation of our same-store sales proceeds from concessionaire sales for the first three months of 2012 and 2013.

Our stores are all located in prime locations in their respective cities, including Dongmen Business District, Houhai Business District and Huaqiangbei Business District in Shenzhen, Xiangzhou Business District in Zhuhai, Pozijie Business District in Taizhou, Zhangdian Business District and Linzi Business District in Zibo, Zhongshan Road Business District in Wuxi, Sun City Business District in Qinhuangdao, Liuxiang Business District in Taiyuan, Jiangbei Business District in Chongqing, Gongyuankou Business District in Mianyang and Chunxi-Yanshikou Business District in Chengdu.

Our lease agreement for the Luzhou Baita store is due to expire on August 1, 2013.

As of December 31, 2012, we operated 39 stores, and a substantial amount of our revenue was derived from our major stores. In 2012, the aggregate sales proceeds from concessionaire sales for our top ten major stores, Shenzhen Huaqiangbei store, Shenzhen Dongmen stores, Chengdu Yanshikou store, Chongqing Jiangbei store, Taizhou First Department Store, Qinhuangdao Xiandai Shopping Plaza, Shenzhen Nanshan store, Qinhuangdao Shangcheng store, Taiyuan Liuxiang store and Qinhuangdao Jindu store, were RMB6,695.4 million (US$1,074.7 million), representing 69.2% of our total sales proceeds from concessionaire sales for the year. Therefore, our business and financial performance would be materially and adversely affected by any circumstances such as fire, water damage, legal restrictions or other causes that adversely affect the operations or business of any of our major stores. Any government development plans around our premises, such as infrastructure construction, may also have an adverse impact on the external traffic flow to our department stores. For example, our Shenzhen Huaqiangbei store experienced slow growth in 2012 due to ongoing subway construction nearby.

The following table sets out certain operating data of our stores for the years ended December 31, 2010, 2011 and 2012:

	Year ended December 31,			
	2010	**2011**	**2012**	**2012**
	(RMB'000, except %)			*(US$'000)* *(unaudited)*
Total sales proceeds from concessionaire sales	6,471,245	8,992,880	9,672,014	1,552,465
Revenue from direct sales	795,442	1,436,983	1,395,226	223,949
Total Sales Proceeds	7,266,687	10,429,863	11,067,240	1,776,415
Percentage of Total Sales Proceeds attributable to total sales proceeds from concessionaire sales (%)	89.1%	86.2%	87.4%	—
Gross margin on merchandise under direct sales arrangement (%)	9.7%	10.8%	10.0%	—
Comprehensive gross margin....	24.0%	22.9%	22.7%	—

Expansion Plan

Currently, we plan to open 13 new stores in Sichuan, Shanxi, Inner Mongolia, Hebei, Jiangsu, Shandong and Liaoning provinces during the next five years. We may consider to develop other new projects when opportunities arise. The projects currently under development include the following:

Province/ Region	Stores (City)	Property ownership	Status as of the date of this Offering Memorandum	Approximate gross construction area based on Company's current plan (sq. m.)	Features
Sichuan	Chengdu Yanshikou Project (second phase)	Owned	Obtained land use right certificate	44,000	Located in Chunxi - Yanshikou commercial district
	Chengdu South Arcade	Owned	Obtained land use right certificate and building ownership certificate	62,000	Located in the southern economic commercial center
Shanxi	Taiyuan Qinxianjie Project	Owned	Obtained construction planning certificate	70,000	Landmark of Taiyuan
Inner Mongolia	Baotou Project	Owned	Obtained land use right certificate	94,000	Located in the central business district of Baotou
Hebei	Baoding Yanzhao Project	Owned	Obtained construction planning certificate	54,000	Located in Baoding first commercial district
Jiangsu	Taizhou East Square Project (first phase)	Owned	Executed land use right grant contract and paid land premium	95,000	Located in Xiba Kou commercial district

Province/ Region	Stores (City)	Property ownership	Status as of the date of this Offering Memorandum	Approximate gross construction area based on Company's current plan (sq. m.)	Features
	Wuxi Yibai Project	Owned	Obtained construction permit	73,000	Located in the central location of Wuxi Zhongshan district
	Jiangsu Huai'an Project	Owned	Obtained land use right certificate	60,000	Located in Yellow River Square commercial district
	Nanjing Fuzi Temple Project	Owned	Obtained construction planning certificate	63,000	Located in the core business district of Fuzi Temple commercial district
	Taizhou East Square Project (second phase)	Owned	Executed land use right grant contract and paid land premium	97,000	Located in Xiba Kou commercial district
Shandong	Laiwu Project	Owned	Executed land use right grant contract	57,000	Located in the core business district of Laiwu City
	Weifang Project	Owned	Obtained construction planning certificate	78,000	Located in the commercial district of Taihua City
Liaoning	Jinzhou Project	Owned	Obtained construction planning certificate	48,000	Located in the commercial street of the core business district of Jinzhou

In certain cases, we work with the Controlling Shareholder Group in developing property projects for our department stores.

