

THE COMPANY'S CORPORATE GOVERNANCE STRUCTURE

Pursuant to the PRC Company Law, the PRC Securities Law and the articles of association of the Company, the Company improved its corporate governance structure, established a modern enterprise system, standardised operating mechanism and set up a series of systems, including the adoption of the articles of association of the Company, the Procedural Rules of the Board of Directors and the Procedural Rules of the Board of the Supervisory Committee. These rules comply with the requirements of the Standards of Administration Structure of Listed Companies released by the China Securities Regulatory Commission and State Economic and Trade Commission on January 7, 2002.

1. Shareholders and shareholder's general meeting: In order to ensure that all the shareholders of the Company, especially the minority shareholders, enjoy equal treatment and are able to fully exercise their rights, the Company convenes its shareholders' general meetings strictly in compliance with the Opinion on Shareholders' Meetings released by the China Securities Regulatory Commission. The Company regulates its connected transactions and ensures that the connected transactions are conducted fairly, voluntarily, equally, and reasonably. Details of the connected transactions and their operation were fully disclosed in 2001.
2. Relationship between the controlling shareholder and the Company: The controlling shareholder did not interfere with the Company's management decisions and operations. The Company and the controlling shareholder are independent of each other in terms of their business, staff, assets, organization and finance. Their respective board of directors, supervisory committee, and internal administrative departments are all independent of each other.
3. Directors and the Board: The Company adhered strictly to the requirements and procedures set out in the Articles of Association of the Company in respect of the appointment of directors. The number of directors and members of the Board complied with the requirements of the relevant PRC laws and regulations. The Board established the Procedural Rules of the Board of Directors and all members of the Board performed their duties and safeguarded the Company's interests honestly and diligently. The Company has appointed 3 independent directors since its listing of its H shares in 1995. None of the independent directors held any position in the Company. All independent directors carried out their duties diligently and honestly in the interest of the Company and minority shareholders according to the Articles of Association and the relevant laws and regulations. The Board established an Audit Committee, a Distributing Committee, a Development Committee and a Finance Committee, and adopted the relevant procedural rules. According to the requirements of the Opinion on the Establishment of an Independent System of Listed Companies released by the China Securities Regulatory Commission, two of the independent directors of the Company will not satisfy the new requirements. The Company will appoint three independent directors in the forthcoming 2001 annual general meeting.
4. Supervisors and the supervisory committee: The number of supervisors comprising the Company's supervisory committee and members of the committee complied with the relevant laws and regulations. The supervisory committee has adopted the Procedural Rules of the Supervisory Committee. All supervisors carried out their duties diligently and provided lawful and proper supervision of the Company's financial matters and oversaw the performance of duties by the directors, managers and other senior management.
5. Performance evaluation and rewarding system: The Company is in the process of establishing an open and transparent performance evaluation and rewarding system for its directors and supervisors.

6. Related party interests: The Company respected and protected the interests of banks, other creditors, employees and other related parties, with the aim of promoting the further development of the Company together.
7. Information disclosure and transparency: The secretary of the Board is responsible for the Company's information disclosure. The Company has established an information disclosure department to receive visitors and answer enquiries. The Company has acted in accordance with the relevant PRC laws and regulations, the articles of association of the Company, and the requirements of the listing rules of the Shenzhen Stock Exchange, the Hong Kong Stock Exchange, the New York Stock Exchange, and disclosed corporate information on a true, accurate, complete and timely basis to ensure that all shareholders have equal access to such information. The Company disclosed detailed information on its controlling shareholder on a timely basis according to relevant regulations. The Company held interim and annual roadshows since its initial public offering to brief investors on a regular basis. The Company was recognised as a good information disclosure unit in 2001 by the Shenzhen Stock Exchange.

INDEPENDENT DIRECTORS AND THEIR DUTIES

The Company established an independent director system according to the Listing Rules of the Hong Kong Stock Exchange. The independent directors carried out their duties faithfully, participated in the board meetings and gave independent advice.

During the year, the independent directors considered and approved the connected transactions conducted in 2001. The Independent Directors Committee was established on December 13, 2001 and reviewed the connected transactions to be approved by the shareholders of the Company and provided advice to the minority shareholders on connected transactions.

PLAN FOR FURTHER IMPROVEMENT OF THE COMPANY'S CORPORATE GOVERNANCE STRUCTURE

The Company will focus on the following aspects to further improve its corporate governance structure based upon the Corporate Governance Rules for Listed Companies:

1. Further improving the articles of association of the Company, the Procedural Rules of the Board, and the Procedural Rules of the Supervisory Committee based on the Corporate Governance Rules for Listed Companies;
2. Further regulating relationship between the Company and its controlling shareholder;
3. Further improving and regulating the operation mechanism of special committees of the Board;
4. Promoting and improving the performance evaluation and rewarding system for the Company's directors, supervisors and senior management.

EVALUATION OF SENIOR MANAGEMENT

The Company evaluated its senior management mainly by reference to profits, operations and controlling targets. Profit target is based on the profit and return on the Company's investment ratio. Operation target is based on processing cost in cash per ton, return on light oil and return on products. Controlling target is based on quality, safety and environmental standards and number of employees. The Company rewarded its senior management according to these results.