2018 Annual Results Press Conference

Time: April 10, 2019

Location: Hong Kong

Moderator: Dear friends from the investment community, good morning! Welcome to CCCC's 2018 Annual Results Press Conference. Please allow me to extend my heartfelt thanks on behalf of the company to you for your long-term attention and support.

To begin with, I would like to briefly introduce the company's management present at this conference. They are:

Mr. Peng Bihong, CFO of China Communications Construction Company, Ltd.; Mr. Zhou Changjiang, Secretary of the Board of Directors and Secretary of the Company; Mr. Zhu Hongbiao, General Manager of the Financial Funds Department.

Next, let's welcome Mr. Yu Jingjing, Assistant Director of the Office of the Board of Directors and Director of the Investor Relations Department, to report to you the company's 2018 annual results.

Yu Jingjing: Ladies and gentlemen, good morning! I am very honored to introduce the overall situation of the 2018 business performance on behalf of the company. This report is based on international accounting standards. As we have A-share fund managers and researchers online, you'd better know about the statistical scope.

1. Performance

First, let's start from page 1 of the PPT. Overall, in 2018, the company maintained its steady development in operating performance, sought a high-quality, high-efficiency development model, and increased revenue by 6.2% over the previous year, a growth in line with its business scope. Its gross profits in main business remained stable against rising raw material prices and changes in the environment during market competition. The overall gross profits increased by 6.9%, slightly faster than revenue growths.

The company made full efforts in controlling various costs especially labor costs. 2018 saw a mild increase in labor costs. In terms of R&D, due to our support for our subsidiaries that requested to be confirmed as high-tech enterprises as well our arrangements for the approval of major R&D projects, R&D expenses rose rapidly. As a result, the company achieved RMB 33.3 billion operating profits, up by 4.9%.

Net Profits attributable to the company's equity holders increased 10.6% to RMB 19.8 billion. This was largely due to a restructuring of the company's assets on December 27, 2017. As the former Zhenhua Heavy Industries was not included in the 2018 consolidated statement, there were such one-time gains over 2017. As to continuing operations calculated on a comparable basis and as per the International Accounting Standards, the company included continuing operations in statements. That is, net profits from continuing operations were RMB 19.8 billion, compared with RMB 17.9 billion continuing operating profits the same period last year. If one-time gains were added in 2017, then net profits for the previous year were RMB 20.9 billion. In 2018, the company achieved earnings per share of RMB 1.16, a slight drop from 2017, but overall the company's operating results remained good.

2. Market development

Overall, the company's overall market development at home and abroad is looking good. First, the total amount of new contracts signed in 2018 reached some RMB 890 billion, up by 1.1% (exclusive of the impact of Zhenhua Heavy Industries on the previous year for the same period, which is fair to overall reflect the company's operating conditions).

Seen from a breakdown perspective, first, newly signed contracts in overseas regions contributed 18%, a slight drop over 2017. There are some special reasons here. But it is mainly because the company signed a large overseas project in 2017, at around USD 11 billion. Another project of the same size as this project is not possible in the short run, showing somewhat impact on year-on-year figures. If this large project is not included, the company's new contracts grew by about 10%.

The company's investment operations are dominated by PPP investment projects developed in China. If calculated from stock ratios, newly signed contracts in 2018 reached RMB 152.3 billion, up to 17% of all of the company's new contracts. Seen from growth, investment projects declined slightly over 2017. Stability is the pursuit of the company in the market for investment projects. In addition, after the new rules for funds regulation were published, the government has gradually strengthened the improvement of applicable standards for PPP investment projects and compliance clearance for PPP investment projects. To this end, the company is relatively optimistic and cautious about the development of PPP investment projects. Although the amount of new contracts confirmed for investment projects in 2018 slightly dropped over

2017, projects confirmed to be effective by the company are looking good overall in the future in terms of operating efficiency and investment benefits.

