Mr. Yu Li
Chairman of the Board of Directors

The Board is pleased to present this report and the audited financial statements of the Company and the Group for the year ended December 31, 2002.

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. The Group's business is conducted in the PRC and most of its products are sold in the domestic market.

In 2002, the Company carried out practical and effective measures to reduce its losses and minimise the adverse impact of increased competition in both domestic and international markets and China's entry into WTO on its business.

In accordance with PRC GAAP, the Group's income from principal operations for the year ended December 31, 2002 was approximately RMB12,319.14 million, representing an increase of 3.40% as compared with 2001. According to IFRS, the Group's turnover was approximately RMB13,138.39 million, representing an increase of 5.0% as compared with 2001. Under PRC GAAP and IFRS, the Group recorded losses of RMB1,025.73 million and RMB1,023.10 million, respectively, reducing losses by approximately RMB777.29 million and RMB794.27 million, respectively, compared to losses recorded in 2001. After non-operating loss/profit, the net loss was RMB245.37 million under PRC GAAP.

In 2002, under PRC GAAP, income from petroleum products was approximately RMB5,602.60 million, accounting for about 45.48% of the Group's total income. The cost of goods sold for petroleum products was approximately RMB4,931.89 million and gross profit ratio was approximately 11.97%. Income from petrochemical and organic chemical products was approximately RMB5,793.47 million, accounting for approximately 47.03% of the Group's total income. The cost of goods sold of petrochemical and organic chemical products was approximately RMB5,305.58 million and gross profit ratio was approximately 8.42%.

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, 2002 Total assets *(RMB'000)*	Net loss in 2002 *(RMB'000)*
Jilin Winsway Chemical Industrial Store & Transport Ltd	Sino-foreign equity joint venture	Provision of transportation and store services for chemical products	51,454	59,029	908
Jilin City Songmei Acetic Acid Co. Ltd	Sino-foreign co-operative enterprise	Manufacturing of acetic acid	72,000	206,057	10,101
Jilin Jihua Jianxiu Co. Ltd	Corporation	Construction of piping and pressurized containers	45,200	103,609	6,446

2) No joint venture contributed more than 10% to the Company's net loss in 2002.

3. Major Suppliers and Customers

As at December 31, 2002, the aggregate amount of purchases from the five largest suppliers of the Company accounted for approximately 82% of the Company's total amount of purchases. The aggregate sales revenue from the Company's five largest customers accounted for approximately 65% of the Company's total sales revenue for the year.

4. Problems and difficulties encountered in operations and proposed solutions

In 2002, prices of petrochemical products still remained at a relatively lower level although the prices for certain chemical products of the Company increased compared with 2001 as a result of increased demand for such products in the domestic market. The Company recorded a loss in 2002 as a result of several adverse factors, including the write-down of the carrying value of certain fixed assets, the disposal of certain fixed assets and current assets in order to reduce its financial risks, certain accounting provisions, and the expenses related to temporary shutdown of production facilities as part of the Company's biennial maintenance program.

Facing intensified competition both in domestic and international markets, the Company took effective measures, including strengthening management, undertaking expansion projects, maintaining steady operations and high utilization rates, increasing the volume of crude oil processing and production, and increasing sales revenue. As a result of such measures, the Company recorded significantly lower losses in 2002 as compared with 2001.

(1) Maintaining steady operation and increasing sales volume

During 2002, the processing volume of crude oil was about 4.56 million tons, representing an increase of 5% as compared with 2001, which resulted in an increase of 2.3% in the sales volume, as compared with 2001. The steady operation and high utilization rate of major production facilities resulted in an increase in the Company's sales revenue.

(2) Realizing overall optimization, reducing energy consumption

Through optimizing resources, the Company created profits of RMB24.81 million as a result of processing approximately 606,000 tons of Russian crude oil, and profits of RMB24.04 million from optimization of raw materials of ethylene product through purchasing naphtha of approximately 484,900 tons. The percentage of unscheduled shutdown and production fluctuation decreased by 71.83% as compared with the same period of 2001. The Company also focused on the control over consumption of materials and energy, and cost targets, as a result of which the operation level of production facilities were increased efficiently.

Compared to 2001, the production ratio of naphtha increased by 1.83%, the loss ratio from processing of crude oil decreased by 0.08%, the production ratio of ethylene increased by 0.11% and loss ratio of ethylene decreased by 0.45%, and general crude consumption per ton decreased by 35.95 kg. During the reporting period, main consumption targets of the Company decreased significantly and main technical targets recorded the best level as compared with 2001.

(3) Strengthening company management, improving cost control

During 2002, the Company implemented its "Six Checks and Six Rectifications" program for all staff. By following the program's strict rules and regulations, the Group strengthened labor discipline and underwent significant changes to the whole outlook of the Group.

