The Board hereby presents this report and the audited financial statements of the Company and the Group for the year ended December 31, 2001.

REPORT HIGHLIGHTS

1. Operating Results

The Group's principal business consists of the production and sale of petroleum products, petrochemical and organic chemical products, synthetic rubber, chemical fertilizer and inorganic chemical products. The Group's business is conducted in the PRC and most of its products are sold in the domestic market.

In 2001, the Company's business was adversely affected by the severe market conditions and controls on crude oil processing volume imposed by the PRC government, which resulted in a decrease in the Group's turnover and a significant loss was recorded. In accordance with PRC GAAP, the Group's income from principal operations for the year ended December 31, 2001 was approximately RMB11,914.08 million, representing a decrease of 14% as compared with 2000. According to IAS, the Group's turnover was approximately RMB12,518.53 million, reflecting a decrease of 6.6%, as compared with 2000. As a result of the significant decrease in the product prices and accounting provisions during the year, under IAS and PRC GAAP, the Group suffered losses of RMB1,817.37 million and RMB1,803.02 million, respectively, including accounting provisions of approximately RMB770.78 million.

In 2001, under PRC GAAP, income from petroleum products was approximately RMB5,557.02 million, accounting for about 46.64% of the Group's total income. The cost of goods sold for petroleum products was approximately RMB4,934.01 million and the gross profit ratio was 11.21%. Income from petrochemical and organical chemical products was approximately RMB5,421.71 million, accounting for about 45.50% of the Group's total income. The cost of goods sold of petrochemical and organic chemical products was approximately RMB5,368.52 million and the gross profit ratio was about 1.0%.

2. Operations and Results of the Subsidiaries and Joint Ventures of the Company

1) The Company's major subsidiaries are:

Name of subsidiary	Nature	Principal products and activities	Registered capital *(RMB'000)*	As at December 31, 2001 Total assets *(RMB'000)*	As at December 31, 2001 Net profit *(RMB'000)*
Jilin Winsway Chemical Industrial Store & Transport Ltd	Sino-foreign equity joint venture	Provision of transportation services for chemical products	51,454	60,933	4,378
Jilin City Songmei Acetic Acid Co. Ltd	Sino-foreign cooperative enterprise	Manufacturing of acetic acid	72,000	239,956	2,857
Jilin Jihua Jianxiu Co. Ltd	Corporation	Construction of piping and pressurized containers	45,200	74,941	41

2) No joint venture contributed more than 10% to the Company's net loss in 2001.

3. Major Suppliers and Customers

As at December 31, 2001, the aggregate amount of purchases from the five largest suppliers of the Company accounted for about 94% of the Company's total amount of purchases, of which the largest supplier accounted for about 83% of the total purchase amount. The aggregate sales revenue from the Company's five largest customers accounted for about 65% of the Company's total sales revenue for the year, of which the largest customer represented about 53% of the total sales revenue for the year.

4. Problems and difficulties encountered in operations and proposed solutions

In 2001, the Company's operations faced great challenges due to the weakened demand for petrochemical products worldwide and the continued decline in the prices of petrochemical products, in both the international and domestic markets. The Group's crude oil cost price decreased by 12.9% compared with 2000 as a result of significant decrease in the international crude oil price in the second half of 2001. As a result, the weighted average prices of gasoline and diesel oil of the Group decreased by 10.7% and 9.2%, respectively, as compared with 2000.

During the year, the weighted average price of petrochemical and organic chemical products and synthetic rubber products decreased by 22.4% and 6.1%, respectively, as compared with 2000.

Although the Company's crude oil cost price decreased, it was not adequate to offset the adverse impact on the Company's operating results caused by the decline in petrochemical product price and petroleum price.

Facing a weakening market for petrochemical products, the Company put forward the following measures to minimise the adverse impact on its business.

1) Maintaining steady operation and high utilisation rate, improving environmental protection and quality management

During the year, key production facilities were operated at full utilisation rate and the volume of major products increased significantly. The Company adopted the Health, Safety and Environment management system to ensure steady operations of the Company's production facilities.

