Directors' Report

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, 2004.

Mr. Yu Li *Chairman*

Scope and Results of Operations of Principal Business Activities

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 continued to achieve a growth in profits for the year 2004, with its approach focusing on "People-oriented, strict and micro management", as well as improvement of standards in all aspects. During the year, by taking full advantage of the policies for promoting established industrial production facilities in north-eastern China and an increase in the prices of petrochemical products, the Company, based on the principles of ensuring work safety, "People-oriented, strict and micro management", pragmaticism and hard work, achieved a historical high in its operating results and stepped into a new phase in achieving a continual growth in profits.

For the year ended December 31, 2004, under PRC GAAP, the Group recorded sales revenue from its principal operations of RMB27,902.79 million, representing an increase of 46.4% as compared to 2003, and a net profit of RMB2,573.76 million, representing an increase of 507% as compared to 2003. Under IFRS, the Group recorded a turnover from its principal operations of RMB31,857.42 million, representing an increase of 54% as compared to 2003, and a net profit of RMB2,544.51 million, representing an increase of 495% as compared to 2003.

Under PRC GAAP, during the year 2004, products which accounted for over 10% of the Group's total sales revenue from its principal operations included: petroleum products achieved sales revenues of RMB14,076.50 million (representing 50.4% of the Group's total sales revenue from its principal operations), cost of goods sold was RMB13,754.34 million and the gross profit margin was 2%; petrochemical and organic chemical products achieved sales revenues of RMB11,743.84 million (representing 42.1% of the Group's sales revenues from its principal operations), cost of goods sold was RMB8,325.20 million and the gross profit margin was 29.1%.

II. Discussion and Analysis of the Group's Overall Operations (Under PRC GAAP)

In 2004, the Group's sales revenues from its principal operations increased by RMB8,837.92 million to RMB27,902.79 million as compared to 2003, of which sales revenue of petroleum products increased by RMB4,128.33 million, sales revenue of petrochemical and organic chemical products increased by RMB3,929.56 million and sales revenue of synthetic rubber products increased by RMB279.85 million.

1. Sales revenue of petroleum products increased by 41.5% from RMB9,948.17 million in 2003 to RMB14,076.50 million in 2004. The increase in sales revenue was mainly attributable to the following reasons:

   (1) the processing volume of crude oil of the Company increased by 13.3% from 5.66 million tons in 2003 to 6.41 million tons in 2004;

(2) the sales volume of diesel oil of the Company grew by 29.9% from 2.11 million tons in 2003 to 2.74 million tons in 2004;

(3) the sales volume of petroleum products stood at 5.47 million tons and the weighted average selling price of such products was RMB2,574 per ton, representing an increase of 24.9% and 13.4%, respectively, as compared to the previous year.

2. Sales revenue of petrochemical and organic chemical products increased by 50.3% from RMB7,814.27 million in 2003 to RMB11,743.83 million in 2004. The increase in sales revenue was mainly due to the rising international crude oil price and the increased demand for petrochemical products in the domestic market. As a result, the market price of domestic petrochemical products increased substantially. The weighted average selling price and the sales volume of such products increased by 47.3% and 2%, respectively, as compared to the previous year.

3. Sales revenue of synthetic rubber products increased by 24.6% from RMB1,136.99 million in 2003 to RMB1,416.84 million in 2004. The increase in turnover was mainly attributable to the growth in the weighted average selling price of such products by 22.2%, as compared to the previous year.

In 2004, the finance cost of the Group decreased by RMB187.58 million from RMB464.99 million in 2003 to RMB277.41 million in 2004, of which interest expense decreased by 37.2% from RMB429.78 million in 2003 to RMB270.07 million in 2004. 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 RMB8.65 million, as compared to a net exchange loss of RMB36.61 million in 2003. The reduction of RMB27.96 million in net exchange loss was mainly due to the changes in exchange rates of the Group's foreign currency loans during the reporting period.

The Group recorded an investment income of RMB40.51 million in 2004 as compared to an investment loss of RMB4.34 million in 2003. The increase was primarily attributable to the profits generated by its jointly controlled entity and associated company. The net non-operating expenses reduced by RMB31.87 million to RMB8.38 million, as compared to 2003, and the reduction was primarily attributable to the increase of gain on disposal of fixed assets during the year.

