

## THE COMPANY'S CORPORATE GOVERNANCE

Pursuant to the PRC Company Law, the PRC Securities Law and relevant rules and regulations of CSRC, the Company improved its corporate governance structure, adopted a modern enterprise system and standardized its operations. The Company's corporate governance structure complied with the provisions issued by CSRC concerning governance structure of listed companies.

During the reporting period, the Company amended the Articles of Association of the Company and the Rules of Procedure for Meetings of the Board of Directors' and adopted the Rules of Procedure for Shareholders' General Meetings in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and regulations recently published by CSRC.

Pursuant to the Sarbanes-Oxley Act, the Company based on its existing management system has since 2004 established an internal control system. Using the five elements of Committee of Sponsoring Organizations of the Treadway Commission ("COSO") as framework, and integrating it with the Occupational Health Safety and Environment ("OSHE") so as to establish an internal control system in alignment with corporate governance and the actual management conditions of the Company.

The Board considers there is no material deviation of the Company in its corporate governance from the regulatory documentation requirements provided for listed companies in respect of corporate governance.

## INDEPENDENT DIRECTORS AND THEIR DUTIES

The Company established an independent directors system according to the Listing Rules 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 appointment of a representative) in board meetings and rendered their independent advice.

During 2004, the independent directors considered and approved the connected transactions conducted in the first half of 2004 and the year of 2004. The audit committee comprising the independent directors of the Company held a meeting at which the audit report for 2004 was considered and the views of the independent directors were submitted to the Board.

The Company has received from each independent director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Listing Rules and the Company still considers such director to be independent.

## INDEPENDENT DIRECTORS ATTENDING THE BOARD MEETING

Name	Number of the Board meetings requiring attendance during 2004	Number of times attending in person	Times of attending through a representative	Times of absence
Lü Yanfeng	5	3	2	—
Wang Peirong	5	3	2	—
Zhou Henglong	4	3	1	—
Fanny Li	4	2	2	—

## OBJECTION MATTERS OF INDEPENDENT DIRECTORS

During the reporting period, there were no matters on which objections raised by independent directors of the Company.

## AUDIT COMMITTEE

The audit committee, together with the senior management of the Company, reviewed the accounting principles adopted by the Group and discussed in detail matters relating to audit, internal supervisory control and financial statements, including the annual report for 2004.

## RELATIONSHIP BETWEEN THE CONTROLLING SHAREHOLDER AND THE COMPANY

- Business** : The Company is and its controlling shareholder are independent of each other in terms of their business. The Company has a complete business and the ability to operate independently. However, the business conducted by certain subsidiaries of the Company's controlling shareholder overlap with the business of the Company giving rise to a certain degree of competition between the Company and such entities.
- Personnel** : The Company is 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 is paid by them.
- 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, operation and control. Profitability target is based on gross profit and return on the Company's investment capital ratio. Operation 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.