The Company further strengthened financial management, including increasing budget control, strengthening funds management and reducing management expenses, as a result of which the management expenses reduced significantly as compared with 2001.

Through strengthening the management of materials purchasing, ensuring materials supply, reducing purchases, keeping reasonable inventory level, and realizing efficient work, the purchasing cost of the Company decreased as compared with 2001.

Through strengthening controls over marketing of products, the Company took advantage of its system of storage, transport and marketing of products and reached its targets for production, sales and refunds. The Company also acquired the foreign equity interest in Jilian (Jilin) Petrochemicals Limited, its jointly controlled entity, and successfully integrated its production plant and related employees.

The Board compared the carrying amount of the Group's property, plant and equipment to their estimate of the fair value, and on the basis of its review, made an adjustment to reduce the carrying amount of certain assets by RMB323.84 million.

Taking into account the completion of 1,400,000t/a catalytic cracking unit and other upgrade programs during the reporting period, the Company wrote off its original 90,000t/a catalytic cracking unit and supplementary facilities. The net loss related to the disposal of above-mentioned assets was approximately RMB283.42 million, which was accounted for in the loss and profit statement ended December 31, 2002.

Following a detailed analysis of the Company's inventories, the Company decided to provide approximately RMB139.99 million for inventory losses.

Considering the lengthening of ageing of some prepaid expenses and other current assets, the Company provided approximately RMB51.48 million for impairment to reduce potential risks during the reporting period.

The Board considered that the above-mentioned accounting provisions were in conformity with the actual operating conditions of the Company.

INVESTMENTS

In 2002, the Company completed its expansion projects of 1,400,000t/a catalytic cracking unit, 140,000t/a styrene unit and 60,000t/a AES unit. The construction of 300,000t/a synthetic ammonia production unit was completed during the reporting period. The total investment was RMB791.73 million as at December 31, 2002.

In 2002, the Additional Seven Facilities of 300,000t/a ethylene project (polyethylene, ethylene glycol, phthalic anhydride, phenol acetone, ABS, acrylonitrile, and advanced alcohol units), of which polyethylene, ethylene glycol, phthalic anhydride, phenol acetone, ABS units were transferred to PetroChina Company Limited and the acrylonitrile and advanced alcohol units were retained by Jilin Chemical Group Corporation, did not generate satisfactory results. The Company's option to purchase the Additional Seven Facilities pursuant to the Option Agreement of Ethylene Project was not exercised during 2002 and such option expired on December 31, 2002.

ANALYSIS OF FINANCIAL CONDITIONS

As at December 31, 2002, according to the consolidated balance sheet prepared under PRC GAAP, total assets were valued at RMB14,336.23 million, representing a decrease of 1.35% as compared with 2001, primarily due to write down of carrying value in fixed assets. Long-term liabilities amounted to RMB3,826.81 million, representing a decrease of 36% as compared with 2001, primarily due to the Company's repayment of loans. Shareholders' equity was RMB2,855.87 million, representing a decrease of 26.43% as compared with 2001, primarily due to the Company's loss recorded during the year. Profit from principal operations was RMB764.92 million, representing an increase of 171% as compared with 2001, primarily due to an increase in income from principal operations and a decrease in cost, as compared with 2001. Net loss was RMB1,025.73 million, representing a decrease of RMB777.29 million as compared with 2001, primarily due to increases in the product prices and production volume. Cash and cash equivalents decreased by RMB4.11 million as compared with 2001, primarily due to the Company's interest expenses.

PROSPECTS

In 2003, continuous implementation of positive fiscal policies and stable currency policy by the PRC government and the expected GDP growth of more than 7% in 2003 will provide favorable conditions for the domestic petroleum and petrochemical industry and provide many opportunities for the Company to increase its production volume as well as its market share. The Company expects international prices for crude oil prices and petrochemical products to fluctuate in the period during and after the war in Iraq, and is uncertain about the impact of the atypical pneumonia outbreak on the PRC economy or the Group's business. Furthermore, the continuing tariff cut and tariff reduction measures following China's entry to WTO are expected to continue increasing competition in the domestic petrochemical industry.

For the Company itself, the improvement of overall management standard and commissioning of main upgrade programs in 2002 are positive steps towards optimization of the Company's product mix and increase of production volume in 2003. There is no major shutdown maintenance planned in 2003, which will ensure steady and safe production with high utilization rates. Notwithstanding such measures, the Company expects to continue to face difficulties in its business in 2003, taking into consideration its poor financial health, small production scale and shortage of processing capacity as compared with international and domestic competitors.

