Mr. Jiao Haikun
Chairman of the Board of Directors

Dear Shareholders,

I am pleased to present the operating results of the Company and its subsidiaries (together, the "Group") for the year ended 31st December, 2000.

PRC ECONOMY AND THE PRC PETROCHEMICAL INDUSTRY

In 2000, the production cost of the petrochemical industry increased as a result of higher international crude price, which also increased certain petrochemical product prices. According to a recent report of China Petroleum News, the sales of China National Petroleum Corporation ("CNPC"), the ultimate holding company of the Company, in 2000 was approximately RMB403.9 billion. The Group's total sales in 2000 accounted for 3.3% of that of CNPC.

OPERATING RESULTS

In accordance with IAS, the Group's turnover for the year ended 31st December, 2000 was approximately RMB13.4 billion (approximately HK$12.6 billion), representing an increase of 27% as compared with 1999. According to PRC accounting standards, the Group's income from principal operations was approximately RMB13.9 billion (approximately HK$13.1 billion), reflecting an increase of 26%, as compared with 1999. As a result of a write-off of certain loss-making equipment to improve product mix, and related severance payment in 2000, under IAS and PRC accounting standards, the Group suffered losses of RMB836 million and RMB879 million, respectively. Other losses were approximately RMB937 million and RMB908 million, respectively, under IAS and PRC accounting standards.

DIVIDENDS

Having carefully considered the financial position of the Company in 2000, the board of directors of the Company (the "Board") has resolved not to declare any final dividend for the year ended 31st December, 2000.

REVIEW OF OPERATIONS

Increasing operating cost driven by higher crude oil price

Changes in crude oil prices have a direct impact on the Company's operating results. In 2000, increases in international crude oil price resulted in higher crude oil prices in the domestic market. The operating cost of the Company increased throughout the year due to increases in the price of crude oil, which is the principal raw material of the Company. In 2000, the weighted average price of crude oil was RMB2,077 per tonne, representing an increase of approximately 62.5%, as compared with RMB1,278 per tonne in 1999. As a result of the increase in crude oil price, the Group's cost of crude oil consumed increased by 61.5%. The Group's total costs of production increased by 35.3%, as compared with 1999. A reduction in the Company's operating cost and administrative cost was not sufficient to offset an increase in the cost of raw materials.

Optimizing product mix and emphasizing safety production

The Company's key production facilities maintained steady operations in 2000. As a result of efficient planning, the Company not only completed its maintenance shutdown successfully ahead of schedule, but also kept its key production facilities operating at full capacity in accordance with the Company's production plan. Notwithstanding a shorter production period in 2000 due to the maintenance shutdown, the Company managed to increase production volume and improve product quality for all principal products of the Company, as compared with 1999.

In 2000, the Company processed 4.5 million tonnes of crude oil, approximately the same as that in 1999. In respect of the five segments of the Company, sales volume of petroleum products, petrochemical and organic chemical products, synthetic rubber products and dyestuff and dye intermediates increased by 6.3%, 0.87%, 3.2% and 3%, respectively, as compared with 1999. Sales volume for chemical fertilizer and inorganic chemical products decreased by 28.3% compared with 1999 as a result of an adjustment in product mix.

Focusing on reducing energy and materials consumption, improving the financial management system and marketing strategies

In 2000, the Company continued to focus on reducing energy and materials consumption. As a result, the loss ratio for crude oil decreased to 0.95% from 1.23% in 1999, the production ratio of ethylene increased to 33.13% from 32.98% in 1999, and the loss ratio for ethylene production decreased to 1.64% from 1.76%.

In order to improve financial management and marketing strategies, the Company focused on strict control of various expenses and production cost, and established a unified regional marketing system, which increased sales and sales ratio to 99.82%.

In 2000, weighted average prices and sales revenue of petroleum products, petrochemical and organic chemical products and synthetic rubber products increased by 49.2%, 34.4% and 23.9%, respectively, and 58.5%, 20.7% and 27.8%, respectively, as compared with 1999. Weighted average price for chemical fertilizers and inorganic chemical products were the same as in 1999. Sales revenue for such products decreased by 26.9% as a result of a reduction in production volume, as compared with 1999. Weighted average price and sales revenue for dyestuff and dye intermediates decreased by 6.9% and 3.8%, respectively.

Written-off of loss-making equipment in order to improve product mix

Taking into account the various technical upgrade programmes carried out in recent years, the operation conditions of existing production facilities and anticipated market demand, the Company wrote off certain production equipment utilizing outdated technology, which caused heavy pollution and whose products had poor market demand. These outdated equipment related to the production of certain chemical fertilizers, dyestuff and other chemical products. The original cost of fixed assets written-off amounted to approximately RMB1,290 million. The net book value of these fixed assets written-off amounted to approximately RMB597 million. Related severance payment amounted to approximately RMB297 million, and loss in inventories amounted to approximately RMB37 million.

