

(1) CORPORATE GOVERNANCE

During the reporting period, the Company established and strengthened internal control and supervision system, attentively implemented the governance principle and regulation required for a listing company. In practice, the Company enhanced the corporate governance and standardized operational level. The number of Independent Directors representing over one-third of the total number of directors who played an important role in decision-making. The Company has also amended "Articles of Association" in accordance with the supervisory regulations of CSRC focusing on the specific supplement to the contents and standards related to the procedures of approving guarantee to loan. Focused on information communication, the company set up management platform of investor relating to closely communicate with various parties' interest through various form of communication to enhance their understanding on the company. Currently, the actual performance of the Company's governance is in compliance with the Opinions of Corporate Governance on Listed Companies issued by CSRC.

(2) EXECUTION OF DUTIES BY INDEPENDENT DIRECTORS

During the reporting period, the independent director of the Company, Mr. Gao Chuang, Mr. Kang Jinjiang, Ms. Liang Jie, Mr. Lin Wenbin and Mr Liu Hongguang strictly complied with the regulation of related laws and regulations and performed their duties diligently and conscientiously by putting forward independent opinions on the significant events of the Company, considered the connected transactions were fair and reasonable or caused detriments to the benefits of shareholders and all of the directors and safeguarded the interests of the Company and its medium and small investors.

1. Board meetings attendance of independent directors

Name of independent directors	Attendance of board meeting in the year	Attendance (lines)	Attending by proxies (lines)	Absentness (lines)
Gao Chuang	4	2	2	0
Kang Jinjiang	4	4	0	0
Liang Jie	4	4	0	0
Lin Wenbin	4	2	2	0
Liu Hongguang	4	3	1	0

2. The dissenting opinions of independent directors to related matters of the Company

During the reporting period, the independent directors considered various resolutions in the Board meeting seriously and no dissenting opinion to the approved resolutions.

(3) INDEPENDENCE OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATIONAL STRUCTURE AND FINANCE AMONG THE COMPANY AND ITS CONTROLLING SHAREHOLDERS

The Company operated independently from its controlling shareholders in terms of business, personnel, assets, organizational structure and finance.

(4) ASSESSMENT AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT

The Company has adopted position-related salary system and floating annual salary system for senior management. The floating annual salary was linked with the Company's overall results. The senior management was assessed on basis of overall individual performance and the realization of assigned operational target.

(5) CORPORATE GOVERNANCE

The Company has fully complied with the provisions of Code of Corporate Governance Practice as set out in Appendix 14 to the Listing Rules of the Stock Exchange of Hong Kong Limited and certain proposed code of best practice. The board of directors has also thoroughly reviewed the internal control system during the year and is of the opinion that the systems are effective and sufficient and secured the achievement of the targets the Company's operations and regulations.

1. Independent non-executive directors

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of a sufficient number of independent non-executive directors, and at least 1 independent non-executive director with appropriate professional qualifications or expertise in accounting or relevant financial management. The Company has appointed 5 independent non-executive directors, one of whom has expertise in financial management. Please refer to Annual Report of 2005 of the Company for detailed profiles of independent non-executive directors.

2. Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code")

During the reporting period, the Company has adopted a code of behavior on terms no less exacting than the required standard set out in the Model Code in connection with rules governing securities transactions of directors and supervisors. It was confirmed, upon specific enquiries, that no director or supervisor of the Company has breached the standards as required by the Model Code as stated in Appendix 10 to the Listing Rules in relation to securities transactions by directors.

The board of directors has formulated a written guideline for transactions of securities of listed companies by "directors and related employees". The board of directors have given written notices in advance to directors stating that no transactions of company securities should be carried out within one month prior to results announcement. All directors have confirmed that they did not carry out transactions of company securities during the Year and have complied with the guidelines.

(5) CORPORATE GOVERNANCE (Continued)**3. Board of Directors**

The 4th session of the board of directors comprises 13 directors, including 8 executive directors, namely Mr. Qu Lin, Mr. Wang Shouguan, Mr. Zhang Bin, Ms Tian Li, Mr. Su Weiguo, Mr. Li Hongliang, Mr. Liu Qingmin and Mr. Niu Wenjun; and 5 independent directors namely Lin Wenbin, Mr. Gao Chuang, Mr. Kang Jinjiang, Ms. Liang Jie and Mr. Liu Hongguang. For biographies about them please refer to IV(1)2 of the Annual Report. Terms of office of the members of the current session last until 7 March 2007.

