



KEYUAN
PETROCHEMICALS



Investor Presentation
November 2011

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Company Profile

Company:	Keyuan Petrochemicals (OTC: KEYP)
Location:	Ningbo, China
Industry:	Petroleum and Petrochemical Products
Share Price (11/1/11):	\$2.14
Fully Diluted Shares Outstanding:	63.8 million
Float:	10 million
Market Capitalization:	\$137 million
Cash & Restricted Cash (6/30/11):	\$158.5 million
1H 2011 Revenues:	\$297.7 million
1H 2011 Adj. Net Income ⁽¹⁾ :	\$5.8 million
1H 2011 Adj. EPS ⁽¹⁾ :	\$0.09
Auditor:	GHP Horwath P.C.
US Counsel:	Leser, Hunter, Taubman & Taubman

(1) Adjusted net income and EPS (Non-GAAP) excludes approximately \$1.3 million of non-cash stock compensation expenses and \$1.7 million of legal expenses related to the independent investigation.

Company Overview

Keyuan Petrochemical (“Keyuan”) is an independent manufacturer of a wide range of petrochemicals with a planned facility expansion

- Located in Qingshi Chemical Park in Ningbo, Zhejiang with over 400 employees
- High demand for refined petrochemical products due to China’s robust economic growth and under-developed domestic supply capacity
 - orders received exceed the company’s current annual capacity
- Proprietary manufacturing processes with lower raw material costs and higher utilization and yields
- Current annual petrochemical refining design capacity of 720,000 metric tons (MT)
- Proposed manufacturing expansion to include increased storage capacity, raw material pre-treatment facility, and an asphalt production facility
- Strong management team consisting of seasoned petrochemical veterans with proven track records from China’s largest state owned enterprises

**April
2007**

- Established company

**June
2007**

- Completed land purchase

**January
2008**

- Began facility construction

**August
2009**

- Began trial production

**October
2009**

- Commenced sales and orders

**December
2009**

- Full production online

Competitive Advantages - Technology

- **Innovation**
 - First company in China to develop, commercialize, and patent multiple ethylene propylene (MEP) technology
 - Enhanced technology uses a set of dual risers for one precipitator and one regenerator, as opposed to the traditional one riser approach
- **Resource Reutilization and Production Efficiency**
 - Reuse inferior natural resource - heavy oil generated by non-paraffin based crude oil as raw material, as opposed to naphtha
 - Heavy oil as feedstock is 15% less expensive than naphtha, and lowers raw material costs by 15%
 - Provide 15% higher yields than the commonly used fluidized catalytic cracking process
- **Sustainability**
 - Current world reserve of heavy oil is twice of light crude oil (such as naphtha)
 - Address the industry's need to look outside of conventional oil reserve - increase the utilization of heavy oil
 - Future pre-treatment facility will enable the company to use an even lower grade of heavy oil
 - Develop new, value-add products and technologies through partnership with research institutions and joint ventures

Competitive Advantages - Management Team

- Senior Team has over 100 years of combined experience in the Petrochemical Industry
- CEO/Founder, Mr. Tao, worked for Sinopec
- Built and managed Ningbo Hebang Chemical as President. Company generated \$1.4B in annual revenues and was purchased by CNOOC
- Built and managed Ningbo Daxie Liwan Petrochemical as Vice President. Company generated \$1B in revenues and was bought by CNOOC
- Inventor of MEP technology
- Mr. Tao aged 43, won over 30 technological innovations, management awards and distinctions

Competitive Advantages - Location

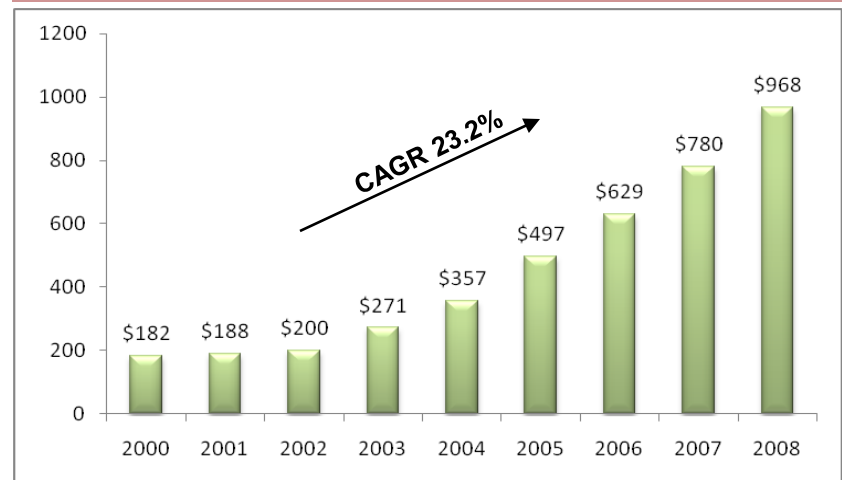
- Facility in close proximity to raw material suppliers and downstream manufacturers
- Ideal location provides access to suppliers, skilled labor and industry resources
- The facility has an on-site 5,000 MT capacity ocean shipping dock. It also has access to an adjacent 50,000 MT shipping dock
- Ocean front access lowers logistic costs

