

Be a Responsible Corporate Citizen

Speech made on the 4th anniversary celebration of ChemChina

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May 9, 2008

Today is May 9, 2008. Four years ago, we formed ChemChina.

So far, ChemChina has maintained high growth and reaped significant achievements. The company tuned in to reform and reached a 91% sales growth and 72% profit growth on an annual average basis. By the end of 2007, both company assets and sales hit RMB100 billion (USD14.3 billion or EURO9.1 billion). Our first strategic goal, set from the beginning, was realized ahead of time.

In 2006, we launched a "go-global" campaign, and have since then successfully accomplished four overseas acquisitions. Our presence was extended and our production center, R&D bases, and marketing operations can now be found in 140 countries worldwide. We also stepped up our "go-global" strategy by beginning to use the largest private investment fund.

As a matter of fact, we are prepared to be a competitive international player in terms of industrial structure and other basic requirements. Last year, we began our overall strategic rearrangement by focusing on intensive growth and expanding our production bases, international existence and informationization. Some progress has been made but there is still a long way to go. Now, I'd like to talk about the situation we are in, our development planning and some principles of being a corporate citizen.

The strategy "Traditional Chemicals, Advanced Materials" has proved itself. It fits in with the development of China's chemical



industry and helps us tackle the challenge we face amid the regional segmentations constantly developing worldwide. As a traditional chemical company, we are committed to reorganization and resource redeployment in order to provide a turnaround to the various small, separated and inefficient operations, and eventually allow full play to our advantages. The concept "advanced materials" means that we should build on a local advantage through differentiated development in a changing market. Only in this way can we develop unique competitiveness and keep up with or even beat our foreign peers. The flourishing economy, positive global developments, vibrant capital market -- all contribute our commitment to building up a big giant. Our initial success should be credited to our timely calibration to the changing market.

As an old saying goes, there can be no fixed game plan just like there is no fixed course of a river. The effectiveness of a strategy lies with its flexibility. In 2006, leading management consulting firm McKinsey found after sounding out 3,470 CEOs worldwide that successful business is made possible not only by the right implementation but

also by the right products, markets and regions. In other words, flexibility will add much more efficiency to operations. We have a documentary named Big Tao Extends (Editor's note: according to Chinese characters, the name can be also literally translated as "Wide Road Extends"). Many viewers asked me about "Tao." I explained Tao was derived from Nature; we used it to mean "to go the right way at the right time." In fact, it means the same thing as McKinsey's finding. According to a Chinese book of tactics, "Good leaders must know how to make best use of their circumstances." I couldn't agree more with that. On the one hand, we need to seize the opportunities that arise and get things done; on the other, we should create market-based practices and a learning, innovative culture.

As to the situation we are faced with and the business development trends, they can be summarized as follows:

First, high-cost days are coming. For Chinese companies, there is also no getting away from the increasing energy and resource costs and labor force problems that come with the globalized economy. Our management capability is still relatively backward and remedial efforts are needed here.

One of the major impetuses for China's 30-year-long growth is simply low costs -- not only low-cost energy, resources and labor, but also easily available capital, government-provided public utilities, and a low value placed on the quality of our environment. But now, China's economic growth, currency appreciation and worldwide diffusion of production resources are undermining our comparative advantage in costs. We have experienced the "take off," with low costs, high consumption and high growth, but now have to say goodbye to that outdated mode of operation. In addition, we are already being challenged by fledgling economies that have more cost advantages. Although engaged in an infrastructure industry in the middle of the whole industrial chain, we don't have our own natural resource reserves or any monopoly rights, so our business is bound to be influenced by the fluctuation of economic cycles. The increasing prices of raw materials and energy will also squeeze our profit margin. In addition, most of our subsidiaries -- the state-owned ones -- are hobbled by inefficient management and low compensation and have to undergo great reforms. As I have said many times this year, we should spend more on human resources, IT solutions, the environment and safety. We shall step up our profitability by improving our technologies and management efficiencies, as profitability is one of the top priorities of a corporate citizen as well as the foundation for

sustained growth.

Second, a large corporation needs to be a responsible citizen. Companies, especially those under the direct control of the Central Government, are closely connected with the whole of society. In this sense, they must play an active role in society.

China has been trying to enhance the practice in the aspect of company-run society for decades through the State-owned enterprise (SOE) reforms. We are approaching our newfound role as a key player in the marketplace. However, new social progress requires social roles of companies, big companies in particular. It not only involves business supervision, credibility and ethical issues but also resources, environment, human rights and the sustained development of society. For chemical companies, occupational safety, resource conservation and environmental protection are even more important. The relevant rules are strict, rigid and long-lasting. Last year, I announced the requirement of "zero discharge." "zero discharge" is necessary, as it is not only a political mission and responsibility, but also a part of our strategy. We should anticipate the pressure and be proactive. Meanwhile, energy conservation and emission reduction could be used as leverage to help with our restructuring, technical updating, innovation and IT solutions. The continuous moves towards zero discharge help remold the company. It is what chemical companies should be going for.

