

The Board is pleased to present this report and the audited financial statements of the Company and the Group for the year ended 31st December, 2000.

REPORT HIGHLIGHTS

The Board held three meetings during the report period and the following resolutions were passed:

1. On 11th April, 2000, the report of the Board, the company's financial statements, the Company's profit distribution plan for 1999, the remuneration of directors and supervisors of the Company for the year of 2000 and the re-appointment of the Company's auditors, the change of directors, the authorization of directors to exercise the power to issue domestic invested shares (A shares) or overseas listed foreign invested shares, the amendment to the Company's articles of association, the upgrade project of the synthetic ammonia production facility were considered and approved.
2. On 15th August, 2000, the Company's interim report for the first six months of 2000 was approved. No interim dividend was declared and no transfer from the common reserves to the Company's share capital during the period was made.
3. On 25th December, 2000, the technical upgrade project and write-off of certain fixed assets were approved.

FINAL DIVIDEND PAID IN 2000

A final dividend of RMB0.01 per share for the year ended 31st December, 1999 approved by the Company's 1999 Annual General Meeting was paid to all shareholders of the Company on 8th August, 2000.

PURCHASE, SALES AND REDEMPTION OF SHARES

For the year ended 31st December, 2000, there was no purchase, sales or redemption by the Company, or any of its subsidiaries, of the Company's shares.

SENIOR MANAGEMENT

Details of the Company's directors, supervisors and senior management are set out on pages 38 to 41 of the annual report.

EMPLOYEES

As of 31st December, 2000, the Company had approximately 23,364 employees, 46.5% of which were engaged in plant operations, 5.2% were classified as technological employees, 9.3% were classified as administrative employees, and 13.4% were graduates of colleges or universities. There were 13,187 retirees in the Company at the end of 2000.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the Company's directors and supervisors are set out on page 41.

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THE HIGHEST PAID INDIVIDUALS

During the year ended 31st December, 2000, the five highest paid individuals were all directors of the Company.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the executive directors and supervisors of the Company has entered into a service agreement with the Company for an initial term of three years. No other service contracts exist or have been proposed between the Company or any of its subsidiaries and any of the directors or supervisors. No director or supervisor has entered into any service contract with the Company which may not be terminated by the Company within one year without payment other than statutory compensation.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

Mr. Venantius Tan, a non-executive director, is a partner of Morrison & Foerster, the Company's international and US legal adviser. Mr. Wang Junfeng, a non-executive director, is a partner of King & Wood, the Company's PRC legal adviser. The above-mentioned advisers received and will continue to receive legal fees in connection with their representation of the Company's corporate affairs.

Save as above, none of the directors or supervisors of the Company had a material interest in any contract of significance to which the Company or any of its subsidiaries was a party during the year ended 31st December, 2000.

GROUP RESULTS AND ACTIVITIES

The Company's principal business consists of the production and sale of petroleum products, petrochemical and organic chemical products, dyestuff and dye intermediates, synthetic rubber products, chemical fertilizer and inorganic chemical products. The results of the Group for the year ended 31st December, 2000, and the financial position of the Company and the Group as at that date determined under IAS and PRC accounting standards are set out on pages 48 to 93 and pages 99 to 155, respectively.

SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31st December, 2000 are set out in note 13 to the financial statements prepared under IAS.

JOINT VENTURES

Particulars of the joint ventures of the Company as at 31st December, 2000 are set out in note 14 to the financial statements prepared under IAS.

SUMMARY FINANCIAL INFORMATION

A summary of the results of the Group for each of the five years ended 31st December, 2000 and summary of the assets and liabilities of the Group for each of the two years ended 31st December, 1999 and 2000 are set out on pages 156 to 157.

SEGMENT INFORMATION

The principal activities of the Group are conducted in the PRC, and domestic sales accounted for approximately 99.5% of the Group's turnover in 2000, and the remaining 0.5% was from exports.

An analysis of the Group's turnover and contribution to operating profit by principal activities is set out in note 32 to the financial statements prepared under IAS.

