

Continue to Innovate & Rise to Challenges

Ensure Stable and Sustained Development

-- Speech of Mr. Ren Jianxin Delivered to the ChemChina Year-end Conference
December 27, 2008

2008 in Retrospect



(1) Business began ebbing after a long rise; coping measures have been taken proactively but prospects remain dreary

The first three quarters of 2008 witnessed continued rapid business growth of ChemChina, registering a 20.6% increase on a year-on-year (y-o-y) basis. ChemChina posted total sales revenues of RMB114 billion from January to November, up 12.2% compared to the same period of last year, while the agrochemicals, chemical raw materials and advanced chemical materials sectors were up 26.4%, 15.9% and 14.3% respectively. The aggregated revenues for the whole of 2008 are estimated to hit RMB124 billion, representing a y-o-y growth of 15.3%. The achieved revenues of the first-level subsidiaries of ChemChina are as follows: China National BlueStar (Group) Co., Ltd.: RMB37.27 billion; ChemChina Oil & Gas Corporation: RMB27.07 billion; China Haohua Chemical (Group) Corporation: RMB26.70 billion; ChemChina Rubber Corporation: RMB11.45 billion; ChemChina Agrochemical

Corporation: RMB7.91 billion; China National Chemical Equipment Corporation: RMB3.53 billion. The revenues of the six fastest growing firms, namely Adisseo, Changyi Petrochemical Co., Ltd., Shenyang Chemical Co., Ltd., Aeolus Tire Co., Ltd., Huaxing Petrochemical Co., Ltd. and Zhenghe Petrochemical Co., Ltd., all exceeded RMB5 billion, with increases averaging 50%. Particularly notable are Adisseo and Changyi Petrochemical Co., Ltd., which both turned out revenues over RMB10 billion. The 60 ChemChina firms of considerable scale created combined revenues of RMB110.22 billion, accounting for 96.7% of the total revenues of the group.

However, the situation has worsened precipitously since October, hence the growth of operating income and profit have been dropping, stockpiles increasing, factories running under capacity, etc. Fortunately, no one in ChemChina, from the top all the way down to the plants, lost time in taking prompt action after sizing up the situation in order to restore confidence and step up organization, management and coordination of production by expanding markets, strengthening sales, adjusting product mix, implementing better scheduling of production, securing capital backup and enhancing early-warning and protection against volatilities.

(2) Business restructuring accelerated, main business further highlighted

Business unit re-composition has accelerated. Adjustments were made in the businesses, assets and staff in 47 legal corporate entities, translating into six new business units of advanced chemical materials, chemical raw materials, oil processing, agrochemicals, rubbers and chemical equipment. ChemChina New Chemical Materials Co., Ltd. has been renamed as ChemChina Rubber Corporation. China BlueStar Construction Engineering Bureau has been incorporated into China National Chemical Equipment Corporation. The fruit of these efforts is that ChemChina's main businesses are more clearly defined and its structure further optimized.

To seize the opportunities coming along with favorable policies and relieve the burden left by history on some of the

most challenged subsidiaries, we stepped up the efforts and coordination in policy-based bankruptcy and sideline business reform of disadvantaged enterprises and the redirection of their staff. In 2008, eight enterprises were approved to kick off the bankruptcy processes that are now smoothly underway. Meanwhile, 21 sideline business reform projects were also approved. These enterprises, as reformed, have now adopted new business operation mechanisms and are thus granted 3-year tax holidays. The reforming enterprises also succeeded in better redirecting the laid-off employees by means of improved management of labor contracts, replacement of temporary laborers, etc. The first 11 months of 2008 saw a total of 10,400 employees redirected across the board, which can be viewed as a 96% fulfillment of the yearly plan.

From January to November last year, ChemChina ironed out total 67 subsidiary enterprises below grandson-level.

(3) Investment increased, technological upgrading gathers momentum

2008 witnessed the largest number of new projects and the largest investment since the founding of ChemChina, involving 46 major projects with investment totaling RMB12.31 billion. Before December, RMB11.79 billion had been invested - 95.78% of the planned amount. The total actual investment is expected to hit RMB12.46 billion, a 34.5% increase y-o-y.