Third, innovation and lean management are the only ways to maintain our competitive edge. Today's companies face global competition. We can survive only by turning to best practices, innovation and effective management.

Today, change is the only certainty. Companies have never undergone greater stress than are now wrought by technological revolution and informatization. Knowledge is becoming more and more accessible, economies are more and more closely connected globally, and best practices are easier and easier to imitate. The pace-setters are running faster while we are trying to catch up. We can't see any lethargy in some of the time-honored firms overseas. Why? They won't be satisfied with fixed operations. Instead, they have been busying themselves in restructuring business, refining operations, transforming management and updating technology. What makes a company evergreen is not only maintenance of what they already have but constant innovation.

The key to international mergers and acquisitions (M&A), I believe, is to build synergy to achieve a win-win situation. In short, Chinese companies should learn to cooperate and innovate as well as to compete. IT solutions and lean management

are the keys to competitiveness. Everybody has a role to play. I stress this again: the construction of IT solutions is not something that only belongs to the information department; every employee should pitch in. It is widely accepted that overall organizational effectiveness is critical to keep a company competitive. In an age of globalization and a knowledge economy, informationization is the main part of organizational effectiveness. The right IT solution and management system will bring sustained positive benefits to the company and improve the careers of its employees.

In fact, we have already seen clearly that our success should be credited mostly to the international mode of operation that we chose during our tough beginning. We are proud that it took China just 30 years to reach a level of industrialization that took western countries about 100 years. But what about our operational and management concepts? It is practical for us to choose "being a follower" as our strategy. Our survival rule is to gain competitive advantage and do the same things as our advanced international peers do.

We now live, grow and run our business in a global village. And we have to act in accordance with globally accepted practices, and take them as common values for all company leaders. They are also our benchmark and what we pursue. These practices include:

◆ **Trust:** Company managers and employees should work as trustees of the shareholders. Due diligence should be upheld to improve financial health and provide higher return. People should work with loyalty and turn away from illegal practices.

◆ **Property rights:** Company managers and employees should take good care of company assets, that is, we should protect the money, machines, confidential information and intellectual property rights of both our company and our competitors.

◆ **Integrity:** We should keep our promises, whether they are specified in a contract or obligations we volunteered to fulfill.

◆ **Transparency:** Do business on an honest and open basis. Honesty is the best policy. Adhere to independent auditing and financial reporting rules, and provide investors and customers with complete and updated information. Emphasize safety and health measures. Managers have obligations regarding both disclosure and confidentiality.

◆ **Dignity:** Respect people. We must provide

people with a safe, healthy environment for both working and living, and treat people as individuals entitled to privacy and dignity. Take care of employees' and customers' confidential information. Respect local culture and your customers' culture. Select suppliers and partners based on their performance in human rights and employee dignity. Help employees learn skills and acquire knowledge. Create job opportunities to help employees grow.

◆ **Fairness:** Play fair. Treat your investors, customers, employees, suppliers and partners with fair practices.

◆ **Citizen responsibility:** Be a responsible social citizen. Take care of shareholders' interests. Observe environmental laws and standards. Stay away from graft and other illegal activities. Protect the environment and help with sustained development. Play an active role in employment, public health, the environment, safety and other charitable affairs. Lead in innovation in technologies, products, processes and make the world a better place.

◆ **Responsiveness:** Communicate with parties who are concerned with or interested in the company. Respond to the needs of investors, customers, employees and the public. Respond to shareholders' resolutions, suggestions and requirements. Make your products meet or even exceed customer expectations. Respond to the complaints of your customers and partners. Respond to the complaints and advice of your employees. Create a communication climate within your organization.

The above eight principles were arrived at by four Harvard professors after they studied the legal environment and business rules of the world's leading companies. I used their ideas and explained them in a Chinese context. The principles capture some essentials of running a business and some concepts required by a market economy, including the rule of law, contracts, due diligence, integrity, value and dignity, forbearance and communication. The principles are, in fact, in line with our corporate culture and strategy. I use their findings to say that it is becoming a common understanding globally of legitimate, effective corporate rules and behaviors.

We have never stopped moving and exploring the way forward. There is still a long way for us to go before we truly move forward with shared corporate spirit and values. This is the basis for a modern company to remain competitive and go global. It can be seen as a manual for becoming a responsible corporate citizen.