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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)

SUPPLEMENTAL CONTINUING CONNECTED TRANSACTION AGREEMENTS

The Directors wish to announce that, on 12 August 2005, the Company entered into (i) the Supplemental Master Products and Services Agreement with Jilin Petrochemical; (ii) the Supplemental Composite Services Agreement with JCGC; and (iii) the Assets Management Agreement with Jilin Petrochemical.

The transactions under the Supplemental Agreements and the Assets Management Agreement constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement and independent shareholders' approval under the Listing Rules.

An Extraordinary General Meeting of the Company will be held on 29 September 2005 to approve the Supplemental Agreements and the Assets Management Agreement.

The Board will appoint an independent board committee to consider and advise the independent shareholders on the terms of the Supplemental Agreements and the Assets Management Agreement, and will appoint Watterson Asia Limited, the independent financial adviser to advise the independent board committee. A circular containing, among other things, details of the Supplemental Agreements and the Assets and Management Agreement, the recommendation of the independent board committee and the advice of Watterson Asia Limited, the independent financial adviser to the independent board committee will be despatched to the shareholders of the Company as soon as possible.

PetroChina, being the controlling shareholder of the Company holding 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 Supplemental Agreements and the Assets Management Agreement to be proposed at the Extraordinary General Meeting.

Holders of the Company's shares whose names appear on the register of members of the Company at 4:00 pm on 30 August 2005 will be entitled to attend the Extraordinary General Meeting. The register of members of the Company will be closed from 31 August 2005 to 29 September 2005 (both days inclusive), during which no transfer of H Shares will be effected.

The Directors noted that the Company has breached two caps for the Continuing Connected Transactions. The delay in disclosure of and omission in obtaining the independent Shareholders' approval for such sale of petrochemical products has 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.

The Supplemental Agreements and the Assets Management Agreement may or may not be approved by the independent Shareholders. Shareholders and potential shareholders are advised to exercise caution when dealing in the shares of the Company.

1. BACKGROUND: THE EXISTING CONTINUING CONNECTED TRANSACTIONS

1.1 Continuing Transactions with PetroChina

PetroChina is the immediate controlling shareholder of the Company, holding 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 consists 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.

The Company and PetroChina entered into the Master Products and Services Agreement on 30 November 2004 to govern the supply (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 affiliated companies in the ordinary and usual course of business of the Company and PetroChina for a term of three years from 1 January 2005 to 31 December 2007. The detailed terms and conditions of the Master Products and Services Agreement and the annual caps for the Continuing Connected Transactions contemplated thereunder were set out in the announcement dated 12 December 2004 and the Continuing Connected Transaction Circular and have been approved by the independent Shareholders.

Jilin Petrochemical is a branch company of PetroChina registered and licensed under the PRC laws and regulations. Jilin Petrochemical is authorized to conduct its own business and enter into agreements in its own name to the extent authorised by PetroChina. The majority of the transactions under the Master Products and Services Agreement are carried out between the Company and Jilin Petrochemical.

1.2 Continuing Transactions with JCGC

JCGC is a wholly-owned subsidiary of CNPC which is the ultimate controlling shareholder 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. The business scope of JCGC consists of the 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.

The Company and JCGC entered into the Composite Services Agreement on 30 November 2004 to govern the supply (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 affiliated companies in the ordinary and usual course of business of the Company and JCGC for a term of three years from 1 January 2005 to 31 December 2007. The detailed terms and conditions of the Composite Services Agreement and the annual caps for the Continuing Connected Transactions contemplated thereunder were set out in the announcement dated 12 December 2004 and the Continuing Connected Transaction Circular and have been approved by the independent Shareholders.

2. SUPPLEMENTAL CONTINUING CONNECTED TRANSACTION AGREEMENTS

2.1 Terms and conditions of the Supplemental Master Products and Services Agreement

In anticipation of the continuing increase in the price of the products of the Company and Jilin Petrochemical, the increasing demand of both the Company and Jilin Petrochemical for the products and services from each other as a result of the expansion of their operations and a new assets management service to be provided by the Company to Jilin Petrochemical, the Company and Jilin Petrochemical, as authorized by PetroChina, entered into the Supplemental Master Products and Services Agreement on 12 August 2005 to expand the scope of the products and services to be provided under the Master Products and Services Agreement and revise the annual caps for the Continuing Connected Transactions contemplated thereunder.

