
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Jilin Chemical Industrial Company Limited, you should hand this circular together with the enclosed form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED
吉林化學工業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 0368)

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS –
CERTAIN CONNECTED TRANSACTIONS WITH PETROCHINA
CERTAIN CONNECTED TRANSACTIONS WITH JCGC
PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION
ADOPTION OF PROPOSED RULES FOR THE GENERAL MEETING
OF THE SHAREHOLDERS**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

Watterson Asia Limited

A notice convening an extraordinary general meeting of Jilin Chemical Industrial Company Limited to be held at 9:00 a.m. on 20 January 2005 at No. 9 Longtan Street, Longtan District, Jilin City, Jilin Province, the People's Republic of China is set out on pages 37 to 38 of this circular.

If you intend to attend the extraordinary general meeting, please complete and return the enclosed reply slip in accordance with the instructions printed thereon as soon as possible and in any event at or before 5:00 p.m. on 31 December 2004.

Whether or not you are able to attend the extraordinary general meeting, please complete and return the enclosed proxy form in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding of the meeting. Completion and return of the proxy form shall not preclude you from attending and voting at the extraordinary general meeting or any adjournment thereof should you so wish.

A copy of the notice of the extraordinary general meeting, the reply slip and the proxy form were despatched to you on 6 December 2004.

24 December 2004

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EXPECTED TIMETABLE

Deadline for returning the reply slips for the EGM 5:00 p.m. on 31 December 2004

Deadline for returning the proxy forms for the EGM 9:00 a.m. on 19 January 2005

EGM 9:00 a.m. on 20 January 2005

DEFINITIONS

In this circular, unless the context requires otherwise, the following terms and expressions shall have the following meanings:

“Board”	the board of Directors
“Circulars”	three circulars issued by the Company, dated 18 January 1999 relating to the purchase of crude oil by the Company from CNPC and sale of gasoline and diesel oil by the Company to CNPC, dated 5 July 1999 relating to sale and purchase transactions with the relevant subsidiary of CNPC and the third one dated 6 December 2001 relating to the connected transactions with PetroChina and amendments to the then articles of association of the Company
“CNPC”	China National Petroleum Corporation, a state-owned enterprise established in the PRC, which, pursuant to the Restructuring, oversees the exploration and development of oil and natural gas resources, refining, transportation, marketing of crude oil and refined products
“Company”	Jilin Chemical Industrial Company Limited, a joint stock limited company incorporated in the PRC with H Shares listed on the Stock Exchange
“Composite Services Agreement”	the composite services agreement entered into between the Company and JCGC on 30 November 2004 for a term of three years to govern the continual provision of certain goods and services
“Connected Person(s)”	connected person(s) of the Company as defined in the Listing Rules, i.e., in relation to the Company, means a promoter, director, supervisor, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them. For purpose of this circular, means PetroChina and/or JCGC
“Continuing Connected Transaction(s)”	the transaction(s) which will continue to be entered into between the Group and PetroChina and JCGC respectively which constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules and are summarized under sections 2.1 in the “Letter from the Board” of this circular

DEFINITIONS

“Continuing Connected Transaction(s) Agreements”	the Master Products and Services Agreement and the Composite Services Agreement, the terms of which are contained in sections 2.2 to 2.3 in the “Letter from the Board” of this circular
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 20 January 2005
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Directors”	the independent non-executive directors of the Company
“JCGC”	Jilin Chemical Group Corporation, a wholly-owned subsidiary of CNPC
“Latest Practicable Date”	6 December 2004, being the latest practicable date before printing of this circular for ascertain information contained in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Master Products and Services Agreement”	the master products and services agreement entered into between the Company and PetroChina on 30 November 2004 for a term of three years to govern the continual provision of certain goods and services
“Original Composite Services Agreement”	the services agreement entered into between the Company and JCGC on 20 April 1995
“PetroChina”	PetroChina Company Limited, a subsidiary of CNPC incorporated as a joint stock company with limited liability in the PRC with H Shares listed on the Stock Exchange
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company

DEFINITIONS

“State-Regulated Prices”	the prices (if any) determined and published by the central and local government of the PRC at all levels and other relevant authorities according to the laws, regulations, orders and decisions in relation to such particular products and services, for the purpose of this circular, as contemplated under the Continuing Connected Transaction Agreements
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company, i.e., Zou Haifeng, Yang Jigang, Yan Weidong, Li Shumin and Wang Huaqing
“Watterson”	Watterson Asia Limited, a company incorporated in Hong Kong, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions and their respective annual caps, being a licensed corporation for carrying out type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as set out in Schedule 5 to the SFO;
“%”	per cent.

For the purpose of illustration only, the translation of RMB into Hong Kong dollars is based on the exchange rate of HK\$1.00 to RMB1.07.

LETTER FROM THE BOARD



JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED 吉林化學工業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

Executive Directors:

Yu Li
Shi Jianxun
Zhang Xingfu

Non-executive Directors:

Xu Fengli
Ni Muhua
Jiang Jixiang
Lan Yunsheng

Independent Non-executive Directors:

Lü Yanfeng
Wang Peirong
Fanny Li
Zhou Henglong

Legal address:

No. 9 Longtan Street
Longtan District
Jilin City
Jilin Province
The People's Republic of China

Principal place of business

in Hong Kong:
23rd Floor, Entertainment Building
30 Queen's Road
Central
Hong Kong

24 December 2004

To the Shareholders

Dear Sir or Madam,

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS –
CERTAIN CONNECTED TRANSACTIONS WITH PETROCHINA
CERTAIN CONNECTED TRANSACTIONS WITH JCGC
PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION
ADOPTION OF PROPOSED RULES FOR THE GENERAL MEETING
OF THE SHAREHOLDERS**

INTRODUCTION

The Board refers to the Company's press announcement dated 2 December 2004 relating to, among other things, (i) the entering into of the Master Products and Services Agreement by the Company with PetroChina and the Composite Services Agreement with JCGC to govern certain continuing connected transactions with PetroChina and JCGC, respectively; and (ii) the proposed amendments to the existing articles of association of the Company.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information and to request for your approval of the resolutions set out in the notice of the EGM (a copy of which was despatched to you on 6 December 2004) and included on pages 37 to 38 of this circular.

The Independent Board Committee has been set up to advise the Independent Shareholders on the Continuing Connected Transactions Agreements and the annual caps relating thereto. Watterson has been appointed as the independent financial adviser to the Independent Board Committee and the independent Shareholders. The letter from the Independent Board Committee and the advice of Watterson are also included in this circular.

PetroChina, being the controlling Shareholder of the Company holding approximately 67.29% of the share capital of the Company, and its associates will abstain from voting with regards to the ordinary resolutions in connection with the Continuing Connected Transactions to be proposed at the EGM.

1. BACKGROUND: THE CURRENT WAIVERS

1.1 Transactions with JCGC

JCGC is a wholly-owned subsidiary of CNPC which is the ultimate holding company of the Company. As such, JCGC is a Connected Person of the Company and transactions between JCGC and the Company constitute connected transactions under the Listing Rules. Prior to the listing of the Company on the Stock Exchange in May 1995, the Company applied for and was granted by the Stock Exchange on 11 May 1995 a waiver from strict compliance with the Listing Rules in respect of the Company's Continuing Connected Transactions with JCGC. The current waiver was in relation to the cross-provision of goods and services between the Company and JCGC pursuant to the Original Composite Services Agreement. The current waiver covered the transactions contemplated by the Original Composite Services Agreement including each annual agreement which contained details of the categories, scope, prices and other details of the goods and services to be supplied and purchased by both parties in relation to that particular year. The Company entered into a new Composite Services Agreement with JCGC on 30 November 2004 for a term of three years from 1 January 2005 to 31 December 2007 to govern the continual cross-provision of certain goods and services substantially same as those covered by the current waiver, which constitutes the Continuing Connected Transaction of the Company under the Listing Rules. The current waiver shall lapse as a result of the new Composite Services Agreement being entered into.

1.2 Transactions with PetroChina

PetroChina is the immediate holding company of the Company. As such, PetroChina is a Connected Person of the Company and transactions between PetroChina and the Company constitute connected transaction under the Listing Rules. At the end of 2001, the Company applied for and was granted by the Stock Exchange on 31 December 2001 a waiver from strict compliance with the Listing Rules in respect of the Company's sale and purchase of crude oil, production materials, petroleum products and petrochemical products with PetroChina. The

LETTER FROM THE BOARD

current waiver is for a term of three financial years expiring on 31 December 2004. The waiver specifies, among other things, the annual cap amount for each category of the Continuing Connected Transactions for the three financial years ending 31 December 2004. In relation to the cross-provision of petroleum and petrochemical products and other services between PetroChina and the Group, the Company entered into a Master Products and Services Agreement with PetroChina on 30 November 2004 for a term of three years ending 31 December 2007 to govern the continual cross-provision of certain goods and services substantially same as those covered by the current waiver, which constitutes the Continuing Connected Transaction of the Company under the Listing Rules.

2. CONTINUING CONNECTED TRANSACTION AGREEMENTS

2.1 Terms and conditions of the Continuing Connected Transactions

The Continuing Connected Transactions with the Connected Persons are governed by the following Continuing Connected Transactions Agreements, the major terms and conditions of which have been summarised in sections 2.2 to 2.3 below:

Connected persons		Connected Transactions Agreements
PetroChina (<i>Note 1</i>)	Purchase of crude oil (<i>Note 2</i>) Purchase of production materials (<i>Note 3</i>) Sale of petroleum products (<i>Note 4</i>) Sale of petrochemical products (<i>Note 5</i>) Production safety insurance funds (<i>Note 6</i>) Lease of machinery and equipment (<i>Note 7</i>) Railway transport and waste water treatment (<i>Note 8</i>)	Master Products and Services Agreement
JCGC (<i>Note 9</i>)	Sale of goods (<i>Note 10</i>) Examination and maintenance services (<i>Note 11</i>) Construction of fixed assets (<i>Note 12</i>) Purchase of production materials and spare parts (<i>Note 13</i>) Fees for welfare and supporting services (<i>Note 14</i>) Operating lease rentals on land & property (<i>Note 15</i>)	Composite Services Agreement

LETTER FROM THE BOARD

Notes:

- (1) PetroChina (PetroChina Company Limited), the immediate 100% holding company of the Company, is a Connected Person. PetroChina's principal business consist of the exploration and production of crude oil and natural gas, crude oil refining, pipeline transportation and the production and sale of petrochemical products and natural gas products.
- (2) The Group currently purchases its crude oil requirements from oilfields located in northeastern China which are owned and operated by PetroChina and through the companies engaged in the import and export business controlled by PetroChina in accordance with PRC regulations at State-Regulated Prices.
- (3) The Group currently purchases its requirements for certain production materials such as naphtha, pure benzene, fatty alcohol and other materials from PetroChina at market prices.
- (4) The Group currently sells gasoline and diesel oil to petroleum sales companies located in northeastern China which are owned and operated by PetroChina, in accordance with PRC regulations at State-Regulated Prices.
- (5) The Group currently sells ethylene, propylene, styrene and other petrochemical products to PetroChina at market prices.
- (6) The Company currently participates in the production safety insurance fund plan established and organised by PetroChina under which it is required to make annual contributions to the plan at 0.4% of the average cost of fixed assets and inventory of the Company. The fund is mainly used to compensate for the accidental property loss.
- (7) The Group currently rents machinery and equipment from PetroChina at agreed prices.
- (8) The Group currently provides railway transport and waste water treatment services to PetroChina Group Companies at State-Regulated Price and cost, respectively.
- (9) JCGC, a wholly-owned subsidiary of CNPC, is the ultimate holding company of the Company. As such, JCGC is a Connected Person of the Company. The business scope of JCGC consists of management of the operation of its subsidiaries, production, trading, purchase and sale of raw chemical materials, chemical products, macromolecule materials, rubber products, plastic products, aluminum powder, food additive, farm chemical, environmental project engineering equipment, steam and electricity power.
- (10) The Group currently sells petrochemical products to JCGC at market prices.
- (11) JCGC currently provides examination and maintenance services to the Group in return for a service fee at State-Regulated Price.
- (12) JCGC currently provides fixed assets construction service to the Group at State-Regulated Price.
- (13) The Group currently purchases production materials and spare parts and other materials from JCGC at market prices.
- (14) JCGC currently provides welfare and supporting services based on State-Regulated Prices, market prices or cost as provided in the Original Composite Services Agreement.
- (15) The Group currently leases land and property from JCGC at State-Regulated Price.

LETTER FROM THE BOARD

2.2 Master Products and Services Agreement

The Company and PetroChina entered into the Master Products and Services Agreement on 30 November 2004 for the provision (1) by PetroChina to the Group and (2) by the Group to PetroChina, of a range of products and services which may be required and requested from time to time by either party and/or its subsidiaries and affiliates in the ordinary and usual course of business of both the Company and PetroChina.

(A) Products and services to be provided by PetroChina to the Group

Under the Master Products and Services Agreement, products and services to be provided by PetroChina to the Group include production materials such as crude oil, naphtha, pure benzene and fatty alcohol, and services such as production safety insurance funds, lease of machinery and equipment and such other related and similar services as may be requested by the Group from time to time.

(B) Products and services to be provided by the Group to PetroChina

The products and services to be provided by the Group to PetroChina include gasoline, diesel oil, petrochemical products, railway transport and waste water treatment and such other related or similar products and services as may be requested by PetroChina from time to time.

(C) General principles, prices and terms

The Master Products and Services Agreement requires, in general terms, that (1) the quality of products and services to be provided should be satisfactory to the recipient; and (2) the price at which such products and services are to be provided on normal commercial terms and must be fair and reasonable and in the interests of the Shareholders and Company as a whole.

(D) Price determination and terms of payments

The Master Products and Services Agreement details specific pricing principles for the products and services to be provided pursuant to the Master Products and Services Agreement. If the specific pricing principle for a particular product or service ceases to be applicable, whether due to a change in circumstance or otherwise, such product or service must then be provided in accordance with the following general pricing principles:

- (a) State-Regulated Prices (at present, this applies to products such as crude oil, gasoline and diesel oil and services such as railway transport and production safety insurance funds);

LETTER FROM THE BOARD

- (b) where there are no State-Regulated Prices, then according to relevant market prices, determined in the following sequence:
- (i) the local market price and the market price of nearby areas, i.e., areas in and around Jilin Province, for the same type of products and services which are provided by independent third parties who are not Connected Persons of the Company in the ordinary and usual course of business of the Company at that time; or
 - (ii) the national market price, at which the same type of products or services are provided by independent third parties who are not Connected Persons of the Company in the ordinary and usual course of business of the Company at that time;
- (at present, this exclusively applies to petrochemical products and other production materials such as naphtha, pure benzene, fatty alcohol.)
- (c) where neither (a) nor (b) is applicable, then the price determined and agreed between the Company and PetroChina according to the actual cost incurred.

The Master Products and Services Agreement includes a provision that the aggregate value of the products and services provided between PetroChina and the Group must not exceed the amounts as categorized in the table under section 4.1 of this letter for each financial year ending 31 December 2005, 2006 and 2007, respectively.

However, if in any year, the Company, due to any events or factors beyond the control of the Company (e.g. nature disasters or instability of crude oil prices) or the development of new projects, is required to purchase or supply additional products and services, then the Company shall re-comply with the reporting and announcement requirements described in rules 14A.45 to 14A.47 and the independent shareholders' approval requirements described in rule 14A.48 of the Listing Rules for the decision to purchase or supply such additional products or services on the basis of any revised business plan and comprehensive financial analysis.

The payments for any specific category of goods or service as contemplated under the Master Products and Services Agreement shall be made according to the general principles in the Master Products and Services Agreement, the usual business practices in relation to such goods or services and the provisions of the specific product and service supply agreement. Such payments will be made by the Group through internal resources.