In 2008, 415 technological upgrade projects were in progress to improve energy conservation and emission control. By the end of November, the effective investment already amounted to RMB450 million, creating sound economic returns and social benefits.

ChemChina's investment decision-making mechanism has been improved, project feasibility analysis and examination before approval stepped up, while the review of the project for price, safety and environmental concerns has been strengthened. Moreover, rigorous control is now imposed on project investment by means of centralized bidding through a project management information system, which has already saved a total of RMB840 million. Close attention is also paid to tangible returns on investment, which can be ensured through enhanced mechanical acceptance testing and post-project evaluation.

(4) Internationalized business operation scales new heights; exchanges and communications further enhanced

Along with international mergers & acquisitions, we attach equal importance to the introduction of international strategic investment in a bid to optimize capital structure and improve corporate governance. BlueStar's strategic investment by Blackstone, a renowned US private equity fund, was finally approved by the State Council of the PRC in September 2008. Gloomy as the world economic prospect is, due to the spread of the global financial crisis, Blackstone honored the investment of US\$600 million as contracted, by which move the private equity giant owns a 20% stake in BlueStar.

Now the China National BlueStar (Group) Co., Ltd. is forging ahead. This is the first-ever joint venture conceived by a non-publicly-traded Chinese central State-owned enterprise (SOE) and an overseas strategic investor. The success of the project is a prime example of the strong confidence of overseas investment institutions in the great value and growth potential of BlueStar and ChemChina's advanced chemical materials businesses it represents as a whole. Equally significant, the success also further strengthens the trust and confidence of financial institutions and investors at home and abroad in us. Galvanized by this, other business units of ChemChina are also pressing ahead vigorously in proposing industrial or strategic investments so as to improve their governance and push forward overseas listing.

Adisseo France S.A.S has been expanding its market tirelessly and operating vigorously. Its sales and EBITDA (earnings before interest, taxes, depreciation and amortization) are estimated to exceed EUR1 billion and 320 million respectively, indicating double and eightfold growth according to these measures since the acquisition of the methionine business. Qenos, the largest polyethylene producer in Australia, has been focused on improving customer services and scaling up marketing activities. Its sales and EBITDA are expected to hit AUD\$908 million and 93 million respectively. BSI (BlueStar Silicones International), BlueStar's French subsidiary specializing in the silicone business, has been increasing capital input and enhancing market expansion. Its sales are predicted to increase by 9.1% even in a period of downsides in a cyclical market. Apart from these, synergies with these overseas subsidiaries in market and technologies continue to grow while integration in the management and cultural spheres is being strengthened.

As its endeavor for internationalized business operation gathers pace, ChemChina is also further enhancing exchanges and cooperation with international organizations, flagship chemical companies, investment institutions and banking services and advisory bodies. To just name a few: the membrane business joint venture by BlueStar and Toray Industries was announced formally at the China-Japan High-level Environmental Protection Summit. And Atos Origin, DSM and other business partners all sent ChemChina condolences and donations shortly after the devastating Wenchuan earthquake struck on May 12th.

(5) Informatization drive forging ahead, corporate management being further optimized, risk control and management being constantly improved

Organizational changes (OC) are executed to redefine BlueStar's organizational framework and management & control system aimed at achieving intensive operation and flat management. ERP (enterprise resources planning) specifically tailored to ChemChina is being carried out in pilot enterprises of Harbin Petrochemical Co., Ltd. and Shenyang Chemical Co., Ltd. who are adapting their business processes to the best practices of the global chemical industry. Moreover, continuous improvement (CI) is in implementation, which sees intensive

operation philosophies and the Lean Six Sigma model widely applied to every aspect of business - production, management, transportation, marketing, etc. The IT service center, the business data center for which has been completed, is being built to achieve centralized management and sharing of the IT equipment and resources of ChemChina Group.

Efforts have been made to further the centralized management of financing in a well-measured manner based on the principle of separate use of unified credit extension. The commercial banking network services have been fully harnessed to manage inventory capital in a centralized fashion. The ChemChina Finance Co., Ltd. has been established to set up the platform for consistency in capital management and operation. Financing efforts are being continuously stepped up by expanding strategic cooperation with major domestic and foreign banks. As a result, ChemChina's credit rating keeps moving up in the league while its scope of credit extension goes on widening. To date, total banking credits extended to ChemChina exceed RMB100 billion.

