

THE COMPANY'S CORPORATE GOVERNANCE STRUCTURE

Pursuant to the PRC Company Law, the PRC Securities Law and relevant laws and regulations of the China Securities Regulatory Commission, during 2002, the Company improved its corporate governance structure, adopted a modern enterprise system and standardized operating mechanism. In compliance 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, the Directors considered and approved, at a board meeting held on June 17, 2002, the amended Articles of Association, Procedural Rules of Shareholders General Meetings, Procedural Rules of the Board of Directors and Procedural Rules of the Board of the Supervisory Committee. Such rules and proposed amendments to the Articles of Association comply with the relevant regulations of the China Securities Regulatory Commission and the stock exchanges on which the Company's securities are listed.

INDEPENDENT DIRECTORS AND THEIR DUTIES

The Company established an independent directors system according to the Listing Rules of Stock Exchange of Hong Kong and Standards of Administration Structure of Listed Companies. The Company's independent directors have carried out their duties faithfully, participated personally (or through authorization) in board meetings and rendered their independent advice.

During the reporting period, the independent directors considered and approved the connected transactions conducted in the first half of 2002 and the year of 2002. The independent directors have considered the audited financial report of 2002 and provided advice to the Board of Directors.

Pursuant to the requirement of the Opinion on Established an Independent System of Listed Companies, the Company has proposed a resolution to appoint an additional independent director at the 2002 Annual General Meeting.

RELATIONSHIP BETWEEN THE CONTROLLING SHAREHOLDER AND THE COMPANY

- Business:** The Company and its controlling shareholder are independent of each other in terms of their business. The Company's controlling shareholder shall not interfere with the Company's management decisions and operations.
- Personnel:** The Company and its controlling shareholder are independent of each other in terms of labor, personnel and wages administration and the Company has established a separate personnel department. None of the Company's senior managers holds any position in its controlling shareholder. All of the Company's senior managers are paid by the Company.
- Assets:** All of the assets relating to the Company's production and operations are assets belonging to the Company.

Organization: The Company has established an organizational structure independent of its controlling shareholder.

Finance: The Company has established an independent finance department and has its own separate bank account. It has an independent financial accounting system and financial administration system.

EVALUATION OF SENIOR MANAGEMENT

The Company evaluated its senior management mainly by reference to profits, operation, 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 rewards its senior management according to these results.