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.

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 with limited liability)

(Stock Code: 368)

SUPPLEMENTAL CONTINUING CONNECTED TRANSACTION AGREEMENTS

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 Thursday, 29 September, 2005 at No. 9 Longtan Street, Longtan District, Jilin City, Jilin Province, the People's Republic of China is set out on pages 39 to 40 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 no later than 5:00 p.m. on 9 September, 2005.

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 no later than 9:00 a.m. on 28 September, 2005 or not less than 24 hours before the time appointed for holding of any adjournment of the extraordinary general 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.

5 September, 2005

CONTENTS

Deadline for returning the reply slips for the EGM	5:00 p.m. on 9 September, 2005
Deadline for returning the proxy forms for the EGM	9:00 a.m. on 28 September, 2005
EGM	9:00 a.m. on 29 September, 2005

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

"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 circular, 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

"Director(s)"	the director(s) 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
"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
"Latest Practicable Date"	31 August, 2005, being the latest practicable date before printing of this circular for ascertaining information contained herein
"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
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time

"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company
"Supplemental Composite Services Agreement"	an agreement entered into between the Company and JCGC on 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 Master Products and Services Agreement
"Supplemental Agreements"	collectively, the Supplemental Master Products Services Agreement, the Supplemental Composite Services Agreement
"Watterson Asia Limited"	the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions, being a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
"%"	per cent.

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 with limited liability)
(Stock Code: 368)

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

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

5 September, 2005

To the Shareholders

Dear Sir or Madam,

INTRODUCTION

The Directors refer to the press announcement dated 12 August, 2005 relating to, among other things, 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 purpose of this circular is to provide you with more information and request your approval of the resolutions set out in the notice of the EGM included on pages 39 to 40 of this circular.

An independent board committee ("Independent Board Committee") has been set up to advise the independent Shareholders on the above mentioned agreements and the annual caps relating thereto. Watterson Asia Limited 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 Asia Limited are also included in this circular.

1. BACKGROUND: THE EXISTING CONTINUING CONNECTED TRANSACTIONS

1.1 Continuing Transactions with PetroChina

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 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 circular.

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 circular.

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 Jilin 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 which are 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 three years ended 31 December, 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 years 2005, 2006 and 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	11,789,022	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 revises 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) Original cap	Amount of increase	Revised cap	Year ending 31 December, 2006 (RMB'000) Original cap	Amount of increase	Revised cap	Year ending 31 December, 2007 (RMB'000) Original cap	Amount of increase	Revised cap
Purchases of crude oil	23,680,000	–	23,680,000	31,370,000	–	31,370,000	33,980,000	–	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	–	13,320,000	17,330,000	–	17,330,000	18,780,000	–	18,780,000
Sale of petrochemical products	12,480,000	517,570	12,997,570	14,130,000	4,347,600	18,477,600	15,310,00	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*	–	797,140	797,140	–	1,110,300	1,110,300	–	1,665,220	1,665,220
Assets management service*	–	910	910	–	5,600	5,600	–	6,440	6,440
Other supporting services*	–	154,940	154,940	–	216,920	216,920	–	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 annual 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 40% and 50% respectively 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 JCGC

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 and 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:

	Year ending 31 December, 2005 *(RMB'000)*			Year ending 31 December, 2006 *(RMB'000)*			Year ending 31 December, 2007 *(RMB'000)*		
Category of transaction	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 and 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 three years ended 31 December, 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, 2007 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 not be more than 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 RMB3,087,316,000 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 transactions 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. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 15 of this circular. The Independent Board Committee, having taken into account the advice of Watterson Asia Limited, considers that the terms of the Supplemental Agreements and Assets Management Agreement 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 Supplemental Agreements and Assets Management Agreement and the annual caps relating thereto to be proposed at the EGM.

7. EGM

At the EGM, ordinary resolutions will be proposed to, among other things, approve the Supplemental Agreements and the Assets Management Agreement.

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 regards to ordinary resolutions in connection with the Supplemental Agreements and the Assets Management Agreement to be proposed at the EGM.

The holders of the Company's shares whose names appear on the register of members of the Company at 4:00 p.m. on 30 August, 2005 will be entitled to attend the EGM. 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 votes at the EGM will be taken on a poll, the results of which will be announced after the EGM. Pursuant to the articles of association of the Company, the shareholders' meeting votes on a show of hands unless the following persons requested for voting on a poll before or after the voting on a show of hands or the listing rules of the stock exchanges on which the shares of the Company are listed require 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.

8. FURTHER INFORMATION

Your attention is also drawn to the additional information set out on pages 41 to 44 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 with limited liability)
(Stock Code: 368)

5 September, 2005

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the "Circular") dated 5 September, 2005 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 Supplemental Master Products and Services Agreement, Supplemental Composite Services Agreement and Assets Management Agreement are fair and reasonable so far as the independent Shareholders are concerned and such agreements are in the interest of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter of advice issued by Watterson Asia Limited which is set out on pages 21 to 38 of the Circular.