Petrochemical Market in China

- World petrochemical market totaled \$4.1 trillion in 2009
- Petrochemical industry in China consisted of approximately 20% of China's 2009 GDP and 24% of the global market
- The world's second largest behind the US in terms of production and consumption
- Output value grew from \$182 billion in 2000 to \$968 billion in 2008, representing a CAGR of 23.2%
- China Petrol and Chemical Industry Association (CPCIA) expects total profit in the petrochemical industry to increase 22% in 2011.* Revenue expected to increase 20%.
 - total export and import volume expected to increase 22%
 - investment expected to increase 13%

* Source: <http://english.peopledaily.com.cn>

China's Petrochemical Market Size from 2000-2008 (USD billions)



Petrochemical Products

Keyuan	Petrochemicals	ingredients used for	Finished Goods	% of Sales (12/31/10)
BTX Aromatics	Benzene, toluene, xylene and other chemical components for further processing into oil resin, gasoline and solvent materials		Used in paint, ink, construction coating and pesticides	75.4%
Propylene	A chemical intermediate for an array of chemical and plastic products such as polypropylene, acrylonitrile, oxo chemicals, propylene oxide, cumene, isopropyl alcohol, acrylic acid and other chemicals		Used for paints, household detergents, automotive brake fluids, carpeting, textile, insulating materials, auto parts and electrical appliances	6.2%
Styrene	A precursor to polystyrene and several copolymers		Used for packaging materials, construction materials, electronic parts, home appliances, household goods, home furnishings, toys and sporting goods	6.9%
Liquid Petroleum Gas	A mixture of hydrocarbon gases and a replacement for chlorofluorocarbons as an aerosol propellant and a refrigerant which produces less damage to the ozone layer		Used as fuel in heating appliances and vehicles	2.7%
MTBE & Other Chemicals	MTBE, oil slurry, sulphur and other chemicals		Used for fuel components, refrigeration systems, fertilizers, insecticides and fungicides	8.7%

Keyuan's Facility & Equipment

- **Major processing equipment**
 - heavy oil catalytic pyrolysis processing
 - gas fractionation processing
 - ethylbenzene and styrene processing
 - LPG and sulphur recovery processing
- **\$134M invested in the facility to date**
 - total of 1.3M sq ft including 594,000 sq ft for production and 19,500 sq ft for laboratories and offices
- **100,000 MT of storage capacity**
 - 50,000 MT for raw materials
 - 50,000 MT for finished products
 - additional 180,000 MT of storage facility in process
- **5,000 MT capacity on-site ocean shipping dock**
 - roughly 90% of feedstock and finished products use the shipping dock
 - adjacent access to additional 50,000 MT of ocean shipping capacity
 - also has a 10-truck loading facility



Technology and R&D

Overall Advantage

Proprietary petrochemical manufacturing process combines unique technologies which allows for less costly raw materials, and higher utilization and yields

Better Use of Raw Materials

Use of heavy oil instead of the commonly used naphtha as raw material; heavy oil is generally RMB1,000 per MT cheaper and more readily available than naphtha

Higher Utilization

Enhanced technologies in production design and applications allows lower capital investment and enhanced operation efficiency

Higher Yields

Catalytic pyrolysis process provides ease of operation and higher reaction temperatures, generating 15% higher yield than the commonly used fluidized catalytic cracking process

Strong Research & Development Capabilities

Experienced engineers and technicians with state-of-the-art research and laboratory facilities
Working with several leading petrochemical R&D institutions to design and combine various technologies into Keyuan's proprietary manufacturing processes

Environmental Protection & Safety

Keyuan's state of the art facility maintains a strict commitment to environmental protection, facility safety and quality control