Proposed Profit Appropriations

The profit appropriation of the Company for the year ended 31st December, 2000, as proposed by the Board is as follows:

	PRC Accounting Standards RMB'000	International Accounting Standards RMB'000
Net Profit/(Loss)	(878,766)	(902,985)
<i>Add:</i> Retained profits as at 1st January, 2000	17,686	248,243
Transfer from revaluation reserve to retained profits on the realization of revaluation reserve*	—	4,072
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Distributable (loss)/profits	(861,080)	(650,670)
<i>Less:</i> Statutory common reserve	—	—
Statutory public welfare fund	—	—
	<hr/>	<hr/>
Distributable (loss)/profits for shareholders	(861,080)	(650,670)
<i>Less:</i> Discretionary common reserve	—	70,696
Dividends paid	—	35,611
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Retained (loss)/profits as at 31st December, 2000	<u>(861,080)</u>	<u>(756,977)</u>

The proposed profit appropriation will be presented to the 2000 Annual General Meeting, to be held on 19 June, 2001, for approval by the Company's shareholders.

DIVIDENDS

Having regard to the Company's financial position in the year of 2000, the board of directors has resolved not to declare any final dividend for 2000, or to transfer from common reserves to the Company's share capital.

PROFIT DISTRIBUTION POLICY FOR 2001

Due to the losses in 2000, the Company does not intend to distribute profit, if any, for 2001; any profit for 2001 will first be used to compensate the loss in 2000. If there is any remaining profit after such compensation, the Company intends to carry forward the remaining profits as retained earnings to the year 2002.

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COMPLIANCE WITH CODE OF BEST PRACTICE

During 2000, to the knowledge of the Board, the Company has complied with the Code of Best Practice which incorporates items set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PRE-EMPTIVE RIGHTS

According to the articles of association of the Company and the laws of the PRC, no pre-emptive rights exist that require the Company to offer new shares to its existing shareholders in proportion to their shareholding.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and the Group as at 31st December, 2000 are set out in notes 21 to 23 to the financial statements prepared under IAS.

INTEREST CAPITALISED

Interest capitalised as at 31st December, 2000 for the Group was RMB42.83 million.

FIXED ASSETS

Movements of fixed assets of the Company and the Group for the year ended 31st December, 2000 are summarized in note 11 to the financial statements prepared under IAS.

RESERVES

Details of movements in reserves of the Company and the Group for the year ended 31st December, 2000 and details of distributable reserves of the Company as at 31st December, 2000 are set out in note 28 to the financial statements prepared under IAS.

STATUTORY PUBLIC WELFARE FUND

Details of the nature, application and movements of the fund and the basis of calculation relating to the statutory public welfare fund, including the percentage and profit figures adopted, are set out in note 28 to the financial statements prepared under IAS.

EMPLOYEES' PENSION SCHEME

Details of the Company's employees' pension scheme are set out in note 2 to the financial statements prepared under IAS.

MAJOR SUPPLIERS AND CUSTOMERS

In 2000, the cost of raw materials purchased from the Group's largest and five largest suppliers (excluding related parties) accounted for 0.3% and 1.2%, respectively, of the Group's total purchases. Total sales income from the largest and five largest customers (excluding related parties) accounted for 1.2% and 5.1%, respectively, of the Group's turnover in 2000.

None of the directors and supervisors of the Company and their associates nor any shareholder (holding 5.0% or more of the Company's registered share capital) had any interest in any of the above-mentioned suppliers and customers.

MATERIAL CONTRACTS

The Group did not enter into any material contracts in 2000.

CONNECTED TRANSACTIONS

The directors of the Company (including independent non-executive directors of the Company) have reviewed the connected transactions set out in note 9 to the financial statements prepared under IAS, and confirmed that:–

- i. the transactions have been entered into by the Group in the ordinary and usual course of its business;
- ii. the transactions have been entered into either (A) on normal commercial terms (with reference to transactions of a similar nature made by similar entities within the PRC) or (B) where there was no comparison available, on terms that were fair and reasonable so far as the shareholders of the Company are concerned;
- iii. the transactions have been entered into either (A) in accordance with the terms of the agreement governing such transactions or (B) where there is no such agreement, on terms no less favourable than those available to third parties;
- iv. the purchase of crude oil from Daqing Oilfield and Jilin Oilfield (which are wholly-owned by CNPC) and the sale of gasoline and diesel to PetroChina Jilin Sales Company ("CPSC") have been:–
 - (A) conducted on normal commercial terms on an arm's length basis in the ordinary and usual course of business of the Company;
 - (B) of a total value not exceeding the relevant annual caps set forth below for the year ended 31st December, 2000:–

