

CORPORATE GOVERNANCE REPORT

The Board is committed to upholding a high standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors' confidence and maximizing shareholders' returns. The Board reviews its corporate governance practices and internal control policy and procedures from time to time in order to meet the rising expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

The Board considers that the Company has complied throughout the eighteen months ended 31st December 2006 with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules, except for certain deviations. The corporate governance of the Company for the period is stated as follows:

BOARD OF DIRECTORS

The Board is charged with providing effective and responsible leadership for the Company. The directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders. The composition of the directors during the period is set out in the Directors' Report.

Reasonable notices were given to all directors an opportunity to attend board meetings, although not all notices were issued for at least 14 days in accordance with CG Code Provision A.1.3. The board reviewed the situation and resolved to give at least 14 days notice to all directors for regular board meetings in future.

Mr. Wu Yijian assumes the role of Chairman, who determines the Company's strategy, and Mr. Hu Yangxiong is designated as the Vice Chairman, Executive Director and Chief Executive Officer, to formulate tactics for the execution and implementation of the Company's strategy and the day-to-day management. The board believes that this structure helps maintain strong leadership which results in efficient decision making process and the separation of duties between the Chairman and Vice Chairman could ensure a balance of power and authority, so that power is not concentrated in any one individual, which is in accordance with CG Code Provision A.2.1.

None of the existing Independent Non-Executive Directors is appointed for a specific term. However, all the Directors (Executive and Independent Non-Executive) are subject to retirement at least once every three years under Bye-Law 87(1) of the Bye-Laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code Provision A.4.1.

As the Chairman of the Board was engaged in business outside Hong Kong, he thus did not attend the annual general meeting of the Company for the year 2005 and 2006, which deviated from the requirements set out in CG Code Provision E.1.2. In future, the dates of general meetings will be more carefully selected and arranged to reduce the chance that it may happen again.

The Company has received from each of the Independent Non-Executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the Independent Non-Executive Directors are independent for the period.

OPERATIONS OF THE BOARD

The Board determines the corporate mission and broad strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategies objectives. Decisions involving financial statements, dividend policy, material contracts and major investments and divestments are reviewed and subject to approval by the Board. Other main roles of the Board are to ensure that adequate internal control systems and management information systems are in place, including being in compliance with every aspect of provisions of applicable laws, regulations, rules, directives and guidelines to create value for its shareholders, to ensure that the Company has adequate management to achieve the Company's strategic objectives.

According to CG Code Provision A.1.1, the Board should meet regularly and Board meetings should be held at least four times a year at approximately intervals. During the period, the Board met regularly and frequently for the review and approval on the business restructuring from the operations of cruise ship to the operations of department stores besides its normal functions. Details of Directors' attendance of the Shareholders, Board, audit and remuneration committee meetings held for the eighteen months 31st December 2006 are set out as follows:—

	Executive Director							Independent Non-Executive Director			
	Wu Yijian	Hu Yangxiong	Sean Liu	Qin Chuan	Chan Wing Yau George	Cheng Koon Cheung	Mo Keung	Lam Chung Fai	Chan Wai Kwong Peter	Kwok Wing Wah	Xiao Ming
Board Meeting	27/41	34/41	4/41	4/41	41/41	7/41	11/41	19/41	20/41	17/41	15/41
AGM & SGM	0/7	5/7	0/7	0/7	7/7	0/7	1/7	3/7	4/7	4/7	1/7
Audit Committee	0/4	4/4	0/4	0/4	2/4	1/4	0/4	0/4	4/4	4/4	1/4
Remuneration Committee	0/2	1/2	0/2	0/2	2/2	0/2	0/2	0/2	2/2	2/2	1/2
		<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	<i>Note 4</i>	<i>Note 5</i>	<i>Note 6</i>	<i>Note 7</i>		<i>Note 8</i>	<i>Note 9</i>

Notes:

- 1) Mr. Hu Yangxiong was an Independent Non-Executive Director and was re-designated as an Executive Director on 28th March 2006.
- 2) Mr. Sean Liu resigned from the position Executive Director effective from 15th January 2006.
- 3) Mr. Qin Chuan resigned from the position Executive Director effective from 28th March 2006.
- 4) Mr. Chan Wing Yau George resigned from the position Executive Director effective from 31st December 2006.
- 5) Mr. Cheng Koon Cheung was appointed as an Executive Director on 22nd December 2005 and resigned on 9th May 2006.
- 6) Mr. Mo Keung was appointed as an Executive Director on 16th January 2006 and resigned on 8th January 2007.
- 7) Mr. Lam Chung Fai was appointed as an Executive Director on 18th May 2006.
- 8) Mr. Kwok Wing Wah resigned from the position Independent Non-Executive Director effective from 8th January 2007.
- 9) Mr. Xiao Ming was appointed as an Independent Non-Executive Director on 28th March 2006.