(E) Co-ordination of annual demand of products and services

Prior to the end of each financial year, both parties are required to prepare and submit to each other an annual plan detailing the estimated demand for products and services to be rendered in accordance with the Master Products and Services Agreement for the forthcoming financial year.

LETTER FROM THE BOARD

(F) Rights and obligations

Both the Group and PetroChina retain the right to choose, from time to time, to receive products and services as contemplated under the Master Products and Services Agreement, from independent third parties who are not Connected Persons of the Company where the terms and conditions as to price or quality of products or services offered by such third parties may be superior to those offered by either the Group or PetroChina, as appropriate.

(G) Term and termination

Subject to obtaining independent Shareholders' approval, the term of the Master Products and Services Agreement is three years starting from 1 January 2005. Termination of provision of any one or more categories of products or services as contemplated under the Master Products and Services Agreement may be effected from time to time by the parties to the specific agreement in relation to provision of such specific service or goods as contemplated under the Master Products and Services Agreement providing at least six months written notice of termination in relation to such products or services.

In the event that PetroChina proposes to terminate the provision of any products or services, and the Company is unable to find an alternative product or service provider (which fact shall be communicated by the Company to PetroChina from time to time), then unless permitted by the Company, PetroChina must continue to provide such services in accordance with the terms of the Master Products and Services Agreement.

2.3 Composite Services Agreement

The Company and JCGC entered into the Composite Services Agreement on 30 November 2004 for the provision (1) by JCGC to the Group and (2) by the Group to JCGC, of a range of products and services which may be required and requested from time to time by either party and/or its subsidiaries and affiliates in the ordinary and usual course of business of both the Company and JCGC.

(A) Products and services to be provided by the Group to JCGC

Under the Composite Services Agreement, products to be provided by the Group to JCGC include petrochemical products such as propylene, liquefied ammonia, liquid ammonia, caustic soda and liquefied gas and services including quantifying and measuring, waste water treatment, railway transport services.

LETTER FROM THE BOARD

(B) Products and services to be provided by JCGC to the Group

The products and services to be provided by JCGC to the Group are expected to be more numerous than those provided by the Group to the JCGC. They have been grouped together and categorised according to the following types of products and services:

- Sale of petrochemical products;
- Examination and maintenance services, including but not limited to service of examination and maintenance of equipment and machinery;
- Construction services, including but not limited to the construction of property, plant and equipment;
- Supply of materials for production purposes;
- Welfare and supporting and ancillary services, including but not limited to telecommunications, information, transport, management of files, supply of heat, medical services; fire, security; property management, employee training and guesthouses services; and
- Land and property leasing services.

(C) General principles, price and terms

The Composite Services Agreement requires, in general terms, that (1) the quality of products and services to be provided should be satisfactory to the recipient; and (2) the price at which such products and services are to be provided on normal commercial terms and must be fair and reasonable and in the interest of the Shareholders and Company as a whole.

(D) Price determination and terms of payment

The Composite Services Agreement details specific pricing principles for the products and services to be provided pursuant to the Composite Services Agreement. If, for any reason, the specific pricing principle for a particular product or service ceases to be applicable, whether due to a change in circumstance or otherwise, such product or service must then be provided in accordance with the following general pricing principles:

- (a) State-Regulated Prices (at present, this applies to services such as railway transport, examination and maintenance, construction of fixed assets, road transport and land and property leasing services);

LETTER FROM THE BOARD

- (b) where there is no State-Regulated Prices, then according to relevant market prices, in which the following factors shall be considered:
- (i) the commercial price charged by an independent third party who are not Connected Persons of the Company when providing similar services within the vicinity of Jilin City;
 - (ii) in the event that no independent third party who are not Connected Persons of the Company provides a similar service, reference may be made to the actual cost to the party providing the relevant service plus any reasonable profit margin; and
 - (iii) the amount charged by the Group or JCGC on a previous occasion for the relevant service or product,

(at present, this applies to products such as petrochemical products, production materials and spare parts and services such as quantifying and measuring, public utilities projects, telecommunications, guesthouses and media services);

- (c) where neither (a) nor (b) is applicable, then according to the actual cost incurred provided that the unit cost price in each anniversary of the Composite Services Agreement shall not be more than the price of the relevant service or product plus five per cent. (which reflects the inflation rate in line with the GDP growth rate for Jilin City in the past few years according to the experience of the Directors) or the increase in the consumer price index for Jilin City for the previous year, whichever is higher (at present, this applies to services such as waste water treatment service and welfare and supporting services including information system hardware supply and maintenance, fire, security, management of files, supply of heat, recuperation, employee training, property management, public affair management).

The Composite Services Agreement include a provision that the aggregate value of all products and services provided between JCGC and the Group must not exceed the amounts as categorized in the table under section 4.1 of this circular for each financial year ending 31 December 2005, 2006 and 2007, respectively.

However, if in any year, the Company, due to any events or factors beyond the control of the Company (e.g. nature disasters or instability of crude oil prices) or the development of new projects, is required to purchase or supply additional products and services, then the Company shall re-comply with the reporting and announcement requirements described in rules 14A.45 to 14A.47 and the independent shareholders' approval requirements described in rule 14A.48 of the Listing Rules for the decision to purchase or supply such additional products or services on the basis of any revised business plan and comprehensive financial analysis.

LETTER FROM THE BOARD

The Composite Services Agreement also provides for that the payments for any specific category of goods or service as contemplated thereunder may be made in one lump sum or by installments according to the general principles thereof and usual business practices in relation to such goods or services. Such payments will be made by the Group through internal sources.

(E) Co-ordination of annual demand of products and services

Prior to the end of each financial year, both parties are required to prepare and submit to each other an annual plan detailing the estimated demand for products and services to be rendered in accordance with the Composite Services Agreement for the forthcoming financial year.

(F) Rights and obligations

Both the Group and JCGC retain the right to choose to receive products and services, as contemplated under the Composite Services Agreement, from independent third parties where the terms and conditions as to price or quality of products or services offered by such third parties may be superior to those offered by either the Group or JCGC, as appropriate.

(G) Term and termination

Subject to obtaining independent Shareholders approval, the term of the Composite Services Agreement is three years starting from 1 January 2005. Termination of provision of any one or more categories of products or services as contemplated under the Composite Services Agreement may be effected from time to time by the parties to the specific agreement in relation to provision of such specific service or goods as contemplated under the Composite Services Agreement providing at least six months written notice of termination in relation to such products or services.

In the event that JCGC proposes to terminate the provision of any services or products, and the Company is unable to find an alternative provider for such services or products (which fact shall be communicated by the Company to JCGC from time to time), then unless permitted by the Company, JCGC must continue to provide such services and products in accordance with the terms of the Composite Services Agreement.

LETTER FROM THE BOARD

3. THE AMOUNTS OF CONTINUING CONNECTED TRANSACTIONS FOR THE YEARS 2002 AND 2003 AND THE ESTIMATED AMOUNTS FOR 2004

Set out below are the amounts of each category of Continuing Connected Transactions for the two previous financial years of 2002 and 2003 and the estimated value of the Continuing Connected Transactions for the year ending 31 December 2004.

Connected Transactions	2002	2003	2004	First half 2004
	<i>Amount in RMB thousands</i>	<i>Amount in RMB thousands</i>	<i>Amount in RMB thousands (estimated)</i>	<i>RMB thousands</i>
PetroChina				
Purchase of crude oil	5,883,507	8,067,989	15,395,370	6,346,803
Purchase of production materials	694,206	1,266,922	2,134,774	889,065
Sale of gasoline and diesel oil	4,741,000	8,271,627	11,089,824	4,797,824
Sale of petrochemical products	2,190,492	4,083,318	9,440,540	4,042,490
Production safety insurance funds	35,985	35,278	33,124	16,475
Lease on machinery and equipment	–	5,273	16,392	8,196
Railway transport and waste water treatment services	4,408	16,284	17,157	7,721
JCGC				
Sale of goods	658,700	908,009	1,268,820	688,092
Examination and maintenance services	23,880	16,694	11,600	5,220
Construction of fixed assets	165,560	65,653	26,890	12,101
Purchase of production materials and spare parts	269,780	290,002	6,230	2,804
Fees for welfare and supporting services	114,750	228,828	101,543	45,694
Operating lease rentals on land & property	9,453	10,501	7,680	4,320

4. PROPOSED ANNUAL LIMITS FOR THE CONTINUING CONNECTED TRANSACTIONS FOR THE YEARS FROM 2005 TO 2007

4.1 Basis for Continuing Connected Transactions

The Directors consider that it is in the interest of the Group to continue the Continuing Connected Transactions upon the same terms and conditions set out in the relevant Continuing Connected Transactions Agreements. The Directors have estimated the annual limits of the Continuing Connected Transactions for the coming three financial years ending 31 December 2007 based on the following factors:

- (a) the Continuing Connected Transactions will continue to be entered into between the Company and the relevant Connected Persons upon the terms and conditions set out in the relevant Connected Transaction Agreement governing the relevant Continuing Connected Transaction;

LETTER FROM THE BOARD

- (b) the estimates are based on the Continuing Connected Transactions for the two financial years ended 31 December 2003 and the estimated amounts of Continuing Connected Transactions ending 31 December 2004 with mark-up set out in section 4.2 of this letter;
- (c) there will be no material changes in existing government policies, political, legal, fiscal, or economic conditions in the PRC or countries to which the Company exports its products; and
- (d) there will be no material delay in the production schedule or expansion projects of the Company or material changes in the production process of the Company.

Connected Transactions	2005	2006	2007
	<i>Amount in</i>	<i>Amount in</i>	<i>Amount in</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>thousands</i>	<i>thousands</i>	<i>thousands</i>
	(estimated)	(estimated)	(estimated)
PetroChina			
Purchase of crude oil	23,680,000	31,370,000	33,980,000
Purchase of production materials	2,640,000	2,920,000	3,210,000
Sale of gasoline and diesel oil	13,320,000	17,330,000	18,780,000
Sale of petrochemical products	12,480,000	14,130,000	15,310,000
Production safety insurance funds	58,000	59,000	60,000
Lease on machinery and equipment	18,000	20,000	23,000
Railway transport and water treatment services	19,000	21,000	23,000
JCGC			
Sale of goods	1,503,300	1,643,300	1,803,300
Examination and maintenance services	11,600	11,600	11,600
Construction of fixed assets	26,890	26,890	26,890
Purchase of production materials and spare parts	7,480	8,220	9,050
Fees for welfare and supporting services	101,550	101,550	101,550
Operating lease rentals on land & property	7,680	7,680	7,680

4.2 Reasons for the increase in the annual maximum aggregate amount of Continuing Connected Transactions

4.2.1 Continuing Connected Transactions with PetroChina

- (a) Purchase of crude oil

The maximum aggregate annual amount proposed for 2005 to 2007 has been determined by reference to previous transactions between the Group and PetroChina and increase in both the price and processing volume of crude oil to be purchased

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by the Group from PetroChina. As expected by the Directors, the price of crude oil per barrel will increase at an annual compound growth rate of approximately 9% during the period from 2004 to 2007 and the processing volume of crude oil by the Company will increase from approximately 6.3 million tonnes in 2004, to approximately 7 million tonnes in 2005 and by approximately 20% in 2006 and 2007, respectively, on the basis of the volume in 2005.

The crude oil purchases are priced by PetroChina in accordance with guidelines set by State Development and Reform Committee monthly guidance prices for domestic crude oil with reference to international market prices for crude oil of different grades and customs duties. The principle is that the prices of onshore crude oil produced in China as delivered at any refinery should generally be at the same level as those of imported crude oil of similar grade as delivered at the same refinery.

The maximum aggregate annual amounts therefore have taken into account the recent fluctuations in the international price and supply of crude oil and the desire of the Company to build in a safety margin for the annual limits from year to year should the price per barrel of crude oil continue to increase or should there be any instability in the worldwide supply of crude oil.

The Directors are of the view that with the continuing growth of the economy of the PRC, the demand for petroleum and petrochemical products will also continue to grow in the next 3 years. In view of this, the Company is undergoing the upgrading of the de-pressurizing installations which is expected to enhance its production capacity, thus leading to the increase in the processing volume of crude oil.

(b) Purchase of production materials

The maximum aggregate annual amount proposed for 2005 to 2007 has been determined by reference to previous transactions between the Group and PetroChina and increase in both the prices and purchase volume of the production materials to be purchased by the Group from PetroChina. As expected by the Directors, throughout the period from 2004 to 2007, the prices of the production materials will increase at an annual compound growth rate of approximately 9% (which tracks the increase in the prices of crude oil as such production materials are also made from crude oil) and the purchase volume will increase at an annual compound growth of approximately 0.5%.

(c) Sale of petroleum products

The maximum aggregate annual amount proposed for 2005 to 2007 has been determined by reference to previous transactions between the Group and PetroChina and increase in both the prices and volume of gasoline and diesel to be sold by the Group to PetroChina. As expected by the Directors, throughout the period from 2004 to 2007, the prices of gasoline and diesel will increase at an annual compound rate of approximately 9% (which tracks the increase in the prices of crude oil as the price of petroleum products are controlled by the PRC government in line with the fluctuation of price of crude oil) and the volume of diesel oil will increase at an

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annual compound rate of approximately 9% as a result of the increase in the processing volume of crude oil as described in sub-section (a) above.

(d) Sale of petrochemical products

The maximum aggregate annual amount proposed for 2005 to 2007 has been determined by reference to previous transactions between the Group and PetroChina and increase in both the prices and volume of the petrochemical products to be sold by the Group to PetroChina. As expected by the Directors, throughout the period from 2004 to 2007, the price of the petrochemical products will increase at an annual compound rate of 10% (which tracks the increase in the prices of crude oil) and the volume of petrochemical products will have a general increase as a result of the increase in the processing volume of crude oil as described in sub-section (a) above.

(e) Production safety insurance funds

The maximum aggregate annual amount of production safety insurance funds proposed to be paid to PetroChina for 2005 to 2007 has been determined based on contributions to the production safety insurance plan at 0.4% of the average cost of fixed assets and inventory, and an estimated jump in fund payments by approximately 75% from 2004 to 2005 mainly due to the increase in the amount of fixed assets owned by the Company.

(f) Lease of machinery and equipment

The maximum aggregate annual amount of lease rentals proposed to be paid to PetroChina from 2005 to 2007 is expected to increase by approximately 12%, 13% and 18%, respectively, as compared with the estimated amount of operating lease rentals for 2004. This is mainly due to the need for the Company to lease additional machinery and equipment from PetroChina in accordance with the increase in its production needs as stated in sub-section (a) above.

(g) Railway transport and waste water treatment

The Group provides PetroChina with railway transport service and waste water treatment service at State-Regulated Price and market price, respectively. The maximum annual aggregate amount of service charges for such services proposed to be paid by PetroChina during the period from 2005 to 2007 is expected to increase by approximately 10% each year, as compared with the estimated amount of such service charges for 2004. This is mainly due to the increase in the railway transportation costs from 2005 to 2007 as expected by the Directors in light of current market situation and government policies of the PRC.

4.2.2 Continuing Connected Transactions with JCGC

(a) Sale of goods

The compound annual growth rate of the annual caps for the sale of refinery products and chemical products to JCGC amounts to approximately 12% for each of the three years ending 2007. Such refinery products and chemical products are used by JCGC for production of other petrochemical products.

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Such growth is primarily due to the increase in demand of JCGC for the above-mentioned production materials as a result of the upgrade of its machinery and equipment such as acrylonitrile installation which will lead to the increase of its production capacity and demand for production materials.