The Company has set up an audit committee, strategic development committee, a remuneration committee, a nomination committee and an investment management committee pursuant to Rules 3.2.1 of the Listing Rules. Work of all committees was carried out orderly in accordance with the rules of work.

All directors of the Board shall regard Shareholders' interests as their top priority and discharge their duties as directors to the best of their ability pursuant to related legislation and regulations. Duties and main work of the board of directors include: to decide on operating plans and investment plans of the Company, to formulate profits appropriation plans and supplemental compensation plans, to set up capital operation plans and put into force the resolutions made in the general meeting.

Chairman of the board of directors ensures that all directors discharge their duties and engage in timely discussions about relevant matters of importance so as to ensure that the board operates effectively. The Chairman also have talks with independent non-executive directors separately in order to thoroughly understand their views and opinions about the Company's operation and work of the board of directors.

Secretary Office of the board of directors provides full service to directors. It provides directors with sufficient information allowing them to understand on timely basis the Company's position. Certain modes are used to maintain effective liaison with shareholders to ensure that shareholders' views can be conveyed to the board of directors.

The Company has complied with the Listing Rules to appoint 5 sufficient independent non-executive directors as fully required including appointment of independent non-executive directors with appropriate professional qualifications including accounting or related financial management expertise. The 5 independent non-executive directors are totally independent of each other. They come from business management and financial sectors with ample experience in their own professions, providing time and honest professional advice to facilitate stable operation and development of the Company while taking up responsibility for supervision and co-ordination so as to protect interests of the Company and shareholders.

Pursuant to Rule 3.13 of the Listing Rules, the Company has requested all independent non-executive directors to submit written confirmations about their independency on an annual basis and has carried out, the examination of the independency of independent non-executive directors were carried out.

During 2005, a total of 4 regular board meetings were held, with full attendance by all directors.

(5) CORPORATE GOVERNANCE (Continued)

3. Board of Directors (Continued)

Notices on board meetings were ensured to be sent 14 days prior to each meeting. Resolutions of the board were sent 10 days in advance to directors to give them sufficient time to study all the resolutions. Staff were sent to each meeting for exclusive recording purposes. All matters passed in the meetings became resolutions, and records were kept pursuant to related legislation and regulations.

Remunerations for directors for 2005 totaled RMB1,320,000 including basic salary, results-pegged salary, incentive salary and insurance (or bonus paid on discretion). Independent non-executive directors were only paid remuneration without any other salaries or returns. For details about remuneration of each director, please refer to Annual Report “(1) Information about directors, supervisors and senior management” under or IV. Information about directors, supervisors, senior management and staff”.

4. Audit Committee

Duties and main work of the Committee include scrutiny of the Company’s financial reports, appointment of independent auditors, approval of auditing and audit-related services and monitoring of internal financial reporting procedure and management policies. The committee comprises 5 independent non-executive directors of the Company with Ms. Liang Jie as the presiding member.

The Committee convenes no less than 2 audit committee meetings each year to collectively scrutinize the accounting principles adopted by the Company, internal control system and related financial matters so as to ensure the integrity, fairness and accuracy of the Company’s financial statements and other related information. During 2005, a total of 2 meetings were held by the audit committee to respectively scrutinize the Company’s annual and interim reports. All 5 independent directors attended the meetings to hear reports on internal controls while issuing related auditing reports and putting forward their views.

The Audit Committee has, together with the management, reviewed the accounting principles, accounting standards and methods adopted by the Company and has studied matters relating to auditing, internal controls and financial reporting. The Audit Committee has given its consent to the financial accounting principles, standards and methods adopted by the Company for the audited annual accounts for the year ended 31 December 2005.

5. Remuneration Committee

Duties and major work of the Committee include formulation of remuneration policies for directors and senior management and approval of terms of directors’ service contracts. In 2005, the committee convened 2 committee meetings all of which were attended by all members. Chief member of the Committee is Mr. Lin Wenbin while other members include Mr. Qu Lin, Mr. Wang Shouguan, Mr. Zhang Bin and Ms. Liang Jie.

