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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 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, CLSA, Deutsche Bank and Morgan Stanley, 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 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, CLSA, Deutsche Bank and Morgan Stanley, 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 in the United States to qualified institutional buyers in compliance with Rule 144A or 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 purchase 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;
"CLSA"	CLSA Limited, 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;
"Group"	the Company and its subsidiaries from time to time;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;

"Morgan Stanley"	Morgan Stanley & Co. International plc, one of the joint lead managers and joint bookrunners in respect of the offer and sale of the Notes;
"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, 12 May 2014

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 RMB6.0537 to US$1, as set forth in the H.10 statistical release of the U.S. Federal Reserve Board as of December 31, 2013;

- "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-Guarantor subsidiaries " are our existing subsidiaries that are organised under the laws of the PRC;

- "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 and indebtedness as of December 31, 2013 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, 2013, and related notes included elsewhere in this Offering Memorandum.

	As of December 31, 2013			
	Actual		As Adjusted	
	RMB	US$	RMB	US$
				(in millions)
Long-term indebtedness				
Indebtedness — due after one year	5,007.1	827.1	5,007.1	827.1
Notes offered hereby	—	—		
Total	5,007.1	827.1		
Equity				
Equity attributable to owners of the parent				
Issued capital	467.4	77.2	467.4	77.2
Equity component of convertible bonds	56.5	9.3	56.5	9.3
Reserves	5,214.6	861.4	5,214.6	861.4
Proposed final dividend	123.6	20.4	123.6	20.4
Non-controlling interests	1,468.7	242.6	1,468.7	242.6
Total	7,330.8	1,210.9	7,330.8	1,210.9
Total capitalization [(1)]	12,337.9	2,038.0		

Notes:

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

Except as disclosed in this Offering Memorandum, there have been no material changes in our capitalization and indebtedness since December 31, 2013.

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, 2011, 2012 and 2013 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. For additional information regarding these risks and uncertainties, see "Risk Factors" in this Offering Memorandum.

OVERVIEW

We are a leading department store chain operator in affluent regions throughout China. As of December 31, 2013, we operated and managed 40 stores across eight provinces and municipalities and 18 cities in China, including seven stores in southern China, 12 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 December 31, 2013, we owned approximately 74.6% of the gross floor area of the premises for our department stores (excluding the gross floor area of our managed 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 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, 2011, 2012 and 2013, the revenue generated by our department store operations was RMB3,875.4 million, RMB3,981.4 million and RMB3,919.1 million (US$647.4 million), respectively.

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, 2011, 2012 and 2013, the revenue generated by our property development operations, after intra-segment eliminations, was RMB231.5 million, RMB353.5 million and RMB690.4 million, respectively.

For the years ended December 31, 2011, 2012 and 2013, our total operating revenue was RMB4,123.3 million, RMB4,349.9 million and RMB4,623.6 million (US$763.8 million), respectively, and our profit attributable to equity holders was RMB734.9 million, RMB898.6 million and RMB913.1 million (US$150.8 million), respectively.

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.

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 40 stores as of December 31, 2013. In 2013, we opened two new stores and acquired one parcel of land situated at a premium shopping location in Zibo National Industry Development Zone in Shandong Province for the expansion of our store network. Currently, we have 14 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 decreases in comprehensive gross margin from 2011 to 2013 were primarily due to the lower commission rates of the newly opened stores. 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.

Comprehensive gross margin from concessionaire sales and direct sales

We derive our revenue primarily from concessionaire sales and direct sales. In 2011, 2012 and 2013, 45.2%, 45.7% and 42.6%, respectively, of our revenue was attributable to commissions from concessionaire sales, and 42.8%, 39.4% and 34.5%, 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 RMB719.6 million, RMB749.9 million and RMB753.8 million (US$124.5 million) in aggregate for 2011, 2012 and 2013, 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, 2011, 2012 and 2013, our comprehensive gross margin was 22.9%, 22.7% and 21.9%, respectively. For the same years, our commission rate from concessionaire sales was 16.9%, 16.7% and 16.1%, 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. For further discussion of our competitive environment, see "Risk Factors — Risk Factors Relating to Our Business and Industry — We operate in a competitive market" and "Business — Competition" in this Offering Memorandum.

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 4.4% from 2012 to 2013, compared to 3.9% from 2011 to 2012, mainly because in 2013 we enhanced the integration of the stores which were newly acquired and opened in order to increase the commission rate of the new stores to the level of mature stores as soon as possible. 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 and 2013 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 14 projects currently under development.