(b) Examination and maintenance services

JCGC currently provides examination and maintenance services on machinery and equipment to the Group in return for a service fee. For each of the three years ending 2007, the Directors set the annual caps at the same level of the estimated amount for 2004 as the Directors do not foresee any significant changes in the fees for such services undertaken by JCGC for the next three years ending 2007. The Group plans to undertake such services by its subsidiaries which are qualified to carry out such services if there is any increase in demand for such services for the next three years.

(c) Construction of fixed assets

For each of the three years ending 2007, the Directors set the annual caps at the same level of the estimated amount for 2004. The Directors do not foresee any significant changes in the amount for construction of fixed assets to be undertaken by JCGC for the next three years ending 2007. The Group plans to undertake some of the construction work by its subsidiaries which have the relevant qualification in the future.

(d) Purchase of production raw materials and spare parts

For each of the three years ending 2007, the Directors set the annual caps at a compound annual growth rate of approximately 13%. Such increase is mainly attributable to the increase in the price of such raw materials and spare parts as anticipated by the Directors.

(e) Fees for welfare and supporting services

For each of the three years ending 2007, the Directors set the annual caps at the same level of the estimated amount for 2004 as the Directors do not foresee any significant changes in the fees for welfare and supporting services paid to JCGC for the next three years ending 2007.

(f) Operating lease rentals on land & property

For each of the three years ending 2007, the Directors set the annual caps at the same level of the estimated amount for 2004 as the Directors do not foresee any significant changes in the fees for operating lease rentals on land & property for the next three years ending 2007.

5. REASONS FOR AND BENEFIT OF THE CONTINUING CONNECTED TRANSACTIONS

5.1 PetroChina

On behalf of the PRC Government, PetroChina and China Petroleum & Chemical Corporation is responsible for the allocation of all domestically-produced crude oil to domestic

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crude oil users. In the case of the Company, its allocation of crude oil is supplied by PetroChina on behalf of the PRC government and is mainly sourced from the oilfields owned by PetroChina because of the proximity of the oilfields and the good quality of crude oil supplied by the oilfields, which is suitable for the production requirements of the Company. Such oilfields of PetroChina are major oilfields in northeastern China which have been designated as the main suppliers of crude oil to all crude oil users in the same region. This closely located source of crude oil is an important operating advantage of the Company. The Company has constructed a network of crude oil pipelines which connect the oilfields to the Company's refinery plants, delivering approximately 80% of its annual crude oil consumption from the oilfields. With these arrangements in place, the oilfields provide an efficient supply of crude oil to meet the Company's production requirements. The Company has not experienced any material disruption to its supply of crude oil.

As at the date of this circular, only PetroChina and its subsidiaries and affiliates are authorised to purchase and distribute gasoline and diesel oil in northeastern China. As a result, the Company can only sell its gasoline and diesel oil to PetroChina and its subsidiaries and affiliates.

The purchase of production materials from and the sale of petrochemical products to PetroChina and its subsidiaries and affiliates are conducted in the ordinary and usual course of business of the Company.

In view of the long-term relationships between the Company and the relevant PetroChina and its subsidiaries and affiliates, the Board believes that it will be beneficial to the Company to continue the businesses with them.

5.2 JCGC

The Original Composite Services Agreement was entered into at the time of the listing of H shares and ADSs of the Company in May 1995. The Continuing Connected Transactions with JCGC have been and will be conducted in the ordinary and usual course of business of the Group. These transactions will continue to be conducted on terms that are fair, reasonable and in the interest of the Shareholders and the Company as a whole and which have been determined after arm's length negotiation between the parties. In view of the established relationship between the Company and JCGC, the Board considers it to be beneficial and operationally convenient for the Group to continue the Continuing Connected Transactions with JCGC.

6. LISTING RULES IMPLICATIONS

PetroChina is the controlling shareholder of the Company and JCGC is a wholly-owned subsidiary of the ultimate controlling shareholder of the Company. They are respectively Connected Persons of the Company as defined under Rule 14A.11 of the Listing Rules. Accordingly, the transactions under the Master Products and Services Agreement and the transactions under the Composite Services Agreement constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules and are subject to the disclosure requirements under Rules 14A.37 to 14A.40, 14A.45 and 14A.47 and the approval of the independent Shareholders under Rule 14A.48 of the Listing Rules.

LETTER FROM THE BOARD

7. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 22 of this circular. The Independent Board Committee, having taken into account the advice of Watterson, considers that the terms of the Continuing Connected Transactions Agreements and the annual caps relating thereto to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution concerning the Continuing Connected Transactions Agreements and the annual caps relating thereto to be proposed at the EGM.

8. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Directors passed resolutions on 28 July 2004 proposing to amend the relevant provisions of the existing articles of association of the Company (the “Articles”) in order to comply with certain amendments made to the Listing Rules relating to corporate governance issues effective on 31 March 2004, certain requirements recently published by China Securities Regulatory Commission jointly with State Assets Supervision and Administration Commission in Notice Regarding Certain Issues on Regulating the Funds Transfer Between the Listed Companies and Their Related Parties and Provision of Security to External Parties by the Listed Company and other requirements under the relevant regulations. The proposed amendments (collectively the “Proposed Amendments”) to the Articles are subject to the approval of the shareholders of the Company by way of special resolutions and approval and/or endorsement on registration as may be necessary by the relevant PRC authorities. Details of the Proposed Amendments are set out in the section headed the “Proposed Amendments to the Articles of Association” of this circular.

9. PROPOSED RULES OF PROCEDURES FOR SHAREHOLDERS’ GENERAL MEETING

The Directors passed resolutions on 28 July 2004 proposing to adopt the rules of procedures for shareholders’ general meeting (the “Shareholders’ Meeting Procedure Rules”) for better corporate governance. The adoption of Shareholders’ Meeting Procedure Rules are subject to the approval of the Shareholders by way of ordinary resolutions. A copy of the Shareholders’ Meeting Procedure Rules are set out in the section headed the “proposed Rules of Procedure for Shareholders’ General Meeting” of this circular.

EGM

At the EGM, ordinary resolutions will be proposed to, among other things, approve (i) the Continuing Connected Transactions and the annual caps relating thereto; and (ii) the Shareholders’ Meeting Procedure Rules and special resolutions will be proposed to approve the Proposed Amendments.

Set out on pages 37 to 38 of this circular is a notice convening the EGM, which was despatched to the holders of the H Shares on 6 December 2004.

LETTER FROM THE BOARD

PetroChina, being the controlling Shareholder of the Company, holding approximately 67.29% of the share capital of the Company at the Latest Practicable Date, and its associates (as defined in the Listing Rules) will abstain from voting with regard to ordinary resolutions in connection with Continuing Connected Transactions to be proposed at the EGM.

The votes to be taken at the EGM will be taken by poll, the results of which will be announced after the EGM. Pursuant to the articles of association of the Company, the Shareholders' meeting shall vote by show of hands unless the following persons requested for voting by poll before or after the voting by show of hands or the listing rules of the stock exchanges on which the Shares of the Company are listed requires otherwise:

- (a) the Chairman of the meeting; or
- (b) at least two Shareholders present in person or by proxy and entitled to vote; or
- (c) any Shareholder or Shareholders present in person or by proxy and representing in the aggregate not less than one-tenth (inclusive) of the total voting rights of all Shareholders having the right to vote at the meeting.

The Chairman will demand a poll at the EGM.

FURTHER INFORMATION

Your attention is also drawn to the general information set out on pages 39 to 43 of this circular.

Yours faithfully,
By order of the Board
Yu Li
Chairman



JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED
吉林化學工業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

24 December 2004

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “Circular”) dated 24 December 2004 and despatched to the Shareholders of which this letter forms part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the terms and conditions of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice issued by Watterson Asia Limited which is set out on pages 23 to 36 of the Circular.

Having considered the advice given by Watterson Asia Limited, we are of the opinion that the terms and conditions of the Continuing Connected Transaction(s) Agreements to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution concerning the Continuing Connected Transaction(s) Agreements to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Independent Board Committee

Lü Yanfeng

Wang Peirong

Fanny Li

Zhou Henglong

Independent Non-executive Directors

LETTER FROM WATTERSON

Watterson Asia Limited

5th Floor
8 Queen's Road Central
Hong Kong
Tel: (852) 2525 1990
Fax: (852) 2526 1990

24 December 2004

The Independent Board Committee
and the Independent Shareholders
Jilin Chemical Industrial Company Limited
No. 9 Longtan Street
Longtan District
Jilin City
Jilin Province 132021
China

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as independent financial adviser to the Independent Board Committee in relation to the Continuing Connected Transactions, detailed of which are set out in the circular (the "Circular") dated 24 December 2004 to the Shareholders, of which this letter forms part. Capitalized terms in this letter have the same meanings as those defined in the Circular unless the context otherwise requires.

On 2 December 2004, the Directors announced that, amongst other things, (i) the Master Product and Services Agreement was entered into between the Company and PetroChina, a controlling shareholder of the company, in relation to cross-provision of crude oil, production materials, petroleum products, petrochemical products and other services between the parties involved; and (ii) the Composite Services Agreement was entered into between the Company and JCGC, a wholly-owned subsidiary of the ultimate controlling shareholder of the Company, on 30 November 2004 in relation to cross-provision of goods and services between the parties involved.

As at the date of this letter, the Company is owned as to approximately 67.29% by PetroChina, whose controlling shareholder CNPC holds the entire equity interest in JCGC; therefore, both PetroChina and JCGC are regarded as connected persons to the Company and the Continuing Connected Transactions constitute connected transactions of the Company under the Listing Rules.

LETTER FROM WATTERSON

Watterson has been retained by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether Continuing Connected Transactions Agreements are conducted under normal commercial terms and in the ordinary and usual course of business and that the proposed respective annual caps set thereunder are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Continuing Connected Transactions are in the interest of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote.

An Independent Board Committee was established to consider the Continuing Connected Transactions Agreements and to advise the Independent Shareholders.

In formulating our recommendation, we have relied on the accuracy of the information and facts supplied to us by the Company, its Directors and management. We have considered, amongst other things, the audited financial statements of the Group for each of the three financial years ended 31 December 2003, the un-audited interim report of the Group for the six months ended 30 June 2004, the Continuing Connected Transactions Agreements and the Original Composite Service Agreement. We have also assumed that all statements of belief and intention made by the Directors in the Circular were reasonably made after due enquiry. We have assumed that all information, representations and opinion made or referred to in the Circular were true at the time they were made and continued to be true at the date of this letter. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company and its Directors and management and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted any form of in-depth investigation into the business affairs, financial position or future prospects of the Company and its subsidiaries and associated companies.

PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE CONTINUING CONNECTED TRANSACTIONS

In arriving at our opinion on the terms of the Continuing Connected Transactions, we have taken into consideration the following factors and reasons:

1. Background of the Company, PetroChina and JCGC

The Company is one of the largest basic chemicals and chemical raw materials producers in the PRC, principally engaged in the production and sale of petroleum products, petrochemical and organic chemical products, synthetic rubber products, and chemical fertilizers & inorganic chemical products. The Company listed its American Depositary Shares, H shares and A shares on the New York Stock Exchange, the Stock Exchange, and the Shenzhen Stock Exchange respectively. The Company is owned as to approximately 67.29% by PetroChina.

LETTER FROM WATTERSON

As one of the largest company in the PRC in terms of sales, PetroChina is engaged in a broad range of petroleum and natural-gas related activities, including the exploration, development, production & sale of crude oil and natural gas; the refining, transportation, storage & marketing of crude oil & petroleum products; the production and sale of basic petrochemical products, derivative chemical products and other chemical products; and the transmission of natural gas & crude oil and sale of natural gas. PetroChina listed its American Depositary Shares and H shares on the New York Stock Exchange and the Stock Exchange respectively.

JCGC, a wholly-owned subsidiary of the ultimate controlling shareholder of the Company and PetroChina, is principally engaged in the production, trading, purchase and sale of raw chemical materials, chemical products, macromolecule materials, rubber products, plastic products, aluminum powder, food additive, farm chemical, environmental project engineering equipment, steam and electricity power.

2. The Current Waivers

On 31 December 2001, the Company was granted by the Stock Exchange a waiver from strict compliance with the Listing Rules in relation to the Company's purchase of crude oil, Production Materials from PetroChina as well as sale of Petroleum Products and Petrochemical Products to PetroChina. This waiver is for a term of three years expiring on 31 December 2004.

On 11 May 1995, the Company was granted by the Stock Exchange a waiver from strict compliance with the Listing Rules in relation to transactions under the Original Composite Services Agreement.

3. Master Products and Services Agreement

On 30 November 2004, the Master Product and Services Agreement was entered into between the Company and PetroChina for a term of three years, a list of the transactions and their respective annual caps are setout in section 3.1 below.

LETTER FROM WATTERSON

3.1 Transactions under the Master Products and Services Agreement

Transactions	<i>(RMB million)</i>						
	Amount (audited) 2002	Amount (audited) 2003	Estimated Amount 2004 <i>(Note 8)</i>	Adjusted Amount 2004 <i>(Note 9)</i>	Cap amount 2005	Cap amount 2006	Cap amount 2007
Purchase of crude oil <i>(Note 1)</i>	5,884	8,068	15,395	20,513	23,680	31,370	33,980
Purchase of Production Materials <i>(Note 2)</i>	694	1,267	2,135	2,408	2,640	2,920	3,210
Sale of Petroleum Products <i>(Note 3)</i>	4,741	8,272	11,090	11,753	13,320	17,330	18,780
Sale of Petrochemical Products <i>(Note 4)</i>	2,190	4,083	9,441	10,624	12,480	14,130	15,310
Production safety insurance funds <i>(Note 5)</i>	36	35	33	n/a	58	59	60
Lease of machinery and equipment <i>(Note 6)</i>	–	5	16	n/a	18	20	23
Railway transport and waste water treatment <i>(Note 7)</i>	4	16	17	n/a	19	21	23

Notes:

- (1) As confirmed by the Directors, the Group has been and is currently purchasing its crude oil requirements from oilfields located in northeastern China which are owned and operated by PetroChina and through the companies engaged in the import and export business controlled by PetroChina at the State-regulated prices.
- (2) As confirmed by the Directors, the Group has been and is currently purchasing the production Materials (“Production Materials”), mainly include naphtha, pure benzene, fatty alcohol and other miscellaneous raw materials, from PetroChina at market prices.
- (3) As confirmed by the Directors, the Group has been and is currently selling the petroleum products (“Petroleum Products”), namely gasoline and diesel, to PetroChina, at State-regulated prices.
- (4) As confirmed by the Directors, the Group has been and is currently selling the petrochemical products (“Petrochemical Products”), mainly include ethylene, heavy oil catalyzed diesel, styrene and other petrochemical products, to PetroChina at market prices.
- (5) As confirmed by the Directors, the Group has been and is currently participating in the production safety insurance fund plan established and organised by PetroChina under which it is required to make annual contributions to the plan at 0.4% of the average cost of fixed assets and inventory. The fund is mainly used to compensate for the accidental property loss.
- (6) As confirmed by the Directors, the Group has been and is currently renting machinery and equipment from PetroChina at agreed prices.

LETTER FROM WATTERSON

- (7) As confirmed by the Directors, the Group has been and is currently providing railway transport and waster water treatment services to PetroChina at State-regulated prices and cost, respectively.
- (8) The estimated amount (“Estimated Amount”) for 2004 was based on the Company’s un-audited interim report for 2004 and the estimated figures for the second half of 2004 provided to us by the Company. The Directors has advised that the estimated figures for the second half of 2004 was calculated based on approximately the same amount of trading volume for the first half of 2004 with reference to the recent trading prices. We consider such basis is fair and reasonable.
- (9) The adjusted amounts (“Adjusted Amount”) for 2004 are calculated applying the respective average trading prices in October and November 2004 (“Current Prices”) of crude oil, production materials, Petroleum Products, and the Petrochemical products to the whole year of 2004 whereas their respective trading volume is the same as that of the Estimated Amount. As prices of these products have increased significantly during 2004, we consider the Adjusted Amount of the above mentioned connected transactions, calculated based on their respective Current Prices, in contrast to the Estimated Amount, give a more reasonable and comparable basis for the purpose of assessing the fairness and reasonableness of the annual caps for the three years ending 2007. The abovementioned Current Prices and trading volume for 2004 are provided and confirmed by the Company.