By the end of November, the total assets of ChemChina had reached RMB146.2 billion, ranking 19th among the top 100 chemical firms in the world and 28th among China's top 500 enterprises.

(6) Innovation in the enterprise pushed forward, pursuit of IPRs strengthened

Research and development in key areas was enhanced, including 747 subjects listed in the National Science & Technology Pillar Program in the Eleventh Five-year Plan, the "863" Program, State Key Scientific R&D Program, and Energy Conservation and Emission Reduction Program. Of these, 149 have passed national-level acceptance tests, with 38 winning awards at national, ministerial and provincial levels. The implementation and promotion of the ChemChina Technology Fund were carried out with closer emphasis placed on the advanced chemical materials sector and the program to conserve energy and reduce emissions, as well as our "zero-discharge" strategy. In addition, the construction of ChemChina (Tianjin) International Advanced Materials Sci-Tech Park was launched. The year 2008 witnessed more extensive ChemChina endeavors in exchange and cooperation with R&D institutions, universities, colleges and enterprises - in particular the remarkable success in organizing and sponsoring the 2nd International Advanced Materials (Tianjin) Summit. All these efforts are paying off, as proved by ChemChina's designation as one of the second tier innovative enterprises in China.

In this year alone, ChemChina applied for 388 patents, including 229 invention patents. And of the 317 patents that were authorized, 211 were invention patents. Compared to 2007, the number of patents applied for and authorized increased 76.4% and 9.7% respectively. To date, ChemChina has a total of 2,018 authorized patents, ranking high among the central State-owned enterprises (SOEs). ChemChina keeps upgrading the mechanism for protection and management of intellectual property rights (IPRs), and has received governmental support from the Beijing IPR Program.

(7) "Zero discharge" strategy unveiled, HSE system gradually completed

ChemChina recognizes successful energy conservation and emission reduction as an essential element to enhance competitiveness and fulfill social responsibilities. ChemChina requires that all subsidiaries meet the goal of "zero discharge" within five years. In 2008, ChemChina completed two "zero discharge" pilot projects in Siping Haohua Chemical Co., Ltd. and BlueStar Petrochemical (Tianjin) Co., Ltd., namely, recycling of PVC mother liquor and recycling of oil-containing sewage. Apart from that, two other "zero discharge" water recycling projects for Shenyang Chemical Co., Ltd. and BlueStar (Lanzhou) Chemical Co., Ltd., as well as the technical improvements for high-salinity and high-sulfur oil refining process for ChemChina Oil & Gas Corp. are all in progress. Moreover, international cooperation with some US and Japanese enterprises was strengthened for environmental protection, and more capital was poured into environmental protection facilities and processes. Remarkably, Jinan Yuxing Chemical Co., Ltd. realized the comprehensive disposal and reuse of chrome residue, providing an effective solution for enterprises to cope with a seemingly intractable problem, which had perplexed the chemical industry for ages.

A more complete mechanism of energy conservation and emission reduction is now under construction. From January to November, 1.46 million tons of standard coal equivalent had been saved, along with total energy usage per RMB10,000 output value down by 9.4%, total fresh water usage per RMB10,000 output value down by 22.36%, reutilization rate of industrial water up by 4%, wastewater discharge down by 8.36%, COD discharge index dropping by 11.02%, and SO₂ emission falling by 3.58%. The deepening "benchmarking" in energy conservation and emission reduction has helped cut costs of RMB345 million.

Focusing on building the HSE (health, safety and environment) system, more effort was put into safety management. With the safety concept of "Cherish life, enjoy living. We don't want profits with blood," safety regulations were improved and a safety responsibility system for leaders implemented. More importantly, breakthroughs were made in the introduction and building of HSE systems in domestic enterprises.

Emergency aid capability was enhanced considerably. ChemChina has been paying closer attention to emergency planning and regular drilling, which has proved to be effective in crises.