In 2004, the Group was subject to an income tax of RMB177.35 million payable under PRC GAAP. In accordance with the requirement of the "Notice Regarding Tax Credits for Enterprise Income Tax Available to Technology Upgrade of Equipment manufactured in the PRC", the Company was subject to a reduced income tax for the purchase of PRC-manufactured equipment in the amount of RMB65.56 million. According to the tax effect accounting method, deferred tax assets recognized from provisions made for impairment of assets and the retirement of assets amounted to RMB435.20 million while accelerated depreciation and deferred tax liabilities recognized from amortization totaled RMB119.62 million. As a result, the deferred income tax credit so recognized and the net total annual income tax credit amounted to RMB315.58 million and RMB203.80 million, respectively.

In 2004, minority interests of the Group were RMB16.52 million, as compared to RMB1.76 million in 2003. The increase was mainly due to the loss suffered by its subsidiaries.

Based on the aforesaid, the net profit of the Group increased by RMB2,149.77 million to RMB2,573.76 million in 2004, as compared to 2003.

III. Business Operations and Results of Operations 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 *(RMB'000)*	Total Assets as at December 31, 2004 *(RMB'000)*	Net Profit/(Loss) for the year ended December 31, 2004 *(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	Transportation services for chemical raw materials and products	51,454	53,915	483
Jilin City Songmei Acetic Co., Ltd. (吉林市淞美醋酸有限公司)	Sino-foreign cooperative joint venture	Manufacture of acetic acid	72,000	189,815	(38,482)
Jilin Jihua Jianxiu Company Limited (吉林吉化建修有限公司)	Joint Venture	Machinery repair and installation	45,200	175,051	(12,514)

2. No jointly-controlled entity contributed over 10% of the net profit of the Company in 2004.

IV. Major Suppliers and Customers

In the year 2004, purchases from the Group's five largest suppliers represented 78.4% of the Group's total purchases, whereas sales to the Group's five largest customers accounted for 76.3% of the Group's sales revenue for the year.

V. Problems Experienced in Business Operations and Solutions

Given the unfavorable factors such as price rise in raw materials such as crude oil and pressure over for rail transportation, the Group introduced a series of measures to improve corporate management, enhance the operation of production facilities, strengthen the internal control systems, improve marketing strategies and strengthen financial management, and achieved a historical high in various key production benchmarks in aspects of the processing volume of cruel oil, sales volume of products, as well as the output of ethylene, gasoline and diesel oil. The selling price of the Group's products increased substantially from 2003, which resulted in a sales and payment recovery rate of 100%, respectively. All these factors effectively mitigated the adverse impact of an increase in the prices of raw materials on the production cost. As a result, the operating results of the Group improved substantially in 2004 as compared to 2003.

VI. Investment

In 2004, the Company completed an energy saving project for the 150,000 tons/year ethylene facility and the technology upgrade project for the reduction of pressure and mechanical fault. The total investment completed as at December 31, 2004 was RMB440.43 million. The Company expects that its total investment will amount to approximately RMB200.00 million in 2005.

During the reporting period, the Company has not utilized capital obtained from fund-raising activities in investment projects nor has it delayed the utilization of funds obtained prior to 2004 to investment projects in 2004.

VII. Analysis of Financial Situation

As at December 31, 2004, under PRC GAAP and as shown in the consolidated balance sheet of the Group, the Group's total assets grew by 7.1% to RMB14,392.76 million as compared to 2003. The increase was primarily attributable to the increase in the inventory levels of crude oil and deferred taxes of the Group. Long-term liabilities were RMB896.02 million, representing a 62.8% reduction as compared to 2003. The decrease was attributable to the repayment of the Company's loans. Shareholders' equity was RMB5,853.62 million, representing an increase of 78.5% as compared with the previous year, as a result of an increase in profits recorded for the year. As compared with 2003, net cash and cash equivalents decreased by RMB20.87 million, mainly as a result of the repayment of principal of borrowings and interest accrued thereon.