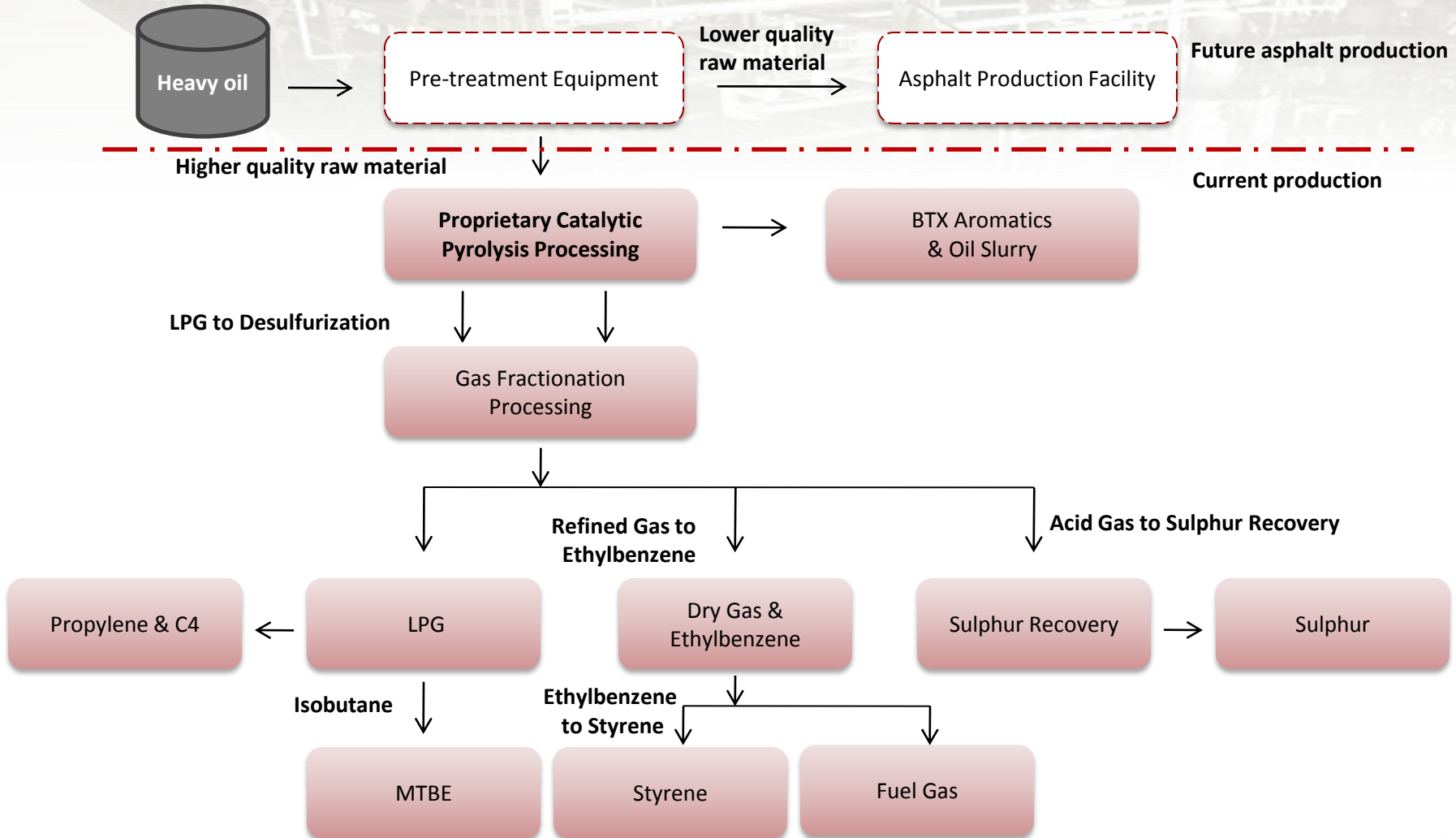
Safety Measures

- Distribution control system
- Emergency shutdown mechanism
- Automatic interlocking system
- Detection & alarm system for flammable and toxic gas
- Fire detection & automatic sprinkler system
- Real-time system and process monitoring system

Quality Control

Keyuan products meet all national standards of petrochemical products set by General Administration of Quality Supervision, Inspection and Quarantine of the PRC and National Standardization Committee

