
LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Huang Mao Ru (*Chairman*)
Mr. Zhong Pengyi
Ms. Lu Xiaojuan

Non-executive Director:

Mr. Wang Bin

Independent non-executive Directors:

Mr. Rao Yong
Mr. Pao Ping Wing
Mr. Gao Yajun

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31 March 2023

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
IN RELATION TO
THE RELOCATION COMPENSATION AGREEMENT
FOR THE LAND, PROPERTIES AND FACILITIES**

INTRODUCTION

Reference is made to the announcements of the Company dated 9 December 2022, 22 December 2022, and 12 January 2023, in relation to, among other things, the Relocation Compensation Agreement, pursuant to which Chengshang Holding will receive an aggregate sum of approximately RMB415.70 million as the Relocation Compensation for the Relocation. Capitalised terms used herein shall have the same meanings as those defined in the announcement of the Company dated 22 December 2022, unless the context otherwise requires.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further details on the Relocation; and (ii) other information as required under the Listing Rules.

THE RELOCATION

The Board announces that on 22 December 2022, Chengshang Holding, an indirect non-wholly-owned subsidiary of the Company, entered into the Relocation Compensation Agreement in relation to, among other things, the Relocation and the Relocation Compensation with Chengdu Jinniu. Pursuant to the Relocation Compensation Agreement, Chengshang Holding will receive an aggregate sum of approximately RMB415.70 million as the Relocation Compensation for the Relocation.

Further particulars of the Relocation Compensation Agreement are set below:

- Parties:**
- (1) Chengdu Jinniu; and
 - (2) Chengshang Holding.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Chengdu Jinniu and its ultimate beneficial owner, Chengdu Jinniu District Finance Bureau (成都市金牛區財政局), are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Subject matter of the Relocation Compensation:

The Land, Properties and Facilities are situated on No.2, Gongjiao Road, North Railway Station, Jinniu District, Chengdu, Sichuan Province, China. The land area is 3,041.20 sq.m. The total floor area within the parcel of land is 9,063.54 sq.m. (floor area of 7,204 sq.m. as recorded in the real estate certificate). At present, the upper building of the land is a shopping mall, which is mainly used for external lease.

LETTER FROM THE BOARD

Amount of the Relocation Compensation: Approximately RMB415.70 million, which was determined by Chengshang Holding and Chengdu Jinniu after lengthy arm's length negotiations in accordance with relevant PRC laws and regulations. In determining the amount of the Relocation Compensation, consideration was placed on (i) the strategic importance of the location of the Land, Properties and Facilities to the overall construction plans of the Chengdu Chongqing Central Railway Line, and (ii) the fact that the Relocation Compensation represents a policy-based compensation, subsidy, reward and incentive payment in furtherance of the construction of the Chengdu Chongqing Central Railway Line. Consideration was also placed on the valuation report issued by the Valuation Company. The amount of the Relocation Compensation shall be payable by Chengdu Jinniu at such time and in such manner as follows:

- (1) a sum of approximately RMB166.28 million shall be paid by Chengdu Jinniu to Chengshang Holding within 15 business days of the signing of the Relocation Compensation Agreement;
- (2) a sum of approximately RMB228.64 million shall be paid by Chengdu Jinniu to Chengshang Holding within 15 business days of Chengshang Holding handing over the entirety of the Land, Properties and Facilities to Chengdu Jinniu and inspected by Chengdu Jinniu; and
- (3) the remaining balance in the amount of approximately RMB20.78 million shall be paid by Chengdu Jinniu to Chengshang Holding within 15 business days of Chengshang Holding completing the cancellation of registration of the relevant water, electricity and gas accounts, and the state-owned land use rights certificate.

Conditions precedent:

- (1) Chengshang Holding shall deliver the originals of any title certificates to the Land, Properties and Facilities to Chengdu Jinniu upon signing of the Relocation Compensation Agreement; and

LETTER FROM THE BOARD

- (2) Chengshang Holding shall vacate the Land, Properties and Facilities within 60 business days of the signing of the Relocation Compensation Agreement, for Chengdu Jinniu's demolition.

As at the Latest Practicable Date, the above conditions have been fulfilled.

As at the Latest Practicable Date:

- (1) Chengshang Holding has received the first tranche of the Relocation Compensation, being the sum of approximately RMB166.28 million; and
- (2) In accordance with the Relocation Compensation Agreement, Chengshang Holding has vacated the Land, Properties and Facilities, and handed over the same to Chengdu Jinniu. Chengdu Jinniu has completed inspections of the Land, Properties and Facilities, and Chengshang Holding has received the second tranche of the Relocation Compensation, being the sum of approximately RMB228.64 million.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the proposed transaction contemplated under the Relocation Compensation Agreement exceeds 25%, but all applicable percentage ratios are less than 75%, the proposed transaction contemplated under the Relocation Compensation Agreement constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under the Listing Rules.