RECENT DEVELOPMENTS

Issue of three-year notes in the PRC

On February 24, 2014, our wholly-owned subsidiary, Shenzhen Maoye Shangsha Company Limited (深圳茂業商廈有限公司) ("**Maoye Shangsha**") completed an offering of three-year notes due February 24, 2017 in a principal amount of RMB700 million in the PRC. The notes carry a fixed interest rate of 6.70%.

Proposed issue of short-term financing notes

On April 11, 2014, Maoye Shangsha entered into an underwriting agreement with Bank of China pursuant to which Maoye Shangsha has engaged Bank of China as the lead underwriter and bookrunner in respect of a proposed issue of notes in an aggregate principal amount not exceeding RMB1,600 million in the PRC. It is expected that the notes will be issued in two tranches with a maturity of one year. The issue of the notes and the completion of the transaction are subject to, among other things, the approvals of the relevant government authorities and the National Association of Financial Market Institutional Investors in the PRC, and the conditions precedent contained in the underwriting agreement being fulfilled or waived.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements included in this Offering Memorandum have been prepared in accordance with IFRS. The results of our operations and financial condition are sensitive to accounting policies, assumptions and estimates that underlie the preparation of our consolidated financial statements. Some of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty and are based on our historical experience, terms of existing contracts, management's view on trends in our industry and information from outside sources.

Our principal accounting policies are described in more detail in our audited consolidated financial statements included elsewhere in this Offering Memorandum, and this discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Offering Memorandum. Our management has identified the following as critical accounting policies because estimates used in applying these policies are subject to material risks and uncertainties. Our management believes the following critical accounting policies, together with the other principal accounting policies discussed in the notes to our consolidated financial statements, involve the most significant judgments and estimates used in the preparation of our consolidated financial statements and could potentially impact our financial results and future financial performance.

Revenue recognition

We recognize revenue when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably on the following bases:

- Commissions from concessionaire sales are recognized upon the sale of merchandise by the relevant concessionaires.
- Direct sales of merchandise and sale of properties are recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the merchandise or properties sold.
- Rental income is recognized on the straight-line basis over the lease terms.
- Management fee income from the operation of department stores is recognized when management services are rendered.
- Administration and management fee income, promotion income and credit card handling fees from suppliers and concessionaires are recognized when management services are rendered.
- Interest income is recognized on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.
- Dividend income, when the shareholders' right to receive payment has been established.

Property, plant and equipment and depreciation

We state property, plant and equipment other than construction-in-progress at historical cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is capitalized as an additional cost of that asset or as a replacement only if it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

We calculate depreciation using the straight-line method to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Our management determines the estimated useful lives and the related depreciation charge based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The principal estimated useful lives and residual values used for this purpose are as follows:

	Estimated useful lives	Residual Values
Land and buildings	10 — 40 years	5 — 10%
Machinery and equipment	5 — 10 years	5 — 10%
Furniture, fittings and other equipment	5 — 12 years	5 — 10%
Motor vehicles	5 — 8 years	5 — 10%
Leasehold improvements	5 — 10 years	—

We review and adjust, if appropriate, the assets' depreciation methods, residual values and useful lives at each balance sheet date. We will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or nonstrategic assets that have been abandoned or sold.

Classification between investment property and owner-occupied properties

We determine whether a property qualifies as an investment property, and have developed criteria in making that judgment. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, we consider whether a property generates cash flows largely independently of the other assets held by us. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the department store operations.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), we account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes. In addition, property being constructed or developed for future use as an investment property is classified as an investment property.

Inventory

Inventories comprise merchandise purchased for resale and are stated at the lower of cost and net realizable value. We determine the cost of merchandise on a first-in, first-out basis. We estimate net realizable value based on the estimated selling price in the ordinary course of business, less variable selling expenses.

Net realizable value of inventories and completed properties held for sale

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. We estimate net realizable value of completed properties held for sale by the directors based on the prevailing market prices. We base these estimates on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. We reassess these estimates at the end of the reporting period.

Impairment of trade receivables, other receivables and amounts due from related parties

We estimate the provisions for impairment of trade receivables, other receivables and amounts due from related parties by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. We apply provisions to trade receivables, other receivables and amounts due from related parties where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, the difference will affect the carrying amount of trade receivables, other receivables and amounts due from related parties and thus the impairment loss in the period in which the estimate is changed. We reassess the provisions at the end of the reporting period.

