

China Resin Industry Report, 2009

Oct/2009

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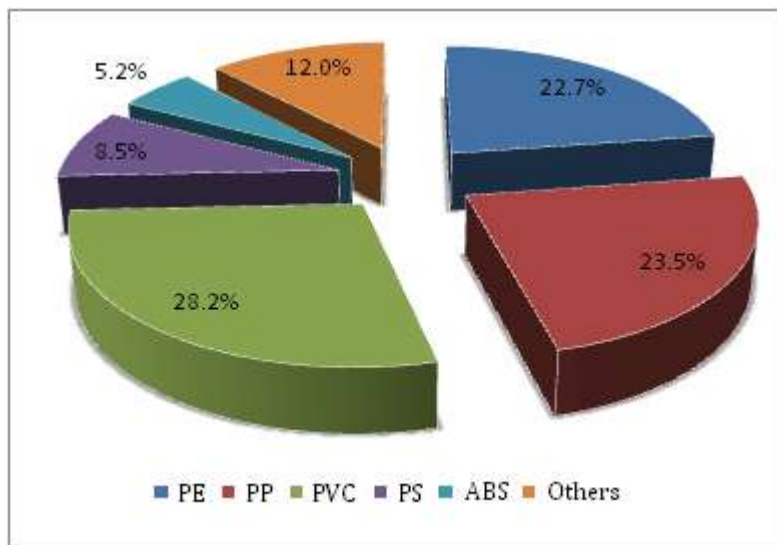
2. Development of China Resin Industry

Considering current market situation, the financial crisis occurred in 2009 will still have effect on China's economy. The demand for synthetic resin has been seriously dampened.

2.1 China Synthetic Resin Market Overview

In 2008, China's output of synthetic resin amounted to 31.296 million tons. And the figure reached 16.473 million tons in the first half of 2009. On the variety, China has developed a complete variety system led by five major synthetic resins (Polythene, Polypropylene, Polyvinyl chloride, Polystyrene, and ABS) and assisted by phenolic resin, amino plastic, epoxy resin, and acrylics.

Ratios of China's Five Major Synthetic Resins in Total Output



Source: ResearchInChina

2.4 Resin Import & Export

Entering 2009, the petrochemical industry continues its sluggish situation for at least two quarters although financial crisis has not touched the bottom yet. However, synthetic resin is the first to show recovery, mainly due to the obviously reduced stock of synthetic resins of CNPC and Sinopec on the one hand and the considerably rising prices of products on the other hand. According to the statistics of General Administration of Customs of the People's Republic of China, the total import value of petrochemical products in Feb.2009 dropped 46.4% compared to the same period of last year, but the total import value of synthetic resins showed a rapid growth rate in Feb.2009, up 0.3% from the same period of last year.

Import and Export of Synthetic Resin, Jan.-Jun.2009

<i>Year (unit: 10,000 tons)</i>	<i>Import</i>	<i>Export</i>	<i>Import/Apparent Consumption (%)</i>	<i>Reliance Ratio (%)</i>
Jan.-Jun.2009	1378.5	88.4	46.9	43.92
Same Period Last Year	1184.8	144.6	44.1	38.68
YoY±%	16.4	-38.9	2.9	5.24

