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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)

CLARIFICATION ANNOUNCEMENT

**DISCLOSEABLE TRANSACTIONS
and CONNECTED TRANSACTIONS
and CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE REORGANISATION**

Reference is made to the announcement of Maoye International Holdings Limited (the “**Company**”) dated 14 June 2015 relating to the Reorganisation (the “**Announcement**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

In addition to the information disclosed in the Announcement, the board of the Company wishes to provide additional information in respect of the Reorganisation as below.

(1) LISTING RULES IMPLICATIONS

Discloseable Transactions

As one or more of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules in respect of the transactions under each of (1) the Share Transfer Agreement and (2) the Framework Agreement, being the Disposal, the sale of Maoye Huaqiangbei to Chengshang and the sale of the Target Entities (excluding Maoye Huaqiangbei) to Chengshang, exceeds 5% but are below 25%, such transactions constitutes discloseable transactions of the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Connected Transactions

Mr. Zhong holds 50% of Hezhengmao and is an executive director of the Company and a director of Chengshang. Mr. Wang Bin holds 25% of Hezhengmao and is an executive director of the Company and a director of Chengshang. Accordingly, Mr. Zhong and Mr. Wang Bin and Hezhengmao are each connected persons of the Company. Therefore, the transactions under each of (1) the Share Transfer Agreement and (2) the Framework Agreement, being the Disposal, the sale of Maoye Huaqiangbei to Chengshang and the sale of the Target Entities (excluding Maoye Huaqiangbei) to Chengshang, constitutes connected transactions for the Company. As one or more of the applicable percentage ratios pursuant to Rule 14A.76 in respect of the transactions under each of (1) the Share Transfer Agreement and (2) the Framework Agreement, exceeds 5% but are below 25%, the Company is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(2) DESPATCH OF CIRCULAR

A circular containing, among other things, (i) the terms of the Share Transfer Agreement and the Framework Agreement, (ii) the recommendation from the independent board committee to the independent shareholders of the Company; (iii) the letter from the independent financial advisor of the Company, both advising the terms of the Share Transfer Agreement and the Framework Agreement, and (iv) the notice of extraordinary general meeting of the Company is expected to be despatched to the Shareholders on or before 15 October 2015.

The reason why the circular will be despatched more than 15 business days after the date of the Announcement is because extra time is required to finalise and obtain CSRC approval of the formal valuation report of the Target Entities which forms the basis of the consideration under the Share Transfer Agreement and the Framework Agreement, which in turn, will impact, amongst others, the timing of the recommendation from the independent board committee to the independent shareholders of the Company and the letter from the independent financial advisor of the Company. Please see section headed "Valuation" under paragraph (4) below for further details in relation to the Valuation (as defined below).

(3) DEMAQ AND HEZHENGMAO

The main financial contributors of Demao and Hezhengmao comprise of senior management individuals of Chengshang and/or the Company. The Board believes that the allotment and issue of Chengshang Consideration Shares to each of Demao and Hezhengmao pursuant to the Framework Agreement and by way of the transactions under the Share Transfer Agreement, is an effective means to provide incentives and

rewards to the abovementioned senior management individuals and provides the senior management individuals with an opportunity to partake in the growth of Chengshang. Moreover, pursuant to the terms of the Framework Agreement, such senior management individuals have agreed to a lock up period of 36 months during which they are restricted from selling any of the Chengshang Consideration Shares held by each of Demao and Hezhengmao, respectively. This reinforces the link between the performance of the abovementioned senior management individuals and Chengshang's long-term goals. The Board believes that the transaction further aligns the interests of the senior management individuals of Chengshang and the Company with the overall interests of Chengshang as a whole.

Given that the amount of the consideration payable under the Share Transfer Agreement is relatively significant, being, RMB368,611,815 (payable by Demao) and RMB147,399,855 (payable by Hezhengmao), the Company considers that a period of two years for the settlement of the consideration is reasonable and necessary. The Board also considers that the consideration, being cash and payable within two years, is in line with the relevant companies laws in PRC and is under normal commercial terms. Further, it is understood by the Company that the relevant senior management individuals of Chengshang and the Company need to finance their respective portions of the consideration by selling certain fixed assets and/or by sourcing other means of funds, which requires a certain amount of time.

