

NOTES TO THE FINANCIAL STATEMENTS

For the period from 20 September 2005 (date of incorporation) to 31 December 2005

1. COMPANY BACKGROUND

Golden Eagle Retail Group Limited (the “Company”) was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 20 September 2005. In the opinion of the directors, the Company’s ultimate holding company is GEICO Holdings Limited (“GEICO”), a company incorporated in the British Virgin Islands.

Pursuant to a group reorganisation (the “Reorganisation”) in preparation of the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the group (the “Group”) formed after the completion of the Reorganisation. Details of the Reorganisation are set out in the paragraph headed “Corporate reorganisation” under the section headed “Business” and in section 4 headed “Overseas reorganisation” in Appendix VI to the prospectus of the Company dated 8 March 2006 (the “Prospectus”). The Reorganisation was completed on 26 February 2006 and principally involved the exchange of shares of the Company with all the issued shares of Goldjoint Group Limited (“Goldjoint”).

The Company’s shares were listed on the Main Board of the Stock Exchange on 21 March 2006.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and under the historical cost convention. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. RESULTS FOR THE PERIOD

The Company did not derive any income during the period. The expenses for the period which were necessary to maintain the Company were borne by Goldjoint which became the Company’s subsidiary on 26 February 2006.

4. INCOME STATEMENT AND CASH FLOW STATEMENT

No income statement and cash flow statement are presented since the Company did not enter into any transactions during the period except for the issue of one share of HK\$0.10 each for cash at par on 21 September 2005.

5. TAXATION

No provision for taxation has been made in the financial statements as the Company had no income for the period.

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6. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	HK\$	Number of shares	HK\$
Ordinary shares of HK\$0.10 each	3,800,000	380,000	1	–
				<i>RMB</i>
Presented in the financial statements				–

The Company was incorporated in the Cayman Islands on 20 September 2005 with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each.

On 21 September 2005, one share of HK\$0.10 each was allotted and issued for cash at par to the subscriber. At 31 December 2005, the Company's issued share capital was HK\$0.10 each, which has not been included in the balance sheet as the amount was less than RMB1. On the same date, the said one share was transferred to Golden Eagle International Retail Group Limited, incorporated in the Cayman Islands and 100% owned by GEICO.

The changes in share capital of the Company subsequent to 31 December 2005 are set out in note 7.

7. SUBSEQUENT EVENTS

- (i) On 26 February 2006, written resolutions of the sole shareholder were passed, pursuant to which:
 - (a) The authorised share capital of the Company was increased to HK\$500,000,000 divided into 5,000,000,000 shares of HK\$0.10 each.
 - (b) A share option scheme for the employees, executives and officers of the Company and any of the subsidiaries was adopted.
 - (c) Subject to certain conditions which were subsequently fulfilled, the Company issued 112,500,000 new ordinary shares of HK\$0.10 each ("New Issue") for cash at HK\$3.15 per share.
 - (d) Subject to the share premium account of the Company being credited as a result of the New Issue, the directors of the Company were authorised to capitalise HK\$128,249,999.9 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 1,282,499,999 shares for allotment and issue to the shareholders of the Company on the register of the members of the Company at the close of business on 8 March 2006 in proportion to their then respective existing shareholdings in the Company and the directors allotted and issued such shares as aforesaid and gave effect to the capitalisation issue and the shares allotted and issued rank pari passu with all shares then in issue.
- (ii) On 26 February 2006, the Company acquired the entire issued share capital of Goldjoint from GEICO and agreed to set off an indebtedness owed by Goldjoint (note a) to Mr. Wang Hung, Roger ("Mr. Wang") and in consideration of which, the Company allotted and issued 405,000,000 shares, credited as fully paid, to Golden Eagle International Retail Group Limited as directed by GEICO and Mr. Wang.

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7. SUBSEQUENT EVENTS *(continued)*

- (iii) On 21 March 2006, the Company completed its listing of 1,800,000,000 shares and the Company's shares were listed on the Main Board of the Stock Exchange.
- (iv) On 27 March 2006, over-allotment option was exercised and a further 16,875,000 new ordinary shares of HK\$0.10 each were issued. At 27 March 2006, the Company's issued share capital comprised 1,816,875,000 shares of HK\$0.10 each.

Note a:

On 12 May 2005, Goldjoint was incorporated in the British Virgin Islands ("BVI") with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each of which 1 subscriber's share of US\$1 was allotted to GEICO for cash at par.

On 12 July 2005, Nanjing Golden Eagle International Group Hi-tech Industry Co., Ltd. ("Golden Eagle Hi-tech"), Nanjing Golden Eagle International Group Jin Hua Mei Industry Co., Ltd. ("Jin Hua Mei") and Goldjoint entered into a sale and purchase agreement. Pursuant to such agreement, Golden Eagle Hi-tech and Jin Hua Mei agreed to transfer its 99% and 1% shareholding interests respectively in Nanjing Golden Eagle International Retail Group Co., Ltd. ("Nanjing Xinjiekou Store") to Goldjoint at a total consideration of RMB180,000,000. Such acquisition of shareholding has been approved by the Ministry of Commerce and Nanjing Xinjiekou Store has been converted into a wholly foreign-owned enterprise on 13 October 2005 and obtained its corporate legal entity business license on the same date.