VIII. Prospects

Looking forward to 2005, the Company anticipates that international crude oil prices will continue to fluctuate within a higher price range. The average price of the Company's products may be lower than that in 2004, which will generally present opportunities as well as challenges for the Company. From a macroscopic point of view, the global economic recovery is expected to speed up and both demand and supply of petrochemical products in international market is expected to be strong. It is expected that the gross domestic product of the PRC will reach its target as an increase of about 8%. The domestic economy is expected to continue to develop at a relatively stable but fast pace, and various policies in connection with the promotion of established industrial production facilities in north-eastern China by the State will also be further implemented. From a microscopic point of view, the Company will further strengthen its "People-oriented, strict and micro-management", improve various management systems such as its on-site, operational, development and team management systems, and has reached a more mature stage where growth is achieved at a faster pace. However, with the end of the transition period of China's accession to WTO, the domestic market will be fully opened for the wholesale and retail of finished oil products and competition between domestic and international players in this field is expected to intensify. Fluctuation in the price of raw materials such as crude oil within a higher price range will inevitably give rise to the increase in production cost. Moreover, the overhaul scheduled by the Company will relatively shorten the period of production, thus adding onto the difficulties of the Company for attaining the objectives for the year. Therefore, the Company is experiencing a great challenge in its production and operations in 2005. As such, the Company will carry out its operations for the year in accordance with the following principles:

1. Further pursue the business concept where "enterprises shall operate according to market demand; production plan shall be changed in line with the market development; and all works shall be done for the purpose of achieving efficient results" to fully strengthen the Company's business operations. The Company shall be market-oriented by improving its business plans and updating statistics, and shall strengthen its financial management to increase the return on capital and to avoid operational risk in an effective and efficient manner. It shall improve supply and sales arrangement by strengthening logistic management, reduce costs by every possible means and increase sales and income so as to achieve 100% for both the production/sales ratio and payment recovery rate. The Company shall strengthen the management for both contracts and equity interests by strictly implementing the "Three Examination" contract review system and regulatory requirements with the aim of cancelling "ST" in respect of A shares of the Company, and to build up a good image of the Company.

2. Further pursue the safety concept where "objective standards of production for a refinery enterprise shall be complied, stringent safety management shall be implemented and safety shall be ensured" to improve the safety of production in all aspects. The Company shall strengthen education on safety by sub-dividing and finalizing safety production responsibilities, strictly carrying out inspector examination systems and ensuring that the production facilities operate in a safe, stable and good manner, on long-term basis and at a full utilization rate. The Company shall make improvements and adjustments to its production plans and formulate its production and operation plans in a timely manner in view of the market changes and product margins. It shall improve the allocation of raw materials, product mix and production facilities with further control over production process as well as the examination on the stability of operations, and further improvement on the overall management of production so as to maximize the total output of products. Based on the principles of effecting a safe and well-organized overhaul, and operating the key production facilities in a safe and stable manner, the Company plans to process 7 million tons of crude oil by using its production facilities with a utilization rate of over 99% and achieve a ratio of effective usage of key equipment of 100%.

3. Further pursue the management concept of "People-oriented, strict and micro-management" to fully strengthen the "Three Foundations" work of the Company. The Company will make full use of the innovative and effective management method of "Six Examinations and Six Adjustments" to achieve sophisticated development management, detailed on-site management, cost-effective operational management, and well-organized team management. As a result, the overall management of the Company can be continuously enhanced.

4. Further strengthen the concept of risk control. In accordance with the Sarbanes-Oxley Act, the applicable provisions for ownership framework set out by Committee of Sponsoring Organisations of the Treadway Committee ("COSO") and all legal and regulatory requirements, the Company shall build upon its existing management system and take five elements of COSO as a framework, combine its management system with Occupational Safety, Health and Environment (OSHE) and comprehensive quality management systems to govern its business flow, improve its internal control, speed up the progress for the establishment of an internal control system that meets the actual management needs of the Company.

In conclusion, the Company shall continue to pursue the belief of "Unity, Determination and Contribution" which has led the Company from loss making to profitability, and shall identify and seize opportunities to expand its business by removing any obstacles ahead and by adopting active and flexible business strategies, so that all annual production and operation targets of this year could be achieved and good operating results could be maintained to reward its shareholders.