OUR DEPARTMENT STORES OPERATIONS

Concessionaire Sales

For the years ended December 31, 2010, 2011 and 2012, commissions from concessionaire sales accounted for approximately 54.8%, 48.6% and 50.8% of our Total Department Store Revenue, respectively, and total sales proceeds from concessionaire sales represented approximately 89.1%, 86.2% and 87.4%, respectively, of the Total Sales Proceeds.

Direct Sales

Our revenue from direct sales in our department store operations for the years ended December 31, 2010, 2011 and 2012 was RMB795.4 million, RMB1,437.0 million and RMB1,395.2 million, respectively. For the years ended December 31, 2010, 2011 and 2012, direct sales accounted for approximately 38.4%, 46.0% and 43.8% of our Total Department Store Revenue and 10.9%, 13.8% and 12.6% of our Total Sales Proceeds, respectively.

Store Lease

As of March 31, 2013, we leased approximately 410,069 sq.m. to such operators, representing 36.2% of the total gross floor area at our department stores (excluding the gross floor area of our managed store). For the years ended December 31, 2010, 2011 and 2012, rental income accounted for approximately 6.8%, 5.3% and 5.4% of our Total Department Store Revenue, respectively.

Customer Loyalty Program

We established our customer loyalty program when we opened our first store in 1997. Our Maoye customer loyalty program currently has a two-tier membership structure, with "Platinum cards" and "VIP cards," respectively. As separate and listed companies, Chengshang Group and Bohai Logistics each have their own customer loyalty program. To join our customer loyalty program, a customer must normally either pay a fee or spend a minimum amount in a day at a single store of our Group, although our promotional events may offer special terms for joining the program. At all our department stores, customer loyalty cardholders receive a discount on merchandise purchases. Customers also accumulate points based on purchases and can use the accumulated points to redeem gifts or cash coupons. We periodically publish and distribute a newsletter to our customer loyalty cardholders, and we organize activities exclusively for our VIP customers from time to time, such as concerts, charity auctions and wine tasting events and jogging activities. As of December 31, 2012, we had approximately 3.8 million VIP members.

MANAGEMENT AND OPERATIONS

Cash Management

We conduct internal audits of the cash inflow and outflow on a monthly basis to better monitor our cash management. We maintain insurance coverage for loss of cash by theft or robbery. We have not, to date, experienced any material loss of cash by theft or robbery.

PROPERTY DEVELOPMENT

We also engage in property development activities mainly for our owned department store projects to better ensure that the construction, design and facilities of our department stores were carried out at our instructions and tailored to our specific needs and the surroundings and competitive situation at each location. In order to draw customer flow in the locations where we build our stores, we have been increasing the development of commercial complexes which include other developments such as residential buildings and commercial properties. Once the properties are developed and constructed, we sell the residential and office areas and keep the department stores for our own operations.

The locations of our property development projects are determined by our department store operations as part of our expansion plan of the department store network. We only develop properties at prime commercial locations which we select for our development store projects. We engage independent contractors to provide project design, construction and other development work and subsequent interior decoration and equipment installation services.

Currently, we have 13 property projects under development.

Under applicable PRC laws and regulations, we are required to obtain a commencement of construction work permit before we commence construction of our properties. Such permit is typically issued after we obtain relevant land use right certificate, construction land planning permit and construction work planning permit.

The sales of our property development projects typically occur phase by phase and generally commence with the pre-sale of the properties, after fulfilling certain legal requirements, prior to completion of their construction. Our customers are required to make payments for our properties according to the time frames set forth in our contracts, typically by lump sum. We do not provide any services or guarantees to our customers with respect to their mortgage arrangements with banks. Once our property development projects pass requisite government inspections and are ready for delivery, we notify purchasers and deliver properties based on the time frame set forth in our sales contracts.