The details of and basis and reasons for such revision are set out under paragraphs 3.2.2 and 3.2.3 of this announcement.

Payment for such transactions will be settled by cash by the Company through internal resources.

Save as the above mentioned, the terms and conditions of the Master Products and Services Agreement, including but not limited to, general principles, terms for pricing and payments and termination of supply of any one or more categories of products or services for the products and services, shall remain unchanged and in full effect.

Subject to and as from obtaining independent Shareholders' approval, the Supplemental Master Products and Services Agreement shall be valid till 31 December 2007.

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, before any of the revised annual caps as mentioned above is breached, 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.

2.2 Terms and conditions of the Supplemental Composite Services Agreement

In anticipation of the continuing increase in the price of petrochemical products of the Company and the increasing demand of both the Company and JCGC for the products and services from each other as a result of the expansion of their operations, the Company and JCGC entered into the Supplemental Composite Services Agreement on 12 August 2005 to expand the scope of the products and services to be provided under the Composite Services Agreement and revise the annual caps for the Continuing Connected Transactions contemplated thereunder.

The details of and basis and reasons for such revision are set out under paragraphs 3.3.2 and 3.3.3 of this announcement.

Payment for such transactions will be settled by cash by the Group through internal resources.

Save as the above mentioned, the terms and conditions of the Composite Services Agreement, including but not limited to, general principles, terms for pricing and payments and termination of supply of any one or more categories of products or services for the products and services, shall remain unchanged and in full effect.

Subject to and as from obtaining independent Shareholders' approval, the Supplemental Composite Services Agreement shall be valid till 31 December 2007.

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, before any of the revised annual caps as mentioned above is breached, 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.

2.3 Assets Management Agreement

The Company sells ethylene to Jilin Petrochemical under the Master Products and Services Agreement. The production capacity of the Company's existing ethylene production facilities is approximately 380,000 tonnes per year (the "Existing Facilities"). Due to the increasing demand of Jilin Petrochemical for ethylene, which could not be satisfied by the Existing Facilities, and the Company's lack of funds to expand such production facilities, Jilin Petrochemical carried out an expansion of the Existing Facilities. The expanded facilities to the Existing Facilities are expected to commence commercial operation around 31 October 2005 with an annual production capacity of approximately 220,000 tonnes (the "Expanded Facilities").

To manage and operate the expanded ethylene production facilities in a efficient manner, Jilin Petrochemical and the Company entered into the Assets Management Agreement on 12 August 2005 under which the Company will be responsible for the management and operation of the Expanded Facilities owned by Jilin Petrochemical.

Subject to obtaining the independent Shareholders' approval, the Assets Management Agreement will be valid for a term of three years from the date of the commencement of commercial operation of the Expanded Facilities. The Expanded Facilities are expected to commence commercial operation around 31 October 2005. Following the expiry of such three year term and in the event that Jilin Petrochemical intends to sell the Expanded Facilities upon the expiry of such three year term, the Company shall have a right of first refusal upon the same terms and conditions offered by Jilin Petrochemical. Jilin Petrochemical shall also procure the third party which will acquire the Expanded Facilities to undertake to be bound by the Assets Management Agreement. Further announcement will be made if the Company acquires the Expanded Facilities according to the Listing Rules.

Following the commencement of commercial operation of the Expanded Facilities, of the total amount of the ethylene produced by the Existing Facilities and Expanded Facilities as a whole ("Expanded Ethylene Plant"), on a monthly basis, 63.33% shall be attributed to the Company and 36.67% to Jilin Petrochemical, being the respective percentages of the designed production capacity of the Existing Facilities and the Expanded Facilities to the total designed production capacity of the Expanded Ethylene Plant, i.e., approximately 600,000 tonnes. The costs of ancillary materials, public utilities services and fuels consumed by the Expanded Ethylene Plant shall also be shared by the Company and Petrochemical according to such percentages. The costs pertaining to the fixed assets in relation to the Expanded Ethylene Plant such as the costs of depreciation, production safety insurance fund and maintenance shall be separately accounted for and borne by the Company and Jilin Petrochemical in relation to the Existing Facilities and Expanded Facilities, respectively.