Convertible bonds

We recognize the component of convertible bonds that exhibits characteristics of a liability as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent nonconvertible bond, and this amount is carried as a long-term liability on the amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity, net of transaction costs. We do not re-measure the carrying amount of the conversion option in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

RESULTS OF OPERATIONS

The table below sets out selected items on our consolidated income statements for the years ended December 31, 2011, 2012 and 2013.

	Year ended December 31,			
	2011	**2012**	**2013**	**2013**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(US$'000) (unaudited)**
REVENUE	3,357,024	3,542,719	3,805,452	628,616
Other income	766,308	807,139	818,141	135,147
Total operating revenue	4,123,332	4,349,858	4,623,593	763,763
Cost of sales	(1,335,146)	(1,444,402)	(1,425,243)	(235,433)
Employee expenses	(375,494)	(369,699)	(444,232)	(73,382)
Depreciation and amortization	(326,202)	(343,603)	(353,996)	(58,476)
Operating lease rental expenses	(216,236)	(237,245)	(218,285)	(36,058)
Other operating expenses	(772,064)	(859,531)	(917,926)	(151,631)
Other gains	107,873	274,427	194,751	32,171
Operating profit	1,206,063	1,369,805	1,458,662	240,954
Finance costs	(188,793)	(132,815)	(133,777)	(22,098)
Share of profits and losses of associates	498	(76)	(452)	(75)
PROFIT BEFORE TAX	1,017,768	1,236,914	1,324,433	218,781
Income tax expense	(282,879)	(338,360)	(411,319)	(67,945)
PROFIT FOR THE YEAR	734,889	898,554	913,114	150,836
Attributable to:				
Owners of the parent	640,312	801,820	802,041	132,488
Non-controlling interests	94,577	96,734	111,073	18,348
	734,889	898,554	913,114	150,836

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, 2011, 2012 and 2013.

	Year ended December 31,			
	2011	**2012**	**2013**	**2013**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(US$'000) (unaudited)**
Total sales proceeds from concessionaire sales	8,992,880	9,672,014	10,060,753	1,661,918
Revenue from direct sales	1,436,983	1,395,226	1,313,610	216,993
Total Sales Proceeds	10,429,863	11,067,240	11,374,363	1,878,911

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. We have also provided management services to Shenyang Jinlang and Changzhou Wujin stores since July 2013 and recorded management fee income from them in our revenue in 2013.

- 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, 2011 2012 and 2013.

	Year ended December 31,			
	2011	2012	2013	2013
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000) (unaudited)
Commissions from concessionaire sales	1,517,865	1,619,309	1,622,662	268,045
Direct sales	1,436,983	1,395,226	1,313,610	216,993
Rental income from the leasing of shop premises.	167,138	173,006	178,195	29,436
Management fee income from the operation of department stores	3,894	3,871	7,046	1,164
Rental income from investment properties	129,312	72,948	236,400	39,050
Sales of properties	93,683	272,030	440,619	72,785
Others	8,149	6,329	6,920	1,143
Total Revenue	3,357,024	3,542,719	3,805,452	628,616

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, 2011, 2012 and 2013.

	Year ended December 31,			
	2011	2012	2013	2013
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000) (unaudited)
Income from suppliers and concessionaires				
- Administration and management fee income	424,746	433,539	404,470	66,814
- Promotion income	180,113	189,535	221,807	36,640
- Credit card handling fees	114,693	126,861	127,523	21,065
Interest income	8,072	18,885	21,187	3,500
Others	38,684	38,319	43,154	7,128
Total	766,308	807,139	818,141	135,147

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 or loss of certain 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 2011, 2012 and 2013 was 27.8%, 27.4% and 31.1%, 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, 2013 compared to year ended December 31, 2012

Total Sales Proceeds

Total Sales Proceeds increased by 2.8% from RMB11,067.2 million in 2012 to RMB11,374.4 million (US$1,878.9 million) in 2013 primarily due to a 4.0% increase in total sales proceeds from concessionaire sales from RMB9,672.0 million in 2012 to RMB10,060.8 million (US$1,661.9 million) in 2013 driven by an increase in same-store sales and expansion of our store network. This was partially offset by a 5.8% decrease in revenue from direct sales from RMB1,395.2 million in 2012 to RMB1,313.6 million (US$217.0 million) in 2013 as a result of our allocation of certain direct sales space to concessionaire sales to achieve higher returns. Our commission rates decreased from 16.7% in 2012 to 16.1% in 2013 mainly due to lower commission rates for our newly opened stores. Our comprehensive gross margin decreased from 22.7% in 2012 to 21.9% in 2013 mainly due to our relatively lower commission rates in 2013.