Following the write-off of these production equipment, the business segments of the Company will be adjusted to four segments with dyestuff and dye intermediates combined into petrochemical and organic chemical products in 2001. After the adjustment, the new segments will comprise petroleum products, petrochemical and organic chemical products, synthetic rubber products, and chemical fertilizers and inorganic chemical products as compared with the original five segments of petroleum products, petrochemical and organic chemical products, synthetic rubber products, dyestuff and dye intermediates, chemical fertilizers and inorganic chemical products. In future, the Company will focus on the production of petroleum products, petrochemical and organic chemical products and synthetic rubber products.

FINANCIAL HIGHLIGHTS

According to the consolidated balance sheet of the Group prepared under PRC accounting standards, the total assets of the Group, as at 31st December, 2000, amounted to RMB17.71 billion, representing an increase of approximately 11.7%, as compared with the same in 1999. This increase was primarily due to increases in the Group's current assets and long term investment in 2000. Resulting from an adjustment of liabilities to ensure access to loan capital, the Group's long term liabilities in 2000 amounted to approximately RMB7.58 billion, an increase of approximately 24.7%, as compared with 1999. Shareholders' equity in 2000 was approximately RMB5.69 billion, a 6.3% decrease as compared with 1999, which was due to losses in the Company's annual results for 2000. Income from principal operations was RMB1.24 billion, representing a decrease of 21.0% as compared with 1999, which was due to an increase in the cost of sales. The Company recorded a loss of RMB879 million in 2000 compared with a net profit of RMB153 million in 1999, which was due to loss arising from the write-off of certain production equipment, related losses and increases in cost of sales.

INVESTMENTS

Upon receiving CSRC's approval, the Company issued 150 million additional A shares in January 2000 at an issue price of RMB3.3 per share. The proceeds raised from this issue amounted to RMB495 million and RMB485 million net of expenses. As at 31st December, 2000, RMB410 million was used to repay bank loans related to the Ethylene Project, which caused the financial expenses of the Company to decrease by RMB14.28 million, and RMB75 million was used as working capital. Total proceeds have been used in accordance with the Company's original use of proceeds plan.

In 2000, the Company completed its butanol and 2-ethylhexanol upgrade programme with a total investment of RMB700 million. The 30t/a synthetic ammonia upgrade programme is proceeding on schedule and as at 31st December, 2000, total investment in accordance with the progress of the project was RMB800 million.

Having reviewed the profitability and the financial conditions of the five units (polyethylene facility, ethylene glycol facility, phthalic anhydride facility, phenol acetone facility and ABS facility) of the Ethylene Plant owned by PetroChina Company Limited and the two units (acrylonitrile facility and advanced alcohol facility) owned by Jilin Chemical Group Company in 2000, the Board decided not to exercise the option to acquire the Additional Seven Facilities in 2001.

SUBSIDIARIES AND JOINT VENTURES

The profit after taxation of Jilin Winsway Chemical Industrial Store & Transport Ltd and Jilin Songmei Acetic Acid Company, two subsidiaries of the Company, in 2000 were RMB6.55 million and RMB34.8 million, respectively. Jilian (Jilin) Petrochemicals Limited, a joint venture of the Company, made a profit of RMB62.17 million. Jilin Jite FRP Company Limited was dissolved on 18th June, 2000. Jilin Xinghua Nitrochlorobenzene Company Limited ceased operations as a result of its loss-making operations.

ANTICIPATED DEVELOPMENT FOR 2001

The year 2001, the first year of a new era, is a critical year for strategic adjustment of the Company's operations structure. In order to realize the objectives of its strategic adjustment, increase its competitiveness and set a solid foundation for its future development, the Company intends to adopt the following measures:–