Having considered the advice given by Watterson Asia Limited, we are of the opinion that the terms and conditions of the Supplemental Master Products and Services Agreement, Supplemental Composite Services Agreement and Assets Management Agreement to be fair and reasonable so far as the independent Shareholders are concerned and such agreements are in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the independent Shareholders to vote in favour of the ordinary resolution concerning the same 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

The following is the text of the letter of advice from Watterson Asia Limited to the Independent Board Committee and the Independent Shareholders dated 5 September 2005 for incorporation in this circular.

Watterson Asia Limited

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

5 September 2005

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 and the Independent Shareholders in relation to the Continuing Connected Transactions, detailed of which are set out in the circular (the "Circular") dated 5 September 2005 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 12 August 2005, the Directors announced that, amongst other things, (i) the Supplemental Master Products and Services Agreement was entered into between the Company and Jilin Petrochemical in relation to cross-provision of production materials, petrochemical products and other services between the parties involved; (ii) the Supplemental Composite Services Agreement was entered into between the Company and JCGC in relation to cross-provision of goods and services between the parties involved; and (iii) the Assets Management Agreement was entered into between the Company and Jilin Petrochemical in relation to provision of management services by the Company to certain expanded production facilities of JCGC.

Jilin Petrochemical is a branch company of PetroChina, which in turn is the controlling shareholder of the Company holding about 67.29% of the equity interest of the Company as at the Latest Practicable Date. JCGC is a wholly-owned subsidiary of CNPC, which in turn is the ultimate controlling shareholder of the Company. Therefore, both Jilin Petrochemical and JCGC are regarded connected persons to the Company and the Continuing Connected Transactions constitute connected transactions of the Company under the Listing Rules. Accordingly, the Supplemental Master Products and Services Agreement, the Supplemental Composite Services Agreement, and the Assets Management Agreement (together, the "Connected Transactions Agreements") are subject to, among other things, the approval of the Independent Shareholders.

Watterson Asia Limited has been retained by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms of the Connected Transactions Agreements are fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole.

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

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 2004, the un-audited interim report of the Group for the six months ended 30 June 2005 and the Connected Transactions Agreements. We have also discussed with the management of the Group the plans and prospects of the Group.

In formulating our recommendation, we have 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 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

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

I Background

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 and inorganic chemical products. The Company listed its American Depositary Shares (ADS), 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 about 67.29% by PetroChina as at the Latest Practicable Date.

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 and sale of crude oil and natural gas; the refining, transportation, storage and marketing of crude oil and petroleum products; the production and sale of basic petrochemical products, derivative chemical products and other chemical products; and the transmission of natural gas and crude oil and sale of natural gas. PetroChina listed its American Depositary Shares (ADS) and H shares on the New York Stock Exchange and the Stock Exchange respectively. Jilin Petrochemical is a branch company of PetroChina.

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 and rubber products, plastic products, aluminum powder, food additive, farm chemicals, environmental project engineering equipment, steam and electricity power.

The Company entered into the Master Products and Services Agreement with PetroChina and the Composite Services Agreement with JCGC on 30 November 2004 in respect of cross provision of a number of product and services between the parties involved, details of which are set out in the Company's circular dated 24 December 2004. On an extraordinary general meeting of the Company held in January 2005, Independent Shareholders have approved both agreements together with the annual caps specified thereof.

II Supplemental Master Products and Services Agreement

1 Transactions under the Supplemental Master Products and Services Agreement

A summary of transactions whose respective annual caps have been revised are set out in the table below.

(RMB'000)

Transactions	Amount 2004 (audited)	Amount 1st half 2005 (unaudited)	Original annual caps 2005	Original annual caps 2006	Original annual caps 2007	Revised annual caps 2005	Revised annual caps 2006	Revised annual caps 2007
Purchase of production materials	7,447,892	3,087,316	2,640,000	2,920,000	3,210,000	7,176,860	10,462,720	15,240,840
Sale of petrochemical products	11,519,222	5,781,711	12,480,000	14,130,000	15,310,000	12,997,570	18,477,600	21,831,410
Production safety insurance funds	32,958	16,576	58,000	59,000	60,000	73,430	77,520	82,220
Lease of machinery and equipment	27,733	15,650	18,000	20,000	23,000	79,560	106,190	152,280
Railway transport and water treatment services	29,706	17,090	19,000	21,000	23,000	55,720	72,410	100,110
Public utilities services	N/A	N/A	N/A	N/A	N/A	797,140	1,110,300	1,665,220
Assets management service	N/A	N/A	N/A	N/A	N/A	910	5,600	6,440
Other supporting services	N/A	N/A	N/A	N/A	N/A	154,940	216,920	325,370

2 Basis of the determination of the revised annual caps and the considerations

2.1 Purchase of production materials

As advised by the Company, production materials purchased by the Group from Jilin Petrochemical mainly include catalytic diesel oil and other miscellaneous raw materials, all of which are derived from crude oil and are raw materials required for the production of petrochemical products.

