China Communications Construction Company Limited 2019 Interim Results Conference
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Moderator: Good morning, dear friends from the investment community. You are warmly welcomed to attend the China Communications Construction Company Limited ("CCCC") 2019 Interim Results Conference. Please allow me to express on behalf of CCCC my heartfelt thanks to you for your long-term concern and support to CCCC!
First of all, I will introduce the management attending the promotion. They are: Secretary of the CCCC Board of Directors, Mr. Zhou Changjiang, CCCC Secretary, and Mr. Zhu Hongbiao, General Manager of the Finance and Capital Department.
Next, Mr. Yu Jingjing, the deputy director of the Board of Directors, was invited to report on CCCC's 2019 interim results.

Yu Jingjing: good morning, ladies and gentlemen. I am honored to report on behalf of CCCC on its overall performance in the first half of 2019.
I. According to CCCC's annual business objectives, CCCC recorded stable operations in the first half, laying a solid foundation for reaching the annual target. CCCC obtained revenue of RMB 239.1 billion in the first half, a significant increase of 15.2% on a year-on-year basis, mainly benefiting from the accelerated investment in infrastructure projects in mainland China. Its profit level remained relatively stable, with gross profit ramping up by 0.4% year-on-year. Thanks to the successful control of management fees, operating profit went up by 4.1% year-on-year to RMB 156.6 billion. Total profit was RMB 12 billion, a year-on-year growth of 6.3%. Net profit attributable to shareholders was RMB 8.757 billion, growing by 6.1% when compared with last year. Earnings per share in the first half of the year climbed by 4.3% on a year-on-year basis to RMB 0.48.
II. The entire operations and market development in the first half of the year showed some characteristics. To begin with, the amount of newly signed contracts in the first half of the year was RMB 496.7 billion, a year-on-year increase of 15.9%, in line with CCCC's guidance in terms of the growth rate. Specifically, CCCC has four business segments as shown on the histogram. From the perspective of business structure, there are two characteristics: first, the amount of newly signed contracts from overseas regions reached RMB 112.2 billion, accounting for 23% of the total contract value of the entire company, which is equivalent to the previous years. There is a slight decrease in the growth rate, but it is still desirable when its ratio is considered, so we still have confidence in the goal for the whole year. Secondly, the amount of newly signed contracts from investment projects based on the shareholding ratios sit at RMB 67.2 billion, or 14%. The ratio ramped up by 3.8% on a year-on-year basis. There are mainly three categories of investment projects: first, the traditional franchise-based BOT project, realizing a newly signed contract value of RMB 15.1 billion; secondly, the PPP project, contributing RMB 44.3 billion and the urban complex development projects driven by the traditional business, infrastructure, securing RMB 7.8 billion.
As can be seen from the histogram on the right, as of the first half of the year, the amount of unfinished contracts was up to RMB 1,900 billion, providing sufficient project reserves and guarantees for CCCC's later operations: if based on the income of 2018, it is more than 3 times, at a level of about 3-4 times. From the perspective of

project types, the uncompleted contract value was about 660 billion, accounting for 35% of amount of unfinished contracts; the unfinished contract amount of overseas projects would be close to 40% of the total.

III. The infrastructure construction sector made the greatest contribution to CCCC's newly signed contract value. To be specific, the port construction accounted for 2.8%; road and bridge construction, 31.4%; the railway projects from 2006 only took up 0.6% and municipal projects centering on urban infrastructure significantly developed in recent years, contributing 41.2% - such projects are mainly concentrated in subways, municipal highways, bridges and other municipal infrastructure projects. By region, the contribution of overseas projects was 24%.

IV. We will focus on CCCC's business performance. Breakdowns of ratios in revenue are shown in this PPT pie chart. The largest contribution to the business remains the infrastructure construction segment, with a contribution ratio of 86.5%, achieving a year-on-year increase of 15.2%. This increase is more due to the contribution of infrastructure construction revenue in mainland. The infrastructure design segment follows, with a contribution ratio of 5.4% and a year-on-year increase of 21.3%, mainly due to the implementation of EPC projects in China. The third is the dredging segment, with a contribution ratio of 6.4%, an increase of 1.7%. Other business segments contributed 1.7%, down 24.7% year-on-year, mainly due to the business adjustments in the second half of last year to the first half of this year, specifically equity adjustments to a real estate company. After the adjustment, CCCC excludes the foregoing company for the purpose of preparing statements.