The ethylene and related products produced by the Expanded Ethylene Plant attributable to the Company will be supplied to fully satisfy the requirements of the downstream production facilities of the Company and any excess amount may be sold to Jilin Petrochemical or independent third parties. Such ethylene and related products attributable to Jilin Petrochemical will be supplied to satisfy the requirements of its downstream polyethylene production facilities and any excess amount may be sold to the Company or independent third parties.

The production materials for ethylene produced by the oil refinery facilities shall be supplied to fully satisfy the requirement of the Existing Facilities and any excess amount (if any) may be sold to Jilin Petrochemical to be used for the Expanded Facilities. The Company will purchase additional amount of production materials required by the Existing Facilities from independent third parties. Jilin Petrochemical will mainly purchase the production materials required by the Expanded Facilities from independent third parties.

During the first year following the commence of commercial operation of the Expanded Facilities, Jilin Petrochemical shall pay the Company a management fee at RMB21 per tonne of ethylene attributable to the Expanded Facilities, which is determined by reference to the average amount of the labor cost involved in the production of ethylene by the Existing Facilities for the two years ended 31 December 2004 and six months ended 30 June 2005. The amount of the ethylene attributable to the Expanded Facilities is estimated not to exceed 260,000 tonnes per year. Such management fee will be increased by 15% each year thereafter. The management fee is payable on a monthly basis before the 5th day of each month.

As such, the management fee payable by Jilin Petrochemical to the Company is expected not to exceed RMB910,000, RMB5,600,000 and RMB6,440,000 for each of the three years ending 31 December 2007, respectively.

3. BASIS FOR INCREASING THE CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS

3.1 General principles

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 Continuing Connected Transactions Agreements as amended by the Supplemental Agreements and the Assets Management Agreement.

The Directors had revised the annual caps for the Continuing Connected Transactions for each of 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 as amended by the relevant Supplemental Agreements and Assets Management Agreement;

- (b) the annual caps are set or revised based on the amounts of the Continuing Connected Transactions for the year ended 31 December 2004 and the six months ended 30 June 2005 set out below under paragraphs 3.2.1 and 3.3.1 and for the reasons set out below under paragraphs 3.2.3 and 3.3.3;
- (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.

The Directors consider that the caps for the Continuing Connected Transactions and the basis on which such caps are set or revised are fair and reasonable in the interest of the Company and Shareholders as a whole.

3.2 Reasons for revising the annual caps for the Continuing Connected Transaction with PetroChina

3.2.1 The table below sets out the amount of the Continuing Connected Transaction with PetroChina for the year ended 31 December 2004 and six months ended 30 June 2005:

Category of transactions	Year ended 31 December 2004 (RMB'000)	Six months ended 30 June 2005 (RMB'000)
Purchase of crude oil	11,798,022	7,381,607
Purchase of production materials	7,447,892	3,087,316
Sale of gasoline and diesel oil	10,712,175	6,370,666
Sale of petrochemical products	11,519,222	5,781,711
Production safety insurance funds	32,958	16,576
Lease of machinery and equipment	27,733	15,650
Railway transport and water treatment services	29,706	17,090

3.2.2 The table below sets out the revised annual caps for the Continuing Connected Transaction with PetroChina for each of the three years ending 31 December 2007:

Category of transaction	Year ending 31 December 2005 (RMB'000)			Year ending 31 December 2006 (RMB'000)			Year ending 31 December 2007 (RMB'000)		
	Original Cap	Amount of increase	Revised cap	Original Cap	Amount of increase	Revised Cap	Original Cap	Amount of increase	Revised Cap
Purchases of crude oil	23,680,000	0	23,680,000	31,370,000	0	31,370,000	33,980,000	0	33,980,000
Purchase of production materials	2,640,000	4,536,860	7,176,860	2,920,000	7,542,720	10,462,720	3,210,000	12,030,840	15,240,840
Sale of gasoline and diesel oil	13,320,000	0	13,320,000	17,330,000	0	17,330,000	18,780,000	0	18,780,000
Sale of petrochemical products	12,480,000	517,570	12,997,570	14,130,000	4,347,600	18,477,600	15,310,000	6,521,410	21,831,410
Production safety insurance funds	58,000	15,430	73,430	59,000	18,520	77,520	60,000	22,220	82,220
Lease of machinery and equipment	18,000	61,560	79,560	20,000	86,190	106,190	23,000	129,280	152,280
Railway transport and water treatment services	19,000	36,720	55,720	21,000	51,410	72,410	23,000	77,110	100,110
Public utilities services*	NA	797,140	797,140	NA	1,110,300	1,110,300	NA	1,665,220	1,665,220
Assets management service*	NA	910	910	NA	5,600	5,600	NA	6,440	6,440
Other supporting services*	NA	154,940	154,940	NA	216,920	216,920	NA	325,370	325,370
Total	52,215,000	6,121,130	58,336,130	65,850,000	13,379,260	79,229,260	71,386,000	20,777,890	92,163,890

