Mr. Yu Li
Chairman of the Board of Directors

The Board is pleased to present this directors' report and the audited financial statements of the Company and the Group for the year ended December 31, 2003.

Scope of Principal Operations and Trading Affairs

I. Results of Operations

The Group is principally engaged in the production and sale of petroleum products, petrochemical and organic chemical products and synthetic rubber, with its major operations carried out in the PRC and all of its products are sold domestically.

The Company faced many challenges in 2003. Through cooperation at all levels, team work and determination of our staff, the Company was able to overcome difficulties and reached a turning point in its history. During the year, the Company adhered to its principal objective of achieving a turnaround from loss making to profitability by altering its business and working style. It introduced a comprehensive series of unique, strong and effective measures to achieve turnaround with an emphasis on the Company's management and operation systems, together with the implementation of various reforms to overcome adverse effects such as those brought about by the outbreak of SARS. As a result, the Company recorded a profit for the year, marking an end to three consecutive years of loss making.

Under PRC GAAP, for the year ended December 31, 2003, the Group recorded a turnover from its principal operations of RMB19,064.87 million, representing an increase of 55% as compared with 2002, and a net profit of RMB424.00 million as compared with a net loss of RMB1,025.73 million in 2002. Under IFRS, the Group recorded a turnover from its principal operations of RMB20,652.81 million, representing a 57% increase as compared with 2002, and a net profit of RMB427.61 million as compared with a net loss of RMB1,023.10 million in 2002.

Under PRC GAAP, during the year 2003, turnover from petroleum products was RMB9,948.17 million, accounting for 52% of the Group's total turnover from its principal operations. Cost of goods sold in respect of petroleum products was RMB9,160.27 million and the gross margin for petroleum products was 8%. Turnover from petrochemical and organic chemical products was RMB7,814.27 million, accounting for 41% of the Group's total turnover from its principal operations. Cost of goods sold in respect of petrochemical and organic chemical products was RMB6,715.18 million and the gross margin for petrochemical and organic chemical products was 14%.

II. Discussion and Analysis of the Group's Overall Operations

In 2003, the Group's turnover from its principal operations increased by RMB6,745.73 million to RMB19,064.87 million in 2002, of which turnover from petroleum products increased by RMB4,345.57 million, turnover from petrochemical and organic chemical products increased by RMB2,020.80 million and turnover from synthetic rubber products increased by RMB354.43 million.

1. Turnover from petroleum products surged by 78% from RMB5,602.60 million in 2002 to RMB9,948.17 million in 2003. The increase in turnover was mainly attributable to the following reasons:

   (a) Subsequent to the technological renovation of certain production facilities in connection with the catalytic cracking process, the Company improved its capacity for the secondary processing of refined oil. The production capacity of the catalytic cracking facilities increased from 1 million tons in 2002 to 1.40 million tons in 2003, achieving a full utilization rate for the major oil refining equipment for the whole year. The output of gasoline and diesel oil reached 3.18 million tons, up 47% from 2002.

   (b) With the improvement of the Group's crude oil refining capability, the processing volume of crude oil of the Group grew by 1.10 million tons to 5.66 million tons, as compared with 2002.

   (c) The sales volume of the Group's petroleum products stood at 4.38 million tons in 2003 and the weighted average price of these products was RMB1,858 per ton, representing an increase of 58% and 7%, respectively, as compared with 2002.

   (d) The Company carried out a biennial overhaul in 2002. No overhaul was undertaken by the Company in 2003.

2. Turnover for petrochemical and organic chemical products increased by 35% from RMB5,793.48 million in 2002 to RMB7,814.27 million in 2003. The increase in turnover was mainly due to the increase in the market price of domestic petrochemical products, the growing demand for the raw materials of petrochemical products by downstream users and the higher utilization rate of the Company's production facilities during the year. As a result, the sales volume and weighted average price of these products increased by 16% and 16%, respectively, as compared with 2002.

3. Turnover for synthetic rubber products increased by 45% from RMB782.56 million in 2002 to RMB1,136.99 million in 2003. The increase in turnover was mainly attributable to the growth in the sales volume and the weighted average price of these products by 16% and 25%, respectively, as compared with 2002.

4. In 2003, the finance cost of the Group decreased by RMB49.66 million from RMB514.65 million in 2002 to RMB464.99 million in 2003. Interest expense decreased by 9% from RMB474.37 million in 2002 to RMB429.78 million in 2003. The decrease was mainly due to the refinancing of higher interest rate loans with lower interest rate loans and the reduction of interest-bearing liabilities. The Group's net exchange loss was RMB36.61 million, as compared to a net exchange loss of RMB41.05 million in 2002. This loss was mainly due to changes in exchange rates of the Company's foreign currency loans in 2003.