PPP investment projects valued RMB 152.3 billion in contracts, and could promote considerable installation contracts in design and construction, expected to achieve RMB 240 billion, even larger than confirmed investment contracts. In 2018 and 2019, the difference will be confirmed as construction contracts as projects are executed. In 2018, the amount of unfinished contracts reached RMB 1689 billion, 3.46 times the revenue in 2018, a breakthrough compared with 2017 and 2016, showing a sufficient number of reserve projects. Besides, the increase in the proportion of overseas projects and PPP investment projects slowed down the company's revenue recognition as project construction periods are lengthened and anti-interference to market fluctuations is stronger. Such projects will generate revenue in the next three to four years, so the sufficient reserve of projects will make for a steady development of the company's overall performance in 2019 and 2020.

3. Market development for infrastructure construct

Speaking of different business segments, the company's infrastructure construction is a focus as it contributes to a large proportion of the company's overall revenue and contracts. First, infrastructure construction mainly covers port construction, accounting for a market share of more than 70% in the Chinese mainland port market, which is very stable. Second, the company also has large market shares in bridges, cross-sea bridges and high-grade highways. Since its entry into high-speed rail construction in 2006, the company has now output its technologies and construction advantages overseas in addition to railway construction in mainland China. This is very important business of the company. Finally, the company also relies on PPP. In the past five years, it has vigorously developed various projects in the municipal sector, covering subways, airports, housing construction, urban environmental management projects and sewage treatment projects. Therefore, the company has been developing rapidly in this area.

Seen from specific figures, the amount of newly signed contracts for port projects accounted for 3.5% in infrastructure construction, 8% lower than that in the previous year, reflecting mature coastal port construction in Chinese mainland. Port projects have been in the stage of consolidation during the past five years. However, in the second half of last year, the decline in contract value began to narrow. So, overall, the company is mature in port construction and has some opportunities which can be taken mainly to ensure and stabilize the company's market share.

Road and bridge projects accounted for 41% in infrastructure construction, up by 6.5% year on year, reflecting the company's market share and influence in this market segment and also the late pulling force of investment projects to further enhance competitiveness.

Railway construction projects, referring to domestic railway construction here, accounted for 1.1%. Although the company has some influence in railway construction, it cannot be compared with competitive enterprises ranking 1st and 2nd in terms of market shares of such business.

Municipal infrastructure projects increased significantly in share to 34% and grew the fastest at 15.4%. This also reflects that, for infrastructure construction in mainland China, the municipal sector will make a big difference in development status or potentials. Moreover, municipal projects of main types, together with investment guidance in the early stage from the PPP model, enable the company to develop faster in this field.

Finally, seen from domestic and overseas performance, the amount of newly signed contracts in overseas infrastructure construction reached RMB 151 billion (15.6%). As mentioned above, due to the large base in the previous year, it had a year-on-year decline. If the base factor of the previous year is not considered, it should be a 12% increase. So, it is pretty good. We achieved very remarkable results overall in the Belt and Road regions and development of new markets in Australia and development of emerging markets.

The above is a brief analysis of the company's overall business segments. First, infrastructure construction, as the mainstay, contributed 85% revenue, followed by infrastructure contribution design (6.2%), dredging (6.4%) and other auxiliary areas (2.4%). Seen from regions, the company's overseas regions contributed 19% revenue, a slight decrease from 2017, mainly due to the carry-over arrangements for large overseas projects last year. Also some large overseas projects were about to complete, but some projects were not yet commenced. Second, investment projects contributed about 20% revenue if included. These two parts accounted for nearly 40%, the largest in the industry. As the two parts earn very high gross profits, the company's business structure has improved significantly over the past decade, mainly as a result of the continuous implementation of the company's overseas priority strategy as well as the steadfast reserve of investment projects and market development.

4. Segment performance

Infrastructure construction achieved RMB 27.7 billion operating profits, up by 7.3%, reflecting business expansion and improved gross profits. In addition, the rules-based control of expenses enabled operating profits to increase by 7.3%. Design achieved RMB 3.5 billion operating profits, up by 9.4%, showing growth in revenue. On the other hand, despite lower gross profits, expenses were reasonably matched. Dredging achieved RMB 1.769 billion, down by 36%, negative growth in revenue. On the other hand, gross profits improved slightly, but expenses especially R&D expenses were over spent; overall, the operating profits fell by 36%. Other business segments achieved RMB 600 million operating profits, representing a significant growth over the previous year, mainly due to some asset sales and business restructuring.

