

2021 Interim Performance Briefing of China Communications

Construction (601800.SH and 1800.HK)

Part II Questions & Answers

1. In the first half of the year, CCCC achieved significant growth in revenue and profit. What business fields will mainly bring market opportunities in the second half?
2. What development plans does CCCC have in the new fields of infrastructure as well as water conservancy, new energy, and other fields?

Wang Haihui: Good morning, investors and analysts. I am very glad to meet you all. Just now, the Board Office introduced CCCC's remarkable performance for the first half of the year. In the first half of the year, the value of new contracts reached RMB685.1 billion, indicating 58% of the annual target has been realized. The sales revenue amounted to RMB339.2 billion, with 49% of the annual target achieved. The gross profit was RMB38 billion. The overall operating results were better than expected and the market law in which low results will be achieved in prior stage and high results will be achieved subsequently in the construction market.

I would like to take this opportunity to introduce the 3rd Party Congress of CCCC. Last Saturday, CCCC held its 3rd Party Congress. This congress is very important in the development history of CCCC. The leadership team of the new session of the Party Committee and the Discipline Inspection Commission of CCCC were elected at the congress. The congress reviewed the main work of CCCC since the 2nd Party Congress, analyzed the basic situation facing CCCC, and clarified the guiding ideology, goals, and key tasks for CCCC's development during the "14th Five-Year Plan" period and beyond. Since the 2nd Party Congress, CCCC has been fully integrated with major strategies such as transportation power, marine power, and new urbanization, focused on the three major themes of transportation, cities, and life, and integrated enterprise development into social and economic development. Over the past seven years, both the total assets and business scale of CCCC have both

exceeded RMB1 trillion. With "reconstruction of CCCC" and "Trillion CCCC" successively achieved, CCCC has accumulatively distributed dividends of RMB23.3 billion to all shareholders, bringing reasonable investment returns to investors while continuously developing and expanding its comprehensive competitiveness.

Faced with the "14th Five-Year Plan", the new leadership team has comprehensively upgraded CCCC's development strategies and set the tone for the "14th Five-Year Plan". At the end of the "14th Five-Year Plan" period, a world-class science and technology, management, and quality-oriented enterprise with global competitiveness will be basically built. As an important subsidiary of CCGG, CCCC aims to achieve the strategic objective of "two maintains and one strive", that is, maintaining the absolute leading edge as the top international contractor in China and Asia and maintaining the leading ranking for Class A central enterprises under assessment by the State-owned Assets Supervision and Administration Commission of the State Council and striving to be among the top 50 enterprises of the world's top 500 enterprises. This year, CCCC is ranked 61st among the world's top 500 enterprises, up by 17 places from the 78th place last year. Meanwhile, we must establish a strategic layout that is compatible with the modern industrial system, linked with the national innovation system, and coordinated with the construction of a new development pattern. With professional leadership, value creation, resource allocation, and sustainable development capabilities significantly improved, CCCC has entered its high-quality development era.

During the "14th Five-Year Plan" period, CCCC has comprehensively upgraded the strategy of "Being Engineering Contractor, Urban Complex Development Operator, Featured Real Estate Developer, Comprehensive Infrastructure Investor, and General Contractor CCCC" and put forward the mission of "Three Cores and Five Operators". The so-called three cores are the core science and technology as the guidance, prominent core main business, and distinct core advantages. The connotation of the new five operators is as follows: project contractors build a solid foundation, investment operators conduct cultivation in the long run, urban developers bolster areas of weakness, equipment manufacturers jump on the springboard, and

ecological managers build a sample. CCCC should be a pioneer in achieving high-level scientific and technological independence as well as promoting the modernization of the management system and management achievements and build itself into a world-class science and technology, management, and quality-oriented enterprise in an all-round way. The tone set by the Party Congress also clarifies the objectives of our operation efforts. We have challenging objectives, benchmark objectives, and bottom line objectives. For this year, our basic objective is to realize a 10% year-on-year growth in the value of new contracts and revenue. CCCC's management is confident of achieving the objective.

As for new infrastructure, water conservancy, new energy, and other fields, CCCC also has a layout, especially in dual carbon. CCCC has set up a leading organization and a management team for "dual carbon" promotion and is studying the formulation of an action plan for green development of CCCC in combination with the "14th Five-Year Plan" of CCCC. First, CCCC has prepared for the setup of a special fund for green and low-carbon development to support the "dual carbon" work of the Group. Second, CCCC has integrated its professional research forces in green transportation, energy-saving and low-carbon research, ecological and environmental protection, etc. to set up a professional research institution to carry out research on green and low-carbon development and technologies in the "dual carbon" field and promote CCCC's green development in an all-round way under the guidance of science and technology.

3. The sale of domestic local bonds and special bonds may be accelerated in the fourth quarter or even their layout for next year will be made in advance. Does CCCC think infrastructure investment will increase?