OTHER BUSINESSES

We also generate a small amount of revenue from other businesses that our subsidiaries engages in, principally comprising the operation of hotels and the provision of ancillary services, the provision of advertizing services and the construction of television networks. During the years ended December 31, 2010, 2011 and 2012, such operations generated RMB14.1 million, RMB8.1 million and RMB10.9 million of revenue. We plan to gradually dispose of these businesses because we consider them to be noncore businesses.

OTHER INVESTMENTS

We own minority interests in several companies with department store operations listed in the PRC. We believe these investments will bring long-term benefits to our Group. The following table sets out our interests in three companies listed in the PRC as of March 31, 2013, and certain key information about these companies.

Investment	Shareholding	Principal Business	Geographical Location
Shenzhen International Enterprises Co., Ltd (深圳市國際企業股份有限公司)	7.03%	The first listed retail enterprise in Shenzhen	Shenzhen City, Guangdong Province
Shenyang Commercial City Co., Ltd. (瀋陽商業城股份有限公司)	10.24%	Owns and operates a number of department stores in Shenyang	Shenyang City, Liaoning Province
Dashang Co., Ltd. (大商股份有限公司)	5.0%	Owns a number of department stores in northern China	Dalian City, Liaoning Province

In addition, we own a 5.87% interest in Guiyang Friendship Group Holdings Company Limited (貴陽友誼集團股份有限公司) ("Guiyang Friendship Group"). The Controlling Shareholder Group also acquired a 18.93% of the equity interests in Guiyang Friendship Group, and we have entered into an agreement with the Controlling Shareholder Group under which a call option was granted to us for the acquisition of the Controlling Shareholder Group's interest in Guiyang Friendship Group. Guiyang Friendship Group primarily operates two department stores in Guiyang, Guizhou Province.

In 2012, we generated a gain of RMB174.0 million from the disposal of available-for-sale equity investments, which provided cash in the amount of RMB331.6 million.

PROPERTIES

As of March 31, 2013, we operated and managed 39 stores across China with a total gross floor area of approximately 1,194,695 sq.m. (including 68,292 sq.m. of our managed store). Excluding the gross floor area of our managed store, 63.9% of our store properties by gross floor area were owned by us, 25.7% were leased from our connected persons, mainly the Controlling Shareholder Group, and 10.4% were leased from independent third parties.

We own the premises on which our Shenzhen Dongmen store, Chengdu Yanshikou store, Chengdu Beizhan store, Nanchong Wuxing store, Mianyang Linyuan store, Nanchong Mofanjie store, Mianyang Xingda store, Qinhuangdao Jindu store, Taiyuan Liuxiang store, Shenzhen Nanshan store, Taizhou First Department Store, Qinhuangdao Hualian store, Qinhuangdao Shangcheng store, Qinhuangdao Jinyuan store, Zibo Jindi Shopping Plaza, Zibo Maoye Shopping Plaza, Zibo Maoye Building, Zibo Taikerong store, Baoding Guomao store, Jiangsu Yangzhou store, Heze Huihe store, Linyi Renmin Plaza store, and Shenyang Tiexi store are located, and lease on a long-term basis the premises on which our other self-run stores are located. We own the land and properties of all the projects currently under development.

As of the date of this Offering Memorandum, we have not obtained the building ownership certificates for four of our self owned stores. With respect to our leased stores, the lessors of four of our leased stores have not provided us with all valid title certificates for relevant properties. As a result, the validity of the lease agreements with respect to those properties is uncertain. In addition, we have not completed the registration of lease agreements for 11 of our leased stores. As advised by our PRC legal counsel, however, the failure of registering a lease agreement as required by PRC laws would not affect the validity and enforceability of such lease agreement under the applicable laws and regulations.

We have not been required to relocate any of our stores for the lack of property title certificates. We are in the process of applying for the requisite title certificates for our owned stores, but the timing for obtaining relevant certificates is beyond our control. Before we or our landlords obtain proper title certificates for relevant stores, our rights in relation to such properties might not be entirely protected. Any dispute or claim relating to the title of the properties owned or leased by us may result in us relocating our stores. We cannot assure you that our use of the relevant land and buildings will not be challenged, and there is no assurance that we will be able to secure alternative properties for our business if we are required to relocate, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

LEGAL, COMPLIANCE AND LITIGATION

We may be involved in various legal proceedings and disputes arising from our ordinary course of business from time to time.