(8) Management quality continues to improve, human resources structure gradually optimized

A program for cultivating talent was mapped out and steadily implemented. ChemChina's development strategy recognizes that cultivation of talent is part of global best practices. New mechanisms for selection and employment of

talents that can meet the requirement of modern enterprise system were explored with regard to improved processes of training, selection, introduction, assessment and supervision for managers at all levels. Reform of human resources management and construction of enterprise IT solutions were firmly pushed forward.

ChemChina keeps optimizing its structure of human resources. Diverse measures have been taken to recruit talents. For instance, in cooperation with HR companies, professional managers worldwide with outstanding capabilities and excellent operating performance joined the administration of ChemChina and its prime subsidiaries. Following BlueStar's first successful case of a foreign CFO, foreign senior professional managers have been selected and started working in new posts of ChemChina, such as the CIO of ChemChina, CEO of ChemChina Finance Co., Ltd., COO of Shanxi Synthetic Rubber Group Co., Ltd. and COO of Shenyang Chemical Co., Ltd. In addition, talents with abundant management experience, strong capabilities and excellent performance were promoted to higher posts. As a result, the overall personnel structure and quality are continuously upgraded and improved.

(9) Further promotion of corporate culture helps reform and development of enterprise

The innovation program carried out in day-to-day operations made a total of 4,761 achievements, creating profits totaling RMB530 million in a single year. Faced with the financial crisis, ChemChina organized training in various forms to guide employees to act together uniformly in accordance with the solutions confirmed by the company. Simultaneously, efforts were also made for team building, increasing income and profitability, reducing expenditures and costs, and collecting reasonable suggestions.

Deeply concerned about the quake-affected area, the employees donated a total of RMB31.159 million in cash and goods. Enterprises provided temporary posts for 211 employees relocated from quake-hit enterprises to support post-disaster reconstruction. Remarkable stories were recorded for the enterprises and individuals who spared no effort in rescue and disaster relief. Some of them were given awards by the Central Government, such as the severely hit Deyang Haohua Qingping Phosphate Mine Co., Ltd. and its director, Xiang Ping.

ChemChina increased media exposure of its significant events and achievements, creating a good image among the public. Internal exchanges were also enhanced. For example, the publications *Information Morning Post - Chemical Industry Section* and *ChemChina Newsletter* played crucial roles in providing platforms for employees at home and abroad to exchange ideas and culture; the BlueStar Summer Camp has been held annually for 19 years; and the Chemical Industry Museum of China was built and inaugurated within ChemChina headquarters.

A special examination for leaders of State-owned enterprises has been launched to confirm their honesty and incorruptibility in performing their official duties.

Arrangement for 2009

Guidance for 2009:

ChemChina has no fears in the battle with the financial crisis. Continuing to innovate, we will strive for more market share to boost production and sales. Construction of new projects will be highlighted in the progress of business restructuring, optimizing and upgrading. Information systems will be employed as a key method to improve management while technological innovation will help enterprises build competitiveness, and the "zero discharge" strategy will push forward energy conservation and emission reduction. Altogether, the implementation of the ten projects, namely human resources restructuring, debt reduction, reform, development, international operation, cultivation of corporate culture, marketing, professional training, enterprise IT solutions, energy conservation and emission reduction, will be underlined to realize sustainable and solid growth of ChemChina, which is the top priority of ChemChina in 2009.

The major goals in 2009:

- ◆ A total profit of RMB1.725 billion, up 15% over 2008
- ◆ A total operating income of RMB142.6 billion, up 15% over 2008
- ◆ A total investment of RMB20 billion in fixed assets, up 45% over 2008
- ◆ Energy usage per RMB10,000 output value down by 5%, while discharge indexes of wastewater, COD and SO₂ each down by a minimum of 3%
- ◆ Zero accidents, no critical accidents in production or significant pollution of the environment
- ◆ Wage increase, on the precondition of steady profit growth

To adhere to one ground rule:

All the efforts to tackle various challenges in 2009 should be based on innovation with which we can increase profits, speed up restructuring, boost technological advancement and move forward on the transformation of management.

To highlight three key points:

First, to stress production and sales. The stable process of profits calls for more market share and the centralized management of client resources. We must value the inter-connection between production and sales as well as smooth cash flow. The output, type and spec of products

must be decided according to market demand and product profitability.