Pursuant to the Listing Rules, shareholders' approval is required for a major transaction. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has any material interest in the Relocation. Thus, if the Company were to convene a general meeting to approve the Relocation, no Shareholder would be required to abstain from voting on the resolutions in relation thereof. Pursuant to Rule 14.44 of the Listing Rules, the Company has obtained written shareholder's approval from Maoye Department Store Investment Limited, a controlling shareholder (as defined in the Listing Rules) of the Company holding 4,200,000,000 shares in the Company as of the Latest Practicable Date (representing approximately 81.71% of the total issued share capital of the Company) for the approval of the Relocation in lieu of a resolution to be passed at the general meeting of the Company. As such, no extraordinary general meeting will be convened by the Company to approve the Relocation.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS FOR THE RELOCATION

As part of the construction plan of the Chengdu Chongqing Central Railway Line of the Chengdu Municipal Government of Sichuan Province, the Jinniu District Government of Chengdu issued to Chengshang Holding a notice of land resumption work. Chengshang Holding and Chengdu Jinniu conducted fair negotiations over the handling of the Land, Properties and Facilities for the Relocation, and signed the Relocation Compensation Agreement. The Land, Properties and Facilities were originally used as a shopping centre, with an annual after-tax rental income of approximately RMB 6.2 million and RMB 4.1 million for the financial years ended 31 December 2021 and 2022, respectively. Chengshang Holding has made reasonable arrangements for the subsequent transitional matters, by making arrangements for the removal of existing tenants, the termination of existing utilities accounts, and the handover, of the Land, Properties and Facilities. As at the Latest Practicable Date, the Land, Properties and Facilities have been fully vacated. Upon receipt of the second tranche of the Relocation Compensation, Chengshang Holding plans to further proceed to cancel the registration of its property rights of the Land, Properties and Facilities. Although the Company has not identified a relocation site or substitute for the Land, Properties and Facilities, and instead plans to focus its efforts and resources on other existing and potential projects, given the relatively small percentage contribution of the rental income to the total revenue of the Group, and the fact that a net gain will be made from the Relocation, the Directors are of the view that the Relocation will not have a significant negative impact on Chengshang Holding's business operations. It is intended that the Relocation Compensation will be applied as general working capital and for the business development of Chengshang Holding, and the management of Chengshang Holding will ensure that the Relocation Compensation is used reasonably. The Relocation will have a positive impact on the 2022 financial indicators of Chengshang Holding and the Company, and will help the Company's development of its future business and implementation of its strategy.

As of the date of signing of the Relocation Compensation Agreement, the unaudited book value of the Land, Properties and Facilities was approximately RMB140.87 million. After deducting the estimated expenses and taxes relating to the Relocation, it is expected that the Group will recognise an unaudited net gain of approximately RMB205.16 million from the Relocation. Shareholders should note that the actual gains and losses recorded in relation to the Relocation Compensation Agreement will be subject to review and audit by the Company's auditors, and it may be different from the above amount.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Relocation Compensation Agreement are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE RELOCATION AND USE OF PROCEEDS

Based on the audited accounts of the Company, the net book values of the Land, Properties and Facilities are approximately RMB140.87 as of the date of signing of the Relocation Compensation Agreement.

The net profit (before taxation) and the net profit (after taxation) attributable to the Land, Properties and Facilities for each of the financial years ended 31 December 2021 and 2022 are as follows:

	For the year ended 31 December 2021 <i>(audited)</i> RMB '000	For the year ended 31 December 2022 <i>(audited)</i> RMB '000
Net profit before taxation	6,491.73	4,283.74
Net profit after taxation	6,159.33	4,064.38

On the basis of (i) the aforementioned unaudited book value of the Land, Properties and Facilities, (ii) the Relocation Compensation being approximately RMB415.70 million, and (iii) taking into account of the potential tax and other expenses arising from the Relocation, it is expected that the Group will recognise an unaudited net gain of approximately RMB205.16 million from the Relocation. The earnings and the consolidated profit or loss account of the Group will be positively impacted. As such, it is expected that the Group will recognise an increase in its total assets. It is also expected that the Group will recognise a relatively smaller increase in its total liabilities, due to the increase in the tax payable from the Relocation Compensation. Overall, it is expected that the Group will recognise an increase in its net assets.

The exact amounts to be recognized in the consolidated financial statements of the Group is subject to audit. The Group intends to use the proceeds of the Relocation to repay its loans and to supplement its general working capital.

INFORMATION ON THE PARTIES

The Company

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

LETTER FROM THE BOARD

Chengshang Holding

Chengshang Holding is a company incorporated in China and a wholly-owned subsidiary of Maoye Commercial. Maoye Commercial is an indirect non-wholly-owned subsidiary of the Company and a joint stock limited company established in the PRC, whose shares are listed on the Shanghai Stock Exchange (stock code: 600828). Maoye Commercial is principally engaged in the operation of department stores, property leasing and hotel business.

Chengdu Jinniu

Chengdu Jinniu is a state-owned enterprise beneficially owned by the Chengdu Jinniu District Finance Bureau. It is located in Jinniu District, Chengdu, Sichuan Province, China, and is responsible for the Relocation.

VALUATION

For the purpose of complying with the requirements under Chapter 5 of the Listing Rules, in addition to the valuation of the Land, Properties and Facilities by the Valuation Company, the Company has also subsequently engaged the Independent Qualified Valuer to prepare the Independent Qualified Valuation Report in respect of the value of the Land, Properties and Facilities.

The Directors have reviewed and enquired the Independent Qualified Valuer's qualifications and experience in relation to the performance of the valuation under the Independent Qualified Valuation Report. The Directors have also reviewed the basis of valuation, valuation methodologies, valuation standards, valuation assumptions, and limiting conditions, as well as the valuation and information of the Land, Properties and Facilities, set out in the Independent Qualified Valuation Report.

The Independent Qualified Valuation Report is set out in Appendix II of this circular.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the Relocation is fair and reasonable, and is in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders should vote in favour of the resolutions approving the Relocation Compensation Agreement.

The above statement is for Shareholders' reference only given that the Company has already obtained the written approval from the Controlling Shareholder for the Relocation and hence pursuant to Rule 14.44 of the Listing Rules, no general meeting of the Company will be convened to approve the Relocation.

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

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.