

CORPORATE GOVERNANCE STRUCTURE

The Company has always complied with the Company Law and the Securities Law of the PRC, the relevant laws and regulations of China Securities Regulatory Commission, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and other relevant laws and regulations. In order to enhance corporate value and to maintain a steady growth in its business, the Company has continued to regulate and improve its corporate governance structure and have shareholders' meetings, a Board of Directors and corresponding professional committees, a Supervisory Committee and a management team headed by the President. These bodies coordinate to check and balance the powers of each other, as well as to discharge their functions in a regulated manner. The Company has been regulating the internal management and operations in a strict manner in accordance with the provisions of relevant documents such as its Articles of Association, Work Manual of the Board of Directors and Organisation and Rules of Procedure of the Supervisory Committee.

Outline of these rules are as follows:

In relation to Shareholders and shareholders' meetings: In order to ensure that all shareholders of the Company enjoy equal status and are able to exercise their rights effectively, the Company holds shareholders' meetings each year in strict compliance with the requirements of the Standard Opinion regarding Shareholders' Meetings promulgated by the China Securities Regulatory Commission. In 2002, in addition to the annual general meeting for 2001, the Company held an extraordinary shareholders' meeting, at which 15 resolutions were passed, including those in relation to the election of the Directors and members of the Supervisory Committee, and in relation to the approval of the continuing connected transactions of the Company. In order to ensure that connected transactions are conducted in fair and reasonable manner, the CNPC Group, a connected shareholder of the Company, had abstained from voting at the extraordinary shareholders' meeting held for approving the connected transactions as notified in the circular to the shareholders. Independent non-executive Directors of the Company have also ensured that full disclosure has been made of the details and performance of the connected transactions each year.

In relation to Directors and Board of Directors: The Directors and the Board of Directors of the Company have discharged their duties in respect of corporate governance in a conscientious and responsible manner and are accountable to the shareholders of the Company. The Company has elected its Directors in strict compliance with the directors election procedures set out in its Articles of Association and the election of directors in 2002 was completed smoothly. The size and composition of the second Board of Directors of the Company are in compliance with the relevant laws, regulations and the Company's Articles of Association. All Directors have attended board meetings in a conscientious and responsible manner and have discharged their duties (such as to make decisions on major issues for the Company, to appoint or dismiss and supervise the executives of the Company and to communicate with the shareholders) conscientiously and diligently. The Company has adopted the independent directors system, whereby three independent non-executive Directors have been appointed to the Board of Directors. The independent non-executive Directors protect the interest of the minority shareholders independently and objectively and check and balance the interests of the substantial shareholders and the minority shareholders when the Board of Directors makes its decision.

Four professional committees have been set up under the Board of Directors to assist the Board of Directors in making decisions. The professional committees are:

Auditing Committee, the duties of which include: to monitor material financial policies of the Company, financial reporting logistics, major rules and systems and the legality and effectiveness of major business activities; to review auditing plan and reports prepared by the internal auditing department and execute auditing work specified by the Board of Directors; to inspect and supervise the auditors' auditing work; and to monitor compliance in relation to connected transactions.

Investment and Development Committee, the duties of which include: to study strategic plans proposed by the President and submit to the Board of Directors its recommendation in respect of investment and development; to study the annual investment plan proposed by the President and submit to the Board of Directors its examination opinions; and to review the feasibility study in relation to any material investment project to be decided by the Board of Directors and submit its proposal to the Board of Directors.

Examination and Remuneration Committee, the duties of which include: to organise the assessment of the President and submit report to the Board of Directors; to supervise the assessments led by the President in relation to the performance of the Senior Vice President, Vice Presidents, Chief Financial Officer and other members of the senior management of the Company; and to study the Company's incentive scheme, remuneration system and share option scheme, monitor and evaluate the effects of implementation of these schemes and to provide its opinions for further improvement or perfection.

Health, Safety and Environmental Protection Committee, the duties of which include: to monitor the effective implementation of the Company's HSE scheme; to make proposal to the Board of Directors or the President in relation to any major decision on health, safety and environment; and to make inquiry in relation to the occurrence of and responsibility for any material accident, and to inspect and supervise the handling of any material accident.

In 2002, the Company held four regular board meetings (at which 21 resolutions were passed), two extraordinary board meetings (at which two resolutions were passed) and five professional committee meetings.