During 2004 and the first half of 2005, the Group purchased production materials from Jilin Petrochemical amounted to about RMB7,448 million and RMB3,087 million respectively. Compared with the original cap for 2005 of about RMB2,640 million, the revised cap is increased by about RMB4,537 million. Such increase is mainly attributable to:

(i) as stated in the "Letter from the Board" of the Circular, in order to comply with the new environmental protection standards for diesel oil stipulated by the PRC government in 2004, cracking diesel oil produced by the Company must be refined through the hydrogenation treating facility of Jilin Petrochemical which the Company does not have and the Company will then re-purchase the hydrogenated diesel oil for its further processing and sell to Jilin Petrochemical. Consequently, the Company's purchase of production materials from Jilin Petrochemical will increase. As provided by the Company, during the first half of 2005, purchases of hydrogenated diesel oil from Jilin Petrochemical amounted to about 230,000 tonnes, whereas purchases of wax oil, naphtha, coker gatch, coked liquefied gas and other products amounted to about 369,000 tonnes, which in aggregate amounted to about RMB2,111 million. Based on the above, the annualized additional purchase is expected to amount to about RMB4,222 million;

(ii) Jilin Petrochemical is also expanding certain production facilities mainly include ethylene and polyethylene, as a result of which, purchases of cracked C4, ethylene coke oil and certain petrochemical products are expected to increase by about 120,000 tonnes, which attributed to RMB315 million.

The revised cap for 2006 amounts to about RMB10,463 million, an increase of about 45.8% from the revised cap for 2005. As the production materials are derived from crude oil, prices of such production materials relate to that of crude oil. According to the statistics of Energy Information Administration of the United States, the WTI spot crude oil price as at the Latest Practicable Date was traded at about US$69 per barrel, represents an increase of about 66% compared to the average price in 2004. As set out in the "Letter from the Board" of the Circular, market price of such production materials has increased by an average of about 40% in the first half of 2005 from the same period in 2004. To arrive at the revised cap for 2006, the Company has assumed average purchase price will continue to increase by about 40% which approximates to the same growth rate in the first half of 2005 from the corresponding period in 2004. Based the same assumption, the revised cap for 2007 amounts to about RMB15,241 million, representing an increase of 45.7% from the revised cap for 2006.

Having considered the above, we consider the revised caps for each of the three years to 2007 are fair and reasonable.

2.2 Sale of petrochemical products

As advised by the Company, petrochemical products sold by the Company to Jilin Petrochemical mainly include ethylene, heavy oil, catalyzed diesel and other petrochemical products.

The revised cap for 2005 amounts to about RMB12,998 million representing an increase of about 13% from the actual amount in 2004 according to the Company's 2004 annual report. Compared with the original cap for 2005 of about RMB12,480 million, the revised cap increase by about RMB517.6 million. Such increase is mainly attributable to sale of additional petrochemical products such as atmospheric gas oil, hydrogenation tail oil, straight-run naphtha and other ancillary products to Jilin Petrochemical after its expansion of ethylene production facilities by 220,000 tonnes, which is expected to be completed by October 2005.

The revised cap for 2006 amounts to about RMB18,478 million, which is increased by about RMB5,480 million from the revised cap for 2005, is attributable to (i) the annualized additional sale of petrochemical products of about RMB3,108 million due to the expansion of production facilities in second half 2005, and (ii) about RMB2,372 million resulting from the expansion of production facilities for 370,000 tonnes of phenol-acetone, the renovation of facilities for the production of nitric acid as well as an anticipated increase in sale price in 2006.

The revised cap for 2007 amounts to about RMB21,831 million, an increase by about 18% from the revised cap for 2006, and is mainly attributable to the planned expansion of production facilities for the 350,000 tonnes deep catalytic cracking units and the 580,000 tonnes facility for ABS in 2007 as well as an anticipated increase in sale price in 2007.

Having considered the above, we consider the revised caps for each of the three years to 2007 are fair and reasonable.

2.3 Production safety insurance funds

As advised by the Company, 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 a State-regulated rate of the average cost of fixed assets and inventory. The CAGR of the revised annual caps under this category amounts to about 36% from 2004 to 2007.