V. The infrastructure construction business made the largest contribution. Specifically, the gross profit margin of the infrastructure construction sector is declining, but due to relatively well controlled expenses, the operating profit was RMB 13.4 billion, a year-on-year increase of 5.5%. The operating profit of the infrastructure design sector was RMB 934 million, a year-on-year increase of 10.4%. Under the combined influence of revenue growth and corresponding decline in gross profit margin, the dredging segment achieved operating profit of RMB 692 million, down 3.8% year-on-year. Other business segments performed worst, recording operating profit of RMB 460 million, a slight decline of 1.1% compared with last year.

VI. The breakdown of cost makes clear the basic situation thereof. Out of several significant costs, the cost of raw materials accounted for 30.2%, which ramped up and increased significantly, with a year-on-year increase of 18.2%. The growth rate was higher than the income growth rate, indicating that there is indeed some pressure on raw material procurement this year. The subcontracting cost follows suit by dint of 36.3% in the total. The ratio grew by 25.5% on a year-on-year basis, reflecting that our subcontracting in the first half expanded to some extent. Then, salaries took up 10.5%, an increase of 14.2%, which is equivalent to income growth rate. Finally, there were rents and other fees. From the bar chart on the right, we can see that the pressure is mainly due to the increase in raw material prices and subcontracting scale, which indirectly affects our gross profit margin to a certain extent.

VII. We will brief from the market conditions and business performance of several business segments. From this histogram, it can be seen that the amount of newly signed contracts reached RMB 440 billion in the infrastructure construction business, a significant increase of 15.5% over the same period last year. New projects were mainly highway and bridge projects as well as the municipal projects in Mainland China, reflecting our market development achievements in the emerging market sectors. Secondly, we have sufficient backlog, and the unfinished contract amount reached RMB 1,700 billion.

In terms of financial results, the infrastructure construction segment recorded sales revenue of RMB 212.4 billion in the first half of the year, a year-on-year increase of 15.2%, mainly thanks to the revenue contribution from domestic highway and bridge projects and municipal projects in China. Gross profit margin fell from 12.7% in the same period last year to 11.2%. According to the judgment and analysis of the management, the gross profit margin shrinkage is due to the following reasons: firstly, settlement of a few high-profit overseas projects in the first half of this year; secondly, certain pressure on raw material prices, as we mentioned earlier, which would be eased through the price adjustment mechanism in the second half of the year; growing subcontracting during new business development, including some projects the material price of which is sensitive and intensified competition in the infrastructure construction industry, which really challenges the profitability of newly signed projects in the current period of time, making the profitability not as good as it was three or five years ago.

Several segments performed better than the gross profit due to improved cost control. For example, our operating profit rate dipped from 6.9% in the same period last year to 6.3% in the first half of this year.

VIII. We will go to the second business sector, infrastructure design business. The newly signed contract value of this section declined by 18.3% year-on-year, mainly because the significant increase in our contract amount and revenue in the past period was mainly due to the EPC project, and the number of EPC projects signed in the first half of this year was slightly less. We believe that it is periodical and may rebound in the second half of the year. Secondly, we have rich backlog, with the unfinished contract amount reaching RMB 83.2 billion in the design sector.

From the perspective of financial performance, the revenue of the infrastructure design sector remarkably lifted by 21.3%, mainly due to the completion of EPC project reserves signed in the past few years. However, the profitability of this kind of EPC project is more similar to engineering projects, so its gross profit is relatively lower. Therefore, the gross profit margin has declined despite the increase in income and fell to 16.7% during the reporting period from 18.7% in the first half of 2018.

As far as the result of segments is concerned, the operating profit margin dipped from 7.8% in the same period of last year to 7.1% during the reporting period, performing better than gross margin, thanks to the control of expenses partially offsetting the decrease in gross profit margin.

IX. Now, we come to the dredging segment. In the first half of the year, the amount of newly signed contracts augmented significantly by 54.2%, and the newly signed contracts reached RMB 30.8 billion. As can be seen from the business newsletter in the first quarter, the result is mainly attributable to several individual projects that involve relatively huge amount. It does not mean that the entire industry has turned around. The industry as a whole is still under some pressure in the traditional market. We have certain backlog since the amount of unfinished contracts was RMB 94.5 billion in the first half of the year.