In order to increase profitability and further strengthen cost control, the Company will put forward the following measures in the year to come. The Company will make all its efforts to make profits in 2003, under the circumstance that the crude oil price will not increase significantly and the petrochemical products mark will not fluctuate significantly.

1. Focusing on its security and environmental protection to maintain safe and stable operations with high utilization rates. The Company expects to process 5.4 million tons of crude oil and produce 570,000 tons of ethylene.

2. Adjusting product mix. The Company will optimise its resources through processing more than 900,000 tons of crude oil from Russia and adjust its product mix through optimizing production units according to market demand and focus on its product quality through its upgrade program to increase product prices, especially for EPR and AES products. The Company will further focus on optimization of public utilities through its upgrade program for its heating-supply system to increase its profitability.

3. Strengthening marketing management. The Company will further strengthen market development and improve its marketing management system to maintain a higher production and sales ratio.

4. Strengthening the management of materials purchasing to ensure supply of bulk materials. The Company will bypass the middleman by increasing purchasing through auctions and the Internet. The Group will strengthen its "Five Open Policies" for management and supervision in order to complete and perfect the checks and balances mechanisms for supervision, and to decrease purchasing costs by every possible means.

5. Strengthening funds management to increase the utilization rate through strict control over approval procedures and reduction of non-production expense. The Company will focus on adjustment and restructure of loans to repay loans with higher interest rates.

6. Speeding up technical innovation. The Company will focus on the scientific research and strive to ensure the completion of various innovation programs, such as the EPR and AES products, to increase production scale and quality level of its products.

DETAILS OF BOARD MEETINGS CONVENED IN 2002

The Board held eight meetings during 2002 and the following resolutions were passed :

1. On January 17, 2002, the resignation of Mr. Jiao Haikun as chairman and director of the Company was accepted, and deputy chairman Mr. Xu Fengli was appointed as acting chairman of the Company.

2. On January 28, 2002, the loss warning announcement for 2001 was considered and approved.

3. On April 22, 2002, the report of the Board, the report of the Audit Committee, the Company's financial statements prepared under IAS and PRC GAAP, the Company's profit distribution plan for 2001, the remuneration of directors and supervisors of the Company for 2002, the re-appointments of PricewaterhouseCoopers Zhong Tian CPAs Company Limited and PricewaterhouseCoopers as the Company's domestic and international auditors in 2002, respectively, and the annual report and 20-F for 2001 were considered and approved. Mr. Yu Li was elected as director candidate. The resignations of Messrs. Venantius Tan, Wang Junfeng and Zhao Yongjin as independent directors of the Company were accepted. Messrs. Rupert Li, Wang Baifeng and Lü Yanfeng were elected as independent directors candidates of the Company. The resignation of Messrs. Ni Muhua and Jiang Jixiang as deputy managers of the Company was accepted. The application to the Shenzhen Stock Exchange for special treatment of the Company's A shares was considered and approved.

4. On April 26, 2002, the first quarterly report for 2002 was considered and approved.

5. On June 17, 2002, Mr. Yu Li was elected as chairman of the Company. The report for establishing measures for a modern enterprise, the amendments to the Articles of Association of the Company, the procedural rules of the special committee of the Board, establishment of an information disclosure system and an independent directors system were considered and approved. Messrs. Yu Li, Shi Jianxun, Lan Yunsheng and Rupert Li were elected as members of Strategy Committee of the Board. Messrs. Yu Li, Shi Jianxun, Wang Baifeng and Lü Yanfeng were elected as members of Nominating Committee of the Board; Messrs. Shi Jianxun, Lan Yunsheng, Wang Baifeng and Lü Yanfeng were elected as members of Remuneration and Examining Committee of the Board; Messrs. Rupert Li, Wang Baifeng and Lü Yanfeng were elected as members of Audit Committee of the Board.

6. On August 22, 2002, the disposal of fixed assets for RMB212.14 million, the disposal of which would result in a loss of RMB110.40 million, was considered and approved. The report of the Audit Committee of the Board and the Company's interim report for the first half of 2002 were considered and approved. No interim dividend was declared and no transfer from the common reserves to the Company's share capital was made for the first half of 2002.

7. On August 28, 2002, the acquisition of the remaining 35% equity interest in Jilian, a jointly controlled entity, and the subsequent revocation of its business license, conditional upon approval of the acquisition by the relevant state department, was considered and approved.

8. On October 30, 2002, the resolution of assets disposal and impairment provision to be made to the Company's financial statements, and the third quarterly report for 2002 were considered and approved.