In relation to the Supervisors and Supervisory Committee: The election of the Supervisory Committee of the Company in 2002 was completed smoothly. The size and composition of the second Supervisory Committee of the Company are both in compliance with the relevant laws, regulations and the Company's Articles of Association. Members of the Supervisory Committee include one Supervisor elected by the employees' representatives and two independent non-executive Supervisors. The Supervisory Committee has formulated the Organisation and Rules of Procedure of the Supervisory Committee. The Supervisors have discharged their duties conscientiously, procured that the Supervisory Committee meetings were convened in accordance with the requirement of the Organisation and Rules of Procedure of the Supervisory Committee, attended all the board meetings as non-voting delegates, and persistently reported their work at the shareholders' meetings and submitted the Supervisory Committee's reports and related proposals to the shareholders' meetings. In line with the spirit of accountability to all the shareholders, the Supervisory Committee has supervised the legality and regularity of the Company's financial affairs and the performance of the Company's Directors, managers and other members of the senior management, and has participated actively in the Company's material affairs such as production, operation and investment projects and has raised many constructive proposals.

In relation to the mechanism for assessment of performance and for encouragement and restrictions: The appointment and dismissal of members of the senior management of the Company have been conducted in an open and transparent manner and in compliance with

the relevant laws, regulations and the Articles of Association. The Company has formulated and implemented encouragement policies such as Standards for Senior Management Share Option Scheme and Remuneration Standards for Senior Management. The selection and appointment of regional deputy general managers of the Company has been conducted either on the basis of competition among candidates who outnumber the positions or on the basis of a company-wide competition, and the policy of appointing the best candidate in the job competition has been implemented in the headquarters of the Company, which have improved the transparency of the work of human resources and formed an open, just and fair mechanism for selection and employment.

Disclosure of information and transparency: The Secretary to the Board of Directors of the Company and the Secretariat under his leadership are responsible for the disclosure of information and receiving visits by investors and answering their inquiries. In accordance with the provisions of the Company's Articles of Association and the regulatory rules of the place of listing, the Secretariat has disclosed true, accurate and complete information in a timely manner through various channels in order to ensure that all shareholders have equal opportunities to receive the information. In line with the spirit of accountability to all the shareholders, the Company has continued to enhance communication with its investors by various methods, responded in a timely manner as to issues raised by its investors, further strengthened and developed relationship with its investors, focused on the establishment and development of its relationship with the financial media, and enhanced coordination with the regulatory bodies and trading organisations. In addition, the Company has established a wide network of information collection to strictly monitor market information and developments and to report to the management of the Company in a timely manner any material or sensitive issues, the latest development of the capital market and feedback from the investors in relation to the Company. The Company has also provided investors with information disclosed to the public and documents for inspection, and has actively advertised through the media. The Company has also published its latest material development in a timely manner through news releases and its website where there is a specific section called "Investors", through which the investors may view information such as corporate information, various reports and announcements and information relating to road-show and business promotion.

In relation to the relationship between the CNPC Group and the Company: the CNPC Group, the controlling shareholder of the Company, has exercised its rights and interests as shareholder at shareholders' meetings in accordance with the laws. The CNPC Group has not interfered with the Company's decision-making, production or operation, nor has it prejudiced the lawful interests of the Company and other shareholders. The CNPC Group is independent of the Company in all aspects, including personnel deployment, assets, finance, organisation and business operations. At the time of listing of the Company, the Company and the CNPC Group had entered into a Non-competition Agreement which ensures that the CNPC Group will not engage either directly or indirectly in any business that is or may be in competition with any core business of the Company. The Board of Directors, the Supervisory Committee and the management team headed by the President of the Company also work independently.

Discharge of Duties by Independent Non-executive Directors: On the Board of Directors of the Company, there are three independent non-executive Directors who are not nominated by Shareholders elected in the shareholders' meeting. The three independent non-executive Directors are totally independent of the Company and its substantial shareholders, and do not hold any other position in the Company. The independent non-executive Directors have

conscientiously discharged their duties in accordance with the Company's Articles of Association and the relevant laws and regulations. They have actively attended meetings of the Board of Directors, participated in discussions leading to decisions on material issues, commented on the regulated running and operations of the Company based on their rich professional knowledge and experience, commented on whether the connected transactions have complied with the waiver requirements of the regulators in the place of listing and on their fairness and reasonableness, ensured that the connected transactions are fair and reasonable, reviewed and formed independent opinion on asset restructuring and connected transactions and others. Independent non-executive Directors have also participated in the work of the audit committee and the examination and remuneration committee. The independent non-executive Directors have made important contributions to the protection of the Company's interest and the lawful rights and interests of all the shareholders, as well as to the promotion of the development of the Company.