In terms of financial performance, the income ramped up by 1.7%, implying that we have insufficient increase in orders for our traditional business in the past few years as we mentioned just now. We spare no efforts to grasp new market opportunities during the adjustment period. At present, we are actively carrying out transformation and upgrading. The gross profit margin has decreased to some extent, from 12.5% in the same period of last year to 11.0%, primarily due to the fluctuation of the traditional business, which caused the profitability to fall. At the same time, due to the entry into some new project areas, for which we subcontract the related projects to others, so the

gross profit margin is not high.
From the perspective of segment results, the operating profit margin slightly dropped from 4.7% in the same period of the previous year, to 4.4% in the first half of this year, surely attributable to the cost control that offset the pressure from gross profit margin.
X. According to our consolidated statement, CCCC's capital expenditure in the first half of the year was RMB 20.3 billion, which was basically the same as that of the same period of last year, with no significant growth. Specifically, in the infrastructure construction sector, the capital expenditure of BOT projects was RMB 12.6 billion, a slight decrease compared with RMB 13.1 billion in the same period of last year, mainly due to relieved pressure from capital expenditure since CCCC controlled total investment projects in the past few years. Other capital expenditures are traditional ones and mainly for the procurement of equipment for emerging business.
XI. To sum up based on the consolidated statements, we obtained 15.2% growth in revenue in the first half of the year subject to CCCC's guidance for annual income growth of not less than 10%, mainly thanks to the contribution from domestic highway and bridge projects and municipal projects. Gross profit margin declined in the first half of the year, from 13.4% to 11.7%. Looking forward to the second half, CCCC will focus on the claims for adjustment of raw material price and the progress of key projects overseas, in the hope of improving gross profit margin. Thanks to the control of expenses, especially the successful management of management fees, the operating profit margin slightly shrunk from 7.2% in the same period last year to 6.5%. Financial income soared by 110%, benefiting from the contribution of the interest spread on the PPP investment projects in progress. On the other hand, in terms of the scale of borrowing, due to the rapidly expanded accounts receivable this year, our demand for funds is significant, so the scale of borrowing continues to increase, resulting in an increase in financial expenses of 37.6%. The net profit attributable to the parent company reached RMB 8.7 billion, implying the net profit margin of 3.7%. During the reporting period, the effective tax rate of income tax fell remarkably in the first half of the year, from 23% in the same period of last year to 18.9%, mainly due to on the one hand, less income tax since our R&D expenses in the past few years mainly for R&D of some new projects and national key projects, which are encouraged by the State in its policies are deducted according to the latest policies and on the other hand, the increasing tax-free income in the first half of the year.
XII. We have listed a short form showing assets and liabilities for your reference. Our management pays attention to the following points. The first is intangible assets: the expenditure of franchise BOT projects increased by 6.7% in the first half of this year, reflecting our overall size control of the investment projects in the past few years. The second is the contract assets. As the owners slowed down in settlement, increasing the outstanding contracts in progress and projects that have been completed and therefore resulting in a contract assets increase of 15.7%. Thirdly, cash is reduced. CCCC conducted business by using its own funds due to the increase in business scale and the lag of settlement. Fourthly, the asset-liability ratio is relatively stable. It was 75.3% in the first half of the year, a slight increase from the end of the previous year. CCCC well controlled the ratio as a whole. However, in terms of net gearing ratio, on the one hand, business scale growth was relatively fast, but on the other hand, the settlement of owners slowed down, resulting in a faster increase in net debt ratio.
XIII. Regarding the leverage ratio, we have shown four columns on financial leverage under different calculation standards for your reference.
XIV. Cash flows. First, the operating cash outflow was RMB 39.7 billion in the first

half of the year, since relatively large amount of funds was spent on material procurement, subcontractor lock-in, etc. to support rapidly increasing business scale in the first half of this year. At the same time, the settlement speed of the owners was not so fast. The entire construction industry in China usually does not have good cash flow in the first half of the year, but in the second half of the year, with the strengthened management of the owners' settlement and CCCC's accounts receivable, the cash flows will be significantly improved. Therefore, CCCC has certain confidence in the annual operating cash flow. We will embrace net inflows at the end of the year, which is expected to be equal to the profitability.
Net outflows from investing activities valued RMB 29 billion. Apart from the demand for capital expenditure just mentioned, there are three key factors: firstly, the expenses of long-term payment project for PPP grew by RMB 6.2 billion; secondly, the expenditure on capital expenditure through the equity cooperation model for PPP was RMB 1.2 billion; we have made some short-term financial arrangements for part of short-term funds in order to improve the efficiency of use and increase income, but we mainly redeemed last year and purchased this year.
Finally, the net inflow from financing activities was RMB 46.3 billion, mainly due to efforts made from several channels in fund based on daily operational needs, so as to maximize CCCC's interests.
This is the end of my report on CCCC's results in the first half of the year. We also welcome suggestions for rationalization of our management and control in the future, especially, the second half of the year. Next, the management will take your questions. Thank you!