Wang Haihuai: In China, the economic operation fundamentals were relatively good in the first half of the year, but due to the rebound and continuation of the epidemic, the macro-economic development will face great pressure in the second half of the year. Therefore, we judge that the infrastructure will be a major focus of growth. In the second half of the year, there will be more opportunities and financing costs will remain stable or decrease slightly.

4. How is the execution and commencement of overseas projects of CCCC? How does the epidemic affect them?

Wang Haihuai: The entire production system and organization and management system of CCCC have fully adapted to the current requirements for regular epidemic control, and more than 95% of projects are in normal progress. In addition, as CCCC's employees are generally vaccinated, the proportion of infected employees with critical illness and hospitalized employees is relatively controllable. Overall, CCCC's overseas production and operations are in a normal state. In the first half of the year, overseas operations also achieved a better growth as compared with the same period last year.

5. Under the framework of common prosperity, what are the opportunities and pressure facing central enterprises? Opportunities are mainly reflected in orders and income, and pressure is mainly reflected in the salary increase of primary employees.

Wang Haihuai: As the backbone fulfilling the national strategies and missions, central enterprises should take the lead on the issue of common prosperity. CCCC has 160,000 employees and a cooperative team of 1 million persons. Next, we will introduce some new initiatives for highly skilled and technical personnel to promote the sharing of corporate development opportunities with our partners, the society, and new workers of the new generation and to incorporate some skilled workers into the system for management. In the short term, there will be some management challenges, but in the long term, it will greatly improve the quality safety and project management efficiency of an enterprise, which is in line with CCCC's corporate strategy of promoting high-quality development in an all-round way.

6. For the 3060, what is CCCC's layout? Which business fields are favored? What are CCCC's advantages?

Wang Haihuai: CCCC will develop ecological business in an all-round manner. CCCC's dredging business has been in the forefront of the industry in the treatment of major rivers. This field has very extensive future space and is also CCCC's advantageous business field. In addition, in the field of new energy, CCCC has occupied almost 50% market share in offshore wind power installation. CCCC is

making an all-around plan to extend to the front and back of the industrial chain, including machine manufacturing, wind power investment, and wind power operation and maintenance, to build the industrial chain advantage of CCCC for all-round development in the wind power field.

7. What are the losses of BOT projects that have been put into operation? What is the progress of the pilot issuance of Reits?

Zhu Hongbiao: Currently, the BOT projects of CCCC are still in the cultivation period. During the outbreak of COVID-19 last year, free highway access brought a great impact to CCCC. In the first half of this year, the situation was significantly improved, which was in line with expectations. Meanwhile, during the conversion of LPR, CCCC actively conducted negotiations with financial institutions, resulting in a significant decrease in financing costs and financial expenses. With regard to Reits, with Jiayu-Tongcheng Expressway as the initial assets to carry out the construction of CCCC's high-speed infrastructure, CCCC made smooth progress in the pilot issuance of REITs and strove for the pilot issuance of Reits in the second batch.

8. The gross profit margin decreased in the first half of the year. What is the main reason? What is the future prospect for it?

Zhou Changjiang: The gross profit margin of CCCC has always been at a high level among comparable companies in the industry. The decline this year was mainly attributable to CCCC's participation in many urban housing construction projects with low gross profit margin when implementing the big city strategy. In the future, through strengthening the management of raw materials and project management, we will actively and steadily explore emerging business markets, maintain the stability of the current gross profit margin, and strive to further improve the gross profit margin.

9. What is CCCC's planning layout and profit outlook for investment business? Will the budget rise this year?

Wang Haihui: CCCC follows the operating philosophy of making bigger projects, optimizing investment, and making effective capital investment. For investment business, the overall requirements of CCCC are total quantity control, optimal structure, risk control, and quality and efficiency improvement. We strictly

control the total amount of investment, reasonably plan the balance of cash flows, optimize the composition of short, medium and long-term projects, and focus on urban projects, especially short and medium-term projects and short-term, low-cost, and fast projects with high quality on urban renewal, urban renovation, ecological treatment, etc. The structure of investment projects newly signed in the first half of the year has seen obvious adjustment and optimization. In addition, in terms of regional investment, CCCC implements the operating strategy of "key projects, important regions, and major markets, strong transportation and big cities, and priority for overseas business and rivers, lakes, and seas", focuses on the coordinated development of the Yangtze River Delta, Greater Bay Area, and Beijing-Tianjin-Hebei region, and selects investment projects in key fields such as the ecological treatment of the Yangtze River Basin.

10. What is the reason for the substantial increase in subcontracting costs in the first half of the year compared to the past two years? If it is due to the transfer of raw materials during subcontracting, is it inconsistent with CCCC's centralized purchase of raw materials? Does the generation of a large number of subcontracting projects result from CCCC's bottleneck in capacity, which in turn requires more capital investment?

Chen Zhong: There are two main reasons for the increase in project subcontracting costs. First, CCCC has entered the fields of strong transportation and big cities with full market competition and abundant social resources. Therefore, CCCC effectively utilizes social resources and expands the business development scale. Second, CCCC's revenue increased significantly and corresponding project subcontracting costs increased rapidly on a year-on-year basis.