Second, to attach great importance to the conduct of well-chosen projects. Expanding domestic demand, overall industrial restructuring and lower prices of raw materials have brought about great opportunities for industrial restructuring and optimization within enterprises. To seize the golden chance, we must set great store by completion of key projects and innovation of technologies and, at the same time, avoid wasting effort on outdated, high-pollution and unpromising projects.

Third, to enhance management. In order to achieve the transformation of management, reform of organization and process, optimization of management methods and strengthening of basic management, an information system must be introduced to serve Lean Six Sigma management, and to accomplish centralized cash management, synergetic procurement and uniform bidding management.

To uphold four principles:

First, to build confidence. To survive the long, exhausting and arduous battle against the global financial crisis, continuing to be confident while being on guard is the key to maintaining a scientific analytic ability, with which we can seize opportunities in the economic recession.

Second, to seize the opportunities. The economic recession has brought about challenges, but at the same time provides opportunities for M&As at lower prices, for introducing advanced technology and management, and for upgrading human resources, etc., all of which can be seen in history.

Third, to make sustainable development. We must maintain growth while restructuring and balance our efforts between making near-term profits and setting up sustainable competitiveness.

Fourth, to identify the top priority. The ability to identify the top priority in a number of problems and find out associated response measures is important for enterprises to brainstorm counter-measures to the worsening situation of operation due to a shrinking downstream market.

To cope with two kinds of problems appropriately:

On the one hand, to extricate enterprises and employees, who are trapped in hardships, from their immediate predicament; on the other hand, to root out the "man-made calamities" and their impacts. It is usually impossible to foresee a natural disaster but there are indeed ways of preventing the "man-made calamities." With the global financial crisis worsening day by day, the economic system is confronted with new challenges. The disorder of the market opens opportunities for various illegal businesses and further deepens unfair competition. For this concern, we must manage such risks to ensure the security of assets and operation.

To perform ten tasks solidly:

(1) The operation of production and sales must be carried out in a scientific way on the basis of profitability

Great attention must be paid to foreseeing the market changes coming in 2009, a year already filled with uncertainties. We must closely observe and analyze systemic economic changes both at home and abroad as well as the domestic macroeconomic policy to monitor all-around market information of the industry, and further analyze the selling price, purchasing price, gross profit rate and marginal benefit in order to find the best production and sale strategy to meet the need of the markets.

All possible efforts must be exerted to strive for greater market share and an enlarged sales capacity. As a result of the economic downturn and the slowed growth of the industry, the gloom hanging over the chemical industry might persist well into the year 2009. To cope with the economic downturn, we must spare no effort to win more market share and always make marketing efforts our top priority. The customer is our focus. In parallel with meeting the need of customers and fulfilling mutual benefits, we must consolidate our market and seek new markets both at home and abroad. To defend ourselves against higher operating risks in the crisis, we must also pay closer attention to classifying customers in terms of creditability, and to recording their overall information.

Well-organized production is also essential for enterprises to maintain quality and efficient operation, and in-house cooperation within the ChemChina Group should be further stressed, which can contribute to overall competitiveness.

(2) Focusing on industrial restructuring, ChemChina will accelerate construction of industrial bases, speed up project construction and stimulate technological innovation

Construction of industrial bases will be highlighted for clustering ChemChina's businesses according to a well-planned development layout. Under the guidance of ChemChina, enterprises will make special development plans for the main business units to boost business restructuring and upgrading. The advanced chemical materials business will focus on applications in the new energy sector; the chlor-alkali business must use chlorine more efficiently and put an end to overcapacity, turning its attention to producing new products and specs; the oil processing business plans to build more complete pipeline networks and strive for more intensive oil refining capacity for lower costs; the agrochemical business needs to make progress in building up the capacity of associated intermediates for downstream products throughout its industrial chain, and in upgrading end-products; the rubber business will continue to improve product quality and expand production; and the chemical equipment business has an eye on quickening commercialization of its new process technologies and products.