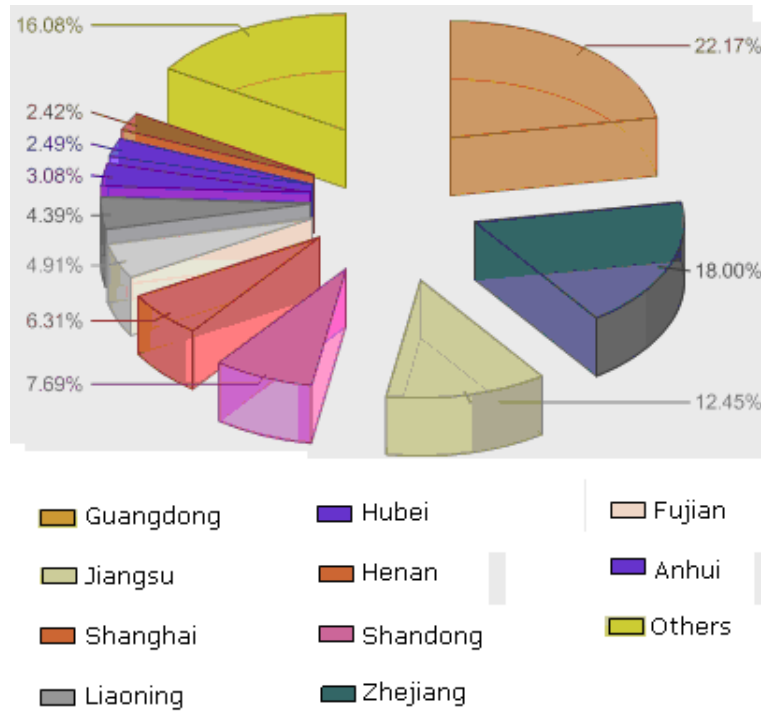
Source: ResearchInChina

3.2.1 Analysis of Production of Plastic Product Industry

The data of National Bureau of Statistics shows that in May 2009, Chinese plastic enterprises above designated size (i.e. all state-owned enterprises and those non-state-owned enterprises with an annual sales income of over RMB5 million) amounted to 18900. These enterprises are mainly located in Guangdong, Zhejiang, Jiangsu, Shandong and Shanghai. The number of the enterprises in these regions accounts for 83.92% of the total number of China.

Industrial Enterprises above Designated Size in Plastic Industry by Region, Jan-May

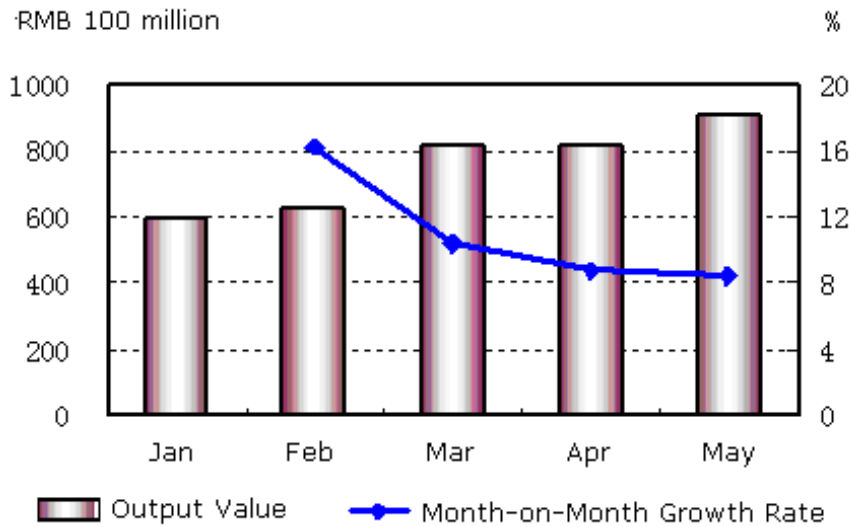
2009



Source: National Bureau of Statistics; ResearchInChina

During January to May of 2009, the accumulated industrial output value (current price) of plastic industry was RMB381.573 billion, with the cumulative increase rate of 7.5%. The monthly output value maintained a steady growth. The output value in February reached RMB62.819 billion, up 16.2%; the output value in March was RMB81.286 billion, up 10.4%; the output value in April was RMB81.486 billion, up 8.7%; the output value in May was RMB90.321 billion, up 8.4%.