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MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all the directors, all the directors confirmed that they have complied with the required standards set out in the Model Code throughout the eighteen months ended 31st December 2006.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing in preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cashflow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable.

NOMINATION COMMITTEE

The Board has not set up a nomination committee. The Executive Directors would consult Independent Non-Executive Directors on any nominations to the Board and the Board would review regularly the need to appoint additional Director with appropriate professional knowledge and industry experience.

REMUNERATION COMMITTEE

The Board had established a remuneration committee and had adopted a manual, guides and terms of reference on 10th March 2006, which have been revised on 20th September 2006 pursuant to a resolution passed by the Board, in accordance with the CG Code Provisions. The remuneration committee is responsible for forming the remuneration's structure and policy of the Group, reviewing the remuneration packages of Executive Director and Senior Management, including bonuses and options granted under the Share Option Scheme, to ensure that such remuneration is reasonable and not excessive. Generally, their remunerations are determined based on their experience and qualifications, the Group's performance as well as market conditions.

The committee shall consist of not less than 2 members. Currently, the remuneration committee consists of three Independent Non-Executive Directors: Mr. Chan Wai Kwong, Peter, Mr. Xiao Ming and Mr. Fu Wing Kwok, Ewing and one Executive Director, Mr. Hu Yangxiong. The remuneration committee did not completely carry out its function for the eighteen months ended 31st December 2006 on the issue of share option which was solely approved by the Board on 25th May 2006. This was reviewed and re-approved in the remuneration committee meeting held on 20th September 2006.

AUDIT COMMITTEE

The revised manual, guides and terms of reference for the effective audit committee were adopted on 10th March 2006 and further revised on 20th September 2006 pursuant to a resolution passed by the Board, in accordance with the CG Code Provisions. The primary objective of the committee is to review the financial reporting process of the Group and its internal control system, oversee the audit process and perform other duties assigned by the Board and make recommendations for the Company to improve the quality of financial information to be disclosed. It also reviews the annual and interim reports of the Company prior to their approval by the Board. The audit committee shall consist of not less than 3 members. Currently, the audit committee consists of three Independent Non-Executive Directors: Mr. Chan Wai Kwong, Peter, Mr. Xiao Ming and Mr. Fu Wing Kwok, Ewing and one Executive Director, Mr. Hu Yangxiong.

AUDIT COMMITTEE *(continued)*

The audit committee has reviewed with management and PKF, Certified Public Accountants the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the audited results for the eighteen months ended 31st December 2006, the two unaudited interim results for the six months ended 31st December 2005 and for the twelve months ended 30th June 2006 prior to their approval by the Board.

AUDITORS' REMUNERATION

During the eighteen months ended 31st December 2006, PKF, as the external auditors of the Company, have provided audit services to the Group in respect of 2005/2006 financial statements of the Group at the fee of HK\$350,000 (2005: HK\$380,000 by Chu & Chu) and HK\$90,000 for the review of two interim reports for the six month ended 31st December 2005 and for the twelve months ended 30th June 2006 (2005: NIL).

INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of internal control, to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and dispositions, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss and manages rather than eliminate risks associated with its business activities.

The Board has reviewed the effectiveness of the internal control system of the Group, especially focusing on the continuous enhancement on the existing internal control system and financial statements of the newly acquired business in PRC. No problems and defects on the internal controls of our business in Urumqi were mentioned in their Audit Report, which gives us further confidence on their present management standard. Where practical, the Group plans to employ professionals from Hong Kong to provide training to the top management of this newly acquired business on the requirements, responsibilities and importance of the Listing Rule, especially on the CG Code Provisions.