PROPOSED PROFIT APPROPRIATION OR PROPOSED TRANSFER FROM COMMON RESERVES TO SHARE CAPITAL

Under PRC GAAP, the accumulated loss as at December 31, 2002 was RMB3,692 million. The net loss for the year ended December 31, 2002 was RMB1,026 million and the accumulated loss as at January 1, 2002 was RMB2,666 million. Under IFRS, the accumulated loss as at December 31, 2002 was RM3,555 million. The net loss in 2002 was RMB976 million and the accumulated loss as at January 1, 2002 was RMB2,581 million. As loss was incurred under both accounting standards, the Company does not have profit to declare dividend for the year ended December 31, 2002. Having regard to the Company's financial position in the year of 2002 the Board has resolved not to declare any final dividend for 2002 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 2002 Annual General Meeting to be held on June 24, 2003.

PURCHASE, SALES AND REDEMPTION OF SHARES

For the year ended December 31, 2002, 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 13 to 27.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the Company's directors and supervisors are set out on page 16.

THE HIGHEST PAID INDIVIDUALS

During the year ended December 31, 2002, 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

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, 2002, and the financial position of the Company and the Group as at that date determined in accordance with IFRS and PRC GAAP are set out on pages 44 to 85 and pages 87 to 129 respectively.

SUBSIDIARIES

Particulars of the subsidiaries of the Company as at December 31, 2002 are set out in note 14 to the financial statements prepared in accordance with IFRS.

JOINT VENTURES

Particulars of the joint ventures of the Company as at December 31, 2002 are set out in note 15 to the financial statements prepared in accordance with IFRS.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results of the Group for each of the five years ended December 31, 2002 and summary of the assets and liabilities of the Group for 2001 and 2002 are set out on pages 138 to 139.

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 30 to the financial statements prepared in accordance with IFRS.

COMPLIANCE WITH CODE OF BEST PRACTICE

During 2002, 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 band loans and other borrowings of the Company and the Group as at December 31, 2002 are set out in note 24 to the financial statements prepared under IFRS.

INTEREST CAPITALISED

Interest capitalized as at December 31, 2002 for the Group was RMB50.02 million.

FIXED ASSETS

Movements of fixed assets of the Company and the Group for the year ended December 31, 2002 are set out in note 13 to the financial statements prepared under IFRS.

RESERVES

Details of movements in reserves of the Company and the Group for the year ended December 31, 2002 and details of distributable reserves of the Company as at December 31, 2002 are set out in note 26 to the financial statements prepared under IFRS.

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 IFRS.

EMPLOYEES' PENSION SCHEME

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

MAJOR SUPPLIERS AND CUSTOMERS

In 2002, the cost of raw materials purchased from the Group's largest and five largest suppliers accounted for 76.7% and 82.05%, respectively, of the Group's total purchases. Total sales income from the largest and five largest customers accounted for 52.76% and 65.03%, respectively, of the Group's turnover in 2002.

None of the directors, supervisors of the Company, their associates or any shareholder (holding 5% 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 31 to the financial statements prepared under IFRS, and confirmed that:

(i) the transactions have been entered into in the ordinary and usual course of business of the Company;

(ii) the transactions have been entered into on terms that are fair and reasonable so far as the Independent Shareholders are concerned;

(iii) the transactions have been entered into on normal commercial terms and either (1) in accordance with the terms of the agreement governing such transactions or (2) (where there is no such agreement) on terms no less favourable than terms available to third parties;

(iv) where applicable, the transactions have been entered into within the proposed limits stated in condition (v) below;

(v) in relation to the sale transactions and purchase transactions, the total annual revenue or expenditure in respect of each of these category of transactions will not exceed the proposed annual limits set out in the following table:

Category of Connected Transactions	**Proposed annual limit**
Purchase of crude oil from PetroChina	70%
Purchase of production materials (naphtha, benzene, methanol and other miscellaneous production materials) from PetroChina	17%
Sale of petroleum products (gasoline and diesel oil) to PetroChina	55%
Sale of Petrochemical products to PetroChina	33%

(vi) that the annual caps stated in paragraph (v) above, will remain the maximum levels for the relevant connected transactions in each financial year ending on or before December 31, 2004.

TRUST DEPOSITS OR TRUST LOANS

During 2002, 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 employee 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 IFRS. 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 for the purpose of preparing the financial statements.

From January 1, 1998 to December 31, 2002, the total amount amortised was RMB31.25 million. The amount amortized in the year of 2002 was RMB9.32 million. As at December 31, 2002, the above remaining deferred staff cost was approximately RMB52.84 million. In the opinion of the Board, if the aforesaid deferred staff cost was completely written off in the year 2002, the net assets of the Company as at December 31, 2002 would be reduced by approximately RMB52.84 million. Other than the employees' housing reform programme mentioned above, the Company has not implemented any employees' housing plan.

On behalf of the Board
Yu Li
Chairman

Jilin, PRC
April 24, 2003