

After a year's hard work by everyone of the Group, we has made marked progress in the opening of new stores, development of new projects, lifting of performance and management standards. We are pleased to present the second annual report to shareholders after our listing. We hereby report that in 2006, the Group's turnover amounted to about RMB889.8 million, a year-on-year increase of about 21.6%, and our gross margin amounted to about RMB670.7 million, a year-on-year increase of about 25.9%. In 2006, the Group opened 2 new stores so that the total number of stores increased from 6 to 8, and GFA increased from nearly 159,000 sq.m. to 227,000 sq.m. and we have confirmed three projects which are Huai'an, Yancheng and Kunming.

BUSINESS REVIEW

Adjustments had been effected in spring and autumn when brand names had been reshuffled with the weak weeded out, merchandise mix had been re-defined and the images of brand name counters re-modeled as well as the re-working of escalators and the directory system of stores re-designed. By strengthening our product mix and moving them towards the higher end, the average per ticket sales amounted to about RMB402.1, a year-on-year increase of about 15.5%.

We stress on the periodically communication and liason with our brand name vendors and establishing good relationship with suppliers in order to ensure the growth in our result and maintaining the advantage in brand name.

During the period under review, the Group continued to pay a lot attention to the progress of the VIP card scheme. As at 31 December 2006, the Group had approximately 388,000 VIP members, and the total spending of VIP members accounted for approximately 60.4% of the total gross sales proceeds. The Group launched the BOC Golden Eagle credit cards jointly with Bank of China with a view to developing the functions of VIP cards and enhancing the added value and prestige of the cards, and to absorb premium customers.

Our continued improvement in services coupled with the IT system makes it possible for the Group to replace the returning goods at same stores with the returning goods by customers freely at any one of the Group's stores.

People are crucial to our future development. Therefore, we have granted share options to key management at the middle level or above, which links the interests of the management and key staff with shareholders and elevate their morale, thus facilitating the sustainable development of the Group. We recruit the best people from fresh graduates, postgraduates and new candidates. By the systematic training of people as our reserve, we are able to meet the strategic needs of our national chain stores.

Nanjing Xinjiekou Store was named one of the fifth group of "Golden Cauldron Class Stores (Fine Product Stores)" by the Ministry of Commerce in October 2006. In November 2006, Nanjing Xinjiekou Store was accredited as the fifth group of exemplary stores "No Counterfeit Stores Among the Million", and our other stores had also won many other honours.

Report of the Chief Operating Officer

OPENING OF NEW STORES AND DEVELOPMENT OF CHAIN STORES

On 18 April 2006, the seventh chain store of the Group - Xi'an Gaoxin Store was born with a bang as another high-class shopping premises in the ancient city. On 18 December 2006, the Group entered into a shareholding transfer agreement with another natural person shareholder of Xi'an Golden Eagle International Shopping Centre Company Limited to acquire the 25% shareholding from the shareholder, whereby the Group wholly owns Xi'an Gaoxin Store and Xi'an Store.

On 15 June 2006, the Group entered into a cooperation agreement with Huai'an Huali Shuguang Real Estate Company Limited, whereby the Group purchased a commercial property of 48,000 sq.m. at RMB134.4 million and with this, we will occupy the large composite commercial real property project in the hub of Huai'an city - Huai Hai City One. Huai'an Store is expected to open in 2008.

On 8 November 2006, the Group enter into an agreement to purchase a piece of land of about 11,200 sq.m. in Yancheng at RMB84.6 million. It will be used by us for the development into a high-class department store with a GFA of 50,000 sq.m. Yancheng Store is expected to open in 2008.

On 18 November 2006, we landed on Kunming, the important city in the southwest part of China. By acquiring the entire equity interests in Eagle Ride Ventures Limited, the Group will indirectly own the commercial premises of 35,000 sq.m. in GFA. Kunming Store is expected to open in mid 2007.

On 18 December 2006, the eighth chain store of the Group - Taizhou Store was grandly opened. The successful opening of Taizhou store is a shot in the arm for the Group to expand deep and across the northern part of Jiangsu.

As disclosed in the prospectus of the Company dated 8 March 2006, the Group will invest approximately HK\$40,000,000 for the establishment of Nanjing Xuanwu Store. As advised by the property developer for our Nanjing Xuanwu Store, for reasons of further capital requirement and proposed changes in design, the development of Nanjing Xuanwu Store has been suspended and the completion and delivery date of the property is uncertain, as such, the opening of Nanjing Xuanwu Store will be postponed. The group has only entered into a pre-leasing agreement with the property developer with the formal leasing agreement yet to be entered into. The Directors believe that postponement of the opening of Nanjing Xuanwu Store will not have any significant impact on the business development and financial condition of the Group.

OUTLOOK

In 2007, we will stand at a new starting point and work hard to achieve new targets. It will continue to open new stores and absorb other players by merger and acquisition with a view to consolidating its position in Jiangsu province, and to seek more room of development in Kunming and Xian. Also, the Group will pay full attention to the quality of development and strike a balance between speed and quality in development. It will stress on internal management and develop for better cost-effectiveness. Only by doing so can we improve our core competitiveness.

Looking ahead, we shall make more effort in the study on consumers so as to optimize merchandise mix and brand name structure such that we can run ahead of demand to lead the trend for consumers.

We emphasize on the training and nurturing of people. The development of a corporation requires the qualified people to execute. Relying on external only is just not enough, and we must commit resources for them. We carry out long-term and systematic training of our staff and endeavour to enhance the overall quality and professional skills of our staff, so as to make available the necessary people for our strategic expansion.

May I take this opportunity to thank the hard work of the management and the staff, the trust and guidance of members of the Board and the strong support of our business partners. I also express my gratitude for the care and confidence of our shareholders. In 2006, both our results and the performance of our share price had been exciting. All members of the Company are fully confident and believe that by the concerted efforts of every one and the support and trust of our business partners, the faithfulness to their duties of our management, we shall be more aggressive and proactive to go for new attainments and maximize our returns for shareholders.

Golden Eagle Retail Group Limited

Zheng Shuyun

Chief Operating Officer

18 April 2007