Monthly Output Value of Plastic Industry, 2009

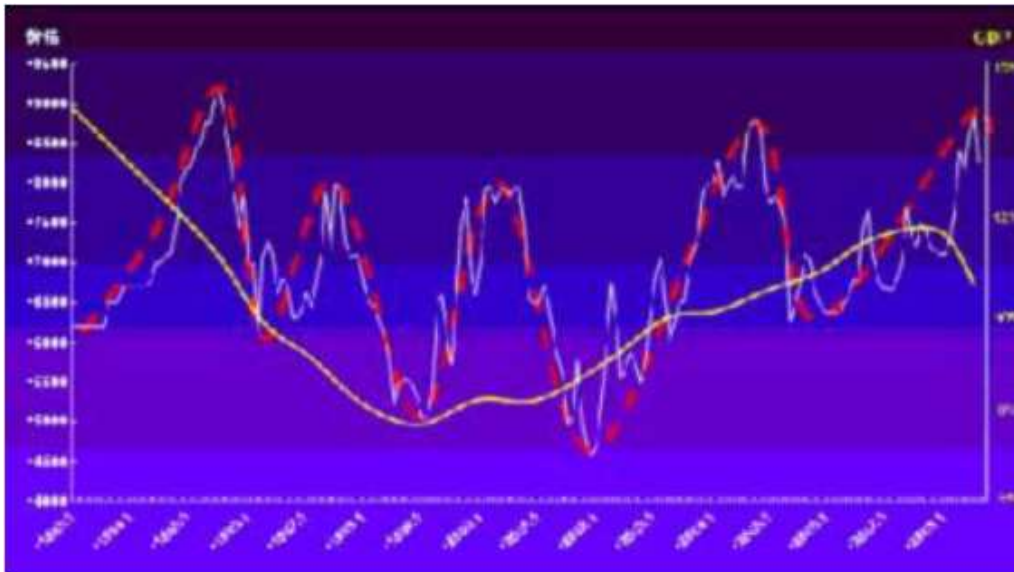


Source: National Bureau of Statistics; ResearchInChina

4.1 China's PVC Development

China's PVC industry is mature now. It had developed adequately during the period from 2003 to 2005, with rapid demand growth, steady technology, and high profits. Promoted by profit, the suppliers had increased dramatically, and the products had developed towards variety, high-quality and low-price gradually, which made the competition become more intensive and market demand tend to be saturated. Therefore, the manufacturers should strive for competition advantages via increasing production technology, decreasing cost, researching and developing new products. The buyer's market has formed, industry profitability has fallen, and the development for new products and new applications have become more difficult, the industry has entered the higher barrier, which are the significant characteristics for the industry maturity.

China's PVC Industry Periodicity



Source: CCAON; ResearchInChina

(Notes: red dash line -trend periodicity; yellow real line – GDP periodicity; white real line – PVC real price)

12.1.2 Market Competition in China

The companies in resin production in China are led by Sinopec Group, and the main enterprises are the six, i.e., Sinopec Qilu Petrochemical Co., Ltd, Sinopec Shanghai Petrochemical Co., Ltd, Sinopec Maoming Petrochemical Co., Ltd, Sinopec Yangzi Petrochemical Co., Ltd, China BluStar Group, and CNPC Lanzhou Chemical Company. Other Chinese resin manufacturers are small sized and cannot compete with the large counterparts aforementioned in terms of technology and capital. In short, China resin industry has a high market concentration degree.

Key Enterprises in Resin Segmented Market in China

Segmented Market	Key Enterprise
Low density polyethylene resin	Sinopec Qilu Petrochemical, Sinopec Maoming Petrochemical, Sinopec Shanghai Petrochemical
Linear low density polyethylene resin	Sinopec Lanzhou Petrochemical, Sinopec Qilu Petrochemical, Sinopec Yangzi Petrochemical, Sinopec Maoming Petrochemical
High density polyethylene resin	Sinopec Lanzhou Petrochemical, Sinopec Qilu Petrochemical, Sinopec Yangzi Petrochemical, Sinopec Maoming Petrochemical, Sinopec Shanghai Petrochemical
Polypropylene resin	Sinopec Maoming Petrochemical, Sinopec Yangzi Petrochemical, Sinopec Qilu Petrochemical, Sinopec Shanghai Petrochemical
Polystyrene resin	Sinopec Lanzhou Petrochemical, Sinopec Qilu Petrochemical, Dow
ABS Resin	Sinopec Lanzhou Petrochemical

Source: ResearchInChina

12.2.6 Sinopec Shanghai Petrochemical Co. Ltd.

Profile

Sinopec Shanghai Petrochemical Co. Ltd. (Sinopec Shanghai) is a subsidiary of China Petroleum & Chemical Corporation. In 1993, Sinopec Shanghai was listed in Shanghai, Hong Kong and New York simultaneously.