We have discussed with the management of the Company and noted that the increase is mainly attributable to (i) the strategy of the Company to increase its inventory volume which is expected to bring down the average cost of products in an anticipated price-uptrend market; (ii) value of inventory will increase as a result of the material prices increases with reference to market price of such production materials which has increased by an average of about 40% in the first half of 2005 from the same period in 2004; and (iii) the Company plans to transfer certain insurance policy currently insured with other parties to PetroChina upon the expiry of existing policies under current terms. The Company has confirmed that the insurance policies with PetroChina are entered into based on State-regulated rate and are on terms not less favorable to the Company compared to those offered by other independent parties. On such basis, we are of the view that a CAGR of about 36% of the revised annual cap under this category for the next three years to 2007 is fair and reasonable.

2.4 Lease on machinery and equipment

As advised by the Company, this category includes operating lease on property, plant, machinery and equipment from Jilin Petrochemical. For each of the three years to 2007, the revised annual caps under this category amount to about RMB79.6 million, RMB106.2 million and RMB152.3 million respectively.

Compared with the original cap for 2005 of about RMB18 million, the revised cap increased by about RMB61.6 million. Such significant increase is mainly attributable to:

(i) As advised by the Company, in June 2005, the Company entered into an agreement with Jilin Petrochemical for the lease of plant, machinery and equipment with an aggregate annual contract value of about RMB32 million due to the emerging increase in market demand for the Group's petrochemical product in 2005 which, as advised by the Company, was not fully anticipated in 2004;

(ii) increase in office lease of about RMB9 million for 2005; and

(iii) the Company plans to lease additional plant and equipment of about RMB36 million during the remaining period of 2005.

For 2006 and 2007, the Company currently estimated that it will need to make additional lease payment of about RMB26.6 million and RMB46.1 million for additional equipment respectively, in order to meet the anticipated expansion on production output and to implement production optimization with a review to improve overall production process.

Having considered the above, we consider the revised annual caps under this category for the next three years to 2007 are fair and reasonable.

2.5 Railway transport and water treatment services

Compared with the original cap for 2005 of about RMB19 million for the provision of railway transport and water treatment services to Jilin Petrochemical, the revised cap increased by about RMB36.7 million, which are mainly due to:

(i) for the first half of 2005, the provision of railway transport and water treatment services amounted to about RMB17.1 million, which represents about 90% of the original cap;

(ii) in the second half of 2005, the demand for railway transport are expected to increase as sale and purchase of production materials increases following the various expansion of production facilities of Jilin Petrochemical, including mainly the 220,000 tonnes ethylene facilities and 300,000 tonnes polyethylene facilities;

(iii) increasing demand for waste water treatment as production output increases resulting from the expansion of the above production facilities; and

(iv) price of railway transport in first half 2005 increased by about 12% from the corresponding period in the prior year.

The revised cap for 2006 and 2007 represent an increase of about 30% and 38% respectively from that in the respective prior year. Such increase is arrived at based on:

(i) annualized amount of the increased services attributable to expansion of production facilities in the second half of 2005;

(ii) expected expansion of production facilities including mainly the 370,000 tonnes of phenol-acetone and the renovation of facilities for the production of nitric acid in 2006;

(iii) expected expansion of production facilities including the 350,000 tonnes deep catalytic cracking units and 580,000 tonnes facility for ABS in 2007; and

(iv) anticipated increase in cost of railway transport and cost of water treatment of about 12% for each of 2006 and 2007 which is determined with the same growth rate from first half 2004 to 2005.

Based on the above, we consider the revised annual caps under this category for the next three years to 2007 are fair and reasonable.

2.6 Public utilities services

As advised by the Company, services under this category represents cross-provision of public utilities mainly include gas, electricity and water between the Company and Jilin Petrochemical. The annual caps under this category amount to about RMB797 million, RMB1,110 million and RMB1,665 million for 2005, 2006 and 2007 respectively, representing a CAGR of about 45%.

As disclosed in the "Letter from the Board" in the Circular, the cross provision of public utilities between the Company and Jilin Petrochemical is mainly due to the fact that a substantial part of plants of the Company is co-mingled with those of Jilin Petrochemical. Giving such circumstances, it would be more cost effective for a plant of either Company or Jilin Petrochemical to acquire public utilities from a plant which is located nearby. The Company advised that the price of public utilities is determined with reference to cost.

Consumption of public utilities will increase as production output increases. In additional to the Company's own operation, Jilin Petrochemical is undergoing expansion of production facilities for a number of products. Following the commencement of these expanded production facilities, the demand for utilities services is expected to increase.

As advised by the Company, the annual cap of RMB797 million for 2005 was mainly attributable to (i) increase in provision of public utilities between those plants that are co-mingled between each other in order to achieve cost efficiency, and (ii) expansion of production facilities of Jilin Petrochemical in the second half of 2005 which mainly include the 220,000 tonnes ethylene facilities and the 300,000 tonnes polyethylene facilities.

