

DIRECTORS' REPORT

The Board has pleasure in presenting the 2006 report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

GROUP REORGANIZATION

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 consolidated 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 2006 are set out under the consolidated income statement on page 36.

The Directors now recommend the payment of a final dividend of RMB2.5 fen per share (2005: Nil) to the shareholders on the register of members of the Company on 30 May 2007, amounting to RMB45,422,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 29 to the consolidated financial statements of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distribution to shareholders amounted to about RMB761,754,000 (2005: RMB215,563,000).

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Wang Hung, Roger (*Chairman*)

Han Xiang Li

Wang Wei

Non-executive Director

Mohammed K. Ghods (retired on 19 June 2006)

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. Wang Hung, Roger and Wang Wei should be retired by rotation and Messrs Wang Hung, Roger, being eligible, had offered himself for election. Mr. Wang Wei had not offered himself for election and will retire at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a contract of service with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation (except for statutory compensation).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

As at 31 December 2006, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Long position in Shares

Name of Director	Nature of Interest/capacity	Number of Shares held	Percentage of shareholding
Wang Hung, Roger ("Mr. Wang") (<i>Note</i>)	Interest in controlled corporations	1,299,375,000	71.52%

Note: These 1,299,375,000 Shares were held by Golden Eagle International Retail Group Limited, a wholly-owned subsidiary of GEICO Holdings Limited which is in turn wholly-owned by Mr. Wang. Mr. Wang is interested in 50,000 shares of GEICO Holdings Limited and is deemed to be interested in 1 share of Golden Eagle International Retail Group Limited and in the 1,299,375,000 Shares under the SFO.

Directors' Report

Long position in underlying Shares

On 26 May 2006, options to subscribe for 250,000 Shares and 250,000 Shares were granted under the share option scheme of the Company approved on 26 February 2006 (the "Scheme") to Mr. Han Xiang Li and Mr. Wang Wei respectively at the exercise price of HK\$4.35 per Share exercisable from 28 April 2007 to 27 April 2012. On 20 November 2006, options to subscribe for 750,000 Shares and 600,000 Shares were further granted under the Scheme to Mr. Han Xiang Li and Mr. Wang Wei respectively at the exercise price of HK\$4.80 per Share exercisable from 20 October 2007 to 19 October 2012. On 20 November 2006, options to subscribe for a total of 400,000 Shares were granted under the Scheme to the independent non-executive Directors at the exercise price of HK\$4.80 per Share exercisable from 20 October 2007 to 20 March 2009. As at 31 December 2006, none of these options were exercised. Details of the options are as follows :

Name of Director	Number of underlying Shares under outstanding options	Percentage of shareholding
Han Xiang Li	1,000,000	0.06%
Wang Wei	850,000	0.05%
Wong Chi Keung	200,000	0.01%
Wang Yao	100,000	0.01%
Lau Shek Yau, John	100,000	0.01%

Save as disclosed above, as at 31 December 2006, none of the Directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2006, so far as is known to the Directors, the following persons (other than a Director or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in Shares

Name	Nature of Interest/capacity	Number of Shares held	Percentage of shareholding
GEICO Holdings Limited (<i>Note 1</i>)	Interest in controlled corporation	1,299,375,000	71.52%
Golden Eagle International Retail Group Limited (<i>Note 1</i>)	Beneficial owner	1,299,375,000	71.52%
JP Morgan Chase & Co. (<i>Note 2</i>)	Interest in controlled corporation	218,251,318	12.01%

Notes:

1. These Shares were held by Golden Eagle International Retail Group Limited, a wholly-owned subsidiary of GEICO Holdings Limited which is in turn wholly-owned by Mr. Wang.
2. JP Morgan Chase & Co. and its controlled corporations held 218,251,318 Shares, of which 178,798,000 Shares were held by JP Morgan Chase & Co. and its controlled corporations as investment manager 3,738,318 Shares as beneficial owner and 35,715,000 Shares as custodian/approved lending agent.

Save as disclosed above, as at the 31 December 2006, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

Pursuant to the Scheme, the Company's board of directors (the "Board") may grant options to any full-time or part-time employees, executives and officers of the Company and any of its subsidiaries (including executive, non-executive directors and independent non-executive directors of the Company and any of its subsidiaries) and business consultants, agents and legal and financial advisors of the Company or its subsidiaries which, in the opinion of the Company's board of directors (the "Board"), has or had made contribution to the Group to subscribe for shares in the Company for a consideration of HKD1 for each lot of share options granted. The Scheme will remain valid for a period of ten years commencing on 26 February 2006.

The purpose of the Scheme is to enable the Company to grant options to the above eligible participants as incentives and rewards for their contribution to the Company or such subsidiaries. There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of listing of shares of the Company, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at the date grant, without prior approval from the Company's shareholders. Options granted to a substantial shareholder or an independent non-executive director or his/her/its associates in the 12-month period in excess of 0.1% of the Company's share capital or with a value in excess of HKD5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 30 days of the date of grant, upon payment of HKD1.00 per each lot of option. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share.