The Company strengthened environmental protection and the Group's operating activities have met the environmental protection requirements of the PRC government. At the same time, the Company has also strengthened quality controls. All of the Company's products met operating standards and all the samples selected by the Company's product quality supervision department for examination met its standards.

2) Optimising production, improving distribution of resources

During the year, the Company optimised raw materials and product structure in accordance with market demand. As a result, the purchase of naphtha increased by 179,000 tonnes compared to 2000, the loss ratio from processing of crude oil decreased by 0.05% to 0.9% as compared to 2000, the production ratio of ethylene increased by 0.04% to 33.15%, the general production ratio of petroleum products increased by 0.35% to 91.69%, general crude consumption per tonne decreased by 34.07 kg to 674.71 kg. In line with the technical capabilities of the Company's production facilities and the PRC accession to World Trade Organisation ("WTO"), the Company adjusted its supply of crude oil and processed about 150,000 tonnes of crude oil from Russia during 2001.

3) Improving product structure, promoting technology improvement

During the year, the Company adjusted its product structure and increased the production volume of certain high value-added products in accordance with market demand. Sales volume of ethanol, octanol and diesel oil increased by 26.8%, 40.4% and 10.4%, respectively, as compared to 2000. The Company also focused on scientific research and technological upgrade for key products with stronger market demand. The new types of EPR rubber, including J-0050, J-2070, J-3080 and J-3092E, were developed and put into production, as a result of which loss resulting from the EPR plant decreased significantly during the year.

4) Strengthening cost control, reducing product cost

During the year, the Company strengthened cost control and financial analysis to improve its management system through control of budget and cash flow. The Company adopted measures to relate profit with target cost resulting in reduction in consumption and cost control.

5) Strengthening marketing management, improving purchasing system

During the year, the Company established a marketing company and further improved its regional sales network. A price management system was set up to take advantage of the market opportunities. Through strengthening the management of materials purchasing, regulating purchases, optimising purchase network, adopting measures for purchase through the bidding process, items purchased through the bidding process accounted for about 70% of the total items purchased by the Company.

6) Strengthening funds management, reducing financial expenses

During the year, the Company further strengthened funds management to increase the utilisation rate and reduce the tie up of funds. The Company also reduced its debt expenses as a result of which interest expense during the year decreased by RMB42.24 million.

According to relevant regulations of enterprise accounting rules, the Company decided to transfer RMB770.78 million from reserve for bad debts and inventory loss to offset against the Company's potential future risk.

Following a detailed analysis of the actual operating conditions of its customers and analysis of the Company's inventories, the Company decided to provide RMB599.61 million and RMB171.17 million, respectively, for reserve for bad debts and inventory losses. The Board considered that the above-mentioned accounting provisions were in conformity with the actual operating conditions of the Company.

INVESTMENTS

In 2001, the Company completed its expansion projects for its aromatic abstraction unit and 300,000t/a ethylene unit. The expansion projects for the catalytic cracking unit and styrene unit are expected to be completed in 2002. The expansion project of the 300,000t/a synthetic ammonia production unit will be completed by 2003 for the optimisation of its raw material process. The total investment was RMB830.75 million as at December 31, 2001.

In 2001, the Additional Seven Facilities of the 300,000t/a ethylene project (polyethylene, ethylene glycol, phthalic anhydride, phenol acetone, ABS, acrylonitrile and advanced alcohol units), of which the polyethylene, ethylene glycol, phthalic anhydride, phenol acetone, ABS units were transferred to PetroChina, and the acrylonitrile and advanced alcohol units were retained by JCGC, did not generate satisfactory results. The Company did not elect to exercise its option to purchase these units during the year. The term of the option agreement of the ethylene project will expire on December 31, 2002. The Board has no plan to exercise the option during 2002 after considering the profit capability and financial conditions of the seven facilities.