For the year ended December 31, 2013, same-store sales proceeds from concessionaire sales at the 32 stores which we operated throughout both 2012 and 2013 increased by 4.4% from RMB9,322.9 million in 2012 to RMB9,730.8 million (US$1,607.4 million) in 2013, of which total same-store sales proceeds from concessionaire sales in southern China increased by 3.2%, total same-store sales proceeds from concessionaire sales in southwestern China decreased by 4.5%, total same-store sales proceeds from concessionaire sales in northern China increased by 8.8% and total same-store sales proceeds from concessionaire sales in eastern China decreased by 15.1%.

Revenue

Revenue increased by 7.4% from RMB3,542.7 million in 2012 to RMB3,805.5 million (US$628.6 million) in 2013, primarily due to (a) the recognition of rental income of RMB157.8 million in relation to the Chengdu Chunxi Store as a result of the Settlement Agreement entered into between Chengshang Group and Pacific China (for more details, see "Business — Legal, Compliance and Litigation" in this Offering Memorandum); and (b) an increase in the income from sale of properties from RMB272.0 million in 2012 to RMB440.6 million (US$72.8 million) in 2013.

Other income

Other income increased by 1.4% from RMB807.1 million in 2012 to RMB818.1 million (US$135.1 million) in 2013, resulting primarily from increases in income from promotional activities and interest income.

Cost of sales

Cost of sales decreased by 1.3% from RMB1,444.4 million in 2012 to RMB1,425.2 million (US$235.4 million) in 2013, primarily due to a decrease in our direct sales in the Zibo area of Shandong Province.

Employee expenses

Employee expenses increased by 20.2% from RMB369.7 million in 2012 to RMB444.2 million (US$73.4 million) in 2013, primarily due to an increase in wages and salaries of RMB45.8 million in 2013 as a result of the expansion of our store network and the reversal of share option expenses of RMB25.5 million in 2012.

Depreciation and amortization

Depreciation and amortization increased by 3.0% from RMB343.6 million in 2012 to RMB354.0 million (US$58.5 million) in 2013, primarily due to an increase in property depreciation because we opened two new stores and reconstructed, renovated and upgraded certain self-owned stores in 2013.

Operating lease rental expenses

Operating lease rental expenses decreased by 8.0% from RMB237.2 million in 2012 to RMB218.3 million (US$36.1 million) in 2013. The decrease was caused by Jinlang store in Shenyang, Laoning Province and Wujin store in Changzhou, Jiangsu Province, which were turned into managed stores in 2013.

Other operating expenses

Other operating expenses increased by 6.8% from RMB859.5 million in 2012 to RMB917.9 million (US$151.6 million) in 2013, primarily due to an increase in other tax expenses of RMB49.0 million as a result of the recognition of rental income of RMB157.8 million in relation to the Chengdu Chunxi store.

Other gains

Other gains decreased by 29.0% from RMB274.4 million in 2012 to RMB194.8 million (US$32.2 million) in 2013, primarily due to a decrease in our gain on disposal of available-for-sale equity investments. We had an investment gain of RMB101.9 million (US$16.8 million) on the disposal of B shares of Shenzhen International Enterprises Co., Ltd (a company listed on the Shenzhen Stock Exchange, stock code: 200056) in 2013 while the investment gain from disposal of A shares of the same company (stock code: 000056) in 2012 was RMB174.0 million.

Operating profit

As a result of the foregoing, our operating profit increased by 6.5% from RMB1,369.8 million in 2012 to RMB1,458.7 million (US$241.0 million) in 2013.

Finance costs

Finance costs increased by 0.7% from RMB132.8 million in 2012 to RMB133.8 million (US$22.1 million) in 2013, primarily due to the increase in the amount of our loans.

Share of profits and losses of associates

We had a share of losses of associates in an amount of RMB0.5 million (US$0.08 million) in 2013 primarily due to losses incurred by two associate television companies. We had a share of losses of associates in the amount of RMB0.08 million in 2012 primarily as a result of a loss incurred by one of three associate television companies.

Profit before income tax

As a result of the foregoing, profit before income tax increased by 7.1% from RMB1,236.9 million in 2012 to RMB1,324.4 million (US$218.8 million) in 2013.