5. Costs

Last year, our prices of flooring materials changed dramatically, with raw materials accounting for 29.6% of the total costs, up by 14% in absolute terms. Against all odds, the company could maintain gross profits despite rising material prices.

Subcontracting costs accounted for 36% of the total costs, growing basically the same as last year, indicating the company's proper subcontracting control.

Employee costs accounted for 9.7%, up by 3.3%. As to three insurance（endowment insurance，medical insurance，and unemployment insurance） and one fund（housing provident fund), the company controlled well in their employee expenses.

Other costs are not detailed here.

As noted above, although raw materials increased significantly by 14%, gross profits did not fall. This is mainly due to the provision of price transfer clauses in contracts signed by the company these years. The company was active in reaching consensus with employers and provided risk aversion arrangements for material prices sensitive to fluctuations. Second, the company strengthened management, significantly improved the bargaining power in centralized purchasing, and overcame fluctuations in material prices. Third, the management also noticed rising prices of commodity materials, and made some long-term planning arrangements, including control of cooperation with cooperative parties or avoiding the impact of material fluctuations in some local purchase prices as well as operations at the business level. Risks in material prices are always concerning the company. In 2019 and for some time to come, we will focus on the impact of cost items on profitability for a long time, and will control risks within the controllable range.

6. Infrastructure construction

In infrastructure construction, newly signed contracts reached RMB 770 billion, a slight decrease from the same period of last year. This is mainly because overseas projects had a large impact on the base in 2017. In fact, if such specific factor is not included, newly signed contracts for overseas infrastructure construction projects increased by 12%, compared with a 10% growth in those for all infrastructure construction projects. Second, there is a very rich reserve of contracts, about RMB 1,500 billion. Long construction periods of investment projects and long execution periods of overseas projects will make for steady growth in revenue for the next two to three years to come.

In terms of financial performance, infrastructure construction achieved RMB 431.8 billion, up by 5.3%. Overseas revenue decreased over the previous year. Some major projects were carried forward without impact, but this is considerable at home. Second, gross profits reached RMB 52.4 billion, up by 6.5%. Specifically, gross profits overcame the increase in material prices, while benefiting from the increase in the proportion of revenue in investment projects, gross profits were high. Good overseas gross profits were earned in 2018, at around 14%, making for stable overall gross profits at 12.1%. The operating profits reached RMB 27.7 billion, up by 7.3%, due to improved gross profits and reasonable control of costs. For R&D, R&D expenses were increased to ensure the competitive advantage of main business operations, but this is helpful for the medium and long-term market competitiveness and tax rate incentives available to the company in mainland China.

7. Infrastructure construction design

Newly signed contracts amounted to RMB 49 billion, a significant increase of 30.8% over the previous year. But when seen from design segments, pure design projects, with foresight and guidance in the design market, accounted for

18%, compared with 28% in 2017, indicating an insufficient number of design projects; project supervision accounted for 2%, compared with 2% in 2017; EPC projects accounted for 45% in 2018, compared with 51% in 2017, a slight drop; PPP-guided projects accounted for 35% compared with 19% in 2017. Seen from EPC and PPP, a more growth power in design came from construction projects, especially those investment-driven projects. Therefore, the 38% growth in design does not indicate a very fast rise in the domestic design market.

There was a reserve of projects valued at RMB 77.1 billion. In terms of financial performance, pulled by EPC and PPP projects, design achieved RMB 31.5 billion sales revenue, a significant increase of 17%. Gross profits dropped from 23.5% in 2017 to 20.9%, indicating the growth in revenue mainly coming from construction projects and investment drive. Such gross profits were lower than those from pure design projects, but contributed positively to the company's overall performance.

Seen from segment performance, the operating profits reached RMB 3.51 billion, down from 11.9% in 2017 to 11.1% in 2018, reflecting the influence of gross profits. And due to the reasonable control of costs, the operating profitability did not fall significantly. Overall, design and construction together will contribute positively to the company.