Details of Board's Daily Activities, Resolutions in 2004

The Board held five meetings during 2004 and further information were as followed:

1. On March 3, 2004, the Company held the first board meeting for 2004, at which the candidate of the 4th Board of Directors of the Company and candidate of the 4th Supervisory Committee were elected. Nine directors and two supervisors attended the meeting.

2. On April 20, 2004, the Company held the second board meeting for 2004. Seven directors, four supervisors and one senior management attended the meeting. Directors Xu Fengli, Zhang Xingfu, Lan Yunsheng, Ni Muhua appointed Chairman Yu Li to attend and vote on their behalf in respect of the resolutions considered at the meeting.

   Yu Li and Xu Fengli were elected as chairman and deputy chairman of the Board respectively. Shi Jianxun was re-appointed as the Company's general manager, Zhang Xingfu and Li Chongjie were re-appointed as the Company's deputy general manager, Zhang Liyan was re-appointed as the deputy chief accountant and secretary to the Board. Shi Jianxun and Zhang Liyan were approved as the Company's authorized representatives. The setting up of strategy committee, nominating committee, remuneration and examining committee and audit committee to the Board were approved. The resolutions of written off provision for bad debts of RMB101,211 thousands, disposal of fixed assets for RMB20,701 thousands and bad debt provision for accounts receivable of RMB100,713 were approved. The report of the audit committee, audited financial statements prepared under IFRS and PRC GAAP, the Company's profit appropriation plan for 2003, the report of the Board, the remuneration of directors and supervisors of the Company for 2004, the re-appointments of PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co., and PricewaterhouseCoopers as the Company's domestic and international auditors in 2004, the annual report and 20-F for 2003, the holding of the annual general meeting on June 17, 2004, were considered and approved. The resolution for application to the Shenzhen Stock Exchange for withdrawal of the special treatment regarding the warning of risks of delisting against the Company's A shares and change of abbreviation of the Company's A shares was approved. The Company's first quarterly report for 2004 was also approved.

3. On July 28, 2004, the Company held the third board meeting for 2004. Out of the eleven directors served with the notice, four directors attended in person and seven attended through appointed representatives. Four supervisors and one senior management also attended the meeting.

   The resolutions of provision for impairment of intangible assets of RMB6,698 thousands, bad debt provision of RMB22,533 thousands, provision for impairment of construction in progress RMB19,814 thousands, inventory provision of RMB76,870 thousands and the write-off of obsolute fixed assets of RMB35,672 thousands were approved. The report of the audit committee, the financial statements prepared under PRC GAAP and IFRS for the six months ended June 30, 2004 and interim report were approved. The resolutions for the amendment of the articles of association of the Company, the making of the rules of procedure for shareholders' general meeting of the Company and amendment of the rules of procedure for Board meeting of the Company were approved.

4. On October 25, 2004, the Company held the fourth Board meeting. Out of the eleven director served with the notice, four directors attended in person, and seven attended through appointed representatives. Four supervisors and two senior managements also attended the meeting.

The Company's third quarterly report for 2004 was approved. The resolutions of inventory loss RMB29,400 thousands and fixed assets write-off of RMB8,340 thousands were approved.

5. On December 1, 2004, the Company held the fifth board meeting. Out of the eleven directors served with the notice, four directors attended in person, and seven attended through appointed representatives. Four supervisors and one senior management also attended the meeting. The directors Yu Li, Xu Fenli, Ni Muhua, Lan Yunsheng and Jiang Jixiang who were connected persons abstained from voting at the meeting.

   The entering into of the Master Products and Services Agreement between the Company and PetroChina and the Composite Services Agreement between the Company and Jilin Chemical Group Company ("JCGC") were approved. The forming of the Independent Board Committee of the Company comprised of Fanny Li, Lü Yanfeng, Zhou Henglong and Wang Peirong was approved. The proposal to convene an extraordinary general meeting on January 20, 2005 was approved. The Board considers the connected transactions between the Company and PetroChina and those between the Company and JCGC are conducted under normal commercial terms and in the ordinary and usual course of business. None of the directors has a material interest in the transactions. The view of independent directors over the terms and conditions of the transactions and the lawfulness of the procedure of the Board meeting was published.