Income tax

Our income tax expense increased by 21.6% from RMB338.4 million in 2012 to RMB411.3 million (US$67.9 million) in 2013, primarily due to increases in our profit before tax and in our effective tax rate. Our effective tax rate increased to from 27.4% in 2012 to 31.1% in 2013 primarily due to (a) the recognition of rental income of RMB157.8 million (US$26.1 million) and the provision of RMB34.9 million (US$5.8 million) for income tax arising from the Chengdu Chunxi store of Chengshang Group as a result of the settlement agreement entered into between Chengshang Group and Pacific China, and (b) the increase of land appreciation tax due to the growth in sales of our properties.

Profit for the year

As a result of the foregoing, profit for the year increased by 1.6% from RMB898.6 million in 2012 to RMB913.1 million (US$150.8 million) in 2013.

Non-controlling interests

Our non-controlling interests increased by 14.9% from RMB96.7 million in 2012 to RMB111.1 million (US$18.4 million) in 2013 primarily due to increased profit generated by our non-wholly owned subsidiary, Chengshang Group.

Profit attributable to our shareholders

As a result of the foregoing, profit attributable to our shareholders increased by 0.03% from RMB801.8 million in 2012 to RMB802.0 million (US$132.5 million) in 2013.

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 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 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 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 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 in 2012, resulting primarily from (a) an increase in sales of properties from RMB93.7 million in 2011 to RMB272.0 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 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 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 in 2012 primarily due to the dispute with Pacific China. For more details, see "Business — Legal, Compliance and Litigation" in this Offering Memorandum.

Other income

Other income increased by 5.3% from RMB766.3 million in 2011 to RMB807.1 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 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 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 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 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 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 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 Maoye 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 in 2012, primarily due to an investment gain of approximately RMB174.0 million on the disposal of A 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 in 2012.

Finance costs

Finance costs decreased by 29.7% from RMB188.8 million in 2011 to RMB132.8 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 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 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 two associate 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 in 2012.

Income tax

Our income tax expense increased by 19.6% from RMB282.9 million in 2011 to RMB338.4 million in 2012, primarily due to the increase in our 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 in 2012.

Non-controlling interests

Our non-controlling interests increased slightly by 2.2% from RMB94.6 million in 2011 to RMB96.7 million in 2012 primarily due to the increase of profit of Maoye 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 in 2012.

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, 2011, 2012 and 2013.

	Year ended December 31,			
	2011	**2012**	**2013**	**2013**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(US$'000) (unaudited)**
Segment revenue				
Operation of department stores	3,875,441	3,981,415	3,919,064	647,383
Property development1	252,138	374,000	710,457	117,359
Others	16,416	14,921	14,087	2,327
Segment profit (loss)				
Operation of department stores	819,196	968,205	813,347	134,355
Property development[1]	(91,070)	(65,936)	105,016	17,347
Others	6,763	(3,715)	(5,249)	(867)

Note:

1. Our property development segment generated a loss in 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, 2011, 2012 and 2013.

	Year ended December 31,			
	2011	**2012**	**2013**	**2013**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(US$'000) (unaudited)**
Net cash flows from operating activities	807,580	302,351	1,201,358	198,450
Net cash flow (used in) investing activities	(1,631,559)	(1,774,087)	(1,549,172)	(255,905)
Net cash flow generated from/(used in) financing activities	1,217,749	1,518,188	(158,004)	(26100)
Net increase/(decrease) in cash and cash equivalents	393,770	46,452	(505,818)	(83,555)

Cash flows from operating activities

In 2013, our net cash flows from operating activities was RMB1,201.4 million (US$198.5 million), which was mainly attributable to our profit before tax of RMB1,324.4 million (US$218.8 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 RMB1,083.8 million (US$179.0 million) additions of properties under development, partially offset by (a) a RMB594.5 million (US$98.2 million) increase in deposits received, accruals and other payables primarily due to deposits received from pre-sale of properties in our Shanxi Taiyuan Qinxianjie project, Jiangsu Taizhou East Square project and Hebei Baoding Yanzhao project, (b) a RMB253.3 million (US$41.8 million) increase in trade and bills payables as a result of our revenue growth, and (c) a RMB226.7 million (US$37.4 million) decrease in completed properties held for sale primarily due to completion of sale of properties in our Shanxi Taiyuan Qinxianjie project.

In 2012, our net cash flows from operating activities was RMB302.4 million, which was mainly attributable to our profit before tax of RMB1,236.9 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 additions of properties under development, partially offset by (a) a RMB240.4 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 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 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 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.