5. The Company recorded a loss from investment of RMB4.34 million in 2003, as compared to a loss of RMB8.31 million in 2002. The decrease was primarily attributable to the growth of profits generated by the jointly controlled entity. The net amount of income and expenditure incurred other than business operations reduced by RMB602.36 million to negative RMB51.54 million, as compared with 2002. The decline was primarily attributable to the loss treatment for significant fixed assets in 2002, and the amount involved in this regard was insignificant during 2003.

III. Business Operation and Results of Major Subsidiaries and Jointly Controlled Entities of the Company

1. *Description of Major Subsidiaries*

Name of Subsidiaries	Type of Legal Entity	Major Products and Services	Registered Capital	Total Assets as at December 31, 2003	Net Loss for the year ended December 31, 2003
			(RMB'000)	*(RMB'000)*	*(RMB'000)*
Jilin Winsway Chemical Industrial Store and Transport Limited (吉林永暉化工儲運有限公司)	Sino-foreign equity joint venture	Provision of transportation services for chemical raw materials and products	51,454	52,185	-3,289
Jilin City Songmei Acetic Co., Ltd. (吉林市淞美醋酸有限公司)	Sino-foreign cooperative joint venture	Manufacturing of acetic acid	72,000	265,028	–6,882
Jilin Jihua Jianxiu Company Limited (吉林吉化建修有限公司)	Joint venture	Machinery repair and installation	45,200	95,440	–13,910

2. No jointly controlled entity contributed over 10% of the net profit of the Company in 2003.

IV. Major Suppliers and Customers

As at December 31, 2003, purchases from the Group's five largest suppliers represented approximately 89.5% of the Group's total purchases, whereas sales to the Group's five largest customers accounted for approximately 65.8% of the Group's total turnover for the year. As at December 31, 2003, purchases from the Group's largest supplier represented approximately 72.7% of the Group's total purchases, whereas sales to the Group's largest customer accounted for approximately 59.8% of the Group's total turnover for the year.

V. Problems Experienced In Business Operations and Their Solutions

Having suffered a loss for three consecutive years coupled with intensifying competition in the market, the Company adopted the following strong and effective measures in 2003 to achieve a turnaround from loss making to profitability:

1. Closely pursue an overall approach of large production scale, ongoing product improvement and large economies of scale; fully devote efforts to the improvement of facilities and technologies that are used in production operation; strengthen control over the inspection, analysis and production process; and explore in depth the possibilities of increasing efficiency, saving energy consumption and reducing wastage in order to ensure that the Company's production facilities operate at a full utilization rate. In 2003, the production facilities were in stable operation with a utilization rate of 99.6%. Production fluctuation and unexpected suspension of production decreased by 63% as compared with 2002.

2. Strengthen financial management on a unified basis through strict controls over capital expenditure and to repay interest-bearing liabilities to the greatest extent possible, so that the capital of the Company can be used more effectively and efficiently. In 2003, interest-bearing liabilities of the Company decreased by RMB2,853.59 million with a turnover of working capital of 8.6 times. Substantial increase in cash flow has enhanced the financial situation of the Company.

3. Strengthen materials management and increase the ability to use bidding for materials procurement; strengthen overall monitoring and auditing with the aim of reducing procurement costs.

4. Strengthen business and sales management by pursuing the business concept where "sales shall be dependent on profitability; production shall be dependent on sales; sales to immediately fellow production and sales to ensure profitability"; on all aspects of storage, transportation and sales; being market-oriented; hold seminars for customers on a timely basis for the promotion and marketing of our products. As a result, the Company was able to achieve 100% for both its production/sales ratio and payment recovery rate.

5. Further implement the "Code of Conduct for Staff" to strictly train and regulate staff to act professionally and in compliance with such code. The Company further reformed the system of division of labour, fully implemented the "Procedures on the Management of Responsibilities for Risks", offered incentives and rewards for outstanding staff, and established an effective mechanism to ensure competitiveness and further improve supervision of staff. As a result, the Company was able to quicken its pace of development and increase its dynamism.

Investment

In 2003, except for the technological renovation of the 300,000 tons/year synthetic ammonia facility coming into effect, there were no other major technological renovation projects undertaken by the Company. The total investment completed as at December 31, 2003 was RMB293.82 million.

During 2003, the Company has not utilized capital obtained from fund-raising activities in investment projects and has not delayed the utilization of funds obtained prior to 2003 to investment projects in 2003.