8. Dredging

This segment is dominated by domestic market development. In 2018, it achieved RMB 56.9 billion new contracts. It should be noted that, on the one hand, as China's overall reclamation land market is still under adjustment, the pursuit of green waters and green hills proposed by the state places strict requirements on the use of coastal land; on the other hand, with the overall advantages of China's diplomatic overseas market, overseas dredging achieved some results in 2018, representing a rising percentage. Newly signed dredging contracts increased by 17.5%. Thanks to the development of overseas markets and the execution of domestic PPP projects, the project reserve reached RMB 79.3 billion, a rich level. The company has a sufficient consideration at the strategic level and at the business level. With the implementation of our strategy, we believe that there is still some opportunity to maintain the steady development of this segment.

In terms of financial performance, dredging achieved RMB 32.7 billion sales revenue, down by 3.8% from 2017, as a result of the impact of coastal reclamation projects in China. Due to a policy change, some projects slowed down or stopped construction. However, with our policy understanding and in-depth cooperation with local government employers, some projects are gradually beginning to resume work. We are confident that the impact can be overcome in this respect.

Gross profits increased from 13.1% in 2017 to 14.4%, which is pretty good. Considering the slight decline in revenue, we will improve gross profits especially in the second half of the year which are high for some major projects. Seen from segment performance, this segment achieved RMB 1.769 billion operating profits, representing a decline over the previous year. This mainly reflects that revenue did not increase; on the other hand, business segment costs especially R&D expenses rose more. Labor costs also grew as market development was increased under a difficult context. Staffing did increased costs for new business areas.

9. Capital expenditure

Seen from capital expenditure, the total capital expenditure in 2018 was RMB 40.7 billion, a decline from 2017. This capital expenditure covered two major parts: One is BOT arrangements dominated by infrastructure construction. CCCC is the first in the construction industry to deal with franchise project reserve. In order to restrain uncertain factors in the industry cycle, obtain long-term operational assets, stabilize our revenue and future earnings, such BOT projects achieved RMB 23.8 billion in 2018, nearly 10 billion less compared with RMB 34.1 billion in 2017, taking into account changes in our market environment. Change in our investment models: We basically held 100% of these project assets 10 years ago; now we prefer diversification. Some projects are held by us together with our common market participants. Some of them have introduced state-supported industry funds. Special government funds are included to diversify our shares, to the extent to slightly decrease the pressure of capital expenditure in BOT. In addition, our capital expenditure in the regular purchase of large key equipment and ships increased slightly, representing our demands for new business operations and new markets. We expect the market to be at a rising stage. Our total capital expenditure on conventional projects is now slightly increased.

10. Summary of operating performance

Now, let's summarize the overall situation in 2018 through four columns. First, our revenue grew by 6.2%, then our gross profits grew by 6.9%, and our operating profitability increased by 4.9% under the common influence as mentioned above. Seen from continuing operations, our net profits attributable to the company's equity holders increased by 10.6% over the previous year. If not seen from this perspective, the net profits dropped a little. But this pretty good this year when one-offs are not considered.

11. Assets and liabilities

Intangible assets, familiar to you who focus on the company, mainly BOT, maintaining a certain amount of ownership and proportion, 16.9% growth last year.

Adjustment of some subjects. Due to the adjustment of accounting standards, some contract assets were adjusted accordingly. You may compare for analysis, so as to maintain the consistency of data.

Borrowings. As the company needed financial support in new business development, we can see that short-term borrowing funds decreased by 4% to RMB 79.2 billion. Due to some PPP projects and long-term asset allocation arrangements, our long-term borrowings for more than one year increased by 20.6% to RMB 215.3 billion. The company has high credit in the whole bank credit system. In addition, in

2018, we also explored new financing instruments, including equity instruments. We had extensive discussions on fund-raising, and supplemented some funds to support our business development.

Under the above influence, our total asset-liability ratio was 75%, further improved compared with 75.8% in 2017. The net gearing ratio, an index of concern to the capital market and investors, was 41.1% in 2018, a slight increase to 39.1% in 2017. It helped us absorb the occupancy of some funds such as accounts receivables and other funds throughout 2018. It also included funds arrangements and support in new business development. With this, the leverage index we were able to achieve, we think, was stable, to the extent to ensure the company's business development.