Cash flow used in investing activities

In 2013, our net cash used in investing activities was RMB1,549.2 million (US$255.9 million). Our net cash outflow resulted primarily from (a) prepayment for land lease prepayments in the amount of RMB756.0 million (US$124.9 million) in relation to our Shandong Zibo Maoye Time Square project, (b) payments for property, plant and equipment in the amount of RMB638.3 million (US$105.4 million) primarily due to payments in connection with our 14 property development projects, (c) purchase of land lease prepayment in the amount of RMB199.5 million (US$33.0 million) in relation to our Shandong Weifang project, and (d) purchase of available-for-sale equity investments in the amount of RMB116.8 million (US$19.3 million), partially offset by proceeds from disposal of available-for-sale equity investments in the amount of RMB143.3 million (US$23.7 million) and loan repayment from a company under the common control of Mr. Huang Mao Ru of RMB100.0 million (US$16.5 million).

In 2012, our net cash used in investing activities was RMB1,774.1 million. Our net cash outflow resulted primarily from (a) payments for property, plant and equipment in the amount of RMB639.8 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, (c) purchase of land lease prepayment in the amount of RMB431.5 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.

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.

Cash flow from/used in financing activities

In 2013, our net cash flow used in financing activities was RMB158.0 million (US$26.1 million). Our net cash outflow resulted primarily from (a) repayment of bank loans in the amount of RMB1,844.3 million (US$304.7 million), (b) redemption of convertible bonds at the option of the boldholders of RMB914.9 million (US$151.1 million), (c) repurchase of shares of RMB 199.0 million (US$32.9 million), (d) interest paid in the amount of RMB115.4 million (US$19.1 million), and (e) final dividend for 2012 and interim dividend for the six months ended June 30, 2013 in the amount of RMB98.1 million (US$16.2 million) and RMB116.5 million (US$19.2 million), respectively, which were partially offset by proceeds from bank loans and other borrowings of RMB3,151.4 million (US$520.6 million).

In 2012, our net cash flow from financing activities was RMB1,518.2 million. Our net cash inflow resulted primarily from proceeds from bank loans and other borrowings in the amount of RMB4,167.9 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 and (c) final dividend for 2011 and interim dividend for the six months ended June 30, 2012 in the amount of RMB256.1 million and RMB139.3 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.

Available-for-sale equity investments

Our available-for-sale equity investments in listed companies amounted to RMB526.6 million, RMB804.5 million and RMB669.8 million (US$110.6 million) as of December 31, 2011 2012 and 2013, respectively. As of December 31, 2013, our available-for-sale equity investments consisted mainly of listed equity securities of 17.48% equity interest in Shen Yang Commercial City Co., Ltd. (瀋陽商業城股份有限公司) and 5.00% 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 RMB696.9 million, which was financed by cash inflow from operations. As of December 31, 2013, the total market value of the shares held by us in the two above-mentioned A share listed companies amounted to approximately RMB669.8 million (US$110.6 million), representing a decrease of 3.9% 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, 2011, 2012 and 2013, we had inventories of RMB282.0 million, RMB279.1 million and RMB227.9 million (US$37.6 million), respectively. The decreases in inventories from 2011 to 2012 and further to 2013 were in line with the decreases 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 RMB47.9 million, RMB36.8 million and RMB52.6 million (US$8.7 million) as of December 31, 2011, 2012 and 2013, respectively. The decrease in trade receivables from 2011 to 2012 was primarily due to collection of trade receivables in relation to the sale of properties of projects owned by Maoye Logistics. The increase in trade receivables from 2012 to 2013 was primarily due to the sale of properties of projects owned by Maoye Logistics.

Other receivables

As at December 31, 2011, 2012 and 2013, we had other receivables of RMB251.3 million, RMB447.4 million and RMB218.4 million (US$36.1 million), respectively. Our other receivables increased from 2011 to 2012 primarily due to the prepayment of consideration for an acquisition in 2011, which transaction did not complete during 2011, and the prepayment became other receivables in 2012 according to applicable accounting policies, partially offset by an increase in impairment of other receivables from RMB16.4 million in 2011 to RMB32.5 million in 2012, primarily as a result of debtors which were in financial difficulties or in default on payments. Our other receivables decreased from 2012 to 2013 primarily due to the transfer of certain receivables to other line items according to applicable accounting policies.

