

## DIRECTORS' REPORT

The Board has pleasure in presenting the first report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

### Group reorganisation

The Company was incorporated with limited liability in the Cayman Islands on 20 September 2005. Pursuant to the reorganisation of the Group, the Company became the holding company of the companies now comprising the Group.

Details of the reorganisation of the Group are set out in note 1 to the combined financial statements. The listing of the shares of the Company on the Main Board of the Stock Exchange took place on 21 March 2006.

### Principal activities

The principal activity of the Company is investment holding. The activities of its subsidiaries are development and operation of a stylish premium department store chain in the PRC.

### Results and appropriations

Results of the Group for the year ended 31 December 2005 are set out under the combined income statement on page 30.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2005.

During the year ended 2005, 南京金鷹國際購物集團有限公司 (for identification purpose only, in English, Nanjing Golden Eagle International Retail Group Co., Ltd.) had distributed dividend to its then shareholders prior to the reorganisation of the Group. The dividends were fully settled in December 2005. The rate of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

### Material acquisitions or disposals of subsidiaries and associated companies

Other than the reorganisation of the Group as described in the Prospectus of the Company dated 8 March 2006, the Group had no material acquisitions or disposals during the year ended 31 December 2005.

### Property, plant and equipment

Details of the movement in property, plant and equipment are set out in note 16 to the combined financial statements.

### Share capital

Details of the movement in share capital of the Company are set out in note 6 to the financial statements of the Company.

### Distributable reserves

As at 31 December 2005, the Company's reserves available for distribution to shareholders amounted to about RMB215,563,000 (2004: RMB48,642,000)

### Directors

As at the date of this report, the Board comprised:

#### *Executive Directors*

Wang Hung, Roger (*Chairman*)

Han Xiang Li

Wang Wei

#### *Non-executive Director*

Mohammed K. Ghods

#### *Independent non-executive Directors.*

Wong Chi Keung

Wang Yao

Lau Shek Yau, John

Biographical details of the Directors and senior management of the Group are set out in the section headed "Biographies of Directors and Senior Management".

According to Article 87 of the Articles of Association of the Company, Messrs. Mohammed K. Ghods, Lau Shek Yau, John and Wang Yao should be retired by rotation and, being eligible, consider to offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation)

### Directors' and chief executive's interest in shares

As at 31 December 2005, the Company had not received any notice of interests to be recorded under Section 352 of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong ("SFO") as the Company had not been listed on the Stock Exchange as at that date.

### Substantial Shareholders

As at 31 December 2005, the Company had not received any notice of interests to be recorded under Section 336 of the SFO as the Company had not been listed on the Stock Exchange as at that date.

### Arrangements to purchase shares or debentures

At no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

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### Directors' interests in contracts

No contracts of significance, to which the Company, its holding company, a fellow subsidiaries or subsidiaries was party and in which a director of the Company had material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Connected transactions

During the year ended 31 December 2005, the Company was not listed and did not have any connected transactions which were subject to the requirements of the Listing Rules.

### Deed of non-competition

As disclosed in the Prospectus, the independent non-executive Directors will review, on an annual basis, the exercise or non-exercise of each of the Right of First Refusal, the Shanghai Shopping Option and the Xinbai Shopping Option (as defined in the Prospectus) and state their views with basis and reasons in the annual report of the Company. The non-competition restrictions took effect on 21 March 2006, therefore the Right of First Refusal, the Shanghai Shopping Option and the Xinbai Shopping Option (as defined in the Prospectus) were not in place as at 31 December 2005.

### Major customers and suppliers

The aggregate sales attributable to the Group's largest customer and five largest customers taken together were less than 30% of the Group's total sales for the year.

The aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year.

### Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### Sufficiency of public float

As at the latest practical date prior to the issue of this annual report, to the best knowledge of the directors and based on the information publicly available to the Company, there is sufficient public float as required by the Listing Rules.

### Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2005 as the Company had not been listed on the Stock Exchange as at that date.

### Pre-emptive rights

There are no provisions for pre-emptive rights under the articles of the association of the Company and the Companies Law of the Cayman Islands.

### Corporate governance report

The listing of the shares of the Company on the Main Board of the Stock Exchange took place on 21 March 2006 and the Directors are of the opinion that the Company has complied with the code provision as set out in the Code on Corporate Governance Practice under Appendix 14 of the Listing Rules since the Listing Date. Details of the corporate governance report are set out on pages 18 to 19 of the annual report.

### Subsequent events

Details of the significant events occurring after the balance sheet date are set out in note 38 to the combined financial statements.

### Auditors

A resolution to reappoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Wang Hung, Roger**  
*Chairman*

24 April 2006