The annual cap for 2006 represents an increase of about 40% from 2005, which is mainly attributable to (i) annualized amount resulting from the abovementioned expansion of certain production facilities in the second half of 2005, and (ii) expected expansion of production facilities mainly including the 370,000 tonnes of phenol-acetone and the renovation of facilities for the production of nitric acid in 2006.

The annual cap for 2007 represents an increase of about 50% from 2006, which is mainly attributable to (i) expected expansion of production facilities of Jilin Petrochemical in 2007 including the 350,000 tonnes deep catalytic cracking units and the 580,000 tonnes facility for ABS in 2007, and (ii) a buffer of 10% to meet the possible increase in price of utilities in 2007 from the current price.

On the above basis, we consider the annual caps under this category for the next three years to 2007 are fair and reasonable.

2.7 Assets management service

Basis for calculation of annual caps of this category is set out in section IV paragraph 2 below.

2.8 Others supporting services

As advised by the Company, services under this category mainly include cross-provision of repair and maintenance services, job training services and landscaping services between the Company and Jilin Petrochemical. The revised annual caps under this category amounts to about RMB154.9 million, RMB216.9 million and RMB325.4 million for 2005, 2006 and 2007 respectively, representing a CAGR of about 45%.

With the expansion of Jilin Petrochemical's operation facilities and the anticipated increase in production output, the repair and maintenance, and job training services are expected to increase correspondingly as a consequence.

As advised by the Company, the annual cap of RMB154.9 million for 2005 comprises:

(i) repair and maintenance services of about RMB135 million which are mainly attributable to certain major repair and maintenance services to be provided by the Company to the production facilities of Jilin Petrochemical at cost including polyethylene, phenol-acetone, phthalic anhydride and ethylene glycol;

(ii) job training and landscaping services of about RMB5 million to be provided by the Company to Jilin Petrochemical at market prices; and

(iii) properties management services of about RMB5 million to be provided by Jilin Petrochemical to the Company at market prices.

The annual cap for 2006 and 2007 represent an increase of about 40% and 50% from the respective prior year which is mainly attributable to the anticipated increase in demand for the Company's repair and maintenance services as a result of the planned expansion of production facilities mainly including the 370,000 tonnes of phenol-acetone and the renovation of facilities for the production of nitric acid in 2006, as well as the 350,000 tonnes deep catalytic cracking units and 580,000 tonnes facility for ABS in 2007.

Having considered the above, we consider the annual caps under this category for the next three years to 2007 are fair and reasonable.

III Supplemental Composite Service Agreement

1 Transactions under the Composite Services Agreement

A summary of transactions and their respective annual caps are set out in the table below.

(RMB'000)

Transactions	Amount 2004 (audited)	Amount 1st half 2005 (unaudited)	Original annual cap 2005	Original annual cap 2006	Original annual cap 2007	Revised annual cap 2005	Revised annual cap 2006	Revised annual cap 2007
Sale of products	1,417,140	803,708	1,503,000	1,643,300	1,803,300	2,141,000	3,904,600	8,825,800
Examination and maintenance services	19,665	1,552	11,600	11,600	11,600	21,960	45,700	50,260
Construction of fixed assets	76,342	6,406	26,890	26,890	26,890	137,040	151,860	177,780
Purchase of production materials and spare parts	148,587	55,903	7,480	8,220	9,050	460,480	649,620	981,150
Welfare and supporting services	262,961	42,450	101,550	101,550	101,550	288,540	469,400	754,820
Operating lease rentals on land and property	7,680	3,200	7,680	7,680	7,680	11,780	12,660	13,660

2 Basis of the determination of the revised annual caps and the considerations

2.1 Sale of products

As advised by the Company, products sold by the Company to JCGC under this category are mainly raw materials used by JCGC for production of other products. The CAGR of the revised annual caps amounts to about 84% from 2004 to 2007.

As advised by the Company, the above CAGR for 2005 is mainly attributable to (i) assuming average sale price of chemical products will be increased by about 30% from 2005, which is determined with reference to the 66% increase in crude oil price as at the Latest Practicable Date compared to the average price in 2004, and (ii) the anticipated increase in demand for chemical products as a result of the planned expansion of the JCGC's production facilities in 2005 mainly include 10,000 tonnes of trimethylol propane, 60,000 tonnes formaldehyde, 15,000 tonnes methyl isobutyl ketone, 5,000 tonnes of silicon tetrachloride and 5,000 tonnes of pivalic acid.

As advised by the Company, the main reason for increase in 2006 are: (i) assuming average sale price of chemical products will be increased by about 40% from 2005, which is determined with reference to the 66% increase in crude oil price as at the Latest Practicable Date compared to the average price in 2004, and (ii) the anticipated increase in demand for chemical products as a result of the planned expansion of the JCGC's production facilities in 2006 including 103,800 tonnes petrol, 100,000 tonnes α-olefin and certain other petrochemical products.