ANALYSIS OF FINANCIAL CONDITIONS

As at December 31, 2001, according to the consolidated balance sheet prepared under PRC GAAP, the Company's total assets was valued at RMB14,531.95 million, representing a decrease of 18% as compared with 2000. The decrease in total assets was primarily due to a decrease in accounts receivable and other accounting provisions. Long-term liabilities was RMB5,985.56 million, representing a decrease of 21% as compared with 2000. This was primarily due to the Company's repayment of loans. Shareholders' equity was RMB3,881.74 million, representing a decrease of 32% as compared with 2000. This was primarily due to the Company's loss recorded during the year. Profit from principal operations was RMB282.58 million, representing a decrease of 78% as compared with 2000. This was primarily due to a decrease in income from principal operations. Net loss was RMB1,803.02 million, representing an increase of RMB924.26 million as compared with 2000. This was primarily due to decrease in the product prices and transfer of accounting provisions.

PROSPECTS

The year 2002 will be a critical year for the future development of the Company, during which the Company has to prepare itself to face many great challenges.

Notwithstanding signs of a global economy recovery at the beginning of 2002, the tariff cut and tariff reduction measures following the first year of WTO accession are expected to bring tougher competition to the domestic petrochemical industry. The Company expects petrochemical product prices to remain depressed.

The Company expects to continue to face difficulties in its business during 2002, taking into consideration its small production scale, non-optimal product mix, higher costs and shortage of processing capacities as compared with international and domestic competitors.

There is, however, opportunities for development for the Company as well in 2002.

Firstly, continuous implementation of positive fiscal policies and a stable currency policy by the PRC government and the expected GDP growth of 7% in 2002 will provide favourable condition for the domestic petroleum and petrochemical industry. The regulation of the domestic market, the control of smuggling and the regulation of imports by the PRC government will provide a sound market environment for the Company.

Secondly, the Company's production facilities will operate better following maintenances carried out to its facilities that were shutdown. The expansion project of the 300,000t/a ethylene unit will be completed and put into production. All these developments will provide the Company with better conditions for 2002. In order to further strengthen cost control, increase profitability and reduce competition, the Company will put forward the following measures in the year to come:

1. Focusing on the scheduled major maintenance that is carried out once every two years to ensure steady and safe operations of its plants. The Company expects to process 4.3 million tonnes of crude oil, including the processing of 450,000 tonnes of crude oil from Russia, and 510,000 tonnes of ethylene product.

2. Strengthening controls over purchasing of materials and marketing of products to adapt itself to the new environment. In line with PRC accession to WTO, the Company will further reduce cost through promoting e-business and centralised purchasing. The Company will improve its marketing information system to increase sales volume and adapt to changes in market demand.

3. Adjusting product mix. The Company will adjust its product mix completely through optimising resources and production units according to market demand and the Company's future plan. The Company will seek to increase profitability through optimising resources, processing scheme and public utilities.

4. Focusing on consumption control to meet operating standards. The Company will further focus on its consumption control and optimisation of public utilities to reduce the loss ratio of ethylene and increase overall profitability.

5. Strengthening funds management to reduce administration cost. The Company will focus on funds management to reduce inventory and accounts receivable . The Company will also focus on the management of capital expenditure and imports of technology and equipment through the control of budget.

6. Focusing on upgrade programme. The Company will complete expansion projects for its styrene unit, catalytic cracking unit, the quality upgrade programme of diesel oil, and achieve optimisation of raw materials consumed by its synthetic ammonia unit. The Company will strengthen quality, procedure, expense safety control to ensure that the commencement date of production is met and contribute more profit to the Company.

7. Speeding up technical innovation. The Company will focus on scientific research and strive to ensure the completion of various innovation programmes, such as the EPR serial products.

DETAILS OF BOARD MEETINGS CONVENED IN 2001

The Board held nine board meetings during 2001 and the following resolutions were passed:

1. On January 11, 2001, the new Board and the amendment to the Articles of Association of the Company were considered and approved.