CCCC's leaders attach great importance to subcontracting management and supply chain management. CCCC has a high score in terms of centralized purchase among central enterprises. In the first half of the year, the Group promoted regional joint purchase, carried the centralized purchase of main materials for construction projects, and ensured the centralized supply and the smooth implementation of projects, providing a good support for improving quality and efficiency. Next, with

the structural adjustment, CCCC will further optimize subcontracting and supply chain control to lay a management and resource foundation for building itself into a world-class science and technology, management, and quality-oriented enterprise.

11. CCCC invested RMB4 billion to subscribe for the China Structural Adjustment Fund for State-owned Enterprises but did not repurchase H shares. What is CCCC's latest plan for repurchase?

Zhu Hongbiao: According to the changes in the capital market, in combination with the development of the enterprise and the business layout, if we have a repurchase plan in the future, we will promptly fulfill the disclosure obligation to disclose information in accordance with laws and regulations.

12. Due to the changes in the No.14 Standard, how many cash flows from operating activities are used for the cash flow items of PPP projects?

Zhu Hongbiao: According to the *Interpretation No.14 of the Accounting Standards for Business Enterprises*, CCCC has standardized the contracts for PPP projects that meet the conditions of "dual characteristics" and "dual control". Compared with the indicators of similar central enterprises, the trend of being affected is roughly the same.

13. What is the specific reason for the decrease in credit impairment in the first half of the year?

Zhu Hongbiao: The provision for credit impairment in the first half of the year was RMB1.273 billion, a year-on-year decrease of RMB652 million, which was mainly attributable to the favorable collection of accounts, settlement of arrears for individual projects, and reversal of many bad debt losses of accounts receivable during the reporting period. In the first half of the year, the risks of large-scale projects were controllable, and no provision was made for large estimated contract losses.

14. After the end of the politburo meeting dated July 30, the expectation of infrastructure meeting basic living needs is enhanced. From the perspective the orders newly signed by CCCC and the current implementation of projects followed-up, does CCCC achieve a fast growth rate?

Wang Haihuai: In the first half of the year, CCCC achieved a relatively rapid growth rate, which was largely attributable to the low base last year due to the impact of COVID-19. For the whole year, we are confident that we will meet the annual target of a year-on-year growth of 10% in the value of new contracts and revenue, but the growth rate in the second half of the year will return to a relatively normal level.

15. As for overseas business, what is CCCC's the current plan under the "Belt and Road" initiative? Are there any projects in progress in Afghanistan? Will CCCC input more resources and manpower in priority countries in the future?

Chen Zhong: CCCC is very active in the overseas infrastructure construction market. We actively and profoundly promote the "Belt and Road" initiative. This year, we maintained the first place in Asia and the fourth place in the world for the ENR ranking. In the face of great changes that cannot be seen for a century, coupled with the impact of the epidemic, CCCC's overseas operations are under great pressure. But CCCC's overall strategy for overseas development remains unchanged.

First of all, the pursuit for high-quality development under the "Belt and Road" initiative remains unchanged. Since the introduction of the "Belt and Road" initiative, we have continuously increased the scale and depth of foreign cooperation. Our foreign cooperation was like a freehand painting in the past and is like a meticulous painting now. From the consultation, joint construction, and sharing in the past to the opening up and green and clean development at the present, our pursuit for high-standard, sustainable high-quality development that benefits the people remains unchanged.

Second, China's relevant policy of encouraging companies to "go global" at the government level remains unchanged. Through in-depth cooperation with enterprises including those in relevant countries and regions under the "Belt and Road" initiative, we are more deeply involved in international economic development to promote the "Belt and Road" initiative and the improvement in people's livelihood and social and economic development in all regions of the world and build a community of human life. Therefore, the government encourages enterprises to go out to strengthen their cooperation at localities and with local governments, all of which

remains unchanged.

Finally, the confidence and determination of CCCC to give priority to overseas operations over the overall layout and planning remain unchanged. CCCC will continue to intensify overseas reform and enhance the distribution of overseas business market and resources to achieve high-quality development.

CCCC have previously participated in projects in Afghanistan, such as the local construction projects of Asian Development Bank. We have been persisting in the investment of resources in key overseas countries over the years. On the basis of operating in accordance with laws and regulations and following the principle of marketization, CCCC has continuously optimized the market layout, strengthened the input of resources, and basically achieved the full coverage of business in all overseas regions. Meanwhile, CCCC will make a good participation plan on the basis of a comprehensive evaluation of regional political security, resource security, employee security, and other risks.

Moderator: Thank you for your questions and suggestions and thank the management for its careful answers. If you have unanswered questions or new suggestions, please contact CCCC's investor relations team after the meeting.

That's all for today's performance briefing. Thank you again for your participation. Goodbye!

Executive Director and President Mr. Wang Haihui

CFO Mr. Zhu Hongbiao

Vice President Mr. Chen Zhong

Board Secretary and Company Secretary Mr. Zhou Changjiang