Moderator: Thank you for your introduction. Next we come to the Q&A and before your questions, please let us know your employer and name. Who will take the first?

1. Q: my first question is about the income and profit of the BOT project in the first half. According to the balance sheet, based on intangible assets worth nearly RMB 200 billion, the net assets will be RMB 50 billion, or 25% of the entire company if we assume that capital fund occupancy rate is 25%. So I think the loss last year was RMB 2.8 billion. When can we be profitable? This business has a relatively large impact on CCCC's assets, including valuations, and I want to hear management's vision for the future BOT highway. The second question is about the overseas gross profit margin. According to the A-shares, the overseas gross profit margin dropped by 3%. Why? Does the East Malaysian project exert impact on it because it has started? Some of our outstanding senior officers have been sent in the past 12 months to other peers who are also very active in expanding overseas and give priority to overseas issues. Will it exert significant impacts on our overseas competition in the years to come? From the perspective of overseas expansion, we have also tried to acquire a company in Canada. How about our overseas acquisition? Thank you!

Zhou Changjiang: when it comes to the operation of BOT projects that you are concerned about, we have about 31 projects in operation, of which 19 are consolidated. The income of these projects in the previous year was RMB 2.8 billion, recording a loss of about RMB 1.2 billion. When compared with the same period last year, the income increased and the loss reduced to some extent. So in this regard, it is improved, which can be reflected by data and figures.
CCCC's management also noticed that the net assets of the BOT project accounted for

a large amount of the head office, and has taken measures to revitalize the stock assets. First, we will continue to promote asset securitization. A plan involving RMB 30 billion was adopted at the general meeting this year and part will be used for asset securitization of BOT projects. We have also made some successful experiences in the past. Second, we will analyze the loss of the stock capital in the next step. The incubation period is 8-10 years, but we figure out that a large part of the cost is the interest of the bank. Next, we will desire to reduce liabilities and the interest charges of banks, to improve the profitability. Looking into the future, we believe that the quality of BOT project assets is still good. However, they have relatively large impact in the current period because of the large amount and long incubation period. Our assessment result reveals that basically these investment projects are in line with our feasibility study report, so we are still optimistic about them. Of course, we must take measures to minimize the incubation period and increase their income level.
Regarding the decline in overseas gross profit margin, Mr. Yu also introduced that some high-margin interest rate projects have been settled a while ago. With the gradual completion of high-margin projects, the contribution to the reporting period has been reduced, which has lowered the gross margin of overseas business. We feel that it is the most important factor.
Why the East Malaysia project has limited effect on this? Because it only resumed work in July this year, it is estimated to start work at the end of this year and early next year on large scale, so its impact is not particularly large. Of course, we also noticed the reason for the decline in overseas gross profit. We have some high gross profit margin projects to complete, and we expect to accelerate them in the second half of the year. Secondly, the competition overseas is also very intense, and some project prices are also falling.
Among other central enterprises of the same kind, CCCC has a relatively high level of management, and performs well in the overall operation quality and risk control. We noticed that some of our senior offices and top leaders were sent to our peers. Of course, they have been working in CCCC for many years, and their management experience is quite rich, so they will in turn compete with CCCC. However, I don't think this is a bad thing. We have to innovate our business methods as possible under legal compliance. Old styles may not work. Secondly, competition encourages CCCC to build more ideas and maintain our original advantages, especially in terms of business models and in technological innovation. We must increase our efforts and strive for better performance.

2. Q: I have two questions. Firstly, CCCC performed well in cost control in the first half of the year, because the decline in the expense ratio is still quite obvious. I would like to ask whether the ratio will maintain a relatively low level in the second half and next year? My second question is about CCCC's infrastructure construction sector. I noticed that the gross profit margin declined in the first half of the year. As introduced by Mr. Yu just now, it is due to the reduction of high-margin overseas projects, the expansion of subcontracting scale, and the rise in raw material prices. Can you introduce the outlook in the half year and next year? Thanks!

Zhou Changjiang: firstly, I would like to expect the gross profit margin of the construction sector and the outlook for the second half of the year. Just now we also introduced that the gross profit margin of the infrastructure construction sector did decline largely in the first half of the year. We have preliminarily analyzed the reasons and the management actually noticed that. CCCC has always maintained a relatively high level of gross profit margin. We believe that it is attributable to two reasons, a relatively high proportion of overseas high-margin business and relatively high gross profit driven by investment. In the second half of the year, we will pay attention to the basic management. We have launched project and target management so as to achieve practical results. In addition, we must strengthen subcontract management and raw material management to find ways to lock in prices. Looking ahead, we hope that the gross profit margin will rebound and we will be able to achieve some improvement in the second half of the year.

