

Corporate Governance Report

The Company is dedicated to maintaining and ensuring high standards of corporate governance practices. The Company emphasizes the importance of maintaining a quality Board with a balanced skills set, better transparency, an effective accountability system and internal controls in order to enhance shareholders' value.

The Company was listed on the Stock Exchange on 20 March 2007, and therefore the Code on Corporate Governance Practices the ("the Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was not applicable to the Company during the financial year ended 31 December 2006. The Company believes that it has since the listing of its shares on the Stock Exchange complied with the Code, except for the deviation from Code Provision A.2.1, which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Shen Guojun, the founder of the Group, is the Chairman and an executive Director of the Company. With Mr. Shen's extensive experience in the department store industry, he is responsible for the overall management of the Group. The Board considers that vesting the roles of chairman and chief executive in the same person, namely Mr. Shen, who possesses such extensive experience, is appropriate at this stage. The Board believes that Mr. Shen's responsibilities as Chairman and executive Director allow him to apply his extensive experience in the best interests of the Company.

THE BOARD OF DIRECTORS

The Board is responsible for the overall development and guidance of the Group. It formulates business strategies and policies for the Group and oversees the effectiveness of management strategies to maximise long-term shareholder value. The Group's management team takes charge of the daily operations of the Group.

Every Director has acted in good faith and with due diligence in the best interests of the shareholders of the Company and to maximise the performance of the Group. The Board primarily performs the following duties:

- formulate long-term business strategies
- approve annual budgets
- review operating and financial performance
- discuss and approve acquisition opportunities, investments and significant capital expenses
- approve the appointment of Directors and the Company Secretary
- monitor the performance of the Group's management

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The Chairman is responsible for the well-regulated management and operation of the Board. The executive Directors (including the Chairman) also take charge of the operations of the Company.

The members of the Board include two executive Directors, namely Mr. Shen Guojun and Mr. Ching Siu Leung, one non-executive Director, namely Mr. Xin Xiangdong and three independent non-executive Directors, namely Mr. Chen Dagang, Mr. Lawrence Lee and Mr. Joseph Chow. Mr. Shen Guojun is the Chairman.

Biographical details of the Directors' are set out in the section headed "Directors and Senior Management" in this annual report.

All of the Directors were appointed for a term of three years with effect from 24 February 2007. In accordance to the Articles of Association of the Company, one third in number of the directors of the Company shall retire from office by rotation at each annual general meeting of the Company and, being eligible, offer themselves for re-election at the annual general meeting.

As part of the Group's Reorganization to prepare for its listing, the Company was incorporated on 8 November 2006 and Mr. Shen Guojun remained as the sole Director of the Company until the other current Directors of the Company were appointed on 24 February 2007. Accordingly, no Board meeting was held during the financial year ended 31 December 2006.

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "Auditor's Report" on pages 53 to 54.

The Board has established four committees to oversee particular aspects of the Company's affairs, namely the Remuneration Committee, the Nomination Committee, the Audit Committee and the Strategic Development Committee. A brief description of the functions of and other relevant information regarding these committees are set out below.

REMUNERATION COMMITTEE

The Remuneration Committee was established, and its written terms of reference were adopted, by the Board on 24 February 2007 in compliance with the Code. The Remuneration Committee comprises three members, namely executive Director Mr. Ching Siu Leung and independent non-executive Directors Mr. Chen Dagang and Mr. Joseph Chow. The Remuneration Committee is chaired by Mr. Ching Siu Leung.

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The primary duties of the Remuneration Committee include (without limitation): (i) making recommendations to the Board on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of the Directors and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme adopted by the Company.

Since the Remuneration Committee was established on 24 February 2007, after the end of the financial year ended 31 December 2006, no meeting was held by the Remuneration Committee during that financial year. However, since its establishment up to the date of this annual report, two meetings of the Remuneration Committee were held to discuss remuneration related matters, including the grant of options under the Share Option Scheme adopted by the Company. All members of the Remuneration Committee attended both meetings.

NOMINATION COMMITTEE

The Nomination Committee was established, and its written terms of reference adopted, by the Board on 24 February 2007 in accordance with the Code. The Nomination Committee comprises three members, namely non-executive Director Mr. Xin Xiangdong and independent non-executive Directors Mr. Lawrence Lee and Mr. Joseph Chow. Mr. Xin Xiangdong is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include (without limitation): (i) regularly reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board and making recommendations to the Board with regard to any proposed changes; (ii) identifying individuals suitably qualified to become Directors and selecting or making recommendations to the Board on the selection of individuals nominated for directorship; and (iii) assessing the independence of independent non-executive Directors.

Since the Nomination Committee was established in 24 February 2007, after the financial year ended 31 December 2006, no meeting was held by the Nomination Committee during that financial year. However, since its establishment up to the date of this annual report, one meeting of the Nomination Committee was held to discuss the retirement by rotation and re-election of Directors in accordance with the Articles of Association of the Company. All members of the Nomination Committee attended such meeting.

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AUDIT COMMITTEE

The Audit Committee was established, and its written terms of reference adopted, by the Board on 24 February 2007 in accordance with the Code. The Audit Committee comprises three members, all of whom are independent non-executive Directors, namely Mr. Lawrence Lee, Mr. Joseph Chow and Mr. Chen Dagang. Mr. Lawrence Lee is the chairman of the Audit Committee.

The primary duties of the Audit Committee include (without limitation): (i) assisting the Board in providing an independent view of the effectiveness of the Company's financial reporting process, internal controls and risk management system, (ii) overseeing the audit process; and (iii) performing other duties and responsibilities as assigned by the Board.

Since the Audit Committee was established on 24 February 2007, after the financial year ended 31 December 2006, no meeting was held by the Audit Committee during that financial year. However, since its establishment up to the date of this annual report, one meeting of the Audit Committee was held to consider and approve the audited financial statements of the Group for the year ended 31 December 2006 and the re-appointment of PricewaterhouseCoopers as external auditors of the Group for the financial year ended 31 December 2007. All members of the Audit Committee attended such meeting.

STRATEGIC DEVELOPMENT COMMITTEE

The Strategic Development Committee was established, and its written terms of reference adopted, by the Board on 24 February 2007. The Strategic Development Committee comprises three members, namely executive Directors Mr. Shen Guojun and Mr. Ching Siu Leung and independent non-executive Director Mr. Joseph Chow. Mr. Shen Guojun is the chairman of the Strategic Development Committee.

The primary duty of the Strategic Development Committee is to develop and evaluate the effectiveness of the Company's strategic plans by reviewing and assessing proposals for consideration by the Board regarding:

- strategic development plans;
- capital allocation plans;
- organic expansion plans;
- merger and acquisition plans; and
- significant investment and financing plans.

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Since the Strategic Development Committee was established on 24 February 2007, after the financial year ended 31 December 2006, no meeting was held by the Strategic Development Committee during that financial year. However, since its establishment up to the date of this annual report, the Strategic Development Committee had already frequently held meetings to discuss business and development strategy of the Company.

EXTERNAL AUDITORS

The external auditors of the Company is PricewaterhouseCoopers. For the year ended 31 December 2006, the remuneration paid by the Company to the external auditors for the performance of audit services was HKD1,600,000.

The Audit Committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board of Directors and at the general meetings of the Company by its shareholders.

Certain factors the Audit Committee will take account of when assessing the external auditors include the audit performance, quality and objectivity and independence of the auditors.

DIRECTORS' SECURITIES TRANSACTIONS — COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issues (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct to regulate securities transactions by Directors of the Company. Having made specific enquires of all Directors, all of them confirmed that they have strictly complied with the Model Code during the year.