Analysis of Financial Situation

As at December 31, 2003, under PRC GAAP and as shown in the consolidated balance sheet of the Group, the Group's total assets decreased by 6% to RMB13,434.90 million as compared with 2002. The decline was primarily attributable to the provision for depreciation and bad debts, collection of account receivables and reduction of interest-bearing liabilities. Long-term liabilities was RMB2,407.90 million, representing a decrease in 37% as compared with 2002. The reduction was due to the repayment of the Company's loans. Shareholders' equity was RMB3,279.86 million, representing a 15% increase from 2002. The increase was due to the profits recorded for the year. As compared with 2002, net cash and cash equivalents increased by RMB2.69 million as a result of the increase of sales revenues.

Prospects

In 2004, the Company will engage in strict management, improve its overall regulatory standards and continue to improve profitability. In the year to come, the Board expects that international oil prices will fluctuate within a high price range. The domestic market for petroleum and chemical products will further develop in line with the international market. It is anticipated that market competition will intensify. The costs of energy, raw materials and transportation in China will increase and rail transportation will come under pressure. All these factors will make it more difficult for the Company to maintain a balance over its resources and control over its production operation and costs. In this regard, the Company will seize the opportunity provided by the Central Government's support to speed up the pace of restructuring and renovate old industrial production facilities in north-eastern China; expand technological development; implement strict staff management and increase productivity. Moreover, the Company will formulate new strategies and management methods for its business and sales operations so that there can be breakthroughs in all aspects of the operations of the Company.

In 2004, the Company expects the crude oil processed by it to reach more than 5.8 million tons and the production capacity of its major products to increase based on the solid foundation created in 2003. The Company expects its production facilities to have a utilization rate of over 99%. In addition, it is anticipated that the Company will achieve 100% for both its production/sales ratio and payment recovery rate.

Details of Board's Daily Activities, Resolutions in 2003

The Board held five meetings during 2003 and the following resolutions were passed:

1. On March 14, 2003, Shi Jianxun, on behalf of the Board, signed the Authorization Letter with regards to authorizing the Hong Kong Stock Exchange to file the relevant documents made or issued by the Company with the Securities and Futures Commission commencing from April 1, 2003.

2. On April 24, 2003, the report of the Board, the resolution of impairment provision for fixed assets, the Group's audited financial statements prepared under IFRS and PRC GAAP, the Company's profit distribution plan for 2002, the remuneration of directors and supervisors of the Company for 2003, the re-appointments of PricewaterhouseCoopers Zhong Tian CPAs Company Limited and PricewaterhouseCoopers as the Company's domestic and international auditors in 2003, the annual report and 20-F for 2002, the holding of the annual general meeting on June 24, 2003, were considered and approved. The resignation of Xu Yuanxiang as director of the Company was accepted. Wang Peirong was elected as an independent director candidate of the Company. The resolutions for application to the Shenzhen Stock Exchange for suspension of the Company's A shares and the authorization of the Board to conduct matters concerning the Company's A shares suspension or possible de-listing, were approved. The Company's first quarterly report for 2003 was also approved.

3. On July 31, 2003, the report of the audit committee, the financial statements prepared under PRC GAAP and IFRS as at and for the six months ended June 30, 2003, were approved. No interim dividend was declared and no transfer from the common reserves to the Company's share capital for the year ended June 30, 2003 was made. Wang Peirong was elected as a member of the audit committee. The report of the Board "Turnaround from Loss Making to Profitability" during the period of suspension of the Company's A shares and the application to the Shenzhen Stock Exchange for resumption of trading of the Company's A shares, were considered and approved.

4. On October 24, 2003, the Company's third quarterly report for 2003 was approved.

5. On November 13, 2003, the purchase of assets including the Water Filtering System and Ammonia Liquefaction Facilities from JCGC at aggregate consideration of RMB159.50 million was approved. The Independent Board Committee of the Company was made up of Rupert Li, Wang Baifeng, Lü Yanfeng and Wang Peirong. The appointment of working parties for the purchase of assets, authorisation of any two directors of the Company to sign the documents relating to the purchase of assets, and the holding of an extraordinary general meeting on December 30, 2003, were approved.

Proposed Profit Appropriation and Dividends

Under PRC GAAP, the net profit of the Company for the year ended December 31, 2003 was RMB423.62 million, the accumulated losses as at January 1, 2003 was RMB3,692.18 million, the accumulated losses as at December 31, 2003 were RMB3,268.56 million. Under IFRS, the net profit for the year ended December 31, 2003 was RMB435.48 million, the accumulated losses as at January 1, 2003 were RMB3,555.08 million and the accumulated losses as at December 31, 2003 was RMB3,118.62 million. The profit generated in 2003 will be used to offset accumulated losses. According to the above profit distribution plan, the Board has resolved not to declare any final dividend for 2003 nor transfer common reserves to the Company's share capital. Due to the significant amount of losses accumulated by the Company, the Company proposes not to declare dividends in 2004 and net profits generated, if any, will be used to offset accumulated losses incurred in previous years. The detailed profit appropriation plan will be proposed by the Board in accordance with the circumstances then existing, and be subject to shareholders' approval at the 2004 Annual General Meeting.