Connected transactions	Annual cap as percentage to turnover
Purchase of crude oil from the Oilfields	65.0%
Annual caps as percentage to turnover	
Sale of gasoline to CPSC	30.0%
Sale of diesel oil to CPSC	22.0%

- (C) fair and reasonable so far as the shareholders of the Company are concerned;
- (D) entered into in accordance with the applicable State prices and on terms no less favourable than terms available from independent third parties; and

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- v. that the annual caps stated in (iv)(B) above, will be the maximum limit for the relevant connected transactions in each financial year until 31st December, 2001. Thereafter, the annual caps will be reviewed and approved by the independent shareholders in general meeting for each subsequent three year period;
- vi. that the Main Transactions (as described below) and the Other Transactions (as described below) between the Company and CNPC are:–
- (A) conducted on normal commercial terms in the ordinary and usual course of business of the Company;
- (B) of a total value in 2000 not exceeding the relevant annual caps set forth below:–

Type of transaction	Annual caps as percentages of turnover
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The Main Transactions

Purchase of materials	13%
Sales of petrochemical products	21%

The Other Transactions

Purchase of materials	4%
Sale of petrochemical products, synthetic rubber products, dyestuff and dye intermediates	11%

- (C) fair and reasonable so far as the independent shareholders are concerned; and
- (D) entered into in accordance with the relevant prevailing market prices and, in the case of liquid ammonia, at an agreed price which is not more than 5 per cent. above or below the relevant prevailing market price, and on terms no less favourable than terms available from independent third parties;
- vii. that the annual caps stated in paragraph (vi)(B) above, will remain the maximum levels for the relevant connected transactions in each financial year ending on or before 31st December, 2001. Thereafter, the annual caps will be reviewed and approved by the independent shareholders in general meeting for each subsequent three-year period.

All the connected transactions have been reviewed by the Company's independent auditors.

TRUST DEPOSITS OR TRUST LOANS

During 2000, the Company had no trust deposits or trust loans and the Company did not experience any difficulties in making withdrawal from financial institutions.

HOUSING REFORMS

The Company had previously disclosed details of its employee housing reform programme in its 1998 annual report. The capital expenditure of RMB84.09 million associated with the housing reform reimbursed by the Company was in respect of the period commencing 1st January, 1998. According to the regulations in Caiqi [2000] No. 295, The Notice On Accounting Treatment Method of Housing Reforms Initiated in Enterprises issued by Ministry of Finance of the PRC, the losses arising therefrom should be dealt with in retained earnings as at 1st January, 2000 or appropriated the unamortised portion to the welfare fund, statutory surplus reserve and capital reserve upon approval of the board of directors. Details of accounting treatment of deferred staff cost under PRC accounting standards are set out in the note II.13 "other long term assets" to the financial statements.

The staff cost associated with the Company's employee housing reform programme will be amortised on a straight-line basis to the profit and loss account over a 20 year period which is the remaining expected average employment period of the relevant employees in accordance with IAS. The total amount amortised from 1st January, 1998 to 31st December, 2000 was approximately RMB12.61 million, of which the amount amortised in 2000 was approximately RMB4.2 million. As at 31st December, 2000, the remaining deferred staff cost was approximately RMB71.48 million. In the opinion of the board of directors of the Company, if the aforesaid deferred staff cost had been completely written off in 2000, the consolidated net assets of the Company as at 31st December, 2000 would have been reduced by approximately RMB71.48 million. Other than the employees' housing reform programme mentioned above, the Company had not implemented any other plans in relation to the employees' housing in 2000.

IMPACT OF THE NOTICE ON CORRECTION OF CERTAIN LOCAL TAX PREPAYMENT AND REFUND METHODS ON THE COMPANY'S OPERATION

The Board considers that the Notice on Correction of Certain Local Tax Prepayment and Refund Methods recently issued by the State Council had no impact on the Company's results.

AUDITORS

At the Annual General Meeting held on 15th June, 2000, Ernst & Young (Certified Public Accountants in Hong Kong) and Ernst & Young Hua Ming (Registered Accountants in the PRC) were re-appointed as the Company's international and domestic auditors, respectively, until the next Annual General Meeting to be held in 2001. A resolution to re-appoint Ernst & Young and Ernst & Young Hua Ming as the Company's international and domestic auditors, respectively, for the period up to the date of the 2001 Annual General Meeting will be proposed at the 2000 Annual General Meeting of the Company.

On behalf of the Board

Jiao Haikun
Chairman

Jilin, PRC
29 March, 2001