Keyuan's Petrochemical Process



Note: A key component of Keyuan's asphalt production is raw material pre-treatment equipment which will greatly enhance its capability to handle tougher raw materials and reduce raw material costs. Keyuan currently uses the remaining heavy residuals for heating exchange and oil slurry

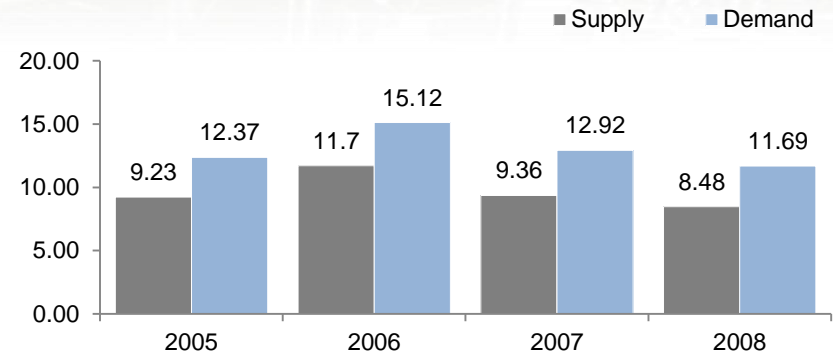
Production Expansion Plan

Expansion Project	Projected Expansion Capacity (MT)	Expected Completion Date
Expansion of Existing Design Capacity	170,000	Completed Q2 2011
SBS Production Facility	70,000	Completed Q3 2011 – Trial Production Phase
Storage Facility	180,000	End of Q4 2011
Raw Materials Pre-treatment Facility	N/A	End of Q3 2012
Asphalt Production Facility	300,000	End of Q3 2012

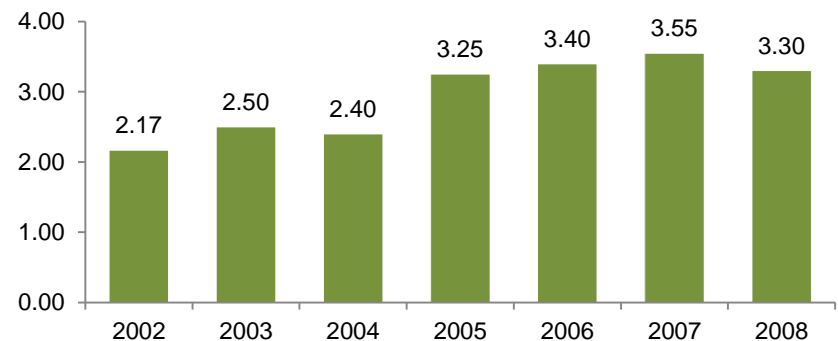
Asphalt Market in China

- Asphalt market in China equaled \$5.7 billion in 2008
- China's demand for asphalt has outpaced supply for five consecutive years with total imports of approximately 3.3M MT in 2009
- Asphalt is used for highways, roads, airport pavement and also as raw material for emulsified, diluted and modified asphalt based products
- China currently ranks second in the world in length of highways at 75,000 km and this is expected to continue growing rapidly
- To ensure roads and highways are in good condition, the Chinese government requests pavement maintenance projects every 5 yrs

Supply and Demand of Asphalt (million MT)



Import of Asphalt (million MT)