Other than the share options as mentioned in the paragraph headed "Directors' interests and short positions in shares, underlying shares and debenture" above, during the year ended 31 December 2006, total 23,370,000 share options were granted on 28 April 2006 and 20 October 2006, of which 370,000 share options were forfeited and none of them were exercised. Accordingly, there were a total of 23,000,000 shares available for issue under the Scheme, representing approximately 1.3 per cent. of the issued share capital of the Company as at the date of this report.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save with the Scheme, 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.

DIRECTORS' INTERESTS IN CONTRACTS

Save as provided in the paragraph headed "Connected Transactions" below, 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

CONNECTED TRANSACTION

Acquisition of the remaining 25% equity interest in Xi'an Golden Eagle International Shopping Centre Co., Ltd ("Xi'an Golden Eagle")

On 18 December 2006, Xinjiekou Store entered into the Sale and Purchase Agreement, pursuant to which the Xinjiekou Store has agreed to acquire from Mr. Shi Yong, a connected person (as defined in the Listing Rules) of the Company only because of his 25% of Xi'an Golden Eagle, the 25% equity interest of Xi'an Golden Eagle at the consideration of RMB8 million. The acquisition of the remaining equity interest in Xi'an Golden Eagle is to strengthen the control over Xi'an Golden Eagle and Xi'an Store.

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

Lease of office premise from Golden Eagle Hi-tech by Nanjing Xinjiekou Store

A lease agreement for the eighth floor (about 2,788 sq.m.) of the Golden Eagle International Plaza (the "Tenancy Agreement") was entered into between Nanjing Xinjiekou Store and Golden Eagle International Group Hi-tech Industry Co., Ltd. (the "Golden Eagle Hi-tech") on 28 December 2004 for a term of 10 years commencing from 1 January 2005. Golden Eagle Hi-tech is a limited liability company established in the PRC and a connected person (as defined in the Listing Rules) of the Company as it is a subsidiary of GEICO Holdings Limited which is in turn wholly-owned by Mr. Wang Hung, Roger, a director of the Company. Under the Tenancy Agreement, for the first three years, annual rent is RMB3.0 million, following which, annual rent will be determined between the parties on arm's length basis and with reference to the prevailing market rate. The consideration paid by Xinjiekou Store to Golden Eagle Hi-tech under the Tenancy Agreement during the year ended 31 December 2006 amounted to RMB2.65 million. The entering into of the Tenancy Agreement allows the Group to secure tenancy for an office premise which is of close proximity to Nanjing Xinjiekou Store.

Lease of Counter Areas for tobacco sales

In order to carry on tobacco sales without permission under the Administration on Foreign Investment Commercial Sector, the Group leased Counter Areas for the sale of tobacco so as to maintain a share in the revenue in the tobacco business. On 7 October 2005, Xinjiekou Store, Nantong Store, Yangzhou Store, Suzhou Store and Xuzhou Store (collectively, the "Five Subsidiaries") entered into lease agreements (the "Tobacco Lease Agreements") for a term of three years from 8 October 2005 to 7 October 2008 with the following respective connected persons, companies in which a director of the Company, Mr. Wang Hung, Roger, has beneficial interests, of the Company:

- (A) Goldstar Hotel
- (B) Nantong Golden Eagle Properties
- (C) Yangzhou Golden Eagle Properties
- (D) Suzhou Golden Eagle Properties
- (E) Xuzhou Golden Eagle Properties

Pursuant to the Tobacco Lease Agreements, the Five Subsidiaries will lease Counter Areas to the respective connected persons for the operation of tobacco sales at a fee equivalent to 60% of gross profit generated by such connected persons, which was determined after arm's length negotiations between the parties thereto the agreements. The consideration paid by the abovementioned connected persons to the Five Subsidiaries under the Tobacco Lease Agreements for the year ended 31 December 2006 amounted to about RMB4.7 million.

Carpark Management Services Agreement

As part of the Group's value-added services, on 26 February 2006, Xinjiekou Store and Nanjing Golden Eagle Properties as well as Xuzhou Store and Xuzhou Golden Eagle Properties entered into a carpark management services agreement (the "Carpark Management Services Agreement") for a term of two years expiring on 31 December 2007 pursuant to which Nanjing Golden Eagle Properties and Xuzhou Golden Eagle Properties shall provide free carparks to Xinjiekou Store and Xuzhou Store's customers under certain conditions. A director of the Company, Mr. Wang Hung, Roger, has beneficial interests in Nanjing Golden Eagle Properties and Xuzhou Golden Eagle Properties. The carpark management service fee paid by the Group for the year ended 31 December 2006 amounted to about RMB3.3 million.