As advised by the Company, the main reason for the increase in 2007 are: (i) average sale price of chemical products is expected to increase by about 50% from 2006, which is determined with reference to the 66% increase in crude oil price as at the Latest Practicable Date compared to the average price in 2004; (ii) the anticipated increase in demand for chemical products as a result of the planned expansion of the JCGC's production facilities in 2007 mainly including 50,000 tonnes of 2-propyl heptanol, 200,000 tonnes acrylonitrile, 30,000 tonnes acetone cyanohydrine; and (iii) a buffer of 10% to meet any unforeseen increase in demand by JCGC for the chemical products.

Based on the above, we consider the revised annual caps under this category for the next three years to 2007 are fair and reasonable.

2.2 Examination and maintenance services

Services under this category represent sub-contracting services to JCGC for semi-finished products and examination and maintenance services provided by JCGC to the Company. The revised annual caps for 2005 represent an increase of 12% from the actual amount in 2004 which is mainly attributable to an overall repair and maintenance services for 50 sets of major production facilities and 26 sets of ancillary production facilities to be conducted in the second half of 2005.

The revised cap for 2006 amounts to about RMB45.7 million, representing an increase of about RMB23.7 million from 2005. As advised by the Company, JCGC is planning to establish a new company which is specialized in provision of the maintenance services in the second half of 2005. As a result of such, starting from 2006, the Company will discontinue certain maintenance services currently provided by other independent third parties and engage the services of this new services company of JCGC. Consequently, the annual cap for 2006 will be increased. The Company has confirmed that the terms and price of the services to be provided by the new JCGC services company will be on terms not less favorable to the Company compared to those currently offered by other independent parties.

The revised cap for 2007 amounts to about RMB50.3 million, up about 10% from 2006. As advised by the Company, such increase is mainly attributable to the increases in price of maintenance services in line with annual inflation rate of the country, and the anticipated additional services required by the Company.

Having considered the above, we consider the revised annual caps under this category for the next three years to 2007 are fair and reasonable.

2.3 Construction of fixed assets

The Company advised that the construction of fixed assets acquired from JCGC represent construction of properties and installation of plant and equipment. The revised annual caps for 2005 represent an increase of about RMB60.7 million from the actual amount in 2004. Such increase is mainly attributable to the overall examination and maintenance to be conducted in the second half of 2005, which comprises about 50 sets major production facilities and 26 sets ancillary production facilities.

The revised annual cap for 2006 and 2007 amount to RMB151.9 million and RMB177.8 million, represent an increase of about 11% and 17% on a year-on-year basis. As advised by the Company, the planned additional major projects in 2006 and 2007 which require services from JCGC include the production facilities expansion of certain other petrochemical products.

As the revised annual cap amounts are derived from such planned construction projects. As such, we consider the annual caps under this category for the next three years to 2007 are fair and reasonable.

2.4 Purchase of production materials and spare parts

Compared with the original cap for 2005 of about RMB7.48 million for the production materials and spare parts purchased from JCGC, the revised cap is increased by about RMB453 million. Such significant increase is primarily due to the followings:

(i) the Company started to purchase fatty alcohol from a subsidiary of JCGC with import license in the first half of 2005 as the original provider (a third party) ceased its manufacturing of such product. The estimated purchase of this product in 2005 amounts to about RMB193 million. Such extra purchase resulted from the unexpected change of supplier accounted for about 43% of the cap increment;

(ii) as the Company plans to conduct its triennial overall repair and maintenance in the second half of 2005, it needs to acquire various catalyst from overseas through a subsidiary of JCGC with import license, whose estimated value amounts to RMB126 million;

(iii) purchase of equipment from JCGC for the triennial overall repair and maintenance to be conducted in the second half of 2005 which amounts to about RMB55 million; and

(iv) new purchase of packaging materials from an newly established packaging company of JCGC which will amount to about RMB71 million.

The revised cap for 2006 and 2007 amount to about RMB649.6 million and RMB981.2 million, up by about 41% and 51% respectively on a year-on-year basis. The above caps are calculated based on an average price increase of about 40% and 50% in 2006 and 2007 respectively, which in turn is determined with reference to the 66% increase in crude oil price as at the Latest Practicable Date compared to the average price in 2004.

Having considered the above, we consider the revised caps for each of the three years to 2007 are fair and reasonable.

2.5 Welfare and supporting services

As advised by the Company, welfare and supporting services provided by JCGC to the Company mainly including staff welfare, public utilities and transportation services to the Company. The CAGR of the revised annual caps under this category amounts to about 42% from 2004 to 2007 which was determined with reference to the historical amount of welfare and supporting services which had a CAGR of about 51% for the three years period from 2002 to 2004 according to the Company's annual reports.