The construction of the industrial bases will be accelerated, including the Tianjin Advanced Materials Industry Base for

organic silicone, methionine, polycarbonate and polyurethane products; the Lanzhou Industrial Base for silicone series products used in the new energy sector; the Chengdu Hi-tech Industrial Base for C1 chemicals and specialty chemicals; the Yangtze River Delta Chemical Industrial Base for polyoxymethylene, epoxy resin, PBT and photosensitive chemicals; the Shandong Bohai Rim Petrochemical Industry Park for DCC (deep catalytic cracking); the Xinjiang and Henan Chemical Industrial Bases for coal chemicals and salt chemicals; and the Hainan Industrial Base for spaceflight launching facilities. Additionally, the construction of the industrial bases for CPP (catalytic pyrolysis process) technology has been fully started across the board in seven cities including Shenyang, Yancheng and Fuzhou.

The construction of key projects will also be stepped up. Sticking to the principle of "zero discharge," ChemChina will pursue innovation for technical improvements to restructure product mix and replace outdated equipment.

We will pay more attention to project management as well as tangible returns on investment. In addition, strong initiatives will be made to promote the progress of restructuring.

(3) Construction of enterprise IT solutions must make rapid strides toward transformation and upgrading of management

Driven by a sense of responsibility and economic pressures, ChemChina will take full advantage of enterprise IT solutions to move forward on business amalgamation, process optimization and management. Lean Six Sigma management will be introduced for continuous improvement (CI) and process redefinition. The KPI (key performance index) will be adopted in the whole Group while further optimization is being planned. The IT-based transformation will help provide a centralized management system for sharing information, while a standard system will be completed for information security.

Closer attention will be paid to the three following aspects in the construction of enterprise IT solutions. First, standardization of business processes must be made the top priority rather than customization. Second, all the results gained in pilot projects must be steadily put into practice in a wider range step by step. Third, the construction of enterprise IT solutions must be directed by top management. We will attach great importance to the following three key points in 2009. First, we need to enhance centralized capital management, synergetic purchasing and uniform bidding. Second, we will step up reorganization in the six business units. Third, greater initiatives will be made to promote Lean Six Sigma management systematically in ChemChina.

The strategic cooperation with commercial banks and financial organizations must be enhanced and the scope of credit extension will be made based on the demand of investment and business operation. Asset-debt ratio structure will be further optimized through issuing long-term bonds and notes, secondary financing of listed enterprises, liability exemption, elimination and substitution, value increment of free lands, liability discount, introduction of strategic investments, formation of joint ventures, etc. The enterprises with a high asset-liability ratio and heavy pressure for liquidation must reduce financial debt, lower the asset-debt

ratio and forbid borrowing short and lending long.

Property rights structure will be improved to assure investment return by analyzing the currently held equity investment and property rights investment, and shareholding of those with promising development and high profit will be increased, while the shareholding of those with gloomy development and low profit reduced or sold. We will also improve property rights management to ensure benefits for investors. Enterprises must make full use of the adjustment in capital markets both at home and abroad to accelerate the resource integration of listed companies, regulate property rights transactions, promote the adjustment and improvement of capital, and strengthen supervision and restriction with the help of the system of assigning responsibility for major losses.

(4) Cost control to be further strengthened to cut costs and raise profitability

The building of a budget system for cost and expenditure control will be accelerated. Faced with falling product prices, increasing costs in operation and narrowing profit margins, all enterprises must strengthen cost control in budget management. All employees, all operating factors and the whole process must be involved in budget management. Further progress in increasing income and efficiency, and reducing expenditures and costs, will be made by minimizing internal costs wherever possible. Enterprises must specify fixed standards for costs and expenditures and the budget control target, strictly control unplanned expenditures, regulate management processes, and define cost control responsibility and indexes for all employees. We must also increase restrictions on budget, and put more effort into supervision and into the monitoring and reward system, ensuring effective implementation for budget control targets.

Costs will be reduced to increase profitability. Accurate management will be launched by strict cost control in key aspects and processes, which will further reduce controllable expenditure.