The above proposal will be presented to the Company's shareholders for approval at the 2003 Annual General Meeting to be held on June 17, 2004.

Other Disclosure Events

1. During 2003, the Company continued to disclose its corporate information in China Securities, Securities Times, Wen Wei Po and The Standard.

2. Special audit report relating to fund occupation by the controlling shareholder or other related parties of Jilin Chemical Industrial Company Limited (Detail information see "Supplementary Information")

3. Independent non-executive directors' opinion about fund occupation and third party guarantee

   During 2003, the independent non-executive directors have not found any instances of fund occupation between the Company and the controlling shareholder and related parties to be outside the ordinary course of production and operating activities of the Company. The independent non-executive directors have not found any instances where the controlling shareholder and other related parties misused funds belonging to the Company or any instances of third party guarantees.

Purchase, Sales and Redemption of Shares

For the year ended December 31, 2003, 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 12 to 14.

Remuneration of Directors and Supervisors

Details of the remuneration of the Company's directors and supervisors are set out on page 14.

The Highest Paid Individuals

During the year ended December 31, 2003, 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, 2003, 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 39 to 82 and pages 84 to 129, respectively.

Subsidiaries

Particulars of the subsidiaries of the Company as at December 31, 2003 are set out in note 14 to the financial statements prepared in accordance with IFRS.

Jointly Controlled Entities

Particulars of the jointly controlled entities of the Company as at December 31, 2003 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, 2003 and a summary of the assets and liabilities of the Group for 2002 and 2003 are set out on page 141.

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 2003, 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, 2003 are set out in note 24 to the financial statements prepared in accordance with IFRS.

Interest Capitalized

Interest capitalized as at December 31, 2003 for the Group was RMB23.44 million.

Fixed Assets

Movements of fixed assets of the Company and the Group for the year ended December 31, 2003 are set out in note 13 to the financial statements prepared in accordance with IFRS.

Reserves

Details of movements in reserves of the Company and the Group for the year ended December 31, 2003 and details of distributable reserves of the Company as at December 31, 2003 are set out in note 26 to the financial statements prepared in accordance with IFRS.

Statutory Common Welfare Fund

Details of the nature, application and movements of the fund and the basis of calculation relating to the statutory common welfare fund, including the percentage and profit figures adopted, are set out in note 26 to the financial statements prepared in accordance with IFRS.

Employees' Pension Scheme

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

Major Suppliers and Customers

In 2003, the cost of raw materials purchased from the Group's largest and five largest suppliers accounted for 72.7% and 89.5%, respectively, of the Group's total purchases. Total sales income from the largest and five largest customers accounted for 59.8% and 65.8%, respectively, of the Group's turnover in 2003.

None of the directors, supervisors of the Company, their associates or any shareholder (to the knowledge of the Board 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 the independent non-executive directors of the Company) have reviewed the transactions set out in note 31 to the financial statements prepared in accordance with 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 of the Company are concerned;

(iii) the transactions have been entered into on normal commercial terms and 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 terms available to third parties;

(iv) where applicable, the transactions have been entered into within the proposed limits stated in paragraph (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 as the maximum levels for the relevant connected transaction in the financial year ending on or before December 31, 2004.

The independent auditors of the Company have reviewed the transactions set out in Note 31 of the financial statements prepared in accordance with IFRS and have provided the Board with a letter stating that:

(i) all connected transactions have received the approval of the Board;

(ii) all connected transactions have been conducted in accordance with paragraph (iii) of the directors' confirmation above; and

(iii) all connected transactions have been conducted within the relevant limits set out in paragraph (v) of the directors' confirmation above.

Trust Deposits or Trust Loans

During 2003, 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 reimbursement offered to its employees to purchase staff accommodation. The staff cost associated with the Company's employee housing reform programme will be amortized on a straight-line basis to the profit and loss account over a 20 year period, which is the expected average remaining employment period of relevant employees 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 average remaining employment period will also be changed to between three to ten years accordingly for the purposes of preparing the financial statements.

From January 1, 1998 to December 31, 2003, the total amount amortized was RMB40.57 million. The amount amortized in the year of 2003 was RMB9.32 million. As at December 31, 2003, the above remaining deferred staff cost was approximately RMB43.52 million. In the opinion of the Board, if the aforesaid deferred staff cost had been completely written off in the year 2003, the net assets of the Company as at December 31, 2003 would have been reduced by approximately RMB43.52 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 20, 2004