The revised cap for 2005 represents about 10% increase from the actual amount in 2004. As advised by the Company, such increase reflects the increase in cost and volume of such welfare and supporting services.

For 2006, the revised cap is increased by about RMB180.9 million from 2005. Such increase is mainly attributable to:

(i) additional purchase of public utilities of about RMB120 million resulting from expansion of the Company's production facilities for synthetic ammonia and certain other petrochemical products;

(ii) properties management services of about RMB5 million to be provided by JCGC;

(iii) additional road transport services of about RMB10 million due to the anticipated increase in production output; and

(iv) a buffer of 15% to meet any unforeseen increase in demand for such services.

For 2007, the revised cap is increased by about RMB285.4 million from 2006. Such increase is mainly attributable to:

(i) additional purchase of public utilities of about RMB195 million resulting from expansion of the Company's production facilities of certain other petrochemical products;

(ii) additional road transport services of about RMB20 million due to the anticipated increase in production output; and

(iii) a buffer of 15% to meet any unforeseen increase in demand for such services.

Based on the above, we consider the revised annual caps under this category for the next three years to 2007 are fair and reasonable.

2.6 Operating lease rentals on land and property

The revised annual cap for 2005 amounts to about RMB11.8 million, up about 4.1 million from the original cap. As advised by the Company, such increase is mainly attributable to the estimated additional lease of properties from JCGC during 2005 to cope with the expansion of the Company's production facilities and output. The above lease is expected to achieve cost efficiencies for the Company.

For 2006 and 2007, the revised cap increased by about 7% and 8% respectively, which is a buffer to meet any unforeseen increase in lease amounts due to production requirements.

As the above cap amounts are derived from the planned expansion of the above operating facilities. As such, we consider the revised annual caps under this category for the three years to 2007 are fair and reasonable.

IV Assets Management Agreement

1 Major terms

Under the Master Products and Services Agreement, the Company sells ethylene to Jilin Petrochemical. As set out in the "Letter from the Board" in the Circular, the Company's existing ethylene production facilities with a production capacity of about 380,000 tonnes per annum ("Existing Facilities") can no longer satisfy the Jilin Petrochemical's increasing demand for ethylene. Due to the Company's lack of funds to expand such production facilities, Jilin Petrochemical carried out an expansion to enlarge the existing production facilities by a production capacity of 220,000 tonnes ("Expanded Facilities") to an aggregate of about 600,000 tonnes per annum. The Directors expect the expanded facilities to commence commercial operation around October 2005.

To facilitate the management and operation of the enlarged ethylene production facilities, Jilin Petrochemical and the Company entered into the Assets Management Agreement on 12 August 2005 for a term of three years, under which the Company will be responsible for the management and operation of the enlarged production facilities in return for a management fee. The annual caps of the management fee payable by Jilin Petrochemical to the Company amount to RMB910,000, RMB5,600,000 and RMB6,440,000 for 2005, 2006 and 2007 respectively.

Following the commencement of commercial operation of the Expanded Facilities, of the aggregate annual production of about 600,000 tonnes ethylene, 380,000 tonnes will be distributed to the Company and the remaining 220,000 tonnes will be distributed to Jilin Petrochemical, i.e., about 63.3% (380,000/600,000) to the Company and about 36.7% to Jilin Petrochemical (220,000/600,000) (the "Distribution Ratio").

The costs of ancillary materials, public utilities services and fuels consumed by the Expanded Ethylene Plant shall also be shared by the Company and Jilin Petrochemical according to the Distribution Ratio. 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.

Having considered (i) the Distribution Ratio of product produced by the enlarged production facilities is decided in accordance with the respective percentage of production capacity of the Existing Facilities and Expanded Facilities to the enlarged aggregate total capacity; (ii) the Company may achieve economy of scale with the enlarged production capacity after the expansion; and (iii) under central management of the Company, the Company will be able to mitigate possible competition with the Expanded Facilities in the area of production and management, we are of the view that the terms of Assets Management Agreement are fair and reasonable and are in the interest of the Company and Shareholders as a whole.

2 Basis of the determination of the annual caps

Under the Assets Management Agreement, Jilin Petrochemical agreed to pay the Company a management fee. The annual caps of the management fee payable by Jilin Petrochemical to the Company amount to RMB910,000, RMB5,600,000 and RMB6,440,000 for 2005, 2006 and 2007 respectively.