3.2 Basis of the determination of the annual caps and the considerations

3.2.1 Purchase of crude oil

The compound annual growth rate (“CAGR”) of the annual caps for purchase of crude oil amounts to approximately 18% (with reference to the Adjusted Amounts) for each of the 3 years ending 2007. In order to assess the fairness and reasonableness of these annual caps, we have considered the following factors:

- (A) These annual caps are determined on the basis of (i) the Directors predict that the price of the crude oil price will continue to rise in the next few years from the current price (note 1) of approximately US\$50.5 per barrel to approximately US\$65 per barrel for 2007, represents a CAGR of approximately 9%; and (ii) quantity of the crude oil purchased by the Company will continue to grow at a CAGR of approximately 10% for each of the three years ending 2007.

(Note 1: Current crude oil price of approximately US\$50.5 per barrel was the average trading price of West Texas Intermediate Crude Oil in October and November 2004 as published in the Wall Street Journal.)

- (B) For the period from 2002 to 2004, CAGR of the Company’s purchase of crude oil from PetroChina amounted to approximately 61%, which was mainly attributable to the increase in production volume and the expansion of annual production capacity in order to meet the strong demand from the PRC domestic market and rise of the crude oil price during the period.

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- (C) The future trend of crude oil price depends on many factors, however, it is widely predicted by many economists that oil price is likely to increase in the near future due to (i) inadequate production capacity of OPEC or Non-OPEC; (ii) the stronger-than-ever demand in Asia, particularly from China and India; (iii) political and/or economic circumstances in a number of key oil producing countries such as Iran, Iraq, Russia and Venezuela have been unstable; and (iv) risk premium as a result of the fear for terrorism attack. Any further rise in the crude oil price will increase the Company's amount of oil purchases from PetroChina.
- (D) According to the statistics reported by International Energy Agency released in October 2004, annual crude oil demand in China recorded increases of approximately 11% and 14.6% for 2003 and 2004 (estimated) respectively. On such basis, the Directors are of the view, and we agree with them, that PRC's demand for crude oil as well as other primary products derived from the crude oil such as diesel will continue to rise for each of the three years ending 2007. To meet with such anticipated increase, the Company sets its future purchase volume at a CAGR of 10%.
- (E) The Company currently purchases crude oil from PetroChina at the State-regulated prices. The Directors confirm the Company will continue to purchase oil at the State-regulated price and under normal commercial terms.

On the above basis, we are of the opinion that the Directors' prediction on the increase in crude oil price at a CAGR of 9% and the increase in demand for crude oil at a CAGR of 10% for each of the three years ending 2007 are fair and reasonable, and therefore, the annual caps for purchase of crude oil are fair and reasonable so far as the Independent Shareholders are concerned.

3.2.2 Purchase of Production Materials

The CAGR of the annual caps for purchase of the Production Materials amounts to approximately 10% (with reference to the Adjusted Amount) for each of the three years ending 2007. Production Materials purchased by the Company from PetroChina mainly include naphtha, pure benzene and alcohols, all of which are side-products derived from crude oil and are raw materials required for the production of petrochemical products. In order to assess the fairness and reasonableness of these annual caps, we have considered the following factors:

- (A) These annual caps are determined on the basis that (i) the Directors predict that, for each of three years ending 2007, price of Production Materials will rise at a CAGR of approximately 9%, which is the same as that of crude oil; and (ii) the Directors predict that, for the same period, volume of Production Materials purchased by the Company from PetroChina will increase at a CAGR of approximately 0.5%.

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- (B) The Directors have advised that, and we agree with them, as all the Production Materials are side-products derived from crude oil, so that their price will move normally in the same track as that of crude oil.

- (C) The Company currently purchases its requirements for Production Materials at market prices. The Directors confirm the Company will continue to purchase Production Materials at market price and under normal commercial terms. We have obtained and reviewed some quotations from PetroChina to other independent third parties in terms of sale of the production materials. Our findings suggest that the prices paid by the Company to PetroChina are no less favorable to the Group than those quoted by PetroChina to independent third parties.

On the above basis, we are of the opinion that the annual caps for purchase of the Productions Materials for each of the three years ending 2007 are fair and reasonable so far as the Independent Shareholders are concerned.

3.2.3 Sale of Petroleum Products

The CAGR of the annual caps for sales of the Petroleum Products, namely gasoline and diesel, amounts to approximately 17% (with reference to the Adjusted Amount) for each of the three years ending 2007. In order to assess the fairness and reasonableness of these annual caps, we have considered the following factors:

- (A) These annual caps are determined on the basis that (i) the Directors predict that the price of gasoline and diesel will rise at a CAGR of approximately 9% for each of the three years ending 2007, which is the same as that of crude oil; (ii) for the same period, volume of Petroleum Products sold by the Company to PetroChina will increase at a CAGR of approximately 9%.

- (B) The Directors have advised that, and we agree with them, gasoline and diesel are the major products derived from crude oil so that their price will move normally in the same track as that of crude oil. Further, production volume of gasoline and diesel will also increase in the same pace as that of purchase amount of crude oil.

- (C) The Company sells Petroleum Products to PetroChina at State-regulated prices. The Directors confirm the Company will continue to sell at State-regulated prices and under normal commercial terms.

On the above basis, we are of the opinion that the annual caps for the sale of Petroleum Products for each of the three years ending 2007 are fair and reasonable so far as the Independent Shareholders are concerned.

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3.2.4 Sale of Petrochemical Products

The CAGR of the annual caps for sales of Petrochemical Products amounts to approximately 13% (with reference to the Adjusted Amount) for each of the three years ending 2007. The Petrochemical Products mainly include ethylene, heavy oil, catalyzed diesel and styrene.

- (A) These annual caps are determined on the basis that (i) the Directors predict that the price of the Petrochemical Products will rise at a CAGR of 10% for each of the three years ending 2007, which is approximately the same as that of the crude oil; and (ii) for the same period, sales volume of Petrochemical Products to PetroChina will increase at a CAGR of 3%.
- (B) The Company currently sells the Petrochemical Products to PetroChina at State-regulated prices. The Directors confirm the Company will continue to sell at State-regulated prices and under normal commercial terms.

On the above basis, we are of the opinion that the annual caps for the sales of Petrochemical Products for each of the three years ending 2007 are fair and reasonable so far as the Independent Shareholders are concerned.

3.2.5 Production safety insurance funds

The Group currently participates in the production safety insurance fund plan established and organized by PetroChina under which it is required to make annual contributions to the plan at 0.4%, a State-regulated rate, of the average cost of fixed assets and inventory.

The CAGR of annual caps for production safety insurance fund amounts to approximately 21% for each of the three years ending 2007. As advised by the Directors, such increase is primarily attributable to the anticipated increase in the Company's cost of fixed assets.

On the above basis, we consider the annual caps for the production safety insurance fund plan for each of the three years ending 2007 are fair and reasonable so far as the Independent Shareholders are concerned.

3.2.6 Lease on machinery and equipment

The CAGR of the annual caps for the lease on machinery and equipment amounts to approximately 12% for each of the three years ending 2007. Such growth is primarily due to the planned expansion in the overall production volume.

LETTER FROM WATTERSON

According to the Company's third quarterly report for 2004, its turnover and net income amounted to approximately RMB20.3 billion to RMB2.3 billion respectively, representing increase of approximately 45% and 547% from those of the corresponding period of the previous year respectively. The Directors anticipate the overall operation of the Company will continue to grow in the next few years.

In light of the Company's 2004 performance and the planned expansion of the production of the Petroleum Products and Petrochemical Products as mentioned above, we consider the annual caps for the lease on machinery and equipment for each of the three years ending 2007 are fair and reasonable so far as the Independent Shareholders are concerned.

3.2.7 Railway transport and waste water treatment

The CAGR of the annual caps for the railway transport and waste water treatment amounts to approximately 10% for each of the three years ending 2007. As confirmed by the Directors, and we are agree with them, such growth is primarily due to the increase in the railway transportation costs as expected by the Directors.

In light of the Company's 2004 performance and the planned expansion of the production of the Petroleum Products and Petrochemical Products as mentioned above and that railway transport and waste water treatment expenses are directly related to production volume, we consider the annual caps for the railway transport and water treatment expenses for each of the three years ending 2007 are fair and reasonable so far as the Independent Shareholders are concerned.

4. Composite Service Agreement

On 30 November 2004, the Composite Service Agreement was entered into between the Company and JCGC for a term of three years in relation to cross-provision of a range of products and services, a list of which and their respective cap amounts are set out in section 4.1 below.

LETTER FROM WATTERSON

4.1 Transactions under the Composite Services Agreement

Transactions	<i>(RMB million)</i>					
	Amount (Audited) 2002	Amount (Audited) 2003	Amount (Estimate) 2004	Cap amount 2005	Cap amount 2006	Cap amount 2007
Sale of goods <i>(Note 1)</i>	659	908	1,269	1,503	1,643	1,803
Examination and maintenance services <i>(Note 2)</i>	23.9	16.7	11.6	11.6	11.6	11.6
Construction of fixed assets <i>(Note 3)</i>	165.6	65.7	26.9	26.9	26.9	26.9
Purchase of production materials and spare parts <i>(Note 4)</i>	269.8	290	6.2	7.5	8.2	9.1
Fees for welfare and supporting services <i>(Note 5)</i>	114.8	228.8	101.5	101.5	101.5	101.5
Operating lease rentals on land & property <i>(Note 6)</i>	9.5	10.5	7.7	7.7	7.7	7.7

Notes:

- (1) As confirmed by the Directors, the Group has been and is currently selling refinery products and chemical products to JCGC at market prices.
- (2) As confirmed by the Directors, JCGC has been and is currently providing examination and maintenance services to the Group in return for a service fee at State-regulated price.
- (3) As confirmed by the Directors, JCGC has been and is currently providing construction services to the Group at State-regulated prices as provided in the Original Composite Services Agreement.
- (4) As confirmed by the Directors, the Group has been and is currently purchasing production materials and spare parts and other materials from JCGC at market prices.
- (5) As confirmed by the Directors, JCGC has been and is currently providing welfare and supporting services based on State-regulated prices, market prices or cost as provided in the Original Composite Services Agreement.
- (6) As confirmed by the Directors, the Group has been and is currently leasing land and property from JCGC at State-regulated prices.

4.2 Basis of the determination of the annual caps and the considerations

4.2.1 *Sale of goods*

The CAGR of the annual caps for the sale of chemical products to JCGC amounts to approximately 12% for each of the three years ending 2007. Such chemical products are used by JCGC for production of other petrochemical products.

The Directors advise that, and we agree with them, such growth is primarily due to the increase in demand of JCGC for the above-mentioned production materials as a result of the upgrade of its machinery and equipment such as acrylonitrile installation which will lead to the increase of its production capacity and demand for production materials.

4.2.2 *Examination and maintenance services*

JCGC currently provides, amongst other things, examination and maintenance services on machine and equipment to the Group in return for a service fee. For each of the three years ending 2007, the Directors set the annual caps at the same level of the estimated amount for 2004 as the Directors do not foresee any significant changes in the fees for subcontracting services undertaken by JCGC for the next three years ending 2007. The Directors advise that if there is any increase in demand for such services for the next three years, the Group plans to undertake such services by its subsidiaries which are qualified to carry out such services.

4.2.3 *Construction of fixed assets*

For each of the three years ending 2007, the Directors set the annual caps at the same level of the estimated amount for 2004. The Directors do not foresee any significant changes in the amount for construction of fixed assets to be undertaken by JCGC for the next three years ending 2007. The Directors advise that the Group plans to undertake some of the construction work by its subsidiaries which have the relevant licenses in the future.

4.2.4 *Purchase of production materials and spare parts*

For each of the three years ending 2007, the Directors set the annual caps at a CAGR of approximately 13%. The Directors has advised that, and we agree with them, such increase is mainly attributable to the anticipated increase in the price of such raw materials and spare parts.

4.2.5 *Fees for welfare and supporting services*

For each of the three years ending 2007, the Directors set the annual caps at the same level of the estimated amount for 2004 as the Directors do not foresee any significant changes in the fees for welfare and supporting services paid to JCGC Group Companies for the next three years ending 2007.

LETTER FROM WATTERSON

4.2.6 Operating lease rentals on land & property

For each of the three years ending 2007, the Directors set the annual caps at the same level of the estimated amount for 2004 as the Directors do not foresee any significant changes in the fees for operating lease rentals on land & property for the next three years ending 2007.

Except for sales of petrochemical products to JCGC and purchase of raw materials and spare parts from JCGC, annual caps for all other transactions under the Composite Service Agreement will remain at the same estimated amount for 2004. Given the anticipated increase in demand of JCGC for the petrochemical products produced by the Company and the increase in the prices of raw materials, we are of the view that the annual caps for those transactions under the Composite Services Agreement for each of the three years ending 2007 are fair and reasonable so far as the Independent Shareholders are concerned.

5. Pricing policies under the Continuing Connected Transactions Agreements

5.1 Master Products and Services Agreement

As stated in the Circular, the Master Products and Services Agreement details specific pricing principles for the products and services to be provided pursuant to the Master Products and Services Agreement. If the specific pricing principle for a particular product or service ceases to be applicable, whether due to a change in circumstance or otherwise, such product or service must then be provided in accordance with the following general pricing principles:

- (a) State-regulated prices (at present, this applies to products such as crude oil, gasoline and diesel, services such as railway transport and production safety insurance funds);
- (b) where there are no State-regulated prices, then according to relevant market prices, whichever of the following market prices is applicable:
 - (i) the local market price and the market price of nearby areas, at which the same type of products and services are provided by independent third parties in the ordinary course of business at that time; or
 - (ii) the national market price, at which the same type of products or services are provided by independent third parties in the ordinary course of business at that time,

(at present, this applies to products and services such as petrochemical products, other production materials such as naphtha, pure benzene, fatty alcohol.);

- (c) where neither (a) nor (b) is applicable, then the cost price and/or agreed price determined according to the actual cost incurred.

LETTER FROM WATTERSON

5.2 Composite Services Agreement

As stated in the Circular, the Composite Services Agreement details specific pricing principles for the products and services to be provided pursuant to the Composite Services Agreement. If, for any reason, the specific pricing principle for a particular product or service ceases to be applicable, whether due to a change in circumstance or otherwise, such product or service must then be provided in accordance with the following general pricing principles:

- (a) State-regulated prices (at present, this applies to services such as railway transport, examination and maintenance, construction of fixed assets, road transport and land and property leasing services);
- (b) where there is no State-regulated prices, then according to relevant market prices, in which the following factors shall be considered:
 - (i) the commercial price charged by an independent third party when providing similar services within the vicinity of Jilin City;
 - (ii) in the event that no independent third party provides a similar service, reference may be made to the actual cost to the party providing the relevant service plus any reasonable profit margin; and
 - (iii) the amount charged by the Group or JCGC on a previous occasion for the relevant service or product,

(at present, this applies to products such as petrochemical products, production materials and spare parts and services such as quantifying and measuring, public utilities projects, telecommunications, guesthouses and media services);

- (c) where neither (a) nor (b) is applicable, then according to the actual cost incurred provided that the unit cost price in each anniversary of the Composite Services Agreement shall not be more than the price of the relevant service or product plus five per cent. (which reflects the inflation rate in line with the GDP growth rate for Jilin City in the past few years according to the experience of the Directors) or the increase in the consumer price index for Jilin City for the previous year, whichever is higher (at present, this applies to services such as waste water treatment service and welfare and supporting services including information system hardware supply and maintenance, fire, security, management of files, supply of heat, recuperation, employee training, property management, public affair management).