12. Cash flow

Seen from the company's cash, we have high demands for funds as needed for business development. But in fact, as of late 2018, our operating cash flow was still dominated by net inflow, with an amount of RMB 9.1 billion, less than 2017. As there were some individual factors in 2017, we received large-amount advance payments from employers, and we then absorbed stocks and accounts receivable funds occupation in

2018, and achieved RMB 9 billion.

The second figure is our investment cash flow. The net expenditure in 2018 was RMB 50.3 billion, slightly higher than that in 2017. There are some requirements in this respect, considering the conventional capital expenditure, long-term equity investment in business development and other capital arrangements.

Finally comes our financing cash flow. There was a net inflow of RMB 38.6 billion in 2018, higher than RMB 24.3 billion in 2017. This reflects our demands for funds in business expansion, which were realized through financial arrangements to ensure the company's overall operations and development.

If you have any question about the above report, you may communicate with the management. For specific questions, you are welcome to contact us later. Thank you.

Moderator: Thanks to Mr. Yu for his introduction. Next comes Q&A. Those of you who have questions to ask, please tell me your employer and name. Who is the first?

Q: Thank you. Congratulations on your performance, dear leaders. I have two questions. The first question is, it was recently reported that Malaysia intends to restart the East Coast railway line project. Could you please ask the leadership to tell a little about the update? The second is the full-year guidance, covering the revenue of new orders, is there any clear guidance? As, seen from the first quarter of this year, local governments had a good start in issuing bonds, so what is our outlook for the whole year this year?

Peng Bihong: Let me answer the second question. To begin with, I would like to thank all institutional investors and researchers for their attention and support to CCCC. Just now Mr. Yu gave us an report on our overall performance in 2018. In general, under the guidance of China Communications Construction and with the support of all small and medium shareholders, we made steady progress in all tasks against a complex external environment. We achieved high quality development, with all indexes looking pretty good overall. In 2019, the management made a preliminary arrangement plan.

For 2019, the company will fully promote our high-quality development and strive for the goal of a globally competitive first-class enterprise. In line with the spiritual arrangement of our Central Economic Work Conference, the overall situation of our work in 2019 and overall arrangement for the company's current development, our target is to increase the amount of newly signed contracts by no less than 8%. This is our basic expectation. We have a lot of opportunities. We feel that, in such a market environment, we will develop pretty well, especially in infrastructure construction, so we initially set the target at 8%. Our revenue will grow by no less than 10%. As we just said, we have contracts to be performed for RMB 1.69 trillion. As all contracts are going smoothly, we are confident that the economic situation this year will improve. Especially for infrastructure construction, the state proposed the measures for improving weak aspects in infrastructure construction, including the RMB 1.35 trillion special bonds for infrastructure construction. When local governments implement their arrangements, we believe that better results will be achieved in 2019. This is our initial planning.

Zhou Changjiang: Good morning, everyone. Let me answer the first question. I would like to update you about the railway. It is true that this project is the largest railway project we have overseas, with a total contract price of RMB 72.8 billion. This project has gone through a lot. Its preliminary stage went smoothly. We conducted preliminary design, surveying, and preparation for commencement. Something changed later. The employer might have new considerations. We suspended the project last year at the request of the employer. Even so, we have confidence in the project. We have maintained close communication with the Malaysian side at the government level and at the company level. What we do is, propose new solutions for optimizing design, routing and phased construction in line with the employer's new requirements. We have made progress through communication with the employer. So, overall, the railway can help Malaysia promote its economic development. We are currently maintaining communications. We expect this project to continue. We will keep you updated of the latest progress from time to time. That is where we are now.

Q: I have two questions. You were doing a good job in gross profits last year. Rising costs of raw materials and declining overseas sales, what do you say about these two factors? Or, is there any room for gross profits to improve this year? The second question is, I saw an increased net gearing ratio, but financial costs were well controlled. I see a growing percentage of PPP projects carried out in China this year. I am wondering if you will increase PPP commencement? Will financial costs increase or decrease this year compared to last year? Would you like to share it?