(5) CORPORATE GOVERNANCE (Continued)**6. Nomination Committee**

Duties and major work of the Committee include assessment of performance of directors and senior management, nomination of candidates for executive directors of each new session, to review regularly the framework, membership and work of the board of directors. The chief member of the Committee is Mr. Gao Chuang while other members include Ms. Tian Li, Mr. Qu Lin, Mr. Zhang Bin and Mr. Kang Jinjiang. One committee meeting was held in 2005, all members attended the meeting.

7. Strategic Development Committee

Duties and major work of the Committee include scrutiny and assessment of the Company's development, financial budget, investment and business operation. The chief member of the Committee is Mr. Qu Lin, while other members include Mr. Su Weiguo, Mr. Li Hongliang and Mr. Niu Wenjun. A total of 2 committee meetings were held in 2005, which were attended by all members of the committee.

8. Investment Management Committee

Duties and major work of the Committee include scrutiny and assessment of the Company's strategic plans on annual investment return. Chief member of the Committee is Mr. Qu Lin, while other members include Ms. Tian Li, Mr. Wang Shouguan, Mr. Zhang Bin and Mr. Su Weiguo. In 2005, a total of 2 committee meetings were held, which were attended by all members of the committee.

9. Supervisory Committee

The supervisory committee comprises 3 members including 1 supervisor, who is elected by staff, to represent company staff. The supervisory committee is responsible for supervising the board of directors and its members and senior management to prevent their abuse of power or infringement upon lawful interests of shareholders, the Company and company staff. In 2005, a total of 4 meetings were held by the supervisory committee, which were attended by all members of the committee, to review the Company's financial status, corporate operation pursuant to law and senior management's discharge of duties. According to the principle of honesty, the committee members carried out their work proactively.

10. Management of information disclosure

The Company attaches particular importance to truthfulness, timeliness, fairness, impartiality and openness of information disclosure, and complies with stipulations pertaining to disclosure under the Listing Rules. All information disclosed to outsiders (including annual and interim results) must be reviewed and approved by the board of directors. For related contents of financial statements disclosed, the Financial Controller must ensure that they are in compliance with the Accounting Principles adopted and related legislation which require that the Company's results and financial status are reflected truthfully and fairly.

(5) CORPORATE GOVERNANCE (Continued)

11. Relationship between General Meeting and investors

In 2005, a total of 2 General Meetings were held on 21 March and 2 June respectively in the conference room of Kingdom Hotel Co., Ltd at No. 189 Taiyuan South Street, Heping District, Shenyang, PRC. The Report of Directors, Report of Supervisory Committee, Financial Statements, annual profits distribution plan, final dividend distribution plan, appointment of auditors and amendments to Articles of Association were revised and passed with consent rate of 100%. Internal rules were also passed.

The Office of the Board undertakes the exclusive responsibility for managing relationship with investors. A set of “Methods of Management of Investors” was formulated for standard operation.

On 31 December 2005, market value of Company shares were RMB1.87 billion. For details about categories of shareholders and their shareholdings, please refer to Item 3 of this Annual Report.

12. Corporate Management and Internal Control

In 2005, the Company attached great importance to the establishment and perfection of an internal control system. The Company set up an exclusive working group and a project management committee, whereby for the comprehensive set-up and perfection of such a system, regular General Manager Working meetings chaired by the general manager and attended by senior management including officers in charge of various departments were held in accordance with ISO9001-2000 in connection with requirements for corporate internal control.

The Company has extensively adopted the OA paperless office system in a bid to further enhance office work efficiency, and achieve environmental protection and sustainable development.

13. Remunerations of Auditors

The 2004 General Meeting held on 2 June 2005 gave its approval to re-appoint Deloitte Touche Tohmatsu Certified Public Accountants as the international auditors and Deloitte Touche Tohmatsu Huayong Certified Public Accountants as the domestic auditors for a term of 1 year. During the reporting year, the Company paid remunerations totaling HK\$2,200,000 to the auditing institutions. Up till the year under review, the auditors had provided auditing services to the Company for 4 years.