Zhu Hongbiao: Regarding the cost control, which, in fact, is a topic hanging over construction companies for many years. The same is true for CCCC. Not long ago, CCCC just held a meeting to analyze the production and operation in the first half, at which, we lay focus on strengthening cost control. Just now you have affirmed our cost control. In fact, we feel that there is still a gap. We will gradually improve during the whole process, but for construction companies, for CCCC, cost control has always been the main topic. We will continue to strengthen cost control in the future, but due to the characteristics of the construction industry, it is impossible to have a very significant change at once, but I think it will be controlled at a reasonable level.

3. Q: our subcontracting costs passively increased a lot, because our infrastructure income in the first half of the year grown rapidly. Do we actively control our size or turn to subcontracting due to insufficient capacity? In addition, we actually have gross profit generated by subcontracting?

Zhou Changjiang: We have also analyzed the increase in subcontracting. The most important thing is that there are some emerging projects in the dredging sector, including the governance of the rivers, not only the governance of rivers, but also the management of the environment, such as planting trees and greening. Slightly large part of this area is subcontracted. Then, some projects in infrastructure also involve new areas. We still adopt a cooperative approach, and this model is also changing. Therefore, the emerging businesses and transformation of cooperation models have resulted in a slight increase in the subcontracting.

4. Q: Dear leaders, I have two questions. With regard to the cash flow from operating activities, the outflow in the first half of this year has been somewhat expanded. The management just mentioned that there are certain problems in collection. I heard that companies like some of our peers accelerated payment in the first half of this year since the SASAC has concentrated on paying off the arrears of private enterprises, have we experienced the pressure in this area? Because many of these projects involve governments of prefecture-level cities or below, is there any difference between the government's payment and the highway projects at past? Secondly, the cash flows of investment activities also expanded more in the first half of this year and actually our capital expenditures are basically flat, so the difference between the cash flow of investment activities and capital expenditure is a result of investment mode changes since we undertake BOT projects previously and participate in the projects? Thanks!

Zhu Hongbiao: there are two problems with regard to operating cash flows: payment acceleration, which is positively related to the contractual agreement (in the event of the acceleration, payment is definitely made during this period and we strictly act in accordance with the contract, and it is not particularly obvious what you said.) and the difference between municipal and environmental protection and some other projects, which is certain since when compared with the highway, it is significantly different in terms of the owner, the source of funds of the owner, the type of project and the entire construction plan, including the final acceptance and final settlement. So now it seems that I can't give the conclusion that the payment collection of the municipal project or the highway project is quick, but we basically judge that we can control the collection of the traditional business. For the new business, we will pay attention by different owners and different projects. I think that we will have an accurate answer at a certain stage.

5. Q: Dear leaders, I have three questions. First question is about CCCC's dredging business. A few months ago, an announcement on share sale was issued to introduce strategic investors. We also heard that COSCO Group desired to take it. Can you introduce the latest progress and timetable? The second question is about the tax reduction in the second quarter, including the decline in value-added tax, is there any effect? My last question goes to the East Malaysia project. The management mentioned just now that it will start at the end of the year and early next year, will it further reduce the overseas gross profit margin? Thanks!

Zhou Changjiang: Regarding the share transfer, the progress has been relatively smooth. The general meeting has been completed in July this year, and we are now handling CCCG's share transfer.
In addition, we are introducing strategic investors through the share trading system. It is expected to be listed in middle of September. I estimate that the entire share transfer will be basically completed around October. As we communicated with you last time about the transfer of dredging, the share adjustment is beneficial to CCCC, since about cash inflows of RMB 30 billion in cash, including income from share transfer of more than RMB 22 billion will have positive impacts on our repayment of bank debt, reducing interest expenses, improving debt and asset-liability ratios. We are progressing step by step.
After the negotiations, an agreement was signed about the East Malaysia project in April this year. The entire scale of the project has been adjusted and at the same time, certain conditions have been included, including purchase of additional materials and equipment in the host country. However, it is unable to measure the specific gross profit margin since we just start construction. The result will come out after the start of work. As a normal overseas business project, the project will secure normal gross profit margin as that of our overseas normal commercial projects at past. We initially judge that the construction will accelerate in the first half of next year.

Zhu Hongbiao: In fact, we feel that the VAT in lieu of BT has insignificant impact on CCCC after verification in the past few years. According to peers in the entire construction industry, the impact is relatively small.

Moderator: Thank you for your questions and thanks to the management for their answers. That is all for today's conference. Thank you all.