Zhu Hongbiao: Good morning, everyone. For the two questions, the first is about gross profits. It actually involves a longer process. CCCC's gross profits have been within a stable range, indicating CCCC's balanced performance on the whole. As for improvement, we have always wanted to improve, we have been working hard, and we now have the highest gross profits. We surely will not change our direction of improvement. We actually have some specific measures and solutions, just like what Mr. Yu just mentioned. It can be seen from our control of expenses, control of costs, subcontracting, and salaries that full measures have been included. We also hope that CCCC's gross profits will be further improved on a stable interval basis.

As to PPP projects, we started with BOT early, the first in the industry. In fact, it is very difficult to be the first. As CCCC is an industry leader in investment, we have high interest-bearing liabilities accordingly. This is an accumulating process. This is also a harvesting process after accumulation. I think this logic is clear. In 2019, our entire investment, including PPP, will be controlled within RMB 150 billion. Over the years, from our experience accumulated from PPP, including contribution to our performance, revenue and contract amount, we have a re-examination and judgment process. In 2019, we still have to maintain steady progress and be very cautious about various investment services. Basically, we will have the same pace as last year. No rapid progress or great fluctuations, this is the overall arrangement.

Peng Bihong: On the whole, given fierce industry competition with an overall going down trend, we should strengthen our basic management internally. In particular, we did a lot of work in the centralized purchasing of materials last year. Such centralized purchasing should involve a bargaining power. According to our preliminary estimates, in 2018, the scope of our centralized purchasing more than doubled, saving several RMB billion expenses: very significant efficiency in this respect. This year, we propose to focus on strengthening basic and full management and cost control. I think we have to do a lot of work in this area, and believe that our overall gross profits will maintain a reasonable level, including financial costs. Last year, our financial cost control did pretty well, with comprehensive interest rates dropping from 5.22 to 5.18. At such a large scale, our financial costs were controlled, maintaining a good running trend overall.

Q: Hello, the management, I have two questions. The first question is, the amount of highway assets in our operation is some RMB 160 billion. Our revenue was RMB 4.6 billion last year. Of course, there is a process for incubation and better revenue. I am wondering what reasonable level the management thinks we can reach in 2019 and 2020? I remember that we had hoped to have an IRR of 7% to 8%. It seems that we are now far from this target. The second question is about policy and investment projects. The No. 10 Document of the Ministry of Finance issued in March requires local governments to have PPP projects paid by their users in the future. Of course, this is difficult. Do our target RMB 150 billion investment projects in 2019 mean that BOT projects will be significantly reduced in projects? BT projects increased accordingly? It may help us speed up our money recovery and cash flow?

Zhou Changjiang: First, we now have 18 highways under operation that amount to RMB 160 billion. All of these operating assets were cultivated and generating losses earlier. But we now find through further analysis that these roads are getting better and better compared with their description in feasibility reports. They are improved and beyond our expectations in feasibility reports. Our overall evaluation in this respect is, this lives up to CCCC's strategy and expectations. CCCC's stable control over BOT for RMB 150 billion is a deliberate target set by us based on our overall funds and financial structure requirements.

The second question is about the current PPP projects. What you just said is right. PPP projects we are doing now are paid by their users, or financed with subsidies of local governments' fiscal gaps, or supported by both. In general, we have a lot of projects. We have conducted full arguments. We have a standard value inside. We will not do a project until the desired IRR is reached. This is the bottom line. In terms of structure, we will conduct analysis on a case-by-case basis. Some projects are really good. User payments can basically cover our costs, and some are to be properly covered by local governments with gap subsidies. On the whole, projects have to provide CCCC's IRR requirements and control risks. This is what it is. Now we can't say much about the percentage, as projects are uncertain in different conditions.

Q: I'm from HSBC. I have a question about debts. I saw an adjustment in the domestic accounting standards. Perpetual bonds will be treated as a debt instrument. I am wondering if the company adjusted perpetual bonds accordingly? If so, what difference does it make to the company's debt ratio and financial costs?

Zhu Hongbiao: Actually, we are also concerned about this issue. Our operations are strictly in accordance with both international standards and accounting standards. No doubt here. We surely will comply with the new requirements. You asked about perpetual bonds. We know that CCCC or other central enterprises have to face their own leverage reduction and debt reduction. As for how to control them, in fact, we don't rely on perpetual bonds only. This is not a long-term solution for enterprises. When we discuss this issue this year, the company's senior management requires that we should strengthen our own management, including basic and full management. We control them with endogenous management and reasonable external means. We will also control and arrange corporate debts on the whole.