Our subsidiary, Chengshang Group, is involved in a dispute over a cooperative operation contract (the "Cooperation Contract") with Pacific China. Chengshang Group (including its predecessor) leased the Chengdu Commercial Building to a joint venture company invested by Chengshang Group and Pacific China for the operation of a department store for 21 years from 1994 to 2014. The dispute concerns the rental and profit sharing terms under the Cooperation Contract for the period from January 1, 2011 to December 31, 2014. On April 20, 2012, Chengshang Group received an arbitration award from the China International Economic and Trade Arbitration Commission which, among other things, decided that the Cooperation Contract was terminated on April 20, 2012, and the contract parties should liquidate the joint venture company according to the applicable laws. The arbitral award is silent on revenue attributable to Chengshang for the period from January 1, 2011 to the termination of contract, April 20, 2012, which the tribunal left to be determined by mutual agreement between the two parties. The arbitration tribunal also dismissed Chengshang Group's request that Pacific China shall immediately vacate from the Chengdu Commercial Building, and suggested that the vacation shall take place after the liquidation of the joint venture company. After receiving the arbitration award, Pacific China filed with the local court of the PRC to vacate the arbitration award. On October 19, 2012, the court decided that the award was legal and dismissed Pacific China's claim.

We plan to take back the Chengdu Commercial Building to open an additional department store in 2013, if we can successfully enforce the arbitration award to liquidate the joint venture. We are currently in discussion with Pacific China regarding the plans with respect to their presence on the premises. Chengshang provisionally recognized revenue in 2011 based on the actual amount paid by the joint venture company, which is subject to adjustment after the relevant revenue sharing is ascertained. In addition, Chengshang recognized certain investment income from the joint venture company in 2011 based on one of Pacific China's arbitration requests that Chengshang can be entitled to the sum of (i) a fixed annual rental of RMB26 million and (ii) 50% of the net profit after tax of the joint venture company, with the fixed rental of RMB26 million first be deducted as expenses. Such investment income is subject to adjustment based on further mutual agreement between the two parties.

Save as disclosed above, and the proceedings initiated by us regarding the infringement by third parties of our brand name, as of the date of this Offering Memorandum, we were not subject to any material fines, penalties or sanctions by national or local authorities for violations of PRC laws and regulations and were not involved in any material litigation, arbitration or administrative proceedings. So far as the Directors are aware, no such material litigation, arbitration or administrative proceedings are pending or threatened against any member of our Group.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our business operations and working capital requirements, we have borrowed money or incurred indebtedness through the issuance of convertible bonds and short-term and medium-term notes, as well as through bank loans. As of December 31, 2012, our total borrowings amounted to RMB6,321.2 million (US$1,014.6 million). We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

CONVERTIBLE BONDS DUE 2015

On October 13, 2010, we issued a HK$1,165.0 million aggregate principal amount of 3% convertible bonds due 2015 (the "2015 Convertible Bonds"). The 2015 Convertible Bonds carry an interest rate of 3% per annum, which is payable semi annually in arrears on April 13 and October 13 of each year.

We have undertaken that, so long as any 2015 Convertible Bonds remain outstanding, we will not, and will procure that none of our subsidiaries will, create or permit to subsist any security interest upon the whole or any part of our present or future undertaking, assets or revenues (including uncalled capital) to secure or guarantee any indebtedness in the form of bond, debenture or other instrument which is listed or traded on any stock exchange or in any securities market indebtedness or guarantee of indebtedness without (a) at the same time or prior thereto securing the 2015 Convertible Bonds equally and ratably to the satisfaction of the trustee or (b) providing such other security for the 2015 Convertible Bonds as the trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the 2015 Convertible Bonds bondholders or as may be approved by an extraordinary resolution of the holders of the 2015 Convertible Bonds.

Pursuant to the trust deed constituting the 2015 Convertible Bonds, the bonds are:

- convertible at the option of the bondholders into ordinary shares on or after November 23, 2010 up to and including October 3, 2015, on the basis of one ordinary share with nominal value of HK$0.1 each at an initial conversion price of HK$4.212, subject to adjustments in certain events;

- redeemable at the option of the bondholders at 100% of their principal amount together with accrued and unpaid interest on October 13, 2013;

- redeemable at our option at any time after October 13, 2013 and prior to October 13, 2015 in whole, but not in part, at their principal amount together with interest accrued to the date fixed for redemption, provided that the closing price of our shares for any 20 out of 30 consecutive trading days, the last of which occurs not more than five trading days prior to the date on which notice of such redemption is published, was at least 130% of the prevailing conversion price; and

- redeemable at our option at any time prior to October 13, 2015 in whole, but not in part, at their principal amount together with interest accrued to the date fixed for redemption, provided that prior to the date of notice of such redemption at least 90% in principal amount of the convertible bonds originally issued have already been converted, redeemed or purchased and cancelled.