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, 2011, 2012 and 2013, we had trade and bills payable of RMB1,953.8 million, RMB2,194.2 million and RMB2,447.6 million (US$404.3 million), respectively. The increases of trade and bills payables from 2011 to 2012 and further to 2013 were 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, 2011, 2012 and 2013, we had other payables of RMB761.5 million, RMB522.2 million and RMB549.2 million (US$90.7 million), respectively. The decrease in other payables from 2011 to 2012 was primarily because we paid the consideration for the purchases of two parcels of land. The increase in other payables from 2012 to 2013 was primarily due to an increase in payments to be made for construction work in relation to our properties under development.

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. For more details, see "Description of Other Material Indebtedness" in this Offering Memorandum.

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,			
	2011	**2012**	**2013**	**2013**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(US$'000) (unaudited)**
Current:				
Interest-bearing bank loans - secured	975,000	1,054,000	345,000	56,990
Interest-bearing bank loans - unsecured	—	—	1,000	165
Current portion of long term interest-bearing bank loans - secured	510,973	430,915	456,372	75,387
Convertible bonds	—	869,681	12,023	1,986
Other loans	—	1,596,157	949,122	156,784
Subtotal	1,485,973	3,950,753	1,763,517	291,312
Non-current:				
Long term interest-bearing bank loans - secured	1,642,698	2,370,459	3,517,528	581,054
Convertible bonds	844,363	—	—	—
Long term interest-bearing bank loans - secured	—	—	1,489,541	246,055
Subtotal	2,487,061	2,370,459	5,007,069	827,109
Total	3,973,034	6,321,212	6,770,586	1,118,421

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

	As of December 31,			
	2011	**2012**	**2013**	**2013**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(US$'000) (unaudited)**
Bank loans repayable:				
Within one year	1,485,973	3,081,072	1,751,494	289,326
In the second year	316,714	319,269	1,973,308	325,967
In the third to fifth years, inclusive	769,123	779,763	2,625,963	433,778
Beyond five years	556,861	1,271,427	440,666	72,793
	3,128,671	5,451,531	6,791,431	1,121,864
Convertible bonds:				
Within one year	—	869,681	12,023	1,986
In the second year	844,363	—	—	
In the third to fifth years, inclusive	—	—	—	—
Total	844,363	869,681	12,023	1,986

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

	As of December 31,		
	2011	**2012**	**2013**
	(%)	**(%)**	**(%)**
Current:			
Interest-bearing bank loans - secured	6.48-9.47	6.30-9.84	6.00-7.38
Interest-bearing bank loans - unsecured	—	—	6.90
Current portion of long term interest-bearing bank loans - secured	6.11-7.65*	6.52-7.91*	6.55-7.86
Convertible bonds	—	6.51	6.51
Other loans	—	4.71-6.57	4.59-4.60
Non-current:			
Long term interest-bearing bank loans - secured	6.11-7.65*	6.52-7.91*	6.15-7.86, 3.1 over LIBOR
Long term interest-bearing bank loans - unsecured	—	—	5.52-6.05
Convertible bonds	6.51	6.51	—

Note:

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

As of December 31, 2013, our interest-bearing bank loans amounting to RMB5,809.4 million (US$959.6 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 RMB607.5 million (US$100.4 million), RMB4,321.0 million (US$713.8 million), RMB856.7 million (US$141.5 million), RMB318.0 million (US$52.5 million) and RMB730.8 million (US$120.7 million), respectively. As of December 31, 2013, we had total banking facilities of RMB6791.4 million (US$1,121.9 million), of which RMB394.3 million (US$65.1 million) were unutilized.

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 RMB2,657.1 million, RMB3,377.1 million and RMB2,747.1 million (US$453.8 million) in 2011, 2012 and 2013, respectively.

We have 14 new store projects currently under development in Chengdu of Sichuan Province; Taiyuan of Shanxi Province; Jinzhou of Liaoning Province; Baoding of Hebei Province; Weifang, Laiwu and Zibo of Shandong Province; Nanjing, Huai'an, Wuxi and Taizhou of Jiangsu Province; and Baotou of Inner Mongolia. For more details, see "Business — Our Department Store Network — Expansion Plan" in this Offering Memorandum. 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,	
	2013	2013
	(RMB'000)	(US$'000) (Unaudited)
Contracted, but not provided for, in respect of land and buildings	2,239,979	370,018

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 non-cancellable 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 non-cancellable operating leases as of the balance sheet dates indicated are set out below.

	As of December 31,	
	2013	2013
	(RMB'000)	(US$'000) (Unaudited)
Within 1 year	187,071	30,902
After 1 year but within 5 years	717,563	118,533
After 5 years	224,198	37,035
	1,128,832	186,470

For capital commitments in addition to the operating lease commitments set out above, see "— Capital Expenditures."