(5) The introduction of strategic investment will improve capital structure and management, steadily pushing forward international operation

ChemChina plans to introduce strategic investments into each business unit, to get enterprises listed with significant reform. Specifically, the introduction of strategic investment in all sectors and overall listing will be realized to improve the management structure of enterprises. For BlueStar Group, overall listing will be accelerated, while for Haohua Group, ChemChina Rubber Corporation and ChemChina Agrochemical Corporation, communication with investors and agencies will be increased to speed up introduction of strategic investments. And, for ChemChina Oil & Gas Corporation, more efforts will be put into the introduction of industrial investment and the discussion of a joint venture. In addition, enterprises must explore long-term incentives and salary incentives for management.

Also, we aim to advance international operation on a steady basis. Attention will be paid to targeted enterprises,

including those sharing the same development orientation with the main businesses of ChemChina, those with good assets and promising prospects and those that can be interdependent with domestic enterprises. Key technologies and devices that are urgently needed will be acquired and introduced while the world economy is still down, which provides a good opportunity for investment and introduction at lower costs. Coordination and business integration between enterprises at home and abroad will be improved to increase quality and competitiveness by optimal resource configuration. Exchanges of employees and culture will be strengthened through information systems to broaden communication channels with higher efficiency. We will also strengthen the upstream and downstream coordination between overseas and domestic enterprises, as well as coordination in innovation. More efforts will be put into coordination in marketing by establishing a shared marketing network and channel to expand sales. Importance will be attached to the adoption of Qenos' HSE system for Chinese enterprises. Also, the coordinated supply and demand between Qenos and domestic enterprises is welcome to be intensified to expand cooperation. The under-construction experimental animal farm in Tianjin will accelerate the application of Adisseo's feed additives and enzyme preparation technology in the Chinese market. The building and training of the sales team for the specialty fiber business is also underway, which will form the marketing frame to expand the domestic market for specialty fibers. Backed with BSI's (BlueStar Silicones International) sales network, the Jiangxi Xinghuo Organic Silicone Plant could make less effort on export, while BSI's sales in China will also be boosted. In the meantime, BSI's technical strength will help Xinghuo Plant and BlueStar Silicone Materials Co., Ltd. improve technology and product quality. In order to cope with the impact of the financial crisis on overseas operations, assistance will be needed to help finance overseas enterprises for operations.

(6) Internal control system to be further improved, as well as risk management and the supervision and auditing system

With focus on risk control, a complete and scientific internal control system with organizational guarantee and professional team will be established to reinforce the inspection and supervision of the implementation of the internal control system. Meanwhile, risk consciousness should be enhanced while building and improving the risk assessment and management systems. As a result, both financial and operational risks will be prevented and managed in an all-round way via the comprehensive systems combining risk identification, early warning, evaluation, analysis and reporting.

Integrated with management and process, efficiency supervision will be operated in a standard and precautionary manner with highlighted items and an escalation process.

Supervision over internal audit will be stepped up. The function of internal audit will be shifted from mere compliance to performance and risk audits. The construction of the auditing team will be further strengthened in 2009, by establishing an audit and risk management team headed by the

new CAO (chief auditing officer) who will be selected globally by ChemChina and is going to be on duty in 2009. In addition, the development of our legal system should be strengthened.

(7) Development of innovative behavior in the enterprise to be accelerated, while creation and protection of IPRs strengthened

More efforts will be put into the cultivation of innovation in the enterprises. This requires adoption, digestion and absorption of existing technologies for further innovation. By focusing on practical technical improvements and the "zero discharge" strategy in energy conservation and emission reduction, we will develop new technologies, products and processes, continue to organize the winner-selection of ChemChina Technology Fund and apply for more national-level technology projects. With emphasis placed on the key technologies of leading industries, preliminary efforts in applications for projects of the National Technology Program in the 12th Five Year Plan will be launched. Global best practices will be introduced to support the building of National Pilot Innovative Enterprises. We will apply for and build more National Engineering Centers, National Laboratories and State-certificated Technology Centers in subsidiary enterprises. The application and commercialization of technological achievements and independent IPRs (intellectual property rights) will be accelerated. The launch of the construction of Strategic Alliance for Technological Innovations on Advanced Chemical Materials Industry will be coordinated with the Tianjin New Chemical Materials Industry Park. Exchange and cooperation with research institutes and enterprises both at home and abroad will be strengthened. Greater efforts will be put into building a strong scientific R&D team and cultivating talents, which will help create new mechanisms and an atmosphere where innovation is encouraged. To encourage all employees to participate in innovation, the selection of ChemChina Science & Technology Progress Award will be launched.