Unless previously redeemed, converted or purchased or cancelled, any convertible bonds not converted will be redeemed at 100% of their principal amount on October 13, 2015, together with accrued but unpaid interest. As of December 31, 2012, HK$1,165 million in principal amount of the 2015 Convertible Bonds remained outstanding.

SHORT-TERM AND MEDIUM-TERM NOTES

We have issued a series of short-term and medium-term notes in the national inter-bank market in the PRC, after having registered the proposed issues with the National Association of Financial Market Institutional Investors.

On July 26, 2012, our wholly-owned subsidiary, Shenzhen Maoye Shangsha Company Limited (深圳茂業商廈有限公司) ("Maoye Shangsha") completed the issue of the second tranche of one-year notes due July 26, 2013, in a principal amount of RMB800 million. As of December 31, 2012, RMB800 million in principal amount of the notes was outstanding. The notes are not guaranteed. The interest rate is 4.29% per annum.

On January 9, 2013, Maoye Shangsha completed an offering of three year notes due January 9, 2016 in a principal amount of RMB800 million. As of December 31, 2012, RMB800 million in principal amount of the notes was outstanding. The notes are not guaranteed. The interest rate is 5.52% per annum.

On March 7, 2013, Chengshang Group completed an offering of one-year notes due March 7, 2014, in a principal amount of RMB150 million. As of December 31, 2012, RMB150 million in principal amount of the notes was outstanding. The notes are not guaranteed. The interest rate is 4.60% per annum.

On March 28, 2013, Maoye Shangsha completed an offering of one-year notes due March 29, 2014, in a principal amount of RMB800 million. As of December 31, 2012, RMB800 million in principal amount of the notes was outstanding. The notes are not guaranteed. The interest rate is 4.59% per annum.

OTHER PRC AND OFFSHORE BORROWINGS

Certain of our subsidiaries have entered into PRC or offshore loan agreements with various banks and financial institutions, including, among others, Agricultural Bank of China, China Construction Bank, Industrial and Commercial Bank of China, Bank of China, The Bank of East Asia, Limited, China Merchants Bank Co., Ltd., Hua Xia Bank, CITIC Bank, and Anhui Feidong Rural Credit Cooperative. These loans are typically for working capital and property development purposes.

PRC Borrowings

Our PRC loans mostly bear interest at floating rates, and the resulting effective rates range from 6.30% to 9.84% per annum. These loans have terms ranging from six months to ten years.

In compliance with the restrictive covenants under some of these loan agreements, our subsidiaries may need to notify the relevant banks of the issuance of the Notes. Other customary covenants included in some of the PRC loan agreements include:

- without the prior consent of the lender, the borrower may not undertake any restructuring or reorganization, transfer any equity, sell, transfer, lend, lease out or otherwise dispose of a material part of its assets, substantially increase its indebtedness, provide guarantees in respect of indebtedness of any third party or grant security interests over its material assets;

- the borrower may not create or permit to exist any security interest over certain assets;

- the lender may require early repayment of the borrower's PRC term loans upon the occurrence of any event that materially and adversely affects the lenders' rights; and

- the lender may demand additional collateral or guarantees if it reasonably believes that the security and guarantees for the PRC term loans in question may be adversely affected.

Offshore Borrowings

On July 15, 2010, our wholly-owned subsidiary, Maoye Department Stores (China) Limited, entered into a HK$31.858 million facility agreement with a term of seven years, which is secured by charges on certain properties. As of December 31, 2012, our total outstanding offshore loans and other borrowings was RMB23.1 million. The interest rate is the lower of 1.3% per annum over 1-month HIBOR or 2.25% per annum below the Hong Kong Dollars Best Lending Rate. This offshore loan agreement contains customary covenants and is guaranteed by our Company.

As of December 31, 2012, our Non-Guarantor Subsidiaries had indebtedness in the amount of RMB5,428.4 million (US$871.3 million).