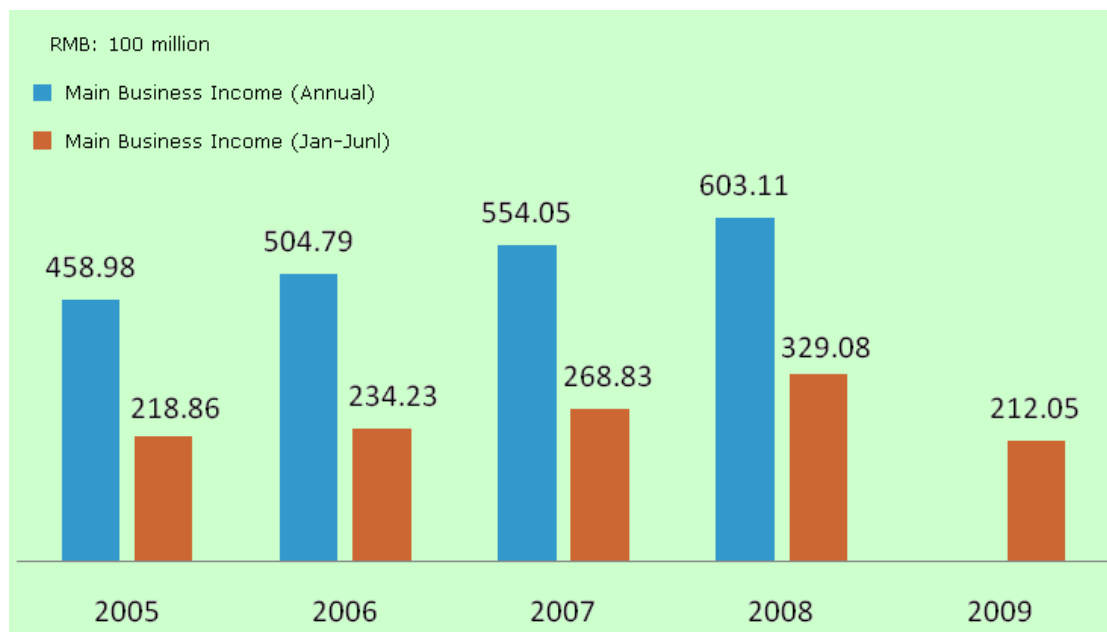
Main Products of Sinopec Shanghai

No.	Category	Main Products
1	Refining	Polymer ethylene, industrial ethylene, polymer propylene, chemical propylene, carbon-11 fraction, industrial butadiene
2	Chemical	Industrial glacial acetic acid, acetone cyanohydrin, industrial acrylonitrile, industrial vinyl acetate, industrial ethylene glycol
3	Resin and Plastic	Polypropylene Resin (T300), polypropylene resin (I180E), polypropylene resin (F200), polypropylene resin (F200A)
4	Fiber	Fiber polyester chips, polyester staple fiber, polyester POY, DTY, FDY (network wire)

Source: Sinopec Shanghai

Operation

Revenue of Sinopec Shanghai, 2005-2009



Source: Sinopec Shanghai

During January to June of 2009, Sinopec Shanghai gained the main business revenue of RMB21.205 billion, falling by 35.56% over the same period of 2008.

In 2008, Sinopec Shanghai gained the business revenue of RMB60.3 billion, but got the loss of RMB8.022 billion. The total profit fell 478%, the net profit attributable to the parent company was -RMB6.25 billion, which was the first large loss of Sinopec Shanghai since it was listed in 1993. In 2008, Sinopec Shanghai had deficit of RMB3.946 billion, RMB 2.176 billion, 42 million, RMB1.651 billion in petroleum products, resins and plastic, intermediate petrochemical products, synthetic fiber respectively. A loss of up to RMB686/ton was owing to the deferred price adjustment of China.

In 2009, China implements new oil pricing mechanism. Gross profit margins of oil refining and chemical recover. Sinopec Shanghai will gain profit from oil refining as usual. The rebound of chemical industry prompts an increase in demand. Sinopec Shanghai obtained the profit of RMB987 million at the end of June, 2009.

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