* New continuing connected transactions to be entered into between the Company and PetroChina from the second half of 2005

3.2.3 The basis and reasons for revising the caps for the Continuing Connected Transactions with PetroChina are as follows:

(a) *Purchase of production materials*

The price of the production materials purchased by the Company from Jilin Petrochemical has increased substantially in line with the increase in the market price of petrochemical products in the PRC, which tracks an increase in the price of crude oil by approximately 47% in the first half of 2005. The price of such production materials has increased by an average of approximately 40% in the first half of 2005 compared with the same period in the last year. Such substantial increase is beyond the Director's reasonable expectation. The Directors expect an increase of approximately 30%, 40% and 50%, respectively, in the price of such products for each of the years ending 31 December 2007 on a year-on-year basis.

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 and the Company will re-purchase the hydrogenated diesel oil for its further processing and sales to Jilin Petrochemical. 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 increased accordingly, resulting in a substantial increase in the amount of the hydrogenated diesel oil purchased by the Company from Jilin Petrochemical.

(b) *Sale of petrochemical products*

The price of the petrochemical products sold by the Company to Jilin Petrochemical has increased substantially in line with the increase in the market price of petrochemical products in the PRC, which tracks an increase in the price of crude oil in the international market by approximately 47% in the first half of 2005. The price of petrochemical products sold by the Company to Jilin Petrochemical has increased by an average of approximately 25% in the first half of 2005 compared with the same period in the last year. Such substantial increase is beyond the Directors' reasonable expectation. The Directors expect an increase of approximately 30%, 40% and 50%, respectively, in the price of such products for each of the years ending 31 December 2007 on a year-on-year basis.

The amount of the petrochemical products sold by the Company to Jilin Petrochemical will also increase substantially following the commencement of commercial operation of Jilin Petrochemical's expanded polyethylene production facilities in October 2005 and that of the Expanded Facilities by the end of 2005 and the commencement of expansion of phenol acetone production facilities in 2006 and glycol production facilities in 2007.

(c) *Production safety insurance funds*

The Company shall contribute to the production safety insurance plan of PetroChina at 0.4% of the average cost of fixed assets and inventory. The increase in the caps for such funds is proposed mainly due to the increase in the cost of inventory of the Company which is beyond the reasonable expectation of the Company due to the substantial increase in the price of crude oil, production materials and petrochemical products.

(d) *Lease of machinery and equipment*

With the unexpected expansion of plants of Jilin Petrochemical, the Company will lease additional machinery and equipment from Jilin Petrochemical to benefit from the operation effectiveness and proficiency which will cause an increase in the amount of the services charges payable to Jilin Petrochemical.

(e) *Railway transport and water treatment services*

The Company will provide additional railway transport and water treatment services to Jilin Petrochemical following the commencement of commercial operations of Jilin Petrochemical's various expansion projects, which would cause an increase in the amount of services charges payable by Jilin Petrochemical beyond the Directors' reasonable expectation.

(f) *Public utilities services*

As a substantial part of plants of the Company is co-mingled with those of Jilin Petrochemical at the same premises, it would be more cost effective for the Company and Jilin Petrochemical to acquire public utilities services from each other for those plants. The Company and Jilin Petrochemical will provide public utilities to each other at market price from the second half of 2005 with the commencement of commercial operation of renovated facilities of both the Company and Jilin Petrochemical. The Directors expect a substantial increase in the amount of such services in 2006 and 2007 following the completion of various expansion projects by both the Company and JCGC and in view of the continuing increase in the prices of the public utilities due to that in the prices of power and energy.

(g) *Assets management service*

The Company will provide a management service of ethylene production facilities to Jilin Petrochemical under the Assets Management Agreement for a management fee from the second half 2005. The basis on which such management fee is determined and its annual caps is set out under paragraph 3.4.