After reviewing the above pricing policies, in general, we are of the view that the above pricing principles are fair and reasonable so far as the Independent Shareholders are concerned, given that the mechanism requires prices of all goods and services under the Continuing Connected Transactions Agreements to be set at either State-regulated prices, market prices, cost basis or precedent basis, with the former always prevail unless deemed not applicable.

LETTER FROM WATTERSON

6. Reasons for and benefits of the Continuing Connected Transactions

The transactions under the Master Products and Services Agreement have been granted by the Stock Exchange a waiver from strict compliance with the Listing Rules on 20 April 1999 and 31 December 2001 respectively, particulars of which are set forth in the Company's circular dated 18 January 1999 and 6 December 2001 respectively.

The transactions under the Composite Services Agreement have been granted by the Stock Exchange a waiver from strict compliance with the Listing Rules in May 1995, when the Company has its H shares listed on the Stock Exchange.

Historically and currently, the Group has been purchasing all of its requirements for crude oil from oilfields in the northeastern part of the PRC currently owned and operated by PetroChina. PetroChina is the largest crude oil producer in China and almost all major petrochemical companies in the northeastern part of the PRC are members of the PetroChina. The Directors have confirmed, and we agree with them, that (i) there is no third party in the northeastern part of the PRC who are currently offering products and services under the comparable scale and terms similar to those stated under the Agreements; and (ii) in the event that the Company do not undertake the Continuing Connected Transactions, its operation will be adversely effected. On such basis, the Directors consider, and we agree with them, that the cross provision of the products and services between PetroChina/JCGC and the Company are in their respective ordinary course of businesses, and entering into of the Master Products and Services Agreement and the Composite Service Agreement are to the benefit of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business; that the proposed respective annual caps set thereunder are fair and reasonable so far as the Independent Shareholders are concerned; and the Continuing Connected Transactions are in the interest of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the ordinary resolution to approve the above-mentioned agreements at the upcoming EGM. We would also recommend the Independent Shareholders to vote in favor of the ordinary resolution to approve the above-mentioned agreements at the upcoming EGM.

Yours faithfully,
For and on behalf of
Watterson Asia Limited
David Tsang
Managing Director

NOTICE OF EXTRAORDINARY GENERAL MEETING



JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED 吉林化學工業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "Extraordinary General Meeting") of Jilin Chemical Industrial Company Limited (the "Company") will be held on 20 January 2005 at 9:00 a.m. at the Conference Room of the Company on the 19th Floor, No. 9 Longtan Street, Longtan District, Jilin City, Jilin Province, the People's Republic of China, for the purpose of:

AS ORDINARY RESOLUTIONS

1. considering and, if thought fit, passing the following resolutions with or without modifications as ordinary resolutions of the Company:

"THAT:

- (a) the Master Products and Services Agreement entered into by the Company and PetroChina Company Limited ("PetroChina"), the cross-provision of products and services according to the pricing principles and terms thereof in the ordinary and usual course of business of both the Company and PetroChina for the period from 1 January 2005 to 31 December 2007 and the annual limits for such transactions with PetroChina (the "Continuing Connected Transactions with PetroChina") for the years 2005, 2006 and 2007 being Renminbi ("RMB") 52,215,000 thousands, RMB65,850,000 thousands and RMB71,386,000 thousands, respectively, be and are hereby generally and unconditionally approved;
 - (b) the Composite Services Agreement entered into by the Company and Jilin Chemical Group Corporation ("JCGC"), the cross-provision of products and services according to the pricing principles and terms thereof in the ordinary and usual course of business of both the Company and JCGC for the period from 1 January 2005 to 31 December 2007 and the annual limits for such transactions with JCGC (the "Continuing Connected Transactions with JCGC") for the years 2005, 2006 and 2007 being RMB1,658,500 thousands, RMB1,799,240 thousands and RMB1,960,070 thousands, respectively, be and are hereby generally and unconditionally approved;
 - (c) the directors of the Company be and are hereby authorized to do such further acts and things and execute further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the Continuing Connected Transactions with PetroChina and the Continuing Connected Transactions with JCGC mentioned above under resolution (a) and resolution (b)."
2. considering and approving the resolutions in relation to the rules of procedure for shareholders' general meeting of the Company, details of which are set out in the section headed "Rules of Procedures for Shareholders' General Meeting" of this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING

AS SPECIAL RESOLUTIONS

3. considering and approving the resolutions in relation to the amendments to the articles of association of the Company, details of which are set out in the section headed the “Proposed Amendments to the Articles of Association” of this circular.

By Order of the Board
Zhang Liyan
Company Secretary

Jilin, PRC
2 December 2004

As of the date hereof, the Board comprises of:

Executive Directors:	Yu Li, Shi Jianxun, Zhang Xingfu
Non-executive Directors:	Xu Fengli, Ni Muhua, Jiang Jixiang, Lan Yusheng
Independent Non-executive Directors:	Lü Yanfeng, Wang Peirong, Fanny Li, Zhou Henglong

Notes:

- (A) Holders of the Company’s share whose names appear on the register of members of the Company at 4:00 p.m. on 21 December 2004 are entitled to attend the Extraordinary General Meeting with their passports or other identity papers.
- (B) The register of members of the Company will close from 22 December 2004 to 20 January 2005 (both days inclusive), during which time no share transfer will be effected.
- (C) Each shareholder who has the right to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more proxies, whether they are members or not, to attend and vote on his behalf at the Extraordinary General Meeting.
- (D) A proxy of a shareholder who has appointed more than one proxy may only vote on a poll.
- (E) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing. If that instrument is signed by an attorney of the appointor, the power of attorney must be certified by a notary. The notarially certified power of attorney, or other documents of authorization, and the form of proxy must be delivered to the Company’s registrar, Hong Kong Registrars Limited, 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for the holding of the Extraordinary General Meeting.
- (F) Shareholders intending to attend the Extraordinary General Meeting should return the accompanying reply slip to the Secretary’s Office to the Company before 31 December 2004 personally/or by mail, cable or facsimile.
- (G) The Extraordinary General Meeting is expected to last half a day. Shareholders attending the Extraordinary General Meeting will be responsible for their own transportation and accommodation expenses.
- (H) The details of the Secretary’s Office of the Company are as follows:

No. 9 Longtan street
Longtan District
Jilin City
Jilin Province
PRC
Postal code: 132021
Tel: (86 432) 3903651
Fax: (86 432) 3028126

GENERAL INFORMATION

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information on the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other material facts the omission of which would make any statement in this circular misleading.

DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the following Directors and Supervisors had the following interests and short positions in the Shares, underlying shares and debentures of the Company:

	Number of Shares	Percentage of shareholding
Directors		
Shi Jianxun	3,550	0.00009969%
Ni Muhua	3,550	0.00009969%
Sub-total	<u>7,100</u>	<u>0.00019938%</u>
Supervisors		
Zou Haifeng	3,550	0.00009969%
Li Shumin	7,000	0.00019657%
Sub-total	<u>10,550</u>	<u>0.00029626%</u>
Total	<u><u>17,650</u></u>	<u><u>0.00049564%</u></u>

Save as disclosed, none of the Directors, supervisors or chief executive of the Company has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange;

GENERAL INFORMATION

None of the Directors, Supervisors or Watterson has any direct or indirect interest in any assets which have since 31 December 2003 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors or the Supervisors is materially interested in any contract or arrangement entered subsisting at the date of this circular which is significant in relation to the business of the Group.

Watterson does not have any shareholding, direct or indirect, in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities of the Company.

COMPETING INTERESTS

None of the Directors or the Supervisors and their respective associates has any interest in a business which competes or may compete with the business of the Group.

SERVICE CONTRACTS OF THE DIRECTORS AND THE SUPERVISORS

Each of the Directors and the Supervisors has entered into a service contract with the Company for term of up to 3 years ending on 19 April 2007 which may be renewed with the consent of both parties.

Subject to the approval by the Shareholders at the Shareholders' general meeting, each of the executive Directors is entitled to a management bonus, the amount of such management bonus shall be determined by the Board by reference to the net profits of the Company after taxation and extraordinary losses (excluding net profits derived from any extraordinary items) ("Net Profits"). The aggregate amount of the management bonus payable to all Directors in respect of any financial year of the Company shall not exceed 1% of the Net Profits for the relevant financial year.

Apart from the above, no other service contracts exist or have been proposed between any member of the Group and any of the Directors or Supervisors. None of the Directors or Supervisors has entered into any service contracts with any member of the Group which may not be terminated by any member of the Group within one year without payment other than statutory compensation.

GENERAL INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following persons (not being a director or chief executive of the Company), so far as are known to any Director, were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of the Shareholders	Number of Shares
PetroChina	2,396,300,000 ⁽¹⁾
HKSCC Nominees Limited	819,244,699

Note:

- (1) PetroChina is the sole owner of the 2,396,300,000 State-owned domestic invested shares of the Company, representing approximately 67.29% of the registered share capital of the Company.

Save as disclosed, so far as is known to the Directors, there is no person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries or held any option in respect of such capital.

MATERIAL CHANGE

The Directors are not aware of any material adverse change in the financial or trading positions of the Company since 31 December 2003 (being the date to which the latest published audited financial statements of the Company were made up).

LITIGATION

The Company is not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company.

CONSENT

Watterson Asia Limited has given and has not withdrawn its consent to the issue of this circular with the inclusion herein of its letter and the references to its name, in the form and context in which they respectively appear.

GENERAL INFORMATION

QUALIFICATION OF EXPERT

The following is the qualification of the expert which is contained in this circular:

Name	Qualification	Date of advice	Nature of advice
Watterson Asia Limited	A deemed licensed corporation under the SFO	24 December 2004	Letter of advice to the Independent Board Committee

MISCELLANEOUS

- (i) The Company secretary of the Company is Zhang Liyan.
- (ii) The Company has obtained a 3-year waiver from the Stock Exchange from strict compliance with Rule 3.24 of the Listing Rules relating to the appointment of a qualified accountant by the Company, on the condition that during the period covered by the waiver, the Company shall engage a person who shall meet all the requirements of Listing Rule 3.24 (other than for the fact that he/she does not have Hong Kong-specific accounting qualifications or other professional qualifications recognised by the Hong Kong Institute of Certified Public Accountants) and the Company shall have in place an arrangement whereby such person shall have continual access to the assistance of other person(s) possessing the professional qualifications required under Listing Rule 3.24.” The Company has engaged Zhang Liyan, deputy chief financial officer of the Company as the qualified accountant of the Company, and she shall have continual access to the assistance of Au-Yeung Shiu Kau, Peter, who is a fellow and a practising member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Chartered Association of Certified Accountants over the period covered by the waiver being granted. The Company will publish an announcement regarding the said waiver as soon as possible.
- (iii) The legal address and head office of the Company is No. 9 Longtan Street, Longtan District, Jilin City, Jilin Province, the People’s Republic of China.
- (iv) The share registrar of the Company is Hong Kong Registrars Limited, 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of Morrison & Foerster at 23rd Floor, Entertainment Building, 30 Queen’s Road Central, Hong Kong during normal business hours until 20 January 2005:

- (i) the articles of association of the Company;

GENERAL INFORMATION

- (ii) the letter from the Independent Board Committee, the text of which is set out on page 22 of this circular;
- (iii) the letter from Watterson Asia Limited, the text of which is set out on pages 23 to 36 of this circular;
- (iv) the written consent of Watterson Asia Limited;
- (v) the Master Products and Services Agreement;
- (vi) the Composite Services Agreement; and
- (vii) the current service contracts between the Company and the executive Directors and the Supervisors, respectively.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

1 Article 6

Article 6 is proposed to be amended to include an additional paragraph as follows:

“The Company shall prepare and amend these articles (the “**Articles of Association**” or “**these Articles of Association**”) in accordance with the provisions of the Company Law, the Special Regulations and the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the “**Mandatory Provisions**”), the Code for the Governance of the Listed Companies, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), other PRC laws and administrative regulations and the shareholders’ resolutions of the Company.”

2 Article 11

The second paragraph of Article 11 is proposed to be amended as follows:

“Subject to the provisions of the laws and regulations of the PRC, the Company has right to take financing or loans including, but not limited to issuing bonds and creating mortgages or pledges on all or part of its business and property, and, in any situation (other than the situation prohibited or restricted by the provisions hereof) providing security or mortgage for any third party (including but not limited to the subsidiaries and affiliated companies of the Company) provided that the approvals by the board of directors and shareholders (if applicable) are obtained according to relevant laws and regulations and the Listing Rules.”

3 Article 56

Article 56(2) is proposed to be amended as follows:

“To elect and change the directors, decide the remuneration and liability insurance of the directors.”

Article 56(3) is proposed to be amended as follows:

“To elect and change the supervisors acting as shareholders’ representative, decide the remuneration and liability insurance of supervisors.”

4 Article 73

Pursuant to the revised Listing Rules, the articles of association of a listed company shall specify that if a shareholder is restricted from voting under the Listing Rules, any votes cast by or on behalf of such shareholders in contravention of such restriction or requirement shall not be counted. As such, Article 73 is proposed to be amended as follows:

“A Shareholder (including proxy) when voting at a shareholders’ meeting may exercise his voting rights in accordance with the number of shares carrying the voting right and each share shall have one vote. If any shareholder is required to abstain from voting on any

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

particular resolution, or restricted from voting only for or only against any particular resolution, any vote cast by such shareholder or his proxy in contravention of such requirement or restriction shall not be counted.”

5 Article 74

The first paragraph of Article 74 is proposed to be amended as follows:

“The Shareholders’ meeting shall vote by show of hands unless the following persons requested for voting by poll before or after the voting by show of hands or the listing rules of the stock exchanges on which the shares of the Company are listed requires otherwise.”

6 Article 79

In order to strengthen the corporate governance of the Company, Article 79(3) is proposed to be amended as follows:

“the division, merger, dissolution and liquidation and material acquisitions or disposal of the Company;”

An additional paragraph (6) is proposed to be inserted after paragraph (5) as follows:

“other matters as required by the Listing Rules”

7 Article 100

Pursuant to the revised Listing Rules, a notice relating to nomination of directors by shareholders shall be lodged not earlier than the date after the despatch of the notice of the meeting and no later than 7 days prior to the date the meeting is held. As such, Article 100 is proposed to be amended as follows:

“The directors shall be elected by the shareholders’ meeting for a term of three (3) years and may be re-elected. Nomination of candidates for directors (other than independent directors) shall be delivered in writing to the Company not earlier than the date the notice convening the meeting is issued and not later than 7 days prior to the date the meeting is held. Candidates shall serve notices to the Company expressing their intention to participate in the election 7 days prior to the date the meeting is held. The chairman and deputy chairman shall be elected or removed by on less than half of the numbers of all the directors. The chairman and deputy chairman of the Company shall be appointed for a term of three (3) years and may be re-elected. The directors are not required to hold any share of the Company.”

8 Article 101

An additional item (12) is proposed to be added to paragraph 1 as follows:

“decide to provide any security to external parties (including creating any mortgage on the assets) within the scope authorised by the shareholders’ meetings and allowed by the Listing Rules”

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Paragraph 2 is proposed to be amended as follows:

Resolutions of the board of directors in relation to above mentioned matters of this Article shall be passed by a simple majority of the directors provided that matters mentioned under paragraph (6), (7), (11) and (12) shall be passed by a majority of at least two thirds of the directors.”

9 Article 104

Articles 104(4) and (5) are proposed to be deleted. As a result, Article 104(6) shall be re-numbered as Article 104(4).

