

Corporate Governance

1. Shareholders' General Meeting

The Company held its 2004 annual general meeting on 17 June 2005 in strict compliance with the requirements for notices and convening procedures laid down in the relevant laws, regulations and the Company's Articles of Association. The meeting considered and approved, among others, the resolutions regarding the 2004 annual report and the resignation of Mr Zhao Jinxuan as the Executive Director of the Company's Fourth Board of Directors.

Details on the Company's 2004 annual general meeting were published in Hong Kong newspapers, South China Morning Post and Wen Wei Po, on 20 June 2005.

The Company also held an extraordinary general meeting on 18 February 2005. The meeting considered and approved the resolution regarding the sales agreement of naphtha entered into between the Company and Shanghai Secco Petrochemical Company Limited and the continuing connected transactions. Details on the extraordinary general meeting were published in Hong Kong newspapers, South China Morning Post and Wen Wei Po, on 21 February 2005.

2. Board of Directors

(1) The Composition of the Board

The Board comprises a total of 11 Directors, five of whom are Executive Directors, namely, Mr Sun Weijun (Chairman), Mr Zhan Juping (Deputy Chairman), Mr Xu Liqiao, Mr Sun Jianli, and Mr Yu Renming. The two Non-executive Directors are Ms Wang Lisheng and Mr Hu Weiqing. The four Independent Non-executive Directors are Mr Sun Yongsen, Mr Cen Kefa, Mr Li Linghong and Ms Qiu Yun. The composition of the Board fulfils the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(2) Board of Directors

The seventh meeting of the Fourth Board of Directors, which was held on 18 February 2005, considered, amended and approved, among others, resolutions regarding the "Rules of Procedures Governing the Board of Directors" and the adjustment to the Professional Committee of the Board of Directors.

The eighth meeting of the Fourth Board of Directors was held on 8 April 2005. The meeting considered and approved, among others, the resolution regarding the 2004 Annual Report. The above resolutions were submitted for approval in the 2004 annual general meeting.

(3) The Executive Committee of the Board

During the period under review, the Executive Committee of the Board convened five meetings, faithfully performing the duties as stipulated in the Company's Articles of Association and the "Rules of Procedures Governing the Board of Directors".

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(4) The Professional Committee of the Board

Pursuant to the newly amended “Rules of Procedures Governing the Board of Directors”, the Company changed the Professional Committee of the Board from Development Strategy Committee, Reform and Remuneration Committee and Audit Committee to Development and Reform Committee, Remuneration Committee and Audit Committee respectively at the board meeting held on 18 February 2005.

The first meeting of the Development and Reform Committee of the Fourth Board of Directors was held on 8 April 2005 to consider the proposal on the funding for the establishment of the 1 million tpa ethylene project.

The first meeting of the Remuneration Committee of the Fourth Board of Directors was held on 8 April 2005 to consider, among others, the Company’s remuneration plan and the proposal on the executive directors’ remuneration in 2005.

The meetings of the Audit Committee of the Fourth Board of Directors were held on 8 April 2005 and 19 August 2005 respectively, to consider, among others, the proposals on the Company’s “2004 Annual Financial Report” and “2005 Interim Financial Report”.

3. Changes in Senior Management

At the eighth meeting of the Fourth Board of Directors convened on 8 April 2005, the Board of Directors approved the resignation of Mr Zhao Jinxuan as the Deputy General Manager of the Company. At the annual general meeting convened on 17 June 2005, the shareholders approved the resignation of Mr Zhao as the Director of the Company. The Board of Directors expressed gratitude for his contributions made to the Company’s development.

4. Internal Control System

In accordance with the requirements of the “Code on Corporate Governance Practices” promulgated in 2004 by The Stock Exchange of Hong Kong Limited and the Company’s “Internal Control Handbook”, the Company made amendments to the “Rules of Procedures Governing the Board of Directors” and work details of the three Professional Committees, namely the Development and Reform Committee, Remuneration Committee and Audit Committee. The Company fully implemented and fine-tuned its internal control system, which involves the Company’s principal operating flow of managing production operation, and therefore further enhanced the regulation of corporate management conduct.

5. Investor Relations

The Company has actively and faithfully performed its duties regarding the disclosure of information and the work on investor relations. It has strictly abided by the principles of faith, regulation, transparency and timely disclosure of information. Through the various approaches and channels such as formulating results reports, issuing announcements, organising roadshows at home and abroad, using telephone conferencing, maintaining a corporate website, receiving investors and analysts, answering enquiries, the Company strengthens its communication and relationship with its investors.

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6. Interests of Directors and Supervisors

As at 30 June 2005, neither the Directors nor the Supervisors of the Company have any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

7. Securities Transactions by Directors

The Board of Directors has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” contained in Appendix 10 of the Listing Rules as the code of conduct for the Directors in securities transactions. The Directors are aware of the fact that, pursuant to the relevant laws and regulations of the PRC, only overseas investors in foreign countries and the regions of Hong Kong, Macau and Taiwan are eligible to purchase the Company’s H shares. At present, members of the Board of Directors are not allowed to hold or deal in the Company’s foreign shares and actually they did not do so.

8. Code on Corporate Governance Practices

During the period under review, the Company complied with all the code provisions listed in the “Code on Corporate Governance Practices” as set out in Appendix 14 of the Listing Rules and applicable to the Company during the period under review, except the provision involving the requirement for the roles of chairman and chief executive to be performed by different individuals.

Mr Sun Weijun was the Chairman and General Manager of the Company. After prudent consideration, the Board of Directors believes that this arrangement is in line with the situation of the Company and that Mr Sun is completely competent at performing the duties of Chairman and General Manager simultaneously. The carrying out of this arrangement evidenced that this arrangement had facilitated the Company’s business development. Therefore, the Board of Directors has not yet decided to assign different people to take up the respective roles of the Chairman and the General Manager in accordance with the requirements under the code provision A.2.1 of the Code on Corporate Governance Practices as set out in the Appendix 14 of the Listing Rules.

By Order of the Board
Sun Weijun
Chairman

19 August 2005, Ningbo, the PRC