



新华远东中国评级

Xinhua Far East China Ratings

[For immediate release]

Xinhua Far East says that buoyant domestic market conditions and connections with parent company Sinopec underpin the ratings strength of China petrochemical producers

Hong Kong, September 15, 2004 – Xinhua Far East China Ratings (Xinhua Far East), the pioneering venture ranking credit risk among Chinese corporations using international standards, today published an industry research report on China's petrochemical sector, entitled "Big is beautiful – to succeed is to be a big boy of a big parent on big turf", incorporating its annual review of issuer credit ratings of China's key petrochemical companies, all of which are subsidiaries or associated companies of China Petroleum and Chemical Corporations ("Sinopec", Xinhua Far East issuer credit rating AA+(pi) , NYSE SNP, HKEx 0386, SH A 600028)

In addition to assigning issuer credit ratings on more than 100 of China's corporations based on international standards, Xinhua Far East engages in investment and industrial research that provides an unparalleled insight and outlook into key industries in China, assisting investors to unravel China's evolving dynamics and uncover investment opportunities in its various sectors. In the coming months, Xinhua Far East will publish a sector review on the oil & gas, utilities, telecoms and steel sectors, as well as investment commentaries on China.

In Xinhua Far East's opinion, domestic petrochemical makers are in a blessed position to mitigate against the overcapacity and price volatilities affecting global markets because of the tremendous growth potential offered by the sheer magnitude of China's domestic market and the prevailing low per capital usage of petrochemical products. The vibrant outlook for the industry is a key factor supporting the upgrade of some rated companies in the latest annual sector review by Xinhua Far East. Moreover, Xinhua Far East believes the uptrend in China's petrochemical sector profitability will continue, although competition among petrochemical producers would intensify following execution of China's WTO commitments.

However, despite favourable operating conditions at home and a turnaround in global market prices since 2003, the profitability of domestic players still lags behind their international rivals. The legacy of China's planned economy era has resulted in a fragmented industry, hindering domestic companies from achieving economies of scale. Consequently, the relatively small operating scales and lagging technology have caused lower gross margins compared to international peers.

Nevertheless, the support from Sinopec provides solid credit enhancement to the issuer ratings of individual petrochemical companies, most of which are not very strong on a stand-alone basis. Sinopec is the largest vertically integrated oil company in China and all its petrochemical subsidiaries are effectively various layers in a multi-layer production chain, converting crude oil into refined petroleum products (e.g. gasoline and naphtha), then into intermediate petrochemical products, and then into synthetic petrochemical products (e.g. resins). Being part of Sinopec's vertically integrated production chain family offers the

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individual petrochemical subsidiaries a steady flow of feedstock and demand for finished products. It also gives certain insulation against price and market volatilities inherent in various petrochemical product segments. Moreover, these petrochemical companies can benefit from additional financial support from their parent to fund their substantial capital expenditure used for upgrading and expanding production.

Going forward, Xinhua Far East expects the rating variations among each petrochemical company to increase, with their outlook dependent on how successfully they can leverage their support from Sinopec to build up to their optimal operating scales, enhance their competitiveness and grasp hold of the growth opportunities offered within China. In particular, Xinhua Far East notes that various Sinopec subsidiaries have formed joint ventures with global giants, such as BP, BASF, and Exxon Mobil to build new production facilities. These begin to offer more direct competition between Sinopec's various family members.

A summary of the annual review on Xinhua Far East-rated petrochemical companies is shown in the following table:

Companies	Rating Action	Initial Rating Assignment
Sinopec (NYSE SNP; HKEx 0386; SH A 600028)	Confirmed AA+ (pi) rating	AA+ (pi) since June 2003
Shanghai Petrochemical (NYSE SHI; HKEx 0338; SH A 600688)	First rating assignment BBB+ (pi)	September 2004
Sinopec Yangzi (SZ A 000866)	Rating is upgraded to BBB(pi)	BBB- (pi) since April 2003
Sinopec Qilu (SH A 600002)	Rating is upgraded to BBB(pi)	BB (pi) since January 2003
Sinopec Yizheng (HKEx 1033; SH A 600871)	Confirmed BBB- (pi) rating	BBB- (pi) since April 2003
Sinopec Beijing Yanhua (NYSE BYH; HKEx 0325)	Rating is upgraded to BB+ (pi)	BB (pi) since January 2003

For a copy of summary of review report and ratings, please visit our website:
www.xinhuafinance.com/creditrating.

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Note to Editors:

About Xinhua Far East China Ratings

Xinhua Far East China Ratings (Xinhua Far East) is a pioneering venture in China that aims to rank credit risks among corporations in China. It is engineered by the strategic alliance between Xinhua Financial Network and Shanghai Far East Credit Rating Co., Ltd. Shanghai Far East became a Xinhua Finance company in 2003 and the first China member of The Association of Credit Rating Agencies in Asia in December 2003.

Capitalizing on the synergy between Xinhua Financial Network and Shanghai Far East, Xinhua Far East's rating methodology and process blend unique local market knowledge with international rating standards. Xinhua Far East is committed to provide investors with independent, objective, timely and forward looking credit opinions on Chinese companies. It aims at helping investors differentiate the credit risks among the corporations in China, thereby, cultivating their awareness and promoting information disclosures and transparency in China market. For more information, see www.xinhuafinance.com/creditrating.

About Xinhua Finance Limited

Xinhua Finance is an independent financial information and services company providing financial news and information, as well as a broad array of financial products and services unique to the China markets. Xinhua Finance provides real time coverage of Chinese and Asian equity markets, delivering an integrated platform of China-specific indices, financial news feeds, credit ratings, and investor relations services to global financial institutions and re-distributors via leased line, internet, and satellite technology.

Founded in 1999, Xinhua Finance is owned by a group of international shareholders and managed by a team of experienced business professionals recognized for their industry knowledge and pioneering role in accelerating efficiencies and transparency within China's rapidly expanding capital markets.

Headquartered in Hong Kong, Xinhua Finance has offices in Beijing, Shanghai, Shenzhen, Seoul, Taipei, Tokyo, Singapore, and New York. For more information, see www.xinhuafinance.com.

About Shanghai Far East Credit Rating Co., Ltd

Shanghai Far East Credit Rating Co., Ltd. is the first and leading professional credit rating company with comprehensive business coverage in China. It is an independent agency established by the Shanghai Academy of Social Sciences with the mission to develop internationally accepted standards of capital market in China. The company is a pioneer to conduct bond-rating business in China. For years, it has been recognized by the Shanghai branch of the PBOC to do loan certificate credit rating.

Since establishment, it had rated over 1,000 corporate long-term bonds and commercial papers, based on the principles of objectivity, fairness and independence. The company has also maintained over 50% market share in the loan certificate-rating sector in Shanghai for three consecutive years. With its strong local presence and knowledge, it provides investors the most insightful and unique credit opinion. For more information, see www.fareast-cr.com.