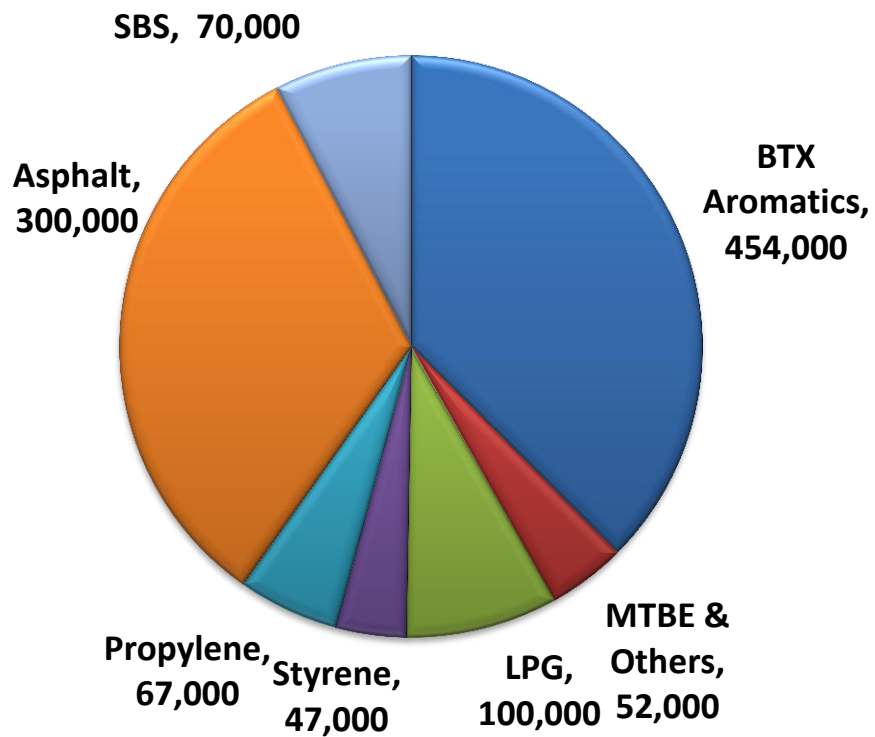
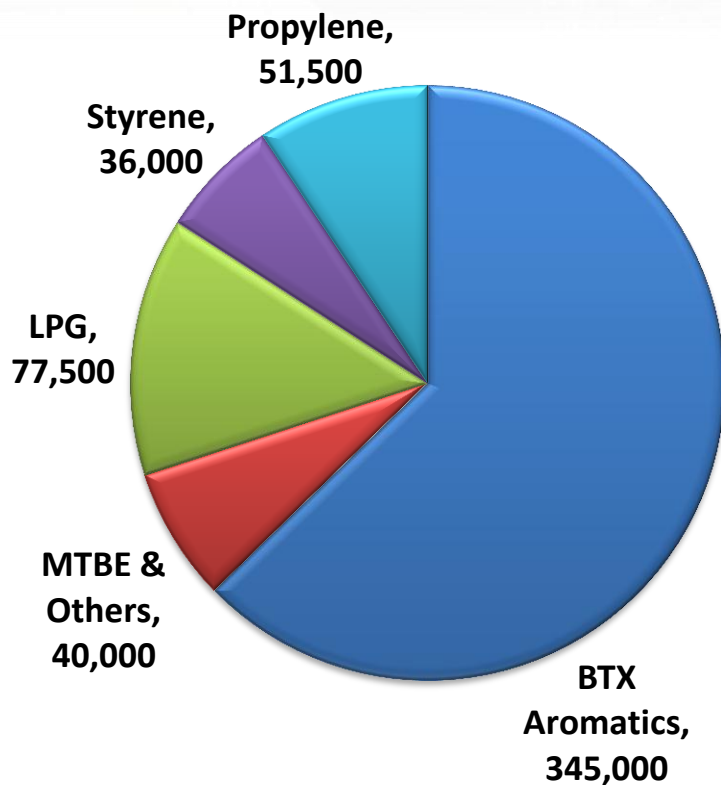


Source: www.chem99.com

Product Mix / Capacity Breakdown

2010 Design Capacity (550,000 MT)

Projected Capacity with Asphalt & SBS (1,090,000 MT)



Sales Strategy and Pricing

Favorable gross margins for domestic Chinese petrochemical refiners

Sales Strategy

- **Target Customers:** component manufacturers in the Yangtze River Delta and Pearl River Delta
 - 80% direct sales
 - 20% via distributors
- **Payment terms:** 90+% cash in advance or credit sales to core customers with excellent credit history and ratings
- A/R DSO: 0-10 days
- **Raw Material-to-Sales cycle:** 30 days

Top Five Customers

(Three months ended June 30, 2011)

	<u>Percentage of Sales</u>
Customer A	24%
Customer B	10%
Customer C	10%
Customer D	9%
Customer E	4%

Pricing

- Raw material price fluctuations are primarily based on supply and demand and international oil prices
- Keyuan's selling prices are based on benchmark prices published by national petrochemical companies and recognized agencies and/or on negotiated prices with customers
- BTX aromatic prices are influenced by benchmark prices set by the National Development and Reform Commission (NDRC)*

* Source: www.eia.doe.gov

Financial Summary

2011 Guidance	
Revenue	\$625.0 M
<i>Sales Volume</i>	<i>570,000 MT</i>

USD millions	<u>1H2011</u>	<u>1H 2010</u>
Revenue	\$297.7	\$249.4
Gross Profit	\$14.5	\$17.5
Adj. Net Income ¹	\$5.8	\$9.0