10 Article 119

Article 119 is proposed to be deleted as the administrative approval requirements under this Article has been abolished by the relevant authorities. As such, the Articles thereafter shall be re-numbered accordingly.

11 Article 123

Article 123, paragraph 1, item 1 shall be re-numbered as Article 122, paragraph 1, item 1 and is proposed to be amended as follows:

“Any material connected transaction which is required the laws to be approved by the board of directors or shareholders’ meeting shall be submitted to the board of directors for discussion and approval in writing by the independent directors and then if required by the relevant laws and rules of the relevant authorities, to the shareholders’ meeting for approval and such material connected transaction shall be effective upon the approval by the shareholders’ meeting. Before the independent directors make a conclusion, they may engage professional advisers to issue independent financial report as basis for their conclusion.”

12 Article 124

Article 124, paragraph 1, item (4) shall be re-numbered as Article 123, paragraph 1, item (4) and is proposed to be amended as follows:

“Any existing and new loan to or fund transfer with the shareholders, substantial controller and their associated companies of the Company the amount of which is equal to or higher than the threshold (determined according to the threshold stipulated by the relevant regulatory authorities from time to time) for material connected transaction which is required by the laws to be approved by the board of directors or shareholders’ meeting and whether the Company has taken effective actions to recover the outstanding amounts.”

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

13 Article 150

Article 150 shall be re-numbered as Article 149 and an additional paragraph (6) is proposed to be inserted after paragraph (5) as follows:

“Any person who will be deemed as associates to such directors, supervisors, managers or other senior management officers as defined under the Listing Rules.”

14 Article 153

Article 153 shall be re-numbered as Article 152 and an additional paragraph is proposed to be inserted as the last paragraph of this Article as follows:

“A director shall abstain from voting in relation to contracts, transactions or arrangements in which he or his Associates (as defined in the Listing Rules) have a material interest and shall not be counted in the quorum.”

15 Article 156

Article 156 shall be re-numbered as Article 155 and additional provisions are proposed to be inserted after the last paragraph of previous Article 156 as follows:

“The Company shall comply with the following principles while providing any security to external parties:

- (1) the Company shall not provide any security for the controlling shareholder and any other affiliated party in which the Company is interested less than 50%, non-legal person entity or individual;
- (2) The Company shall not directly or indirectly provide any security for the debt of any person whose equity-debt ratio is over 70%;
- (3) Any security provided for any Connected Person shall be approved according to the procedures required under these Articles in relation to the connected transaction and the relevant provisions of the Listing Rules;
- (4) The total amount of all the securities provided to external parties shall not be more than 50% of the net assets value reported in the consolidated accounts of the immediate preceding financial year; and
- (5) The Company must request for cross-security while providing security to the external parties and the party providing the cross-security shall be capable of providing such security.”

PROPOSED RULES OF PROCEDURE FOR SHAREHOLDERS' GENERAL MEETING

The Directors passed resolutions on 28 July 2004 proposing to adopt the following rules of procedures for shareholders' general meeting (the "Shareholders' Meeting Procedure Rules") for better corporate governance, a copy of which are set out in the section headed the "Proposed Rules of Procedure for Shareholders' General Meeting" of this circular. The Shareholders' Meeting Procedure Rules are subject to the approval of the Shareholders of Company by way of ordinary resolutions.

CHAPTER I GENERAL PROVISIONS

- Article 1** These Rules are formulated in accordance with the laws and regulations and the rules and regulations governing the listed companies within and outside China, including Company Law of the People's Republic of China (hereinafter referred to as the "**Company Law**"), the Mandatory Provisions in the Articles of Association of Companies Listed Overseas, Guidelines on the Articles of Association of Listed Companies, Standards on Corporate Governance for Listed Companies, the Opinions on Standardizing the Shareholders' General Meetings of Listed Companies and etc. and with the Articles and Association of Jilin Chemical Industrial Company Limited (hereinafter referred to as the "**Articles**"), in order to protect the lawful interest of Jilin Chemical Industrial Company Limited (hereinafter referred to as the "**Company**") and its shareholders, to clearly define the responsibilities and authority of the shareholders' general meeting, to ensure the shareholders' general meeting to be conducted in a standardized, efficient and stable manner and to perform the functions and powers thereof according to law.
- Article 2** These Rules shall be applicable to shareholders' general meetings and shall have binding effect on the Company, all shareholders, proxies authorized by the shareholders, the directors, supervisors, general manager, deputy general manager, financial controller and the secretary of the board of directors of the Company and other relevant personnel who attend the shareholders' general meeting.
- Article 3** Shareholders' general meetings can be classified as annual general meetings (hereinafter referred to as the "**AGM**") and extraordinary general meetings.
- Article 4** The AGM shall be convened once every year and shall be held within six months after the end of the preceding accounting year.
- Article 5** For all shareholders' general meetings convened each year, meetings other than the AGM shall be treated as extraordinary general meetings. The extraordinary general meetings shall be arranged in sequential order during the year.

PROPOSED RULES OF PROCEDURE FOR SHAREHOLDERS' GENERAL MEETING

Article 6 Shareholders holding different classes of shares shall be referred to as “**class shareholders**”. Apart from holders of other classes of shares, holders of domestic shares and H shares shall be treated as **holders of different classes of shares**. In the event that the Company intends to change or abolish the rights enjoyed by the class shareholders, the said change or abolishment shall, in accordance with the Articles, be approved by a special resolution at the shareholders’ general meeting and a class meeting for the classes of shareholders shall be convened in connection therewith. No shareholders other than the classes of shareholders shall be allowed to attend such class meeting. Class meetings for the class shareholders can be classified as class meetings for holders of domestic shares and class meetings for holders of H shares.

Article 7 The board of directors of the Company shall strictly comply with various requirements as provided in the Company Law and other laws and regulations in respect of convening the shareholders’ general meeting and shall organize the shareholders’ general meeting diligently and in a timely fashion. All directors of the Company shall fulfil their fiduciary duties for properly convening shareholders’ general meetings and shall not prevent the shareholders’ general meeting from exercising its functions and powers according to law.

Directors attending such meetings shall undertake their responsibilities in good faith and ensure that the substance of the resolutions shall be true, accurate and complete. No representation which may easily result in misinterpretation thereof shall be used.

Article 8 A shareholder who lawfully holds shares in the Company shall have the right to attend, in person or by proxy, the shareholders’ general meeting and shall enjoy various rights thereat according to the law and in accordance with these Rules, including the right to be informed, the right to speak, the right to question and the right to vote.

Shareholders and their authorized proxies shall comply with the relevant laws and regulations, the Articles and these Rules to maintain the order of the meeting conscientiously. The lawful interests of other shareholders shall not be infringed.

Article 9 The secretary of the board of directors of the Company shall be responsible for carrying out all preparatory and organization work for convening the shareholders’ general meeting.

Article 10 The shareholders’ general meeting shall be convened by adhering to the principles of cost-saving and simplicity. No additional benefits shall be granted to the shareholders (or their authorized proxies) attending such meeting.

PROPOSED RULES OF PROCEDURE FOR SHAREHOLDERS' GENERAL MEETING

CHAPTER II FUNCTIONS AND POWERS OF THE SHAREHOLDERS' GENERAL MEETING

Article 11 The shareholders' general meeting shall be the organ of authority of the Company. It may exercise the following functions and powers according to law:

- (1) to determine the business objectives and investment plans of the Company;
- (2) to elect and replace directors, and to determine matters relating to the remuneration and liability insurance of the directors;
- (3) to elect and replace supervisors who are the shareholders' representative and to determine matters relating to remuneration and liability insurance of the supervisors;
- (4) to consider and approve the reports of the board of directors;
- (5) to consider and approve the reports of the supervisory committee;
- (6) to consider and approve the Company's annual budgets and the final accounts;
- (7) to consider and approve the Company's plans for profit distribution and for making up losses;
- (8) to pass resolutions on retaining or dismissing or ceasing to continue to retain the accounting firms;
- (9) to consider motions proposed by the shareholders representing more than 5% (inclusive) of the voting right of the Company;
- (10) to pass resolutions relating to the increase or reduction of the Company's registered capital and the issue of any class of shares, warrants and other similar securities;
- (11) to pass resolutions on the issue of bonds of the Company;
- (12) to pass resolutions relating to matters including the merger, division, dissolution or liquidation etc. of the Company;
- (13) to amend the articles of association;
- (14) to determine any other matters of as required in accordance with the laws, administrative regulations and the Articles.

PROPOSED RULES OF PROCEDURE FOR SHAREHOLDERS' GENERAL MEETING

The shareholders' general meeting shall exercise its functions and powers to the extent as permitted by the Company Law. It shall not interfere with shareholders in respect of their own rights.

Article 12 Matters which, in accordance with laws, administrative regulations, rules of the relevant government authorities and provisions of the Articles of Association, fall within the scope of the authority of the shareholders' general meeting must be examined at such meeting so as to protect the decision-making power of the shareholders of the Company on such matters.

Article 13 In the course of disposing of fixed assets, if the sum of the estimated value of the fixed assets proposed to be disposed and the value derived from the fixed assets which have been disposed within four months prior to such disposal proposal exceeds 33% of the value of the fixed assets as shown in such balance sheet as being considered during the most recent shareholders' general meeting, the shareholders' general meeting shall examine and approve such disposal. The board of directors shall neither dispose nor agree to dispose such fixed assets without prior approval by the shareholders' general meeting.

For the purposes of these Rules, the term “**disposal**” of fixed assets includes the transfer of certain interest in the assets but excluding the usage of fixed assets for the provision of guarantee.

In the event that any of the above investment or asset disposal constitutes a connected transaction in accordance with the regulatory requirements governing its listing venue, such matter shall be handled according to relevant requirements.

Article 14 The Company shall not provide any security for the debt of its shareholders, any subsidiaries in which its shareholders have equity interests, any affiliated companies of its shareholders or individuals, nor shall it directly or indirectly provide any security for the debt of any person whose gearing ratio is over 70%. In the event of any security given by the Company to external parties, the party requesting for such security shall provide the Company with cross-security or any other necessary preventive measures against risks. The total amount of all the securities provided to external parties shall not be more than 50% of the net assets value reported in the consolidated accounts of the immediate preceding financial year.

Article 15 The shareholders' general meeting may reasonably authorize the board of directors the power to determine, to the extent permitted by the shareholders' general meeting, any specific matters which are relevant to the matters being resolved and which are unable to be determined at the current shareholders' general meeting, if necessary.

PROPOSED RULES OF PROCEDURE FOR SHAREHOLDERS' GENERAL MEETING

CHAPTER III PROCEDURES TO CONVENE A SHAREHOLDERS' GENERAL MEETING

Section 1 Proposing, seeking and considering motions

- Article 16** Motions put forward in a shareholders' general meeting shall be specific and shall relate to the matters which shall be discussed at a shareholders' general meeting.
- Article 17** Motions are generally proposed by the board of directors to the shareholders' general meeting.
- Article 18** In the event that more than two independent directors or more than one-half of the number of independent directors propose to convene an extraordinary general meeting, such directors shall be responsible to propose motions in relation thereto. In the event that the board of directors does not agree to convene the extraordinary general meeting, the relevant details shall be disclosed.
- Article 19** In the course of convening an AGM, the supervisory committee, more than one-half of the number of independent directors or shareholders who, individually or jointly, hold more than 5% of the total voting shares of the Company shall have the right to propose an *ex tempore* motion. In the event that a shareholder who has proposed a motion objects to decision of the board of directors on excluding the motions proposed by him from the agenda of the shareholders' general meeting, such shareholder may request to convene an extraordinary general meeting in accordance with these Rules.
- Article 20** In the event that the supervisory committee proposes to convene an extraordinary general meeting, it shall be responsible to propose motions in relation thereto.
- Article 21** In the event that shareholders who, individually or jointly, hold more than 10% of the total voting shares of the Company propose to convene an extraordinary general meeting, they shall be responsible to propose motions in relation thereto, regardless of whether or not the meeting is convened by the board of directors.
- Article 22** Before the chairman of the board of directors issues the notice of the board of directors convening the shareholders' general meeting, the secretary of the board of directors may seek and collect motions from shareholders who individually hold more than 5% of the total voting rights of the Company (at the time when proposing to convene an AGM) or who individually hold more than 10% of the total voting rights of the Company (at the time when proposing to convene an extraordinary general meeting), the supervisors or independent directors and submit the same to the board of directors for consideration. Upon approval, such motions shall be treated as motions to be submitted to the shareholders' general meeting for consideration.
- Article 23** The AGM shall at least consider the following motions:
- (1) the annual report of the board of directors, including the investment plan and business strategy for the coming year;

PROPOSED RULES OF PROCEDURE FOR SHAREHOLDERS' GENERAL MEETING

- (2) the annual report of the supervisory committee;
- (3) the audited final accounts of the Company for the preceding year;
- (4) the Company's plans for profit distribution and for making up losses of the preceding year;
- (5) retaining, dismissing or ceasing to continue to retain an accounting firm.

Article 24 Shareholders who, individually or jointly, hold more than 5% of the total voting shares of the Company have the right to propose an ex tempore motion at the shareholders' general meeting. The Board of Directors shall examine and review the motion proposed by a shareholder in accordance with the following principles:

(1) Relevance. The board of directors shall examine and review the proposed motions on the ex facie basis, that is, all motions to be submitted or served to the board of directors or the chairman of the shareholders' general meeting shall be made in writing. The content of such motions shall comply with the requirements as stipulated in the laws, administrative regulations and the Articles and fall within the scope of business of the Company and within the functions and powers of the shareholders' general meeting. Each such motion shall also have a clear topic for discussion and a specific issue for resolution. Motions which comply with the foregoing requirements shall be submitted to the shareholders' general meeting for discussion. Motions which do not comply with the foregoing requirements shall not be submitted to the shareholders' general meeting for discussion. If the board of directors decides not to submit such motions as proposed by the shareholders to the AGM for discussion, it shall explain or state the reasons thereof at the then AGM.

(2) Procedures. The board of directors may determine procedural issues relating to proposing motions. In the event that the proposed motions are voted separately or jointly, it is necessary to obtain consent of the original proposing party in relation thereto; if the proposing party does not agree with such change, the chairman of the shareholders' general meeting may request the AGM to determine the issues on the procedures relating thereto and conduct a discussion thereof in accordance with the procedures as determined by the AGM.

Article 25 If an extraordinary general meeting or a class meeting is proposed to be convened by the supervisory committee, two or more than two shareholders who jointly hold more than 10% of the total voting shares at the proposed meeting, they may sign one copy or several copies of a written request in the same form and substance clearly specifying the topics for discussion for the meeting and at the same time submit to the board of directors a motion which complies with conditions as provided in the preceding articles of these Rules.

PROPOSED RULES OF PROCEDURE FOR SHAREHOLDERS' GENERAL MEETING

Article 26 A motion involving any of the following circumstances is deemed to be a change or abrogation of class rights, and the board of directors shall submit the same to a class meeting for consideration:

- (1) to increase or decrease the number of shares of that class, or to increase or decrease the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of that class;
- (2) to convert all or part of a class of shares into another class, or to convert all or part of another class of shares into that class of shares, or to grant such conversion right;
- (3) to cancel or reduce the rights in respect of accrued dividends or the cumulative dividends attached to shares of that class;
- (4) to reduce or cancel preferential rights to dividends or to distribution of assets in the event that the Company is liquidated;
- (5) to add, cancel or reduce conversion rights, options, voting rights, transfer rights, pre-emptive rights arising from placement or the right to acquire securities of the Company attached to shares of that class;
- (6) to cancel or reduce the rights to obtain payables in specific currencies from the Company attached to shares of that class;
- (7) to create a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of that class;
- (8) to restrict the transfer or ownership rights of such class of shares or impose additional restrictions thereto;
- (9) to grant the right to subscribe for, or convert into, shares of such class of shares;
- (10) to increase the rights and privileges of shares of another class;
- (11) to conduct the proposed restructuring of the Company in such a way that may result in the holders of different classes of shares to assuming liability disproportionately;
- (12) to amend or abrogate the provisions of Chapter 9, Special Procedures for Voting by a Class of Shareholders, of the Articles.