In addition, the Company notes that the consideration payable by Demao and Hezhengmao for their respective interests in Maoye Huaqiangbei under the Share Transfer Agreement is based on the same valuation as the subsequent on-sale of their interests in Maoye Huaqiangbei to Chengshang under the Framework Agreement and, similarly, Maoye Shangsha's sale of its interests in the Target Entities to Chengshang under the Framework Agreement. As such, no preferential terms have been given to Demao or Hezhengmao in connection with the proposed sale of interests in Maoye Huaqiangbei compared with the sale by Maoye Shangsha of the Target Entities to Chengshang. Accordingly, the Board is of the view that the consideration under the Share Transfer Agreement is determined on a fair and reasonable basis and under normal commercial terms.

Separately, after further internal consideration and negotiation, each of Demao and Hezhengmao has separately agreed to enter into a share pledge with Maoye Shangsha under which each of Demao and Hezhengmao will pledge all of their respective Chengshang Consideration Shares to Maoye Shangsha as security for their respective payment of the consideration under the Share Transfer Agreement (the “**Share Pledge Agreements**”). The pledges under the Share Pledge Agreements will take effect

immediately upon the issuance of the Chengshang Consideration Shares to Demao and Hezhengmao, respectively, and will be fully released upon full payment of the consideration by each respective party on or before the expiry of the 2 year period under the Share Transfer Agreement, namely, 4 June 2017. In the event that either of Demao or Hezhengmao defaults on its respective payment obligation under the Share Transfer Agreement, Maoye Shangsha has the right to enforce the relevant pledge, subject to the 3-year lock-up period and profit guarantee compensation mechanism under the Framework Agreement.

(4) VALUATION AND PROFIT GUARANTEE UNDER THE FRAMEWORK AGREEMENT

Valuation

As a listed issuer in the PRC, Chengshang was required to comply with the “Measures for Administration of Material Assets Reorganization of Listed Companies” 《上市公司重大資產重組管理辦法》 (the “**Reorganisation Measures**”) that was recently implemented on 23 November 2014. Article 17 of the Reorganisation Measures provides that the consideration for the transfer of a material asset pursuant to a reorganisation is required to be based on an asset valuation report. Taking into account various factors such as the immature securities market and the volatile stock prices in the PRC, Guo Zhong Lian Land and Real Estate Asset Evaluation Co., Ltd. (國眾聯資產評估土地房地產估價有限公司), an independent third party valuer (the “**Valuer**”), conducted a preliminary valuation of the Target Entities based on the income approach (the “**Valuation**”). Such approach is based on the discounted future earnings, which uses the investment capital cash flow as a quantitative indicator to project the future earnings of the Target Entities.

The preliminary valuation of the Target Entities (subject to finalisation) constitutes a profit forecast under Rule 14.61 of the Listing Rules. According to Rule 14.60A, the Company must publish a further announcement containing the information on the profit forecast within 15 business days after publication of the Announcement. For the reasons as follows, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the timing requirements set out in Rule 14.60A of the Listing Rules on the condition that the Company will publish the required information under Rule 14.60A by 15 October 2015: (1) the formal valuation report in relation to the Target Entities will only be finalised after the CSRC has reviewed and approved the report; and (2) the reason for the preparing of the valuation report in relation to the Target Entities was for Chengshang to comply with PRC regulations.

Profit Guarantee and consideration adjustment mechanism

As disclosed on page 8 of the Announcement under the section headed “Basis of determination of the consideration”, the consideration under the Framework Agreement was determined with reference to the preliminary valuation of the Target Entities being, in aggregate, approximately RMB8,560,166,700.

Pursuant to the Framework Agreement, on 12 June 2015, the Vendors and Chengshang entered into the compensation agreement (the “**Compensation Agreement**”) to comply with the Article 35 of the Measures and the FAQ published by CSRC on 2 August 2010. Pursuant to the Framework Agreement and the Compensation Agreement, the consideration under the Framework Agreement may be further adjusted based on the financial performance of the Target Entities for each of the next three financial years following Completion with reference to the Profit Guarantee during the Relevant Period. On the 10th day following the audit of each of the Target Entities’ financial accounts at the end of the financial year during which Completion occurs, the board of Chengshang shall consider the difference between the Profit Guarantee and the actual net profit of the Target Entities (in aggregate) of that financial year.

Pursuant to the Compensation Agreement, Chengshang shall have the right to appoint a PRC qualified firm of auditors that is approved by the Vendors to audit the financial accounts of the Target Entities at the end of each financial year during the Relevant Periods and the relevant auditor shall adopt the PRC Accounting Standards for Business Enterprises (《企業會計準則》). The Company is informed that Chengshang intends to appoint Ruihua Certified Public Accountants to audit the abovementioned financial accounts, which is different to the auditors of the Company, being Ernst and Young. The Relevant Profit will be the aggregate sum of each of the Target Entities’ audited net profit less extraordinary items, or the audited net profit including extraordinary items, whichever the lower.