USD millions	<u>FY 2010</u>	<u>FY 2009</u>
Revenue	\$558.8	\$68.7
Gross Profit	\$67.8	(\$6.7)
Net Income (Loss)	\$37.1	(\$8.8)

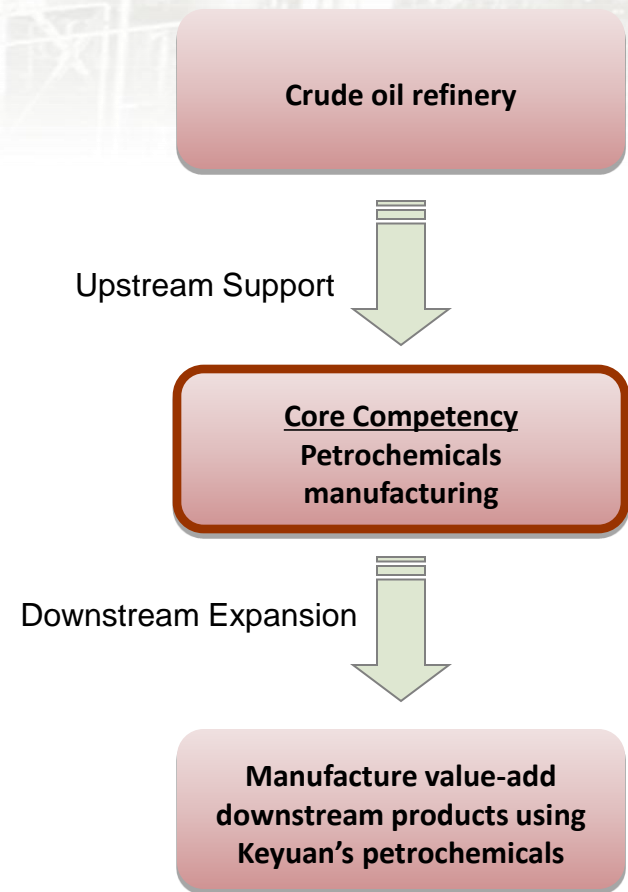
(1) Adjusted net income and EPS (Non-GAAP) excludes approximately \$1.3 million of non-cash stock compensation expenses and \$1.7 million of legal expenses related to the independent investigation.

Balance Sheet Summary

USD Millions	June 30, 2011	December 30, 2010
Cash	\$5.8	\$29.3
Pledged bank deposits	\$152.7	\$98.1
Inventory	\$103.2	\$86.8
Consumption tax refund receivable	\$34.4	\$39.1
Total Current Assets	\$357.2	\$311.0
Total Assets	\$536.8	\$453.0
Current Liabilities	\$426.8	\$345.4
Long Term Debt	\$15.5	\$15.2
Shareholders' Equity	\$77.9	\$75.7

Strategic Growth Plan

- **Strengthen core competency**
 - Adopt innovative technology to advance market position
 - Improve production efficiency and utilization to increase profit margin
 - Optimize product mix and focus on value-add products to support sustainable growth
- **Achieve vertical integration**
 - Downstream expansion to maximize the economic rent and explore new growth drivers
 - Upstream integration to secure feedstock supply and reduce raw material costs
- **Company goal is to be a \$1 billion company by the end of 2012**



Management Team

Chunfeng Tao, Founder, Chairman & Chief Executive Officer

- Industry veteran with over 20 years' extensive experience in the petrochemical industry
- Served as President of Ningbo Hebang Chemical Co. (later purchased by CNOOC) which had annual revenue of \$1.5B. Managed and built the company to an annual production capacity of 250K MT for aromatic and heavy oil cracking products
- Served as Executive Vice President of Ningbo Daxie Liwan Petrochemicals Co. (also purchased by CNOOC) which had annual revenue of \$1B. Managed and built the company to an annual production of 500K MT of high grade asphalt
- Served in various senior management and technical positions at Sinopec Zhenhai Refining & Chemical Co., the largest base for crude oil processing and sour crude oil processing in China, and won over 30 technological innovations, management awards and distinctions during his tenure
- Majored in Petroleum Processing in Guangdong Petrochemical College

