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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)**

### **BREACH OF CAPS FOR TWO CONTINUING CONNECTED TRANSACTIONS**

The Directors noted that the annual caps for two non-exempt continuing connected transactions for the financial year ended 31 December 2004 had been exceeded. The delay in disclosure of and omission in obtaining the independent Shareholders' prior approval for such connected transactions have constituted breaches of the Listing Rules. The Stock Exchange has informed the Company that it reserves the rights to take appropriate actions against the Company and/or the Directors in respect of the breaches of the Listing Rules.

#### **1. BACKGROUND**

PetroChina is the immediate controlling Shareholder of the Company holding approximately 67.29% of the share capital of the Company. As such, PetroChina is a connected person of the Company and transactions between PetroChina and the Company constitute connected transactions under the Listing Rules. 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. As required under certain industrial policies stipulated by the PRC government and in view of long term relationship between the Company and the relevant subsidiaries and affiliates of PetroChina, the Company has entered into certain continuing connected transactions with PetroChina.

In December 2001, the Company was granted a waiver (the "Waiver") by the Stock Exchange from the requirement of disclosure by press notice, circular to the Shareholders and/or Independent Shareholders' approval for a term of three financial years expiring on 31 December 2004 in respect of the Company's sale and purchase of crude oil, production materials, petroleum products and petrochemical products with PetroChina ("Continuing Connected Transactions") provided, among other things, that the aggregate value in respect of each category of Continuing Connected Transactions will not exceed the annual cap amount for each category of the Continuing Connected Transactions set out therein.

Further particulars regarding the Continuing Connected Transactions and the conditions on which the Waiver granted were set out in the announcement of the Company dated 15 November 2001 and the circular of the Company dated 6 December 2001.

## 2. BREACH OF WAIVER CAPS

According to the audited financial statements of the Company for the financial year ended 31 December 2004, the Directors noted that the aggregate value of the purchases of production materials from PetroChina and the sales of petrochemical products to PetroChina during the same financial period exceeded the caps set out in the Waiver, the details of which are set out below:

<b>Transaction</b>	<b>Aggregate value (RMB'000) (Note)</b>	<b>Total turnover for the year ended 31 December 2004 (RMB'000) (Note)</b>	<b>Actual percentage of turnover</b>	<b>Waiver cap as approved (percentage of annual turnover)</b>
Purchase of production materials	7,447,892	31,857,423	23.4%	17%
Sale of petrochemical Products	11,548,928	31,857,423	36.3%	33%

*Note:* The numbers are extracted from the audited financial statements of the Company for the year ended 31 December 2004.

The Waiver provided that if the actual value for any category of the Continuing Connected Transactions in any financial year exceeded the approved cap amount, the Company should fully comply with the requirements under the Listing Rules to disclose and obtain the independent Shareholders' approval in order to continue the Continuing Connected Transactions. As the Continuing Connected Transactions were transacted in 2004, the delay in disclosure of and omission in obtaining the independent Shareholders' approval for such connected transactions have constituted breaches of the Listing Rules. The Stock Exchange has informed the Company that it reserves the rights to take appropriate actions against the Company and/or the Directors in respect of the breaches of the Rule 14A.36 of the Listing Rules.

### **Purchase of production materials (naphtha, benzene, methanol and other miscellaneous production materials)**

The cap amount for the purchase of production materials from PetroChina for the year ended 31 December 2004 had been exceeded due to unplanned purchases of hydrogenated diesel oil as production material from Jilin Petrochemical Branch. In order to comply with the new environmental protection standards for diesel oil carried out by the PRC government in 2004, the cracking diesel oil produced by the Company must be refined through the hydrogenation treating facility of Jilin Petrochemical Branch and the Company will re-purchase the hydrogenated diesel oil for its further processing and sales. With the increase in the volume of crude oil, the amount of the cracking diesel oil produced by the Company which must be hydrogenated through the hydrogenation treating facilities of Jilin Petrochemical Branch increased accordingly, resulting in an increase in the amount of the hydrogenated diesel oil purchased by the Company from Jilin Petrochemical Branch.

The Company purchased 835,115 tonnes of hydrogenated diesel oil from Jilin Petrochemical Branch during the year ended 31 December 2004 at the total price of approximately RMB2,288,590,000, accounting for approximately 7.2% of the total turnover of the Company during the same period.