Section 2 Notice of meeting and change

Article 27 The convenor of the shareholders' general meeting shall give notice of the shareholders' general meeting. Convenors include the board of directors and shareholders who, individually or jointly, hold more than 10% of the total voting shares of the Company.

PROPOSED RULES OF PROCEDURE FOR SHAREHOLDERS' GENERAL MEETING

Article 28 The meeting convenor shall give notice of the shareholders' general meeting 45 days before convening the shareholders' general meeting (including the date on which the meeting is convened) to notify shareholders whose names appear in the register of shareholders of the motions proposed to be considered and the date and place of meeting.

Notice of the shareholders' general meeting shall be given to the shareholders (whether or not having the right to vote at the shareholders' general meeting) in person or by prepaid mail. The addresses of the recipients shall be subject to such addresses as shown in the register of shareholders. For holders of domestic shares, the notice of the shareholders' general meeting may also be made by way of announcement.

The term “**announcement**” as mentioned in the preceding paragraph shall be published in one or more than one newspapers and journals as designated by China Securities Regulatory Commission within a period of 45 to 50 days before the shareholders' general meeting is convened. Once an announcement is made, all holders of the domestic shares are deemed to have received the relevant notice of the shareholders' general meeting.

In the event that the Company fails to give notice of the shareholders' general meeting as scheduled such that the shareholders' general meeting fails to convene for any reasons within six months since the end of the preceding accounting year, it shall promptly report the same to the stock exchange(s) on which the Company's shares are listed to explain the reasons therefore and make an announcement relating thereto.

Article 29 The notice of the meeting of the class shareholders shall only be served to such shareholders who have the right to vote in the meeting of the class shareholders.

Article 30 The notice of the shareholders' general meeting shall meet the following requirements:

- (1) be made in writing;
- (2) specify the place, date and time for the meeting;
- (3) set out the matters to be considered in the meeting and disclose, in full, the content of all the motions being proposed. If it is necessary to change any resolutions of the preceding shareholders' general meeting, the content of the motion proposed related thereto shall be complete, and not merely list out the content of the changes; for any matter which is incorporated in “any other business” but the content of which has not been specified, it shall not be treated as a motion and no voting shall be conducted in respect of such matter at the shareholders' general meeting;
- (4) provide the shareholders such information and explanation as necessary for them to make informed decisions in connection with the matters to be discussed; this principle includes (but is not limited to) where the

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Company proposes to merge with the other, repurchase its shares, restructuring its share capital or undergo other reorganization, the specific terms and conditions of the proposed transactions must be provided in detail together with copies of the contracts related thereto, if any, and the causes and effect of the same must be properly explained;

- (5) contain a disclosure of the nature and extent of the material interests of any director, supervisor, general manager or other officer in the proposed transaction and the effect which the proposed transaction will have on them in their capacity as shareholders insofar as it is different from the effect on interests of shareholders of the same class;
- (6) contain the full text of any special resolution to be proposed and approved at the meeting;
- (7) contain a clear statement that a shareholder who has the right to attend and vote at the meeting shall have the right to appoint one or more than one proxies to attend and vote at the meeting on its behalf and that such proxies need not be shareholders;
- (8) state the shareholding record date for shareholders who have the right to attend the shareholders' general meeting;
- (9) state the date and place to serve a proxy form to appoint a proxy to vote in the meeting;
- (10) state the name and contact numbers of the contact persons in connection with the meeting.

Article 31 The board of directors shall give notice of the shareholders' general meeting within 15 days after receiving a written request to convene a shareholders' general meeting from the supervisory committee which is in compliance with the requirements.

Article 32 After receiving a written request which is in compliance with the relevant requirements and which is made by shareholder(s) who, individually or jointly, hold more than 10% of the total voting shares of the Company to convene an extraordinary general meeting, the board of directors shall give notice of the shareholders' general meeting as soon as possible. Prior consent from the proposing shareholder(s) must be obtained for any change to the original motions specified therein. Once the notice is given, the board of directors shall not propose new motions and, unless obtaining prior consent from the proposing shareholder(s), shall neither change nor delay the time for convening the shareholders' general meeting.

Article 33 In the event that the board of directors does not convene a shareholders' general meeting within 30 days after receiving a written request to convene the shareholder's general meeting made by shareholder(s) who, individually or jointly, hold more than 10% of the total voting shares of the Company, the proposing shareholder(s) may convene an extraordinary general meeting on

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their own within 4 months after the receipt by the board of directors of such request. In the event that the proposing shareholder(s) decide to convene such meeting on their own, they shall inform the board of directors in writing, file such written notice to the local office of CSRC and the stock exchange for the record and thereafter give notice of convening the extraordinary general meeting. In addition to the general requirements governing the notice of the shareholders' general meeting, such notice shall also be subject to the following requirements:

- (1) No new item shall be added to the proposed motions. Otherwise, the proposing shareholder(s) shall resubmit to the board of directors the request to convene the shareholders' general meeting;
- (2) The meeting shall be convened at the place of domicile of the Company.

Article 34 After giving the notice of the shareholders' general meeting, the convener shall not propose any new motion which has not been in such notice.

When the largest shareholder proposes a new motion for distribution in the shareholders' annual general meeting, he shall give notice of the motion to the board of directors ten (10) days before the annual shareholders' general meeting is held and the motion shall be announced by the board of directors. Where such ten (10) days' notice has not been given, the largest shareholder shall not propose such new motion for distribution at the annual shareholders' general meeting.

Article 35 Shareholders who intend to attend the shareholders' general meeting shall serve a written reply on attending the meeting to the Company 20 days before the meeting is convened.

The Company shall calculate the number of voting shares represented by the shareholders who intend to attend the meeting based on the written replies it has received 20 days before convening the shareholders' general meeting. In the event that the number of voting shares represented by the shareholders who intend to attend the meeting is more than one-half of the total number of the voting shares of the Company, the Company may convene the shareholders' general meeting; if not, the Company shall, within 5 days, notify the shareholders again of the matters to be considered at, and the place and date for, the meeting by way of public announcement. The Company may convene the shareholders' general meeting after such announcement.

Article 36 After giving notice of the shareholders' general meeting, the shareholders' general meeting shall be convened without undue delay. In the event that the shareholders' general meeting is required to be adjourned due to special reasons, the Company shall announce the notice of the delay at least 5 working days before the date originally scheduled for convening the shareholders' general meeting. The board of directors shall state the reason in the notice and published the date of the adjourned meeting.

Article 37 Notwithstanding a delay of the shareholders' general meeting of the Company, the shareholding record date, as set out in the original notice, for the shareholders who have the right to attend the shareholders' general meeting shall not be changed.

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Section 3 Registration of the meeting

Article 38 Shareholders may attend the shareholders' general meeting in person or appoint a proxy to attend and vote on their behalf. Directors, supervisors, secretary of the board of directors and the PRC legal counsel retained by the Company shall attend such meeting. Other officers of the Company and other persons being invited by the board of directors may also attend such meeting.

In order to ensure the solemnity and proper order of the shareholders' general meeting, the Company shall have the right to refuse persons other than those as set out in the preceding paragraph entry into the meeting venue.

Article 39 The Company shall be responsible for preparing an attendance register, which shall be signed by the persons who attend the meeting. The attendance register shall contain the names of the people (and/or the entity) who (or which) attend the meeting, their identity card numbers, residential addresses, information to confirm the identity of the each of the shareholders (such as the shareholder's account number), the number of voting shares held or represented, the name of the proxy (or the name of the entity which acts as the proxy) and etc.

Article 40 Contents subject to be registered by the shareholders or proxies who attend the shareholders' general meeting include:

- (1) confirmation of the identities of the shareholders or their proxies;
- (2) the requests to speak together with a description of the content of the speeches, if any;
- (3) the number of votes which the shareholders or their proxies may exercise in accordance with the number of shares they held/represented;
- (4) new motions, if any.

Article 41 If a natural person shareholder attends the meeting in person, he shall present his identity card and provide materials that enable the Company to confirm his status as a shareholder; if he appoints a proxy to attend the meeting, such proxy shall present his identity card, the proxy form signed by the principal, and provide materials that enable the Company to confirm the principal's status as a shareholder.

Article 42 A legal person shareholder shall attend the meeting via its legal representative or a proxy authorized by the legal representative/board of directors/other decision-making authority. In the event of attending the meeting via its legal representative, he shall present his identity card, valid proof evidencing his qualification as legal representative, and provide materials that enable the Company to confirm its status as a legal person shareholder. In the event of attending the meeting via a proxy authorized by the shareholder, such proxy shall present his identity card, a written proxy form issued according to law by the legal representative/board of directors/other decision-making authority of the principal or a notarised copy of the authorization resolved by the board of

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directors or other competent authority of the legal person shareholder, and provide materials that enable the Company to confirm its status as a legal person shareholder.

Article 43 Shareholders shall appoint their proxies in writing. The content of such written proxy form shall state the following:

- (1) name of the proxy;
- (2) the number of shares represented by the relevant proxy on behalf of the principal;
- (3) whether or not the proxy has the right to vote;
- (4) instruction to vote “for”, “against” or “abstention” in respect of each matter on the agenda of the shareholders’ general meeting;
- (5) whether or not the proxy has the right to vote in connection with the *ex tempore* motions which may be put on the agenda of the shareholders’ general meeting and, if so, specific instructions on how to exercise such voting right;
- (6) the date of signing and the term for such proxy form;
- (7) signature (or seal) of the principal or its proxy who is appointed in writing and, where the principal is a legal person, the official stamp of such legal person together with the signature of its director or its duly appointed agent.

The proxy form shall expressly state that the proxy entrusted by the shareholders may cast vote at its own discretion in the absence of any specific instruction from the shareholder.

Article 44 The proxy form shall be lodged at the place of domicile or such place as specified in the notice of convening the meeting at least 24 hours before convening the meeting for which votes will be cast under the proxy form or 24 hours before the specified voting time. In the event that such proxy form is caused to be signed under an power of attorney issued by the principal, such power of attorney or other authorization documents related thereto shall be notarised. The notarised power of attorney and authorization documents together with the proxy form shall be lodged at place of domicile or other place as specified in the notice of convening the meeting.

Article 45 Shareholders attending the shareholders’ general meeting shall be registered. The following documents shall be provided respectively for the purposes shareholders’ registration at the meeting:

- (1) **Natural person shareholders:** their identity cards and provide materials that enable the Company to confirm his status as a shareholder shall be presented; in case of attending the meeting by proxies, such proxies shall

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present their identity cards, the proxy forms, and provide materials that enable the Company to confirm the principal's status as a shareholder.

(2) Legal person shareholders: their identity cards together with the valid proofs evidencing their qualification to act as legal representatives, and provide materials that enable the Company to confirm its status as a legal person shareholder; in case of attending the meeting by proxies, such proxies shall present their identity cards, proxy forms issued by the legal representatives of the legal person shareholders according to law or notarised copies of the authorization resolved by the board of directors or other decision-making bodies of the legal person shareholders, and provide materials that enable the Company to confirm its status as a legal person shareholder.

Article 46 In the event that a shareholder or its proxy requests to speak at the shareholders' general meeting, it shall register with the Company before convening the shareholders' general meeting. The number of persons registered to speak at the meeting shall be limited to 10. In the event that there are more than 10 speakers, the first ten shareholders with the largest shareholdings shall have the right to speak. The priority to speak shall be arranged according to the shareholdings in such a way that shareholder with the largest shareholding shall have the first priority.

Article 47 In the event of convening a shareholders' general meeting, the supervisors, more than one-half of the number of independent directors and shareholders who, individually or jointly, possess more than 5% of the total voting shares of the Company may propose new motions with the Company for registration. The chairman of the meeting may, in accordance with Article 23 hereof, determine whether or not to put such newly proposed motions as proposed by the shareholders on the meeting agenda.

In the event of convening an extraordinary general meeting, the Company shall not accept registration of the new motions and the chairman of the meeting shall not add such new motions into the meeting agenda.

Section 4 Convening the meeting

Article 48 The chairman of the board of directors shall preside over, and act as chairman of, the shareholders' general meeting; if for any reason the chairman of the board of directors is unable to attend the meeting, the vice chairman of the board of directors shall become the chairman of the meeting.

In the event that both the chairman and the vice chairman of the board of directors are unable to attend the meeting and the chairman has not appointed any other director as chairman of the meeting, the board of directors may appoint a director of the Company to become the chairman of the meeting; in the event that the board of directors has not appointed the chairman of the meeting, shareholders attending the meeting may elect one person among them to become the chairman of the meeting; in the event that shareholders are for any reason unable to elect a chairman, the shareholder who attends the meeting with the highest number of voting shares (including his proxy) shall then become the chairman of the meeting.

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Article 49 Where shareholders individually or jointly holding more than 10% of the Company's voting shares of their own motion decide to convene an extraordinary general meeting, the board of directors and secretary to the board of directors shall earnestly perform their duties. Directors and supervisors shall attend the meeting, and the secretary to the board of directors must attend the meeting to ensure the meeting is held in proper order. The meeting shall be presided over by the Chairman, who shall also act as the chairman of the meeting. If the Chairman is unable to attend the meeting for any reason, the Vice Chairman shall act as the chairman of the meeting. If both the Chairman and Vice Chairman are unable to attend the meeting and the Chairman has not designated a person to act as chairman of the meeting, the board of directors may designate a director of the Company to so act. If the board of directors is unable to designate a director to chair the shareholders' general meeting, the proposing shareholder shall take the chair after filing a report with the branch of the securities regulatory authority of the State Council of the locality of the Company.

Article 50 The chairman of the meeting may, being aware that all persons attending the meeting are in compliance with the legal requirements and that the registration on new motions and shareholders' request to speak are completed, declare the meeting to convene at the time as scheduled in the notice, or at a later time in the event of any of the following circumstances:

- (1) when the equipment placed at the meeting venue is out of order such that the meeting cannot proceed as usual;
- (2) when any matters of material importance take place affecting the proceeding of the meeting.

Article 51 After the chairman of the meeting has declared the meeting officially open, he shall first announce that the number of shareholders attending the meeting and the number of shares represented by such shareholders are in compliance with the legal requirements. Thereafter, he shall read out the agenda as set out in the notice and inquire whether or not the shareholders attending the meeting have any objection to the voting order for the motions. If the meeting convened is an AGM, the chairman of the meeting shall also inquire whether or not the supervisory committee, more than one-half of the number of independent directors or shareholders who, individually or jointly, hold more than 5% of the total voting shares of the Company need to submit new motions. In the event that a shareholder submits a new motion, the chairman of the meeting shall decide whether or not to accept such motion in accordance with Article 23 hereof.

In the event that the board of directors or the chairman of the meeting determines not to put such motions as proposed by the supervisory committee or the shareholders on the agenda of the AGM, an explanation or description relating thereto shall be given during such AGM.

At an extraordinary general meeting, no person shall have the right to request consideration of any new motion which has not been contained in the notice of the shareholders' general meeting.

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Article 52 After the chairman of the meeting finishes his inquiries on the meeting agenda, he may start to read the motions or authorise a person to read them out and, when necessary, make an explanation on the motions in accordance with the following requirements:

- (1) in the event that the motion is proposed by the board of directors, the chairman of the board of directors or other persons entrusted by him shall make an explanation in relation thereto;
- (2) in the event that the motion is proposed by the supervisory committee or shareholders who, individually or jointly, hold more than 5% of the total voting shares of the Company, the said person or its legal representative or a proxy who is lawfully and validly authorized by a shareholder shall give an explanation in relation thereto.