Project Management Services Agreement

On 26 February 2006, Golden Eagle International Group and Xinjiekou Store entered into a project management services agreement (the "Project Management Services Agreement") for a term of two years expiring on 31 December 2007 pursuant to which Golden Eagle International Group will provide project management services for the construction of the Group's new stores, in particular Taizhou Store. The project management services will include design, purchase of building materials and construction of the Group's new stores, in particular Taizhou Store. With the exception of Nanjing Xinjiekou Store, other department stores owned by the Group were acquired by the Group when the constructions of the buildings were completed and only renovation and decoration works were required.

Pursuant to the Project Management Services Agreement, Golden Eagle International Group will provide project management services to the Group at a fee equivalent to 1.8% of the budgeted cost agreed by both parties and in the event that the actual cost is lower than the budgeted cost agreed by both parties, an incentive fee equivalent to 40% cost saving will be paid to Golden Eagle International Group. These fees were determined after arm's length negotiation between the parties and with reference to the prevailing market rate and on terms no worse off than the Group can obtain in the market and no less favourable than terms offered by Golden Eagle International Group to other independent third parties. The consideration paid by Xinjiekou Store to Golden Eagle International Group under the Project Management Services Agreement for the year ended 31 December 2006 amount about RMB2.3 million.

Property Management Services Agreement

Nanjing Golden Eagle Properties, a company in which a director of the Company, Mr. Wang Hung, Roger, has beneficial interests, and Xinjiekou Store have agreed under the property management services agreement (the "Property Management Services Agreement") that Nanjing Golden Eagle Properties shall provide property management services to the Stores for a term of two years expiring on 31 December 2007. The property management services will include the provision of property (interior) maintenance, cleaning, environmental and greenery services by Nanjing Golden Eagle Properties to the Stores and other new department stores of the Group. Pursuant to the Property Management Services Agreement, Nanjing Golden Eagle Properties will provide property management services to the Stores at a fee equivalent to the actual cost incurred plus a mark-up of 8%, which was determined after arm's length negotiations between the parties and with reference to the prevailing market rate. The consideration paid by the Stores to Nanjing Golden Eagle Properties under the Property Management Services Agreement for the year ended 31 December 2006 amounted to about RMB13.3 million.

Decoration Services Agreement

On 26 February 2006, Xinjiekou Store and Nanjing Golden Eagle Decoration, a company in which a director of the Company, Mr. Wang Hung, Roger, has beneficial interests, entered into a decoration services agreement (the "Decoration Services Agreement") pursuant to which Nanjing Golden Eagle Decoration shall provide decoration services to the Stores for a term of two years expiring on 31 December 2007. The decoration services will include the provision of decoration services to the existing and new department stores of the Group by Nanjing Golden Eagle Decoration.

Pursuant to the Decoration Services Agreement, Nanjing Golden Eagle Decoration will provide the decoration services to the Stores at rates to be determined after arm's length negotiations and on terms no worse off than the Group can obtain in the market and no less favourable than terms offered by Nanjing Golden Eagle Decoration to other independent third parties. The consideration paid by the Stores to Nanjing Golden Eagle Decoration under the Decoration Services Agreement for the year ended 31 December 2006 amounted to about RMB32.0 million.

Particulars to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board.

Each of the independent non-executive Directors has confirmed that all the above continuing connected transactions have been entered into by the Group in the ordinary and usual course of its business, either on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties, and in accordance with the terms of the relevant agreements governing the above continuing connected transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DEED OF NON-COMPETITION

The independent non-executive Directors believe that the exercise or non-exercise of each of the Right of First Refusal, the Shanghai Shopping Option and the Xinbai Shopping Option (all as defined in the Prospectus of the Company dated 8 March 2006 (the "Prospectus")) is yet to conclude, on the basis that

- (a) Mr. Wang and the companies controlled by him will not dispose all or part of the equity interest in Shanghai Shopping and Xinbai Shopping to third parties;
- (b) The net loss of Shanghai Shopping for the year ended 31 December 2006 amounted to about RMB10.3 million and the Directors are not able to predict when Shanghai Shopping will be profit-making;
- (c) The reason for not including Xinbai Shopping as part of the Group as disclosed in the prospectus has not changed, and the Directors are of the view that exercising the option for Xinbai Shopping is not in the interest of the Group,

Accordingly, the independent non-executive Directors do not consider it necessary for the Company to exercise or not to exercise the Right of First Refusal, the Shanghai Shopping Option and the Xinbai Shopping Option (all as defined in the Prospectus) at this moment.

Mr. Wang Hung, Roger, GEICO Holdings Limited and Golden Eagle International Retail Group Limited (the "Covenantors") have made an annual declaration confirming that they have fully complied with the Undertakings (as defined in the Prospectus). The independent non-executive Directors have also reviewed whether the Covenantors have fully complied with the Undertakings and they are satisfied that the Covenantors have in full compliance of the Undertakings.

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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of the association and the Companies Law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

18 April 2007