As set out in the "Letter from the Board" of the Circular, the management fee is calculated based on 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 three years ended 31 December 2004. Although the designed annual capacity of the Expanded Facilities amounts to 220,000 tonnes, the annual caps are arrived at based on 260,000 tonnes per year. As advised by the Company, the designed capacity is calculated based on the production facilities which will be subject to major repair and maintenance once a year. However, based on the operating track records of the Existing Facilities, the Company conducts major repair and maintenance on a triennial basis. As such, output of the Expanded Facilities may reach about 260,000 tonnes per year. Production volume for two months ending 31 December 2005 is calculated on a prorated basis. In addition, in order to reflect the possible increase in labor cost, management fee will be increased each year by 15% starting one year after the date of commencement of operation of Expanded Facilities.

Having considered (i) management fee are arrived at based on the average historical labor cost for production of ethylene; (ii) annual production volume is calculated applying about 18% margin to the designed capacity which gives the Company a buffer to cover all the related labor cost; and (iii) a 15% growth rate is higher than the average inflation rate of about 4% in the PRC in the past five years which provides the Company with flexibilities to meet the possible upward adjustment in staff salaries, we are of the view that the annual caps of management fee for 2005, 2006 and 2007 are fair and reasonable and are in the interest of the Company and Shareholders as a whole.

V Reasons For and Benefit of the Continuing Connected Transaction

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 Connected Transactions Agreements; and (ii) in the event that the Company does 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 Connected Transactions Agreements 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 terms of the Connected Transactions Agreements (including their proposed respective annual caps for 2005, 2006 and 2007) are fair and reasonable and 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 resolution to approve the Connected Transactions Agreements (including their proposed respective annual caps for 2005, 2006 and 2007) at the upcoming EGM.

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

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "EGM") of Jilin Chemical Industrial Company Limited (the "Company") will be held at 9:00 a.m. on 29th September, 2005 at No. 9 Longtan Street, Longtan District, Jilin City, Jilin Province, the People's Republic of China (the "PRC") to consider and, if thought fit, approve the following resolutions as ordinary resolutions:

1. To consider and approve the Supplemental Composite Services Agreement, and authorize any director of the Company to do such further acts and things and execute further documents and take all such steps which in his opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement;

2. To consider and approve the Supplemental Master Products and Services Agreement, and authorize any director of the Company to do such further acts and things and execute further documents and take all such steps which in his opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement;

3. To consider and approve the Assets Management Agreement, and authorize any director of the Company to do such further acts and things and execute further documents and take all such steps which in his opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.

By Order of the Board
Zhang Liyan
Company Secretary

Jilin, PRC
12 August, 2005

Notes:

(A) Holders of the Company's shares whose names appear on the register of members of the Company at 4:00 p.m. on 30 August, 2005 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 31 August, 2005 to 29 September, 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 EGM is entitled to appoint one or more proxies, whether they are members or not, to attend and vote, on his behalf, at the EGM.

(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 EGM.

(F) Shareholders intending to attend the EGM should return the accompanying reply slip to the Secretary's Office to the Company before 9 September, 2005 by hand, mail or facsimile.

(G) The EGM is expected to last half a day. Shareholders attending the EGM 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

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:

Director		**Number of Shares**	**Percentage of shareholding**
Ni Muhua		3,550	0.00009969%
	Sub-total	3,550	0.00009969%
Supervisors			
Zou Haifeng		3,550	0.00009969%
Li Shumin		7,000	0.00019657%
	Sub-total	10,550	0.00029626%
	Total	14,100	0.00039595%

Save as disclosed, none of the Directors 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.

None of the Directors, Supervisors or Watterson Asia Limited has any direct or indirect interest in any assets which have since 31 December, 2004 (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 Asia Limited 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 Executive 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.

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.

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	% of Registered Capital	% of issued H Shares	% of issued A Shares	% of issued unlisted Shares
PetroChina	2,396,300,000[(1)]	67.29	–	–	100
HKSCC Nominees Limited	822,030,699[(2)]	23.08	85.20	–	–
HSBC Nominees (Hong Kong) Limited	135,637,300[(2)]	3.81	14.06	–	–

Notes:

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

(2) Such H shares of the Company are held by HKSCC Nominees Limited and HSBC Nominees (Hong Kong) Limited as nominees.

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, 2004 (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.

QUALIFICATION OF EXPERT

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

Name	Qualification
Watterson Asia Limited	Licensed corporation under the SFO for type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

MISCELLANEOUS

(i) The Company secretary of the Company is Ms. Zhang Liyan.

(ii) 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.

(iii) 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 29 September, 2005:

(i) the letter from the Independent Board Committee, the text of which is set out on page 20 of this circular;

(ii) the letter from Watterson Asia Limited, the text of which is set out on pages 21 to 38 of this circular;

(iii) the written consent of Watterson Asia Limited;

(iv) the Supplemental Master Products and Services Agreement;

(v) the Supplemental Composite Services Agreement;

(vi) the Assets Management Agreement; and

(vii) the current service contracts between the Company and each of the executive Directors, respectively.