1. EXTENDING INTERNAL REFORMS AND IMPROVING EMPLOYEE PERFORMANCE SYSTEM

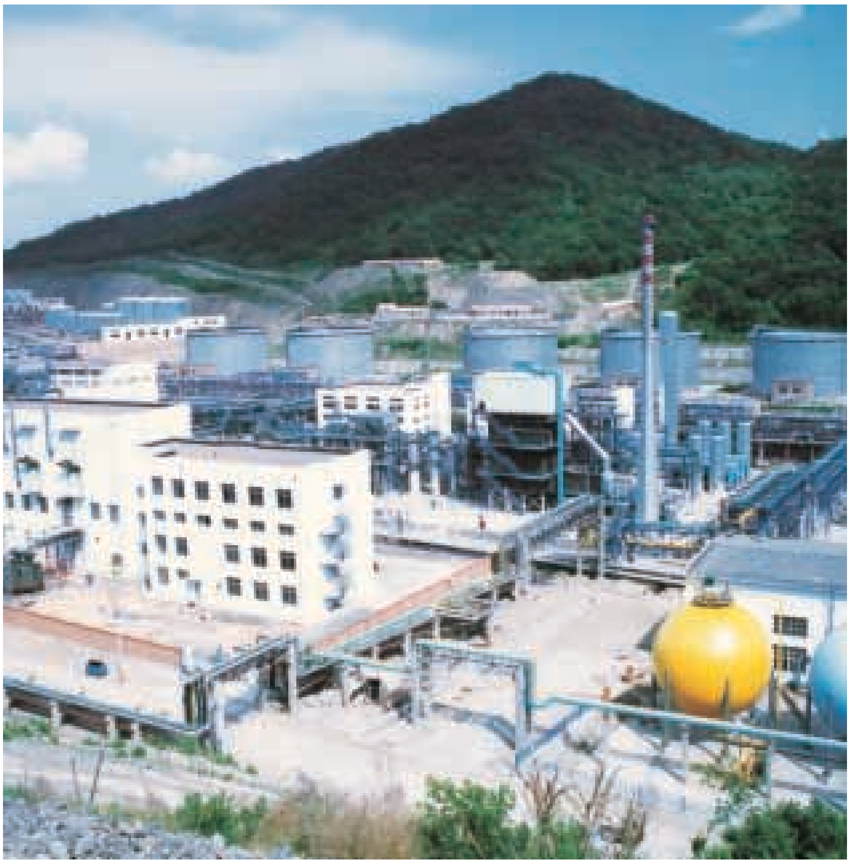
In order to increase profitability and competitiveness, the Company intends to further adjust and optimize its industrial structure and organizational structure to improve distribution of resources,according to market conditions and operational conditions of the Company. In addition to laying off redundant staff, the Company will adopt measures to remunerate its employees in accordance with profits generated by its operations. Employees will be paid according to their monthly production plan and quarterly performance results. The Company will establish efficient employee incentive systems to enhance the performance of its employees.

2. FOCUSING ON AN EXPANSION PROGRAMME BASED ON ADJUSTMENT OF PRODUCT MIX

In order to increase competitiveness and investment return ratio, the Company will focus on the following upgrade projects in addition to the expansion project of the Company's 300,000t/a synthetic ammonia production unit: expansion project of its 380,000t/a ethylene unit from 300,000t/a, expansion project of its 161,000t/a aromatic abstraction unit from 120,000t/a, expansion project of its 180,000 t/a styrene unit from 100,000 t/a, expansion project of its 1,400,000t/a catalytic cracking unit from 1,000,000t/a. With the exception of the catalytic cracking expansion project, which will be completed by 2002, the other three expansion projects are expected to be completed by 2001. Total estimated investment for these expansion projects is expected to amount to approximately RMB390 million.

3. FOCUSING ON SCIENTIFIC RESEARCH TO SPEED UP TECHNICAL INNOVATION

Focusing on the Company's strategic adjustment and technical upgrade, the Company will strive to ensure the completion of various scientific research programmes, such as the EPR lubricant modifier. The Company will also strive to cut production cost and to increase process technology through the various upgrade projects of existing production units. Furthermore, the Company will improve its information network and its e-business platform to increase operational efficiency.



4. **IMPROVING COST CONTROL, OPTIMIZING PRODUCTION MIX AND ENSURING SAFE PRODUCTION**

In order to increase the Company's competitiveness, the Company will further focus on its financial accounting, product marketing, supply of materials, and management of budget and project final accounts.

The Company will adjust its production plan in a timely manner according to market conditions to coordinate production and sales. In 2001, the Company plans to process 4.65 million tonnes of crude oil by ensuring steady and safe production to achieve an increase in its production volume.

The Company intends to establish a sales and marketing company, set up a system to monitor market conditions, and implement employee performance improvement and loyalty programmes to ensure a steady increase in the Company's sales revenue.

On behalf of the new board of directors, I would like to take this opportunity to convey my appreciation to all employees and shareholders of the Company for their continuing support in 2000.

By Order of the Board
Jiao Haikun
Chairman

Jilin, PRC
29 March, 2001

(Amounts in Renminbi have been converted into Hong Kong dollars and United States dollars at the respective rates of HK$1.00=RMB1.0606 and US$1.00=RMB8.2774, as announced by the People's Bank of China as at 31st December, 2000. No representation is made that the Renminbi amount could have been, or could be, converted into Hong Kong dollars or US dollars at that rate.)