2. On February 8, 2001, the establishment of Jilin Lianli Co. Ltd, Jilin Jihua Jianxiu Co. Ltd, and the Marketing Company of Jilin Chemical Industrial Company Limited were approved.

3. On February 28, 2001, Messrs Jiao Haikun and Xu Fengli were elected as the chairman and deputy chairman of the new Board, respectively; Mr. Shi Jianxun was appointed as the general manager; Messrs Zhang Xingfu, Ni Muhua, Lan Yunsheng, Jiang Jixiang, and Li Chongjie were appointed as deputy general managers; Mr. Lan Yunsheng and Ms. Zhang Liyan were appointed as the chief financial supervisor and deputy chief accountant of the Company, respectively; and Ms. Zhang Liyan was appointed as the Company secretary. The regulation of the Board was approved, the establishment of an audit committee, distributing committee, developing committee and financing committee were approved.

4. On March 29, 2001, the report of the Board, the company's financial statements, the Company's profit distribution plan for 2000, the remuneration of directors and supervisors of the Company for the year of 2001 and the re-appointments of Ernst & Young Huaming and Ernst & Young as the Company's domestic and international auditors in 2001 were considered and approved.

5. On June 19, 2001, the temporary appointment of PricewaterhouseCoopers (certified public accountants in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Company Limited (registered accountants in the PRC) as the Company's international and domestic auditors was approved.

6. On July 26, 2001, the profit warning announcement for the first half of 2001 was considered and approved.

7. On August 16, 2001, the Company's interim report for the first six months of 2001 was approved.

8. On August 27, 2001, an explanation of the loss for the first six months of 2001 was approved in written form and filed with CSRC.

9. On November 13, 2001, the purchase of crude oil and other raw materials from the Company's controlling shareholder, the sale of gasoline, diesel oil, petrochemical products and other chemical products, the amendment to the Articles of Association of the Company, and the application to the Company's controlling shareholder for the grant of production loans were approved.

PURCHASE, SALES AND REDEMPTION OF SHARES

For the year ended December 31, 2001, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Shares of the Company.

SENIOR MANAGEMENT

Details of the Company's directors, supervisors and senior management are set out on pages 14 to 16 of the annual report.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the Company's directors and supervisors are set out on pages 17.

THE HIGHEST PAID INDIVIDUALS

During the year ended December 31, 2001, the five highest paid individuals were all directors and supervisors 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 the US legal adviser. Mr. Wang Junfeng, a non-executive director, is a partner of King & Wood, the Company's PRC legal adviser. The above-metioned 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 at the end of the year or at any time during the year.

GROUP RESULTS AND ACTIVITIES

The Group's principal business consists of the production and sale of petroleum products, petrochemical and organic chemical products, chemical fertilizer and inorganic chemical products, and synthetic rubber products. The results of the Group for the year ended December 31, 2001, and the financial position of the Company and the Group as at that date determined in accordance with IAS and PRC GAAP are set out on pages 46 to 87 and pages 88 to 131 respectively.

SUBSIDIARIES

Particulars of the subsidiaries of the Company as at December 31, 2001 are set out in note 14 to the financial statements prepared in accordance with IAS.

JOINT VENTURES

Particulars of the joint ventures of the Company as at December 31, 2001 are set out in note 15 to the financial statements prepared in accordance with IAS.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results of the Group for each of the five years ended December 31, 2001 and summary of the assets and liabilities of the Group for 2000 and 2001 are set out on pages 136 to 137.

SEGMENT INFORMATION

The principal activities of the Group are conducted in the PRC. An analysis of the Group's turnover and contribution to operating profit by principal activities is set out in note 33 to the financial statements prepared in accordance with IAS.

Proposed Profit Appropriation or Proposed Transfer from Common Reserves to Share Capital

Under PRC GAAP, the aggregate loss as at December 31, 2001 was RMB2,666.06 million. The net loss for the year ended December 31, 2001 was RMB1,804.98 million and the accumulated loss as at January 1, 2001 was RMB861.08 million. Under IAS, the aggregate loss as at December 31, 2001 was RMB2,580.98 million. The net loss as at December 31, 2001 was RMB1,824.98 million. As loss was incurred under both accounting standards, the Company does not have profit to declare dividend for the year ended December 31, 2001. Having regard to the Company's financial position in the year of 2001 the Board has resolved not to declare any final dividend for 2001 or to transfer from common reserves to the Company's share capital.