(h) *Other supporting services*

The Company will provide maintenance services to the production facilities of Jilin Petrochemical due to the insufficient capacity of Jilin Petrochemical. The Company also expects to provide such services to Jilin Petrochemical in its triennial overall overhaul and maintenance of production facilities in the second half of 2005. Such services will be provided at actual cost.

The Company will provide landscaping services, job training services and other welfare and supporting services as required by Jilin Petrochemical with its expansion of operation and labor force. Such services will be provided at market price.

The Directors expect an average increase of approximately 50% in 2006 and 2007 on a year-on-year basis to satisfy the increasing requirements of Jilin Petrochemical in the course of expanding both of its operations and labor force.

3.3 Reasons for revising the annual caps for the Continuing Connected Transaction with PetroChina

3.3.1 The table below sets out the amounts of the Continuing Connected Transactions with JCGC for the year ended 31 December 2004 and six months ended 30 June 2005:

Category of transactions	Year ended 31 December 2004 (RMB'000)	Six months ended 30 June 2005 (RMB'000)
Sale of products	1,417,140	803,708
Examination and maintenance services	19,665	1,552
Construction of fixed assets	76,342	6,406
Purchase of production materials and spare parts	148,587	55,903
Welfare and supporting services	262,961	42,450
Operating lease rentals on land & property	7,680	3,200

3.3.2 The table below sets out the revised annual caps for the Continuing Connected Transactions with JCGC for each of the three years ending 31 December 2007:

Category of transactions	Year ending 31 December 2005 (RMB'000)			Year ending 31 December 2006 (RMB'000)			Year ending 31 December 2007 (RMB'000)		
	Original Cap	Amount of increase	Revised Cap	Original Cap	Amount of increase	Revised cap	Original Cap	Amount of increase	Revised cap
Sale of products	1,503,300	637,700	2,141,000	1,643,300	2,261,300	3,904,600	1,803,300	7,022,500	8,825,800
Examination and maintenance services	11,600	10,360	21,960	11,600	34,100	45,700	11,600	38,660	50,260
Construction of fixed assets	26,890	110,150	137,040	26,890	124,970	151,860	26,890	150,890	177,780
Purchase of production materials and spare parts	7,480	453,000	460,480	8,220	641,400	649,620	9,050	972,100	981,150
Welfare and supporting services	101,550	186,990	288,540	101,550	367,850	469,400	101,550	653,270	754,820
Operating lease rentals on land & property	7,680	4,100	11,780	7,680	4,980	12,660	7,680	5,980	13,660
Total	1,658,500	1,402,300	3,060,800	1,799,240	3,434,600	5,233,840	1,960,070	8,843,400	10,803,470

3.3.3 The basis and reasons for revising the annual caps for the Continuing Connected Transactions with JCGC are as follows:

(a) *Sale of products*

The price of the products sold by the Company to JCGC has increased substantially in line with the increase in the market price of petrochemical products in the PRC, which tracks an increase in the price of crude oil in the international market by approximately 47% in the first half of 2005. The price of petrochemical products sold by the Company to JCGC has increased by an average of approximately 25% in the first half of 2005 compared with the same period in the last year. Such substantial increase is beyond the Directors' reasonable expectation. The Directors expect an increase of approximately 30%, 40% and 50%, respectively, in the price of such products for each of the years ending 31 December 2007 on a year-on-year basis.

In addition, the Company will sell certain products to JCGC which were previously sold to third parties due to the changes in the market, resulting in an increase in the amounts of sale of such products.

(b) *Examination and maintenance services*

In view of JCGC's improved capacity for examination and maintenance services and for the sake of cost effectiveness, the Company will acquire a substantial amount of additional examination and maintenance services from JCGC instead of third parties to carry out examination and maintenance of its production facilities, including its triennial overall examination and maintenance in the second half of 2005.

(c) *Construction of fixed assets*

The Company will acquire additional fixed assets construction services from JCGC in the course of its triennial overall examination and maintenance in the second half of 2005. Moreover, the Company will acquire an additional amount of such services from JCGC as it expects to carry out a series of small scale renovation and expansion projects in 2006 and 2007.