If the shortfall of the profit of the Target Entities, in aggregate, falls below the Profit Guarantee, the board of Chengshang will determine and approve the number of shares of Chengshang that each of the Vendors are required to return to Chengshang as compensation (“**Compensation Shares**”) in accordance with the terms of the Framework Agreement and Compensation Agreement.

The number of Compensation Shares to be returned to Chengshang by each of the Vendors, shall respectively be calculated based on the following formula as set out in the Compensation Agreement:

$$\frac{(\text{Profit Guarantee} - \text{Actual net profit})}{\text{Profit Guarantee}} \times (\text{No. of Chengshang Consideration Shares issued to Demao, Hezhengmao and Maoye Shangsha, (as the case maybe) minus the no. of shares that were previously compensated by that relevant party (if any)})$$

The same compensation calculation will be made for each of the two financial years following Completion with reference to the Profit Guarantee for the relevant year. The formula shall be adjusted to take into account the number of Compensation Shares compensated in the previous year(s), if any.

If there is indeed a shortfall, Demao, Hezhengmao and Maoye Shangsha will each be required to deposit their respective portion of Compensation Shares to an escrow account set up by Chengshang. The Compensation Shares deposited in the escrow account will be stripped of any voting rights, and will not be entitled to any dividend payments. Chengshang will subsequently be entitled to repurchase the Compensation Shares at a cost of RMB 1 per share in accordance with the terms of the Compensation Agreement.

Accordingly, the consideration under the Framework Agreement may be adjusted based on the above mechanism if the actual net profit of the Target Entities, in aggregate, does not meet the Profit Guarantee set for each of the three years following Completion, respectively. During the Relevant Period, Demao, Hezhengmao and Maoye Shangsha will not be required to compensate Chengshang for more than the number of Chengshang Considerations Shares initially received by each party respectively under the Framework Agreement.

Taking into account that the said consideration adjustment mechanism is in accordance with the formula required by the CSRC, the Board believes that the adjustment mechanism is fair and reasonable. The Company confirms that it will also issue an announcement to inform its shareholders regarding the fulfilment of the Profit Guarantee.

(5) SUPPLEMENTAL LEASE AGREEMENTS

Prior to the listing of the Company on 5 May 2008, a number of leasing agreements were entered into between members of the Group and the members of the Controlling Shareholder Group for the leasing of properties by the Group from the Controlling Shareholder Group, including the Properties (together the “**Original Leasing Agreements**”). In order to comply with the Listing Rules, the Company entered into a master leasing agreement dated 13 January 2008 (the “**Master Leasing Agreement**”) with the Controlling Shareholder Group which governs the terms of the Original Leasing Agreements. The Original Leasing Agreements were subject to the annual caps of the Master Leasing Agreement. The Master Leasing Agreement was renewed on 18 May 2009 and 28 November 2012 and the relevant Listing Rules were complied with at the time of renewal. On 30 April 2013, the Company revised the annual caps under the Master Leasing Agreement for each of the years ending 31 December 2013, 31 December 2014 and 31 December 2015 from RMB 167 million to RMB 175 million and the Listing Rules were complied with in connection with such revision. Accordingly, the applicable cap for the year ending 2015 is RMB 175 million.

The Company confirms that the historical transactions from all Original Leasing Agreements (including the adjustment under the First Supplemental Lease Agreements) from 1 January 2015 to 14 June 2015 amounts to approximately RMB 63,212,558.13 and they have not exceeded the annual cap of RMB 175 million.

(6) OPINION FROM FORTUNE FINANCIAL CAPITAL

Fortune Financial Capital has, to the best of its knowledge and belief and on its best effort basis, conducted a research on the comparable lease transactions announced by other listed companies (“**Comparable Companies**”) listed on the Shanghai Stock Exchange, Shenzhen Stock Exchange and the Stock Exchange who engage in the operation of department stores in the PRC as an alternative way in assessing the lease term of the Properties (the “**Comparable Lease Transactions**”). Although the list of Comparable Lease Transactions may not be exhaustive, Fortune Financial Capital considers the Comparable Lease Transactions are fair and representative as (i) the Comparable Lease Transactions are still effective and the relevant lease agreements have not yet expired as at the date of the Announcement, thus the Comparable Lease Transactions should be able to reflect the lease terms of properties currently adopted by other market players for the operation of department stores in the PRC; and (ii) the Comparable Lease Transactions include more than 60 Comparable Lease Transactions for 9 Comparable Companies, which Fortune Financial Capital considers the sampling size is sufficient in forming its opinion. Fortune Financial Capital considers such comparison is appropriate in forming its opinion on whether the lease term of the Properties under the Supplemental Lease Agreement is a normal business practice for contracts of this type to be of such duration.