## **Sale of Petrochemical Products**

The cap amount for sale of petrochemical products and other products to PetroChina for the year ended 31 December 2004 had been exceeded due to unplanned additional sales of benzene, propylene and miscellaneous production materials to Jilin Petrochemical Branch.

The increase in the sales of benzene, propylene and miscellaneous production materials to Jilin Petrochemical Branch was a result of its expansion of production of phenol acetone and commencement of production of butanol.

Jilin Petrochemical Branch expanded its production of phenol acetone from 100,000 tonnes to 120,000 tonnes in 2004, resulting in an increase in the demand for benzene as major production materials. In addition, the Company sold approximately 40,620 tonnes of benzene to Jilin Petrochemical Branch in the year ended 31 December 2004 at the total price of RMB505,367,000, which accounted for approximately 1.6% of the total turnover of the Company during the same period.

Jilin Petrochemical Branch completed the construction of a new butanol production facility which commenced commercial operation in September 2004, resulting in an increase in the demand for propylene as its major production materials. The Company additionally sold approximately 26,764 tonnes of propylene to Jilin Petrochemical Branch in the year ended 31 December 2004 at the total price of RMB239,020,000, which accounted for approximately 0.8% of the total turnover of the Company during the same period.

In addition, the Company sold miscellaneous production materials to Jilin Petrochemical Branch in the year ended 31 December 2004 at the total price of RMB463,667,000, which accounted for approximately 1.5% of the total turnover of the Company during the same period.

### **3. INDEPENDENT SHAREHOLDERS' APPROVAL OF NEW TERMS AND CONDITIONS OF CONTINUING CONNECTED TRANSACTIONS WITH PETROCHINA**

As the Waiver expired on 31 December 2004, in accordance with the revised Listing Rules effective as of 31 March 2004, the Company entered into a master products and services agreement with PetroChina ("Master Products and Services Agreement") on 30 November 2004 for a term of three years starting from 1 January 2005 subject to independent Shareholders' approval. The Master Products and Services Agreement governs the continuing provision of goods and services between the Company and PetroChina in their ordinary course of business. The Master Products and Services Agreement and the annual cap amounts in relation to the continuing connected transactions contemplated thereunder were approved by the independent Shareholders at the extraordinary general meeting on 20 January 2005.

Further details of the Master Products and Services Agreement and the annual cap amounts in relation to the continuing connected transactions contemplated thereunder are set out in the announcement of the Company dated 2 December 2004 and the circular of the Company dated 24 December 2004.

#### **4. DIRECTOR’S VIEWS**

The Directors, in particular, the independent non-executive Directors, consider that the Continuing Connected Transactions had been carried out on fair and reasonable terms in the ordinary course of business of the Company. Such transactions with PetroChina will continue as part of the normal course of business of the Company according to the terms and conditions under the Master Products and Services Agreement, which the Directors, in particular, the independent non-executive Directors, believe to be fair and reasonable and in the interest of the Shareholders as a whole.

#### **5. REMEDIAL ACTIONS**

To avoid repeating the same omission, the Directors will closely monitor volume of the continuing connected transactions with PetroChina on a quarterly basis. In preparing for the quarterly financial report of the Company, the Directors, will particularly review the amounts of the continuing connected transactions with PetroChina and take prompt actions to make necessary disclosure and obtain independent Shareholders’ necessary approval as required under the Listing Rules if the amount of any such the continuing connected transactions exceeds or is likely to exceed the relevant cap.

#### **6. GENERAL INFORMATION**

The Group’s principal business consists of production and sale of petroleum products, petrochemical and organic chemical products, synthetic rubber products, chemical fertilizers and other chemical products.

#### **DEFINITIONS**

“Board”	the board of Directors
“Company”	Jilin Chemical Industrial Company Limited, a joint stock limited company incorporated in the PRC with H Shares listed on the Stock Exchange
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Jilin Petrochemical Branch”	Jilin Petrochemical Branch Company of PetroChina, a branch company of PetroChina registered in Jilin, PRC.
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	Per cent.

By order of the Board of Directors  
**Zhang Liyan**  
*Company Secretary*

17 March 2005  
Jilin, the PRC

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

“Please also refer to the published version of this announcement in The Standard”