(d) *Purchase of production materials and spare parts*

The price of the production materials purchased by the Company from JCGC has increased substantially in line with the increase in the market price of petrochemical products in the PRC, which tracks an increase in the price of crude oil in the international market by approximately 47% in the first half of 2005. The price of production materials purchased by the Company from JCGC has increased by an average of approximately 40% in the first half of 2005 compared with the same period in the last year. Such substantial increase is beyond the Director's reasonable expectation. The Directors expect an increase of approximately 30%, 40% and 50%, respectively, in the price of such production materials for each of the years ending 31 December 2007 on a year-on-year basis.

In addition, the Company will continue to purchase certain production materials from JCGC which were purchased from independent third parties due to the unexpected changes in the market, resulting in an substantial increase in the amounts of purchase of such production materials.

(e) *Welfare and supporting services*

With the expansion of operations by JCGC, the Company will acquire a substantial amount of additional public utilities services from JCGC's plants to benefit from the convenience of locations and achieve cost effectiveness.

(f) *Operating lease rentals on land and property*

With the expansion of operations by JCGC, the Company will lease additional properties from JCGC's facilities to benefit from the convenience of locations and achieve cost effectiveness.

3.4 Basis for the annual caps for the Continuing Connected Transactions under the Assets Management Agreement

The management fee payable under the Assets Management Agreement is determined with reference to the average amount of actual labor costs incurred in the production of ethylene for the two years ended 31 December 2004 and six months ended 30 June 2005, being RMB21 per tonne of ethylene. The annual caps for the management fee payable by Jilin Petrochemical to the Company for each of the years ending 31 December 2008 are estimated on such basis multiplied by the amount of ethylene attributable to the Expanded Facilities and a mark-up of 15% on the labor cost each year thereafter. The estimated maximum amount of ethylene attributable to the Expanded Facilities will be approximately 260,000 tonnes for each of the three years following the commencement of commercial operation of the Expanded Facilities.

4. BREACH OF TWO CAPS FOR ONE CONTINUING CONNECTED TRANSACTION

In the course of preparing the interim report for the six months ended 30 June 2005, the Directors noted that while the Company is in compliance with the cap set out in the Master Products and Services Agreement for the total amount of the Continuing Connected Transactions with PetroChina for the year ending 31 December 2005, the estimated maximum amount for the purchase of production materials by the Company from PetroChina has been exceeded. The total amount of production materials purchased by the Company from PetroChina for the six months ended 30 June 2005 was approximately RMB3,087,316 which exceeds the annual cap for such transaction as approved by the independent Shareholders, being RMB2,640,000,000.

Such breach was mainly due to the purchase of a large amount of hydrogenated diesel oil by the Company from Jilin Petrochemical in order to comply with the new environmental protection standards for diesel oil introduced by the PRC government in 2004, which is beyond the Company's control and reasonable expectation. To comply with such standards, the cracking diesel oil produced by the Company must be refined through the hydrogenation treating facility of Jilin Petrochemical and the Company will re-purchase the hydrogenated diesel oil for its further processing and sales to PetroChina. 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, increased accordingly and resulted in a substantial increase in the amount of the hydrogenated diesel oil purchased by the Company from Jilin Petrochemical.

The Directors also noted that while the Company is in compliance with the cap set out in the Composite Services Agreement for the total amount of the Continuing Connected Transactions with JCGC for the year ending 31 December 2005, the estimated maximum amount for production materials purchased by the Company from JCGC has been exceeded. The total amount of production materials purchased by the Company from JCGC for the six months ended 30 June 2005 was approximately RMB55,903,000 which exceeds the annual cap for such transaction as approved by the independent Shareholders, being RMB7,480,000.

Such breach was mainly due to the purchase of a large amount of fatty alcohol by the Company from PetroChina which was purchased from a third party. As the third party ceased its manufacturing of such production material and due to the Company's lack of import license, the Company has to import such production material of equivalent standards through a subsidiary of JCGC with such license, resulting in a substantial increase in the amount of production materials purchased from JCGC.

The delay in disclosure of and omission in obtaining the independent Shareholders' approval for such sale of petrochemical products has 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.

To remedy such breach, the Directors have resolved to enter into and propose for the Shareholders' approval of the Supplemental Agreements to revise the annual caps for the Continuing Connected Transactions, including but not limited to, the purchase of production materials from PetroChina and the purchase of production materials and spare parts from JCGC to satisfy the increasing demand for such transactions in the ordinary and usual course of the business of the Company. Furthermore, the Directors will continue to monitor closely the amount of the Continuing Connected Transactions on a monthly basis. The Directors, will particularly review the amounts of the Continuing Connected Transactions 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 of the Continuing Connected Transactions exceeds or is likely to exceed the relevant cap.