Q: I have two questions. The first one is about overseas business. Our orders fell last year, related to a higher base. I am wondering if the management can help us look ahead to what changes will happen to growths in revenue and orders and profits we are concerned about? In 2018, overseas revenue contributed about 20% of revenue. I want to know, what its percentage in total profits? The second question is about cash flow. Last year, due to challenges of the whole environment, our operating cash flow fell. I want to know about the planning for and prospects of operating cash flow in 2019. I also wanna know about the greatly improved financing environment, increased limit amount of local debts. What do we say about investment cash flow? It includes investment in PPP and BOT projects, as well as other equipment, capital expenditure. Also our outlook for 2019. Thank you.

Peng Bihong: Let me start with cash flow. As the total cash flow was net cash flow last year, we were facing a lot of pressure on cash flow. We all knew financial strain in the first half of last year, so did financial institutions. Many projects were settled with pressure on advance capital. So our overall recovery of funds was not satisfactory. In the new year, we will intensify our work in this respect. In 2019, first, seen from the external environment, a loose money market will help project settlement in funds, including RMB 1.35 trillion bonds for infrastructure construction projects, a guarantee of funds. We will have some improvement in terms of funds. Second, internally, we will actually strengthen our internal management of funds, including the management of plans, especially the management of funds expenditure projects. In the centralized management of the all funds, we did a lot of work last year. With more than 90% centralization of funds, we reduced some idle funds for unified allocation and use, so as to further increase internal settlement and fund management. Third, in terms of project investment, we will strictly control long-term projects, and especially increase efforts to collect and settle project funds, to improve our cash flow on the whole. Fourth, last year, the new supervision policy for funds did have an influence on us. Our supporting long-term funds this year, including China Life and Social Security Funds, will be used for project execution through industry funds. Finally, we will carry out assets bonding, including debt-to-equity swap. We have some breakthroughs in this area and need to do more. Overall, in the new year, we will strive to achieve new results and adjustments in the capital chain.

Zhou Changjiang: I would like to take this opportunity to give you an overview of CCCC's overseas development. It is true that overseas business is CCCC's most competitive segment. Our several advantages are as follows: first, we have been operating overseas for more than 30 years with very rich experience and achieved good results; second, we have the most complete overseas network that can help us capture market information quickly; third, as the Group's strategy is to give priority to overseas development, we have formulated 36 supporting measures, which are being implemented step by step. Seen from the world ranking, we have been among the top 10 in the list of ENR's Top 250 International Contractors for more than ten consecutive years, including 3rd for several consecutive years: a solid position. In China's domestic engineering companies, we have absolute advantages with more than 20% of all overseas projects. Moreover, our recent projects executed abroad are of typical representative significance. It is safe to say that CCCC is a leader in executing the Belt and Road Initiative. Our next step will be to implement our overseas development strategy in line with the national strategy of "going out".

Overseas business has achieved good results in recent years, contributing about 20% contract revenue, 25% revenue and 26% profits, as I mentioned above. It is becoming more and more important to CCCC. According to our original planning, as of the end of the 13th Five-Year Plan, we will achieve 30% contract value, 30% revenue and 30% profits. Now it is more difficult than planned. So, the company has been studying to take better measures to achieve this target. I think it is very challenging, but we will have to work hard towards it.

We have several models for overseas business: first, expanding the shares of spot exchange projects, as well as our government's incentive projects, which are our strengths. We will help China plan for projects according to its economic development. Our gross profits from such projects can promote economic development in host countries. Second, we will select some M&A projects. In recent years, CCCC has achieved a number of overseas M&As, with good results, including John Holland in Australia and an architect in Brazil.

It's safe to say that overseas strategic M&As will be our main way in the future. Finally, we will choose good overseas projects to invest in. Now we have an investment project in Cambodia. The next step is to gradually replicate abroad investment models at home accumulated. This is what we will work on next.

Overall, please rest assured that CCCC's management has good expectations of overseas development as well as a clear strategy. In the next two or three years, we will achieve better results than in 2018.

