

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, the Company improved its corporate governance structure, adopted a modern enterprise system and standardized operating mechanism. The Company's corporate governance structure complied with the provisions of the China Securities Regulatory Commission concerning governance structure of listed companies.

INDEPENDENT DIRECTORS AND THEIR DUTIES

The Company established an independent directors system according to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Standards of Corporate Governance of Listed Companies. At present, the Board of the Company has four independent directors, each of them is familiar with the Company's business and operating status. They have carried out their duties faithfully, participated personally (or through authorization) in board meetings and rendered their independent advice.

During 2003, the independent directors considered and approved the connected transactions conducted in the first half of 2003 and the year of 2003.

AUDIT COMMITTEE

The audit committee and senior management of the Company considered the accounting principles used by the Group and discussed in detail matters relating to audit, internal supervisory control and financial statements, including the annual report for 2003.

RELATIONSHIP BETWEEN THE CONTROLLING SHAREHOLDER AND THE COMPANY

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| Business: | The Company and its controlling shareholder are independent of each other in terms of their businesses. The Company has a complete business and the ability to operate independently. |
| 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 management holds any position in the controlling shareholder of the Company or are paid by the Company. |
| Assets: | All of the assets relating to the Company's production and operations belong 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 accounting audit system and financial administration system. |

EVALUATION OF SENIOR MANAGEMENT

The Company evaluated its senior management mainly by reference to three types of targets: profitability, operational and control. Profitability target is based on gross profit and return on the Company's investment capital ratio. Operational target is based on processing cost per ton of oil, return on light oil and return on various products. Control target is based on the quality, safety and environmental standards and control over the number of employees. The Company rewards its senior management according to these combined results.