Fan Zhang, Chief Financial Officer, CPA

- Industry veteran with over twelve years' experience in financial reporting and controls, tax planning, fund management, ERP operation system management, internal audit and property insurance
- Previously Finance Director in Ningbo LG Yongxing Chemical Co., Ltd., a Sino-Korean joint venture between Ningbo Yongxing Chemical Investment Co. Ltd., and LG Chemical Co. Ltd., the largest chemical company in Korea. Ningbo LG Yongxing Chemical Co. Ltd is the largest ABS producer in China.
- Bachelor degree in Economics from Hangzhou Electronic Technical University

Management Team (cont'd)

Dr. Jingtao Ma, Executive Vice President

- Over 20 years' experience in corporate management, research & development, sales & marketing, and business development
- Served in management and technical positions at Sinopec Zhenhai Refining & Chemical Co. in various functions including manufacturing and operations, and chemical and technical analysis
- Master of Science and Doctorate in Physical Chemistry from Lanzhou Chemistry & Physics Research Institute of CSA

Shifa Wang, Vice President & Chief Engineer

- 30 years' management experience in petrochemical technology and manufacturing, specializing in oil refining and catalytic cracking
- Served as General Manager at Guangdong Yingchang Heavy Road Asphalt Co., Ltd., Chief Engineer at Sinopec Anqing Refinery Co., Ltd. and Head of Operations for Phase II production line expansion at Guangdong Tiyi Group Co., Ltd.
- Bachelor of Science from Chemical Engineering Department of China Petroleum University and Master of Art in Enterprise Management from Qinghua University

Weifeng Xue, Vice President, Accounting

- Over 20 years' experience in accounting and finance, account settlement, capital planning, commercial banking, corporate credit, loan operations and management
- Served as Supervisor of Accounting and Finance at Aux Group Co., Ltd., a privately-held electronics manufacturer and finance Director at China Agriculture Bank, Ningbo Branch
- Bachelor of Science in Economics from Hangzhou Electronics & Industrial Institute

Mingliang Liu, Vice President, Manufacturing

- Over 30 years' of experience in petrochemical manufacturing and production management specializing in oil refining, heavy oil cracking and crude oil processing. Served in various supervisory and managerial positions at Sinopec Zhenhai Refining & Chemical Co.
- Majored in Economics & Management at Zhejiang CCP Institute

Board of Directors

Chunfeng Tao, *Chairman of the board*

- Mr. Tao is an industry veteran with over 20 years of experience in the petrochemical industry. Served as President of Ningbo Hebang Chemical Co. which had annual revenue of \$1.5B. Served as Executive Vice President of Ningbo Daxie Liwan Petrochemicals Co. which had annual revenue of \$1B

Gerry Goldberg, *Independent Director*

- Mr. Goldberg has over 30 years experience in the accounting industry and currently serves as senior partner in the accounting firm Schwatz Levitsky Feldman LLP, one of the top ten accounting firms in Canada. At the firm, he heads the US Public Company audit division, and is actively involved in the audits of various Canadian, US, Chinese and other foreign companies listed in the US and Canada.

Michael Rosenberg, *Independent Director*

- Mr. Rosenberg has over 35 years experience in energy trading, currently as managing director of Saugatuck Energy where he is responsible for identifying investment opportunities in Asia. He was founder and chief executive officer of Swiss-based Oceana Petrochemicals, a major petrochemicals trading company with annual revenue of approximately \$1 Billion.

Dishen Shen, *Independent Director*

- Mr. Shen is a senior petrochemical engineer with nearly 40 years of oil refining and petrochemical industry expertise and management experience, and has made significant contributions to the oil refining and petrochemical industries in China. Mr. Shen has served in a variety of leadership roles in planning and economic development in Zhejiang Province, focusing primarily on development of the petrochemical industry.

Steven Xin Yue, *Director*

- Mr. Yue has 20 years of experience in management and operations, information technology, equity trading, sales and marketing, financial consulting and investment and real estate financing and development. Currently he is a Co-founder and Chief Executive Officer of Cmark Capital Co., Ltd. Previously he also co-founded Golden Spider Co., Ltd., and New Shengtong Technology Co., Ltd.

Summary Highlights

- Balanced and strong global economic growth and under-developed domestic supply driving strong demand for refined petrochemical products
- 720,000 MT of design petrochemical refining capacity with a cost-effective capacity and product expansion plan
- Proprietary technology lowers production cost by utilizing less expensive heavy oil
- Robust customer base with long-term purchase contracts provide revenue and cash flow visibility
- A proven and committed management with industry technology experts and advisers



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