5. LISTING RULES IMPLICATIONS FOR SUPPLEMENTAL CONTINUING CONNECTED TRANSACTIONS

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 Supplemental Agreements and the Assets Management 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.

6. APPROVAL BY THE BOARD

A meeting of the Board was held on 12 August 2005, at which the Board approved the entering into of: (i) the Supplemental Master Products and Services Agreement with Jilin Petrochemical; (ii) the Supplemental Composite Services Agreement with JCGC; and (iii) the Assets Management Agreement with Jilin Petrochemical. The votes of Mr. Yu Li, Ms. Yang Dongyan, Mr. Ni Muhua, Mr. Jiang Jixiang and Mr. Xiang Ze, who are also employees of PetroChina, were not counted. All the remaining six Directors, including Mr. Zhang Xingfu, Mr. Li Chongjie, Mr. Wang Peirong, Mr. Lü Yanfeng, Mr. Zhou Henlong and Ms. Fanny Li, have approved all such agreements.

7. EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Board of the Company resolved to convene an Extraordinary General Meeting of the Company on 29 September 2005 to approve, among other things, the Supplemental Agreements and the Assets Management Agreement.

PetroChina and its associates will abstain from voting with regard to ordinary resolutions in connection with the matters mentioned above to be proposed at the Extraordinary General Meeting.

A circular containing, among other things, details of the Supplemental Agreements and the Assets Management Agreement, the recommendations of the independent board committee and the advice of Watterson Asia Limited, the independent financial adviser of the independent board committee will be despatched to the shareholders of the Company.

The holders of the Company's shares whose names appear on the register of members of the Company at 4:00 pm on 30 August 2005 will be entitled to attend the Extraordinary General Meeting. The register of members of the Company will be closed from 31 August 2005 to 29 September 2005 (both days inclusive), during which no transfer of H Shares will be effected.

The Supplemental Agreements and the Assets Management Agreement may or may not be approved by the independent Shareholders. Shareholders and potential shareholders are advised to exercise caution when dealing in the shares of the Company.

7. 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.

As of the date hereof, the Board comprises of:

Executive Directors:

Yu Li, Zhang Xingfu, Li Chongjie

Non-executive Directors:

Yang Dongyan, Ni Muhua, Jiang Jixiang, Xiang Ze

Independent Non-executive Directors:

Lü Yanfeng, Wang Peirong, Fanny Li, Zhou Henglong

By order of the Board of Directors

Yu Li
Chairman

12 August 2005
Jilin, the PRC

DEFINITIONS

“Assets Management Agreement”	the assets management agreement entered into between the Company and Jilin Petrochemical (as authorized by PetroChina) on 12 August 2005 in relation to the management of certain ethylene production facilities by the Company for Jilin Petrochemical
“Board”	the board of Directors
“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 and American Depository Shares listed on the New York 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 from 1 January 2005 to 31 December 2007 to govern the continuing supply of certain goods and services between the parties
“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 announcement, means PetroChina and/or JCGC
“Continuing Connected Transaction(s)”	the transaction(s) entered into between the Group and PetroChina and JCGC respectively which constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules
“Continuing Connected Transaction Circular”	the circular dated 24 December 2004 issued by the Company relating to the continuing connected transactions with PetroChina and JCGC, respectively
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 29 September 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
“Jilin Petrochemical”	Jilin Petrochemical Branch Company of PetroChina
“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 from 1 January 2005 to 31 December 2007 to govern the continuing supply of certain goods and services between the parties
“petrochemical products”	petrochemical products including ethylene, propylene, styrene, butadiene, 1-butene, xylene, n-xylene, and other miscellaneous products
“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 and American Depository Shares listed on the New York 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
“Supplemental Composite Services Agreement”	an agreement entered into between the Company and JCGC 12 August 2005 to amend and supplement certain terms of the Composite Services Agreement
“Supplemental Master Products and Services Agreement”	an agreement entered into between the Company and Jilin Petrochemical (as authorized by PetroChina) on 12 August 2005 to amend and supplement certain terms of the Mater Products and Services Agreement
“Supplemental Agreements”	collectively, the Supplemental Master Products Services Agreement, the Supplemental Composite Services Agreement
“%”	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.

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