Proposed Profit Appropriation and Transfer of Common Reserves to Share Capital

Under PRC GAAP, the net profit of the Company for the year ended December 31, 2004 was RMB2,573.76 million, the accumulated losses as at January 1, 2004 was RMB3,268.56 million, the accumulated losses as at December 31, 2004 were RMB694.80 million. Under IFRS, the net profit for the year ended December 31, 2004 was RMB2,553.19 million, the accumulated losses as at January 1, 2004 were RMB3,118.62 million and the accumulated losses as at December 31, 2004 was RMB564.46 million. The profit generated in 2004 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 2004 nor transfer common reserves to the Company's share capital. According to the regulations of CSRC and the Shenzhen Stock Exchange, the Company's independent directors published their opinion regarding the proposed profit appropriation for 2004 and agreed to the proposed profit appropriation. The above proposal will be presented to the Company's shareholders for approval at the 2004 Annual General Meeting.

Other Disclosure Events

1. During 2004, 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 2004, 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, 2004, 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 17.

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, 2004, 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, 2004, 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 50 to 95 and pages 97 to 147, respectively.

Subsidiaries

Particulars of the subsidiaries of the Company as at December 31, 2004 are set out in note 13 to the financial statements prepared in accordance with IFRS.

Jointly Controlled Entity

Particulars of the jointly controlled entity of the Company as at December 31, 2004 are set out in note 14 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, 2004 and a summary of the assets and liabilities of the Group for 2003 and 2004 are set out on page 160.

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 28 to the financial statements prepared in accordance with IFRS.

Compliance with Code of Best Practice

During 2004, 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 Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules and all Directors have complied with the required standard of dealings set out therein.

Sufficient Public Shareholders

According to the information obtained by the Company through public channels, and so far as the Directors are aware of as at the latest practical date before the publishing of this annual report, the Company has been maintaining sufficient public shareholdings to comply with the Listing Rules during the year.

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, 2004 are set out in note 22 to the financial statements prepared in accordance with IFRS.

Interest Capitalized

No interest was capitalized as at December 31, 2004 for the Group.

Fixed Assets

Movements of fixed assets of the Company and the Group for the year ended December 31, 2004 are set out in note 12 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, 2004 and details of distributable reserves of the Company as at December 31, 2004 are set out in note 24 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 24 to the financial statements prepared in accordance with IFRS.

Employees' Pension Scheme

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

Major Suppliers and Customers

In 2004, the cost of raw materials purchased from the Group's largest and five largest suppliers accounted for 48.6% and 65.2%, respectively, of the Group's total purchases. Total sales income from the largest and five largest customers accounted for 69.9% and 75.3%, respectively, of the Group's turnover in 2004.

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 29 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) except for purchase of production materials and sale of petrochemical products, 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	**Annual caps as percentages of turnover**	**Actual amounts as percentages of turnover in 2004**	**Excess**
Purchase of crude oil from PetroChina	70%	37%	
Purchase of production materials (naphtha, benzene, methanol and other miscellaneous production materials) from PetroChina	17%	23.4%	6.4%
Sale of petroleum products (gasoline and diesel oil) to PetroChina	55%	34%	
Sale of petrochemical products to PetroChina	33%	36.3%	3.3%

The independent auditors of the Company have reviewed the transactions set out in note 29 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) except for purchase of production materials from PetroChina and sale of petrochemical products to PetroChina, other 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 2004, 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 RMB84,089 thousands due to reimbursement offered to its employees to purchase staff accommodation. In accordance with IFRS, such loss was capitalized and amortized on a straight-line basis to the profit and loss account for a period of 20 year, which is the expected average remaining employment period of relevant employees. 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, 2004, the total amount amortized was RMB49,888 thousands. The amount amortized in the year of 2004 was RMB9,319 thousands. As at December 31, 2004, the above remaining deferred staff cost was approximately RMB34,201 thousands. In the opinion of the Board, if the aforesaid deferred staff cost had been completely written off in the year 2004, the net assets of the Company as at December 31, 2004 would have been reduced by approximately RMB34,201 thousands. 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
March 17, 2005