ChemChina will develop its IPR strategy and make progress in standardization. The IPR strategy will be formulated to establish mechanisms for the creation, application, management and protection of IPRs, in order to comprehensively improve the use and management of patents, trademarks, technical and commercial secrets and copyrights, and bring about the IPRs' functions to protect innovation, transform achievements, and boost the enterprise's core competitiveness. ChemChina is exploring an effective way to combine scientific research, patents and the application of scientific findings. Also, enterprises should apply for and complete the formulation and revision of national standards and industry standards, in particular the standards related to key industrial fields as well as to the "zero discharge" strategy.

(8) "Zero discharge" strategy will be carried out to push energy conservation and emission reduction to a higher level; management will be strengthened for safe production

The "zero discharge" concept has become an overall strategy guiding ChemChina's efforts in energy

conservation and emission reduction. Also, safety issues have gradually taken root in employees' minds as regularly organized training programs all introduce ChemChina's principle of safety. In operation, a responsibility system for safe production will be strictly implemented, which requires equipment management personnel to fulfill their responsibility to reinforce inspection, repair and maintenance work for safety issues and attach importance to the management of specialty equipment. Preventive measures must be taken with regard to safety issues at construction sites, and safety management for contractors needs to be strengthened. Protective measures derived from suggestions made by safety inspection and supervision must be put into effect promptly to dispose of hidden hazards, and the frequency of inspection on holidays and Mondays will be increased. Training must be carried out for categorized safety issues while experts will be promptly organized to diagnose safety issues of enterprises that are reported to have significant safety risks. For new projects involving hazardous chemicals, an examination system for safety and occupational hygiene, as well as a permit system for environmental protection must be designed, established and launched simultaneously with the project. Once the construction of the HSE (health, safety and environment) system is complete, it will form an effective mechanism guaranteeing long-term safety. The regulations concerned will also be established more completely, while an IT system is to be introduced to improve safety reporting. In addition, an emergency plan must be developed and on-site drills for emergency regularly conducted. In all, the above-mentioned measures have been prepared to ensure safety.

(9) Talent-cultivation program to be accelerated to improve HR quality

The changing economic climate has provided more opportunities for ChemChina to recruit outstanding talent. Meanwhile, a successor and leadership training program will be developed and executed to train promising young employees and foster potential managers, who will be selected according to their performance in day-to-day operations. With the purpose of exchange and communication, a director may be reassigned and transferred to a new post

at another enterprise, and management exchanges will be also carried out between domestic enterprises and overseas companies. In order to build an advanced human resources management system, an HR information system will start operation in pilot enterprises with priority given to the basic templates including organization, personnel, work attendance record, etc. According to a program for fostering young managers more efficiently, new graduates will start their career at lower-level subsidiary enterprises. In terms of deepening the wage reform, a more standard and complete wage system for both directors and employees will gradually be brought into operation.

(10) Innovative corporate culture to guarantee smooth operations

On the basis of continuous promotion, development and integration of its corporate culture, ChemChina will present itself as an admirable, credible and reliable enterprise to the public, and foster its managers' sense of "taking care of everything themselves." ChemChina will also develop its corporate culture by extracting elements from its staff's prevalent thought and value-orientation. *Information Morning Post* and *ChemChina Newsletter* have, on the one hand, provided excellent platforms for publishing and exchanging enterprises' typical experiences and stories of facing and dealing with crises, while on the other, presented ChemChina's corporate image to the outside world and helped its enterprises and employees build confidence. More importantly, attention must be paid to public feelings, providing open channels for immediate press releases and for employees to express their emotions and opinions. At the same time, ChemChina will, as always, continue supporting BlueStar Summer Camp and enriching collections for the Chemical Industry Museum of China.

Balanced growth, order, safety, resource conservation and environment-friendliness, stable living, companionship, robustness - ChemChina is pursuing all these essential elements, which are required to build a harmonious enterprise.