Set forth below is a summary table of the Comparable Lease Transactions:

Company name	Stock Code	Number of lease transactions as extracted from published announcements, annual reports and/or prospectus	Lease term as extracted from published announcements, annual reports and/or prospectus	Lease period
Rainbow Department Store Company Limited	002419.CH	38	9 to 20 years with an average lease term of approximately 16 years. 12 out of 38 lease transactions have lease terms of over 18 years	Different lease commencement dates and ending dates among the 38 lease transactions, with the earliest lease commencement date on 8 September 2001 and the latest lease ending date on 20 May 2029
Nanjing Central Emporium Company Limited	600280.CH	2	1) 3 years 2) 17 years	1) 1 May 2014 to 30 April 2017 2) 1 December 2012 to 30 November 2029
Nanning Department Store Company Limited	600712.CH	1	20 years	1 October 2016 to 30 September 2036, with renovation and trial operation period from 1 October 2013 to 30 September 2016
Yinchuan Xinhua Commercial Group Company Limited	600785.CH	3	1) 10 years 2) 15 years 3) 20 years	1) 1 August 2014 to 31 July 2024 2) 1 December 2014 to 30 November 2029 3) 15 March 2013 to 14 March 2023
Jiahua Stores Holdings Limited	602.HK	3	15 years	Two lease transactions from 1 March 2004 to 28 February 2019, one lease transaction from 16 November 2002 to 15 November 2017

Company name	Stock Code	Number of lease transactions as extracted from published announcements, annual reports and/or prospectus	Lease term as extracted from published announcements, annual reports and/or prospectus	Lease period
New World Department Store China Limited	825.HK	Information not available as the lease transactions are under a master agreement	3 years and will automatically renewed for a successive period of three years thereafter (subject to compliance with the then relevant requirements of the rules of any stock exchange to which either party to the master leasing agreement is subject to)	1 July 2014 to 30 June 2017
Yi Hua Department Store Holdings Limited	2213.HK	10	2 to 17 years with an average lease term of approximately 9 years	Different lease commencement dates and ending dates among the 10 lease transactions, with the earliest lease commencement date on 16 June 2006 and the latest lease ending date on 30 June 2028
Dashang Group Company Limited	600694.CH	1	20 years	Information on lease period not available
Intime Retail (Group) Company Limited	1833.HK	2	20 years	1) 16 July 2013 to 15 July 2033 2) 29 June 2013 to 28 June 2033
		mean (note)	14.9 years	
		median (note)	15.0 years	

Source: websites of Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange

Note: In calculating the mean and median of the lease term of the Comparable Lease Transactions, the lease term of the lease transactions of New World Department Store China Limited is excluded as the information on its number of transactions is not available.

Based on the above table, Fortune Financial Capital noted that the lease terms of the Comparable Lease Transactions ranges from 2 years to 20 years, with a mean and median of lease term of approximately 14.9 years and 15.0 years (excluding the lease transactions of New World Department Store China Limited), respectively. The aggregated duration of the Supplemental Lease Agreements is 18 years and 8 months, which falls within the range of the lease term entered into by different listed companies of similar business nature but has a longer duration than the mean and average of the lease term of the Comparable Lease Transactions. Fortune Financial Capital noted that 17 out of the 60 Comparable Lease Transactions (excluding the lease transactions of New World Department Store China Limited) have a lease term of over 18 years. In addition, 5 out of 9 Comparable Companies have entered into lease transactions with lease terms of over 18 years. Therefore, Fortune Financial Capital considers it is not uncommon for parties to enter into leasing agreements within the proximity of such duration.

DEFINITIONS

“Disposal”	The sale by Maoye Shangsha of 16.43% and 6.57% of Maoye Huaqiangbei to each of Demao and Hezhengmao, respectively, pursuant to the terms and conditions of the Share Transfer Agreement;
“Profit Guarantee”	The guarantee for the profit of the Target Entities given by the Vendors to Chengshang for each of the three years during the Relevant Period pursuant to the terms of the Framework Agreement and the Compensation Agreements; and
“Relevant Period”	The financial year during which Completion occurs and the two subsequent financial years.

Save and except for the above information, all information in the Announcement remains unchanged.

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

Hong Kong, 7 July 2015

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.