The above proposal will be presented to the Company's shareholders for approval at the 2001 Annual General meeting to be held on June 17, 2002.

COMPLIANCE WITH CODE OF BEST PRACTICE

During 2001, 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 December 31, 2001 are set out in notes 24 to the financial statements prepared under IAS.

INTEREST CAPITALISED

Interest capitalised as at December 31, 2001 for the Group was RMB34.74 million.

FIXED ASSETS

Movements of fixed assets of the Company and the Group for the year ended December 31, 2001 are set out in note 13 to the financial statements prepared under IAS.

RESERVES

Details of movements in reserves of the Company and the Group for the year ended December 31, 2001 and details of distributable reserves of the Company as at December 31, 2001 are set out in note 26 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 26 to the financial statements prepared under IAS.

EMPLOYEES' PENSION SCHEME

Details of the Group's employees' pension scheme are set out in the note 5 to the financial statements prepared under IAS.

MAJOR SUPPLIERS AND CUSTOMERS

In 2001, the cost of raw materials purchased from the Group's largest and five largest suppliers accounted for 94% and 83%, respectively, of the Group's total purchases. Total sales income from the largest and five largest customers accounted for 65% and 53%, respectively, of the Group's turnover in 2001.

None of the directors, supervisors of the Company, their associates or 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.

CONNECTED TRANSACTIONS

The directors of the Company (including independent non-executive directors of the Company) have reviewed the connected transactions set out in note 32 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 (by 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 favorable than those available to third parties;

iv. the purchase of crude oil from Daqing Oilfield and Jilin Oilfield (which are wholly-owned by PetroChina) 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 December 31, 2001:–

Connected transactions	**Annual cap as percentage to turnover**
Purchase of crude oil from the Oilfields	65%
Sale of gasoline to CPSC	30%
Sale of diesel oil to CPSC	22%

(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

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 December 31, 2001. Thereafter, the annual caps will be reviewed and approved by the independent shareholders at a shareholders' general meeting for each subsequent three year period.

vi. that the main transactions and the other transactions between the Company and CNPC are:–

(A) conducted on normal commercial terms in the ordinary and usual course of business of the Company;

(B) during the financial year of a total value not exceeding the relevant annual caps set forth below:–

Type of transaction	**Annual caps as percentages of turnover**
main transactions	
Purchase of Materials	13%
Sales of Petrochemical Products	21%
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 percents 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 December 31, 2001. Thereafter, the annual caps will be reviewed and approved by the Indenpendent 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 2001, the Company had no trust deposits or trust loans and the Company did not experience any difficulties in making withdrawals from financial institutions.

HOUSING REFORMS

The Company disclosed details of its employee housing reform programme in its 1998 annual report. Since 1998, the Company has incurred a loss of RMB84.09 million due to the reimbursement offered to its employees to purchase staff accommodations. 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 employee in accordance with IAS. Because of recently signed service contracts with the employees, their employment period has been changed to between three to ten years. The remaining average employment period will also be changed to between three to ten years accordingly in the financial statements.

From January 1, 1998 to December 31, 2001, the total amount amortised was RMB21.93 million. The amount amortized in the year of 2001 was RMB9.32 million. As at December 31, 2001, the above remaining deferred staff cost was approximately RMB62.16 million. In the opinion of the Board, if the aforesaid deferred staff cost was completely written off in the year of 2001, the net assets of the Company as at December 31, 2001 would be reduced by approximately RMB62.16 million. Other than the employees' housing reform programme mentioned above, the Company has not implemented any employees' housing plan.

On behalf of the Board
Xu Fengli
Deputy Chairman

Jilin, PRC
April 22, 2002