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, 2013, substantially all of our bank borrowings were based on variable rates. For more details, see "— Borrowings and Indebtedness".

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, 2013, 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. For more details, see "Risk Factors — Risks Relating to the Notes and the Guarantees — We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar" in this Offering Memorandum. 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.

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 our 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 5.4%, 2.6% and 2.6% for 2011, 2012and 2013 respectively. Morerecently, however, the PRC economy has shown signs of increasing inflation.

RECENT DEVELOPMENTS

Shenyang Commercial City

On February 16, 2014, our wholly-owned subsidiary, Zhongzhao Investment Management Co., Ltd. (中兆投資管理有限公司) ("**Zhongzhao**") entered into a share purchase agreement with a third party, Shenyang Commercial City (Group) Co., Ltd. Pursuant to the agreement, Zhongzhao acquired 20,907,940 shares of Shenyang Commercial City Co.,Ltd.("**Commercial City**"), representing 11.74% of the issued share capital of Commercial City. The total consideration for the transaction was RMB207.0 million. Upon completion of the transaction, we held an aggregate of 52,048,427 shares of Commercial City, representing approximately 29.22% of the issued share capital of Commercial City.

The board of directors of Commercial City consists of nine directors. On March 14, 2014, the shareholders of Commercial City approved the appointment of five directors nominated by us.

Commercial City is a company incorporated in the PRC with limited liability, and is principally engaged in the operation of department stores in Shenyang. It is listed on the Shanghai Stock Exchange. Commercial City has incurred net losses for two consecutive years, in 2012 and 2013, and as a result, it has been designated by the Shanghai Stock Exchange as a "*ST" company subject to trading restrictions since April 16, 2014.

As of December 31, 2013, Commercial City operated two self-owned department stores in Tiexi and Zhongjie in Shenyang. For the year ended December 31, 2013, the revenue from the department store business of Commercial City represented over 95% of its total revenue. Its department stores primarily target at the medium- to high-end segment of the local retail market.

Through its subsidiary, Commercial City owns Tianlun Regar Hotel, a business hotel located on Chaoyang street in Shenyang. The hotel is currently under the management of a hotel management company.

Commercial City commenced the development of a property project, Zhongjie Gonghexiang Project, in Shenyang in 2004. The project is a commercial complex comprising office and residential buildings. The project is under development and has not generated any revenue.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

SHORT-TERM AND MEDIUM-TERM NOTES

On April 11, 2014, Maoye Shangsha announced that it proposes to issue a short-term notes with an aggregate principal amount of not exceeding RMB1,600 million. It is expected that the notes will be issued in two tranches with a maturity of one year in the PRC. Maoye Shangsha entered into an underwriting agreement with Bank of China on the same date pursuant to which Maoye Shangsha engaged Bank of China as the lead underwriter and bookrunner in respect of the proposed issue.

SYNDICATED LOAN

On November 1, 2013, we entered into a syndicated facility agreement pursuant to which a syndicate of lenders made available to us a three-year guaranteed and secured loan in the principal amount of US$195.5 million at an interest rate of LIBOR plus 3.10% per annum. The syndicated loan was jointly arranged by Deutsche Bank AG, Singapore Branch and Bank of China Limited Macau Branch. We are required to repay the loan to the lenders in three instalments with the final repayment date on November 1, 2016. The loan is guaranteed and secured by (i) guarantees provided by our subsidiaries incorporated outside of the PRC (the "**Guarantors**"); (ii) a debenture over the assets of each of us and the Guarantors (except any shares or equity interests held by us or them) and (iii) a legal charge over property outside of the PRC granted by one of our subsidiaries incorporated outside of the PRC. The proceeds of this loan have been applied towards refinancing certain of our existing indebtedness and to meet our working capital requirements. The syndicated facility agreement contains certain customary covenants including that:

- we shall not create or permit to subsist any security over any of our assets with certain exceptions such as security created over any equity interest or assets of a member of our Group incorporated in the PRC;
- with certain exceptions, we shall not enter into transactions to sell, lease, transfer or otherwise dispose of our assets;
- we shall maintain our listing status on the HKSE;
- Mr Huang Family (as defined in the syndicated facility agreement) shall at all times collectively own at least 50% of our outstanding shares; and
- we shall ensure that the annual total sales proceeds from direct sales at our department stores for each financial year shall not exceed 20% of the annual total sales proceeds at our department stores.