Q: Hello, leaders, I have two questions. The first one is about dredging. In fact, as I saw the 2018 results, construction and design were pretty good, but dredging was relatively poor. To make it longer, if we look at the past 8 to 10 years, dredging revenue could be about the same as what it was in 2011, but its distribution performance has fallen by half. So I wanna ask, what do you say about dredging and the company's future development direction as a whole. As we considered environment protection at home, traditional dredging projects are reduced. What difference does it make to outsourcing costs? Will it an improvement in our gross profits in the future?

As three waterway bureaus have been merged, how much room is there for us to improve gross profits? In fact, we saw a large capital expenditure in this, RMB 1.5 or 1.6 billion in 2017 and 2018. This is heavy asset business. What do you say about its future? Growth points in the future are overseas development on the one hand and non-traditional dredging on the other hand. Will non-traditional dredging actually compete with our other segments? This is about dredging. The second question is about costs. As we can see, R&D costs in 2018 increased by 22%, accounting for the largest proportion (2%) in revenue when compared with other construction companies. What proportion do we want to reach in the future? or will it maintain a growth rate of about 10% like revenue? We also see a reduced effective tax rate. Do we expect a continued reduction in the future? Say, if R&D accounts for 3% of revenue, our effective tax rate will eventually fall to 5%. Another factor is the impairment of assets. There was a significant decrease in 2018 compared with 2017. What are the reasons for this? In comparison, for another 2 companies, there was a significant increase in the impairment of their infrastructure construction assets. Could you please give us some guidance for 2019?

Zhou Changjiang: Dredging did decline fast in the two years, especially traditional dredging. Traditionally, we deal with dredging construction of new waterways, routine maintenance of existing waterways and reclamation by pumping filling. In recent years, reclamation by pumping filling was greatly affected. We have stopped several large orders including Xiamen Airport and Sanya Airport.Some other projects are mainly affected by policies related to ecological and environmental protection.

It is true, as just mentioned, that the next development direction of dredging is to consolidate the traditional market and gain absolute advantages without relaxation. As you mentioned going overseas, CCCC's dredging has great potentials overseas. Last year, the total amount of overseas dredging contracts was more than USD 700 million, which is still small to us. Considering large overseas potentials in the future, we have made arrangements, including decentralization of dredging from the CCCC level, where development branches may be set up overseas where there are market potentials. Another proposal is that dredging will develop towards ecological and environmental protection, as dredging has advantages in this respect. It has achieved something in controlling pollution to rivers and coastal areas in China. We used to undertake water system management for the West Lake in Hangzhou, so we have experience in this. Now we are doing water system management for the Yongding River for some RMB 40 billion. We are also doing the same for the Baiyangdian Lake, Xiongan New Area. We cooperate with the local government to work out a good model, and then we will promote and replicate it in the next step. So, dredging is going to develop like this. Besides, we can see from the last 2 years that some policies on ecological and environmental protection can be expected to be loosened. Projects that pass EIA and meet the national requirements are necessary for economic development, so some projects will be launched later. Dredging may be difficult these two years, but we believe that it will be looking good in the next 1 or 2 years to come.

Zhu Hongbiao: Let me rely briefly. The first question is about R&D. It covers two demands: self demand and market demand. Mr. Yu just talked about self demand. As for market demand, although we are doing construction, our projects, technologies and construction have higher new requirements. For example, two days ago, I saw a report from the news media about 3D printing for Shenzhen-Zhongshan Tunnel.

What does this mean? In some large-scale projects, which are high-grade, precision and advanced and only CCCC has the strength to go, we will invest and speed up to concert R&D results to our construction for advantages. This is our consideration. As for the growth in proportion, I think we have maintained a reasonable range in line with revenue. This is our own analysis and judgment.

As for the impairment of assets, CCCC is executing a conservative accounting policy both in market development and finance. We used to provide for bad debts in a high percentage. Because there are many accounting calculations involved in this, I cann't say much. In fact, it involves financial accounting, covering one-time releasing factors together. There are more than one reason for this, but in summary, we used to execute a conservative accounting policy.

Moderator: Thanks to your questions. Thanks to the management for excellent answers. Let's draw the press conference to close. Thank you again for your attendance.