Article 53 Motions which are included on the meeting agenda shall be considered before voting. Each motion shall be given a reasonable time for discussion during the shareholders' general meeting. The chairman of the meeting shall orally inquire whether shareholders attending the meeting have finished considering such motions. In the event that the shareholders attending the meeting have no objection in connection therewith, consideration of the motions shall be deemed completed.

Article 54 No shareholder shall speak more than twice without the consent from the chairman of the meeting. He may not speak for more than 5 minutes for the first time and 3 minutes for the second time.

A shareholder requesting to speak shall not interrupt a person from presenting his report or interrupt other shareholders from making their speech.

Article 55 Shareholders may query the Company during the shareholders' general meeting. The chairman of the meeting shall direct the directors or supervisors to respond to or provide explanations in connection with queries raised by shareholders, except questions relating to the commercial secrets of the Company which shall not be disclosed during the shareholders' general meeting.

Section 5 Voting and resolutions

Article 56 Shareholders' general meetings shall pass resolutions on specific motions.

Article 57 Matters not covered in the notice of an extraordinary shareholders' general meeting shall not be resolved upon at the meeting, In the course of considering the content of the motions as set out in the notice of extraordinary general meeting, no alteration shall be made to motions relating to the following issues:

- (1) an increase or reduction of the registered capital;
- (2) the issuance of corporate bonds;
- (3) division, merger, dissolution or liquidation of the Company;
- (4) amendments to the Articles of Association;
- (5) plans for profit distribution and for making up losses of the Company;
- (6) appointment or removal of the members of the board of directors and supervisory committee;
- (7) changes in the use of proceeds from share offerings;
- (8) connected transactions which are subject to be considered during the shareholders' general meeting;
- (9) matters relating to the acquisition or sale of assets which are subject to be considered during the shareholders' general meeting;
- (10) dismissal of the accounting firm.

Any change of the foregoing shall be deemed to be a new motion, which shall not be voted at the then shareholders' general meeting.

The shareholders' general meeting shall vote on all motions that are put on the agenda one-by-one. Voting of the same shall neither be put on hold nor be refused for any reason. In the event that different motions are proposed for the same matters, voting on such motions shall be conducted based on the order of the time of proposing such motions to the shareholders' general meeting.

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Article 58 The chairman of the meeting is obliged to demand a poll on the motions at the shareholders' general meeting (by open ballot). Unless a poll is demanded by the chairman of the shareholders' general meeting, at least 2 shareholders or proxies having the right to vote, or one or more shareholders (including the proxies thereof) individually or jointly holding more than 10% (including 10%) of the total voting shares of the Company before or after the voting by show of hands or the listing rules of the stock exchanges on which the shares of the Company are listed requires otherwise, voting in the shareholders' general meeting shall be conducted by a show of hands.

Each shareholder or its proxy shall exercise its voting right on the basis of the number of the voting shares represented. Except for voting on the motions in connection with the election of directors, which shall be conducted by way of cumulative voting, in accordance with the Articles, each share shall have the right to one vote.

Article 59 The cumulative voting method shall be adopted for voting on motions in connection with the election of directors at the shareholders' general meeting in accordance with the Articles. The main contents of the cumulative voting system are as follows:

- (1) The cumulative voting method must be adopted where the number of directors to be elected are more than two;
- (2) When the cumulative voting method is adopted, each of the shares held by a shareholder shall carry the same voting right as to the number of directors to be elected;
- (3) The notice of the shareholders' general meeting shall notify shareholders of the adoption of the cumulative voting method for electing directors. The meeting convenor must prepare such ballot papers as are suitable for carrying out the cumulative voting method and specify and explain, in writing, the method for casting cumulative votes, completing the ballot paper and calculating the votes;
- (4) When voting on directors candidates at a shareholders' general meeting, a shareholder may exercise his voting right by spreading his votes evenly and for each of the directors candidates casting the number of votes corresponding to the number of shares he holds; or he may exercise the voting rights in a way to concentrate his votes on a particular director candidate by casting the total number of votes carried by all of his shares while the number of voting rights carried by each of his shares is the same as the number of directors to be elected; or he may spread his votes over several candidates and cast for each of them part of the total number of votes carried by the shares he holds while the number of voting rights carried by each of his shares is the same as the number of directors to be elected;

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- (5) Once a shareholder exercises his voting right by focusing his votes on one director or several directors while the number of voting rights carried by each of his shares is the same as the number of directors to be elected, he shall have no right to vote on other directors' candidates;
- (6) In the event that the total number of the votes cast by a shareholder on one or several directors exceeds the voting right represented by total number of shares he holds, the votes cast by such shareholder shall be invalid and he is deemed to abstain from voting; in the event that the total number of the votes cast by a shareholder on one or several directors is less than the voting rights represented by the total number of shares he held, the votes cast by such shareholder shall still be valid and the voting rights attached to the shortfall between the votes actually cast and the votes which such shareholder is entitled to cast shall be deemed to have been waived by him;
- (7) In the event that the number of affirmative votes received by a director candidate exceeds one-half of the total number of shares with voting rights represented by the shareholders attending the shareholders' general meeting (on the basis of the total number of shares if cumulative voting is not adopted) and the number of affirmative votes exceeds the number of opposing votes, such candidate shall be the elected candidate. In the event that the number of the elected candidates exceeds the number of directors required to be elected in the shareholders' general meeting, the candidate who wins the largest number of affirmative votes shall be the elected candidate (provided that in cases where elected candidates receiving affirmative votes win the same number of affirmative votes such that the number of candidates elected would exceed the number of directors required to be elected, then such candidates shall be treated as having not been elected); in the event that the number of elected candidates is less than the number of directors required to be elected, a new round of voting shall be held for the remaining vacancies until the election of all the directors required to be elected is completed;
- (8) Where the general meeting holds a new round of election for directors in accordance with the requirements set out in paragraph (7) above, the cumulative votes of the shareholders shall be re-calculated based on the number of directors elected in each round of election.

Article 60 In considering the motions in connection with the election of directors or supervisors at a shareholders' general meeting, voting shall be conducted on each of the candidates for director or supervisor one by one.

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Article 61 Resolutions of the shareholders' general meeting shall be classified as ordinary resolutions and special resolutions.

(1) Ordinary resolutions

1. An ordinary resolution at a shareholders' general meeting shall be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies authorized by the shareholders) attending the meeting.
2. The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:
 - (i) working reports of the board of directors and the supervisory committee;
 - (ii) plans for profit distribution and recovery of losses prepared by the board of directors;
 - (iii) matters relating to methods of appointment and removal of the members of the board of directors and the supervisory committee, their remuneration, payment methods and liability insurance;
 - (iv) the annual budget, balance sheet, profit and loss statements and other financial statements of the Company;
 - (v) annual reports of the Company;
 - (vi) matters other than those required by law, administrative regulations or the Articles to be adopted by special resolutions.

(2) Special resolutions

1. A special resolution at a shareholders' general meeting shall be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies authorized by the shareholders) attending the meeting.

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2. The following matters shall be resolved by a special resolution at a shareholders' general meeting:
 - (i) an increase or reduction of the share capital of the Company and the issue of any class of shares, warrants and other similar securities;
 - (ii) issuance of corporate bonds;
 - (iii) division, merger, dissolution or liquidation of the Company;
 - (iv) amendment to the Articles of Association;
 - (v) any other matter, being considered at a shareholders' general meeting by way of an ordinary resolution, which may have a material impact on the Company and which is necessary to be adopted by a special resolution;
 - (vi) other matters as required by the Listing Rules.

Article 62 Affected class shareholders shall have the right to vote on matters involving sub-paragraphs (2) to (8) and (11) to (12) of Article 25 hereof, regardless of whether or not they originally have the right to vote at the class meeting for class shareholders; provided that interested shareholders shall not have any right to vote at the class meeting for the class shareholders.

If any shareholder is required to abstain from voting on any particular resolution, or restricted from voting only for or only against any particular resolution, any vote cast by such shareholder or his proxy in contravention of such requirement or restriction shall not be counted.

The term “**interested shareholders**” mentioned in the preceding paragraph shall mean:

- (1) In the event that the Company repurchases its own shares by way of a general offer to all shareholders in proportion to their respective shareholdings or through a public dealing on a stock exchange in accordance with Article 28 of the Articles, “interested shareholders” means such controlling shareholders as defined in Article 54 of the Articles;
- (2) In the event that the Company repurchases its own shares by a off-market agreement in accordance with Article 27 of the Articles, “interested shareholders” means the shareholders to whom such agreement relates;

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- (3) Under the proposed restructuring of a Company, “interested shareholders” means the shareholders who assume the liability thereof in a proportion less than that assumed by other holders of the same class of shares or who have a different interest to other holders of the same class of shares.

Article 63 A resolution of the class shareholders at a class meeting shall be passed by votes representing more than two-thirds of the voting rights represented by the shareholders attending the class meeting in accordance with the preceding article.

The special procedures for voting by class shareholders shall not apply to the following circumstances: where upon approval by a special resolution at a shareholders' general meeting, the Company issues, either separately or simultaneously, once every 12 months domestic shares and overseas-listed foreign-invested shares and the proposed numbers of domestic shares and overseas listed foreign-invested shares shall not exceeding 20% of their respective issued and outstanding shares.

Article 64 In the course of considering matters relating to the connected transactions at a shareholders' general meeting, the connected shareholders shall abstain from voting. The voting rights represented by the number of shares of such shareholders shall be excluded from the total number of valid votes. The voting result of the non-connected shareholders shall be fully disclosed in the announcement of the resolution of the shareholders' general meeting.

Article 65 Shareholders shall, as required, carefully complete the ballot papers and put such ballot papers into a ballot box. Any ballot paper which is left blank or is not duly completed or the handwriting thereon is found to be illegible or which is not cast shall deemed to be an abstention of voting by the shareholder and the votes represented thereon shall not be counted in the total number of valid votes.

Article 66 Before a poll begins, shareholders attending the meeting shall elect among themselves at least one supervisor and two shareholders' representatives to act as the counting officers. Votes shall be counted on the spot and the counting officers shall sign on the statistical information relating thereto.

When the number of votes in favour of and against the resolution are equally divided, the chairman of the meeting shall have the right to cast an additional vote.

Article 67 The chairman of the meeting shall be responsible for deciding whether or not a resolution is passed by the shareholders' general meeting according to the results of the poll. The chairman's decision shall be final and shall be announced at the meeting and recorded in the minutes.

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Article 68 Minutes shall be recorded of shareholders' general meetings and shall be signed by the directors present and the officer taking the minutes. In the event that no director is present at such meeting, then the shareholder or the proxy authorized by the shareholder who chairs the meeting together with the officer taking the minutes shall sign the minutes. The minutes shall contain the following contents:

- (1) the number of voting shares represented by the shareholders attending the general meeting, and the proportion this represents of the total number of shares of the Company;
- (2) the date and place of the meeting;
- (3) the name of the chairman of the meeting and the agenda of the meeting;
- (4) highlights of the matters considered which are proposed by the persons who speak at the meeting;
- (5) the results of the poll for each matter resolved;
- (6) details of the inquiries, opinions and recommendations of the shareholders and the responses or explanations from the directors and supervisors;
- (7) other matters which according to the opinions of the shareholders' general meeting and the provisions of the Articles shall be recorded in the minutes.

Article 69 The board of directors of the Company shall retain, according to law, a legal counsel who is qualified to attend the shareholders' general meeting and to advise the Company on the following issues which shall be incorporated into the shareholders' resolutions for announcement:

- (1) whether or not the procedures for convening and holding a shareholders' general meeting comply with the requirements of the laws and regulations and the Articles;
- (2) verification of the legality and validity of the eligibility of persons attending the meeting;
- (3) verification of the eligibility of the shareholders who propose new motions at the AGM;
- (4) whether or not the voting procedures for the shareholders' general meeting are lawful and valid;

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- (5) issuance of any legal opinions on other relevant issues at the request of the Company.

For an extraordinary general meeting chaired by the proposing shareholder, such proposing shareholder shall, according to law, retain a lawyer to issue the attested legal opinion as provided in the preceding paragraphs. The procedures for convening the said meeting shall also comply with the relevant requirements of the laws and regulations and these Rules.

Section 6 Adjournment of meeting

Article 70 The board of directors of the Company shall ensure that the shareholders' general meeting is held continuously within a reasonable office hours until reaching the final resolutions.

Article 71 If, in the course of the meeting, disputes arising out of the identity of any shareholder or the results of the calculation of the votes and so on cannot be resolved on site in such a way that the order of the meeting is affected and the meeting cannot proceed as usual, the chairman shall declare an adjournment of the meeting.

If the foregoing circumstances cease to exist, the chairman of the meeting shall notify the shareholders of the resumption of the meeting as soon as possible.

Article 72 In the event that the shareholders' general meeting has been adjourned for more than one working day due to event of force majeure or other unforeseeable reasons such that the meeting fails to convene as usual or fails to reach any resolution, the board of directors of the Company shall explain to the stock exchange the reasons and make an announcement. The board of directors of the Company is obliged to take necessary measures to resume the shareholders' general meeting as soon as possible.

Section 7 Post-meeting issues and announcement

Article 73 The secretary of the board of directors shall be responsible for submitting the relevant materials including minutes and resolutions to the relevant regulatory authorities and making an announcement in the designated media in accordance with the relevant laws and regulations and as required by China Securities Regulatory Commission and the stock exchanges upon which the shares of the Company are listed.

Article 74 The number of shareholders (or their authorized proxies) attending the meeting, ratio of the number of shares held by such shareholders (or represented by such proxies) to the total number of voting shares of the Company, the voting method and the results of the polls for every motion shall

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be stated clearly in the announcement of the resolutions of the shareholders' general meeting. For resolutions of a motion proposed by a shareholder, the name and the shareholding of the proposing shareholder together with the contents of the motion shall be specified. In the event that a motion proposed by a shareholder has not been included in the agenda of the AGM, an announcement on the content of the motion and a statement made by the board of directors and the chairman of the meeting during the AGM shall be made together with the resolutions of the shareholders' general meeting.

In the event that the board of the directors or the chairman of the meeting decides not to include the motion proposed by the supervisory committee or the independent directors or the shareholders into the agenda of the AGM, the board of directors or the chairman of the meeting shall explain and specify the reasons during the AGM. The content of such motion and the statement made by the board of directors or the chairman of the meeting shall, together with the resolutions of the shareholders' general meeting, be announced after the shareholders' general meeting.

In the event that a motion in connection with the meeting has not been adopted or the resolutions of the preceding shareholders' general meeting have been changed at the current shareholders' general meeting, the board of directors shall specify the same in the announcement of the resolutions of the shareholders' general meeting.

The announcement of the resolutions of the shareholders' general meeting shall be published in the designated newspapers and on the Company's website.

Article 75 The secretary of the board of directors shall be responsible for keeping written materials, including the register of the attendees of the meeting, the proxy forms, statistical information relating to the voting, legal opinion issued by the lawyer, announcement of resolutions and etc.

CHAPTER IV SUPPLEMENTARY PROVISIONS

Article 76 These rules shall become effective after being adopted by the shareholders' general meeting.

Article 77 Any modification to these Rules shall be made by way of amendments proposed by the board of directors and submitted to the shareholders' general meeting for approval.

Article 78 The board of directors shall be responsible for the interpretation of these Rules.

Article 79 In the event that any matter not covered herein contradicts the requirements of laws, administrative regulations, other relevant regulatory documents as promulgated from time to time and the Articles, such laws, administrative regulations, other relevant regulatory documents and the Articles shall prevail.