

Stock Code: 601668

Abbreviation: China Construction

## **China State Construction Engineering Corporation Limited**

### **Summary of Annual Report 2017**

#### **I. Important Notes**

- 1. Information contained in the Summary of Annual Report is extracted from the full text of the annual report 2017. Investors are advised to carefully read the full text of the report published on the website of Shanghai Stock Exchange and other media outlets designated by China Securities Regulatory Commission (CSRC), to acquire a thorough understanding of the Company's business performance, financial status and future development plans.**
- 2. The Company's Board of Directors, Board of Supervisors, Directors, Supervisors and Senior Managers guarantee that information contained in the Annual Report is authentic, accurate, complete and does not contain any false representations, misleading statements or material omissions, and assume individual and joint legal liability for the Report.**
- 3. All the Directors in the company attended this meeting of the Board of Directors.**
- 4. PricewaterhouseCoopers Zhong Tian CPAs LLP (Special General Partnership) issued a standard unqualified audit report to the Company.**
- 5. Profit distribution plan and reserve capitalization plan adopted by the Board of Directors for the Reporting Period**

Taking the Company's 30,000,000,000 capital shares as of the end of 2017, after deducting the 4.18 million treasury shares repurchased to date as the basic value, the Company plans to pay out RMB 2.15 (before tax) per 10 shares in cash dividend, and the ratio of the annual cash dividend payout to net profit attributable to shareholders of the listed company is 19.58%. In addition, four new shares will be allocated to all common shareholders for every 10 existing shares. The profit distribution plan was adopted at the fourth meeting of the second Board of Directors and will be implemented subject to the approval of the 2017 annual general meeting of Shareholders.

#### **II. Basic Information of the Company**

##### **(i) Company profile**

Overview of stocks				
Type	Stock exchange	Abbreviation	Stock Code	Original ticker
A share	Shanghai Stock Exchange	China Construction	601668	N/A
Preferred stock	Shanghai Stock Exchange	China Construction Preferred Stock 1	360007	N/A

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Contact details	Board Secretary
Name	Meng Qingyu
Office address	CSC Fortune International Center, Building 3, No.5 Yard, Anding Road, Chaoyang District, Beijing
Tel.	010-86498888
Email	ir@cscec.com

## **(ii) Main Businesses Operated by the Company during the Reporting Period**

As a market leader in housing construction, infrastructure construction and investment, and real estate development, investment, design and survey, China State Construction Engineering Corporation Ltd. (in short: China Construction) is China's most integrated investment and construction conglomerate with the longest professional and market-based operation history. Meanwhile, China Construction has made active efforts to scale up businesses overseas, and currently stands as one of the largest international construction contractors in China.

China Construction stands as one of the most competitive investment companies in China, specializing in real estate, infrastructure and general urban facility construction. Featuring a "four in one" business model integrating planning and design, investment and development, infrastructure and housing construction, it provides turnkey solutions covering all aspects, elements and operations of urban development projects, with priority given to internal resource integration and synergistic business development.

China Construction specializes in a broad range of businesses covering all operations related to urban development and construction projects, and every stage throughout the construction industry chain ranking from product and technology development, survey and design, construction contracting, real estate development and equipment manufacturing to property management. We are widely noted for our unrivaled design, construction and land development capabilities in China – more than 90% of the country's ultra high-rise buildings (defined as buildings measuring more than 300 meters in height) and many technically or structurally sophisticated buildings are constructed by us.

**Housing construction:** Positioned as an upscale construction brand with an absolute competitive edge in housing construction, we are committed to providing Chinese and foreign clients with whole-process one-stop comprehensive design and construction services focusing on various high-end and cutting-edge construction projects by adhering to a marketing strategy oriented toward "Big Markets, Big Clients, Big Projects" and an operations strategy focusing on "cost-effectiveness and management quality". With the aim of fulfilling our untapped potential, the company implemented a series of measures to ensure effective production cost and quality control and optimize client satisfaction. We have been contracted to a large number of public, office, airport, hotel, education, sports, residential, healthcare, embassy, industry, defense and military related landmark construction projects, representing the highest standard in the field of construction in China and has established China Construction as a leader in the Chinese and global housing construction markets.

**Infrastructure construction and investment:** Placing equal emphasis on construction and investment operations, we completed many high-profile domestic and international infrastructure projects ranging from urban rail transit, high-speed rail, extra-large bridges, motorways, urban utility tunnels, ports and waterways, electricity, mining, metallurgy, petrochemical, airport, nuclear islands, leveraging our technical, talent and management advantages. On the other hand, the Company has solid financial strengths and ranks among the best Chinese infrastructure financiers and investors. Recognized as one of the most trusted investors for BT (Build-Transfer), BOT (Build-Operate-Transfer) and PPP (Public-Private Partnership) projects, we invested in numerous key national and regional projects, with long-term infrastructure investment and construction partnerships established with several provincial governments and

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dozens of major Chinese cities. Furthermore, infrastructure facilities built by us can also be found in dozens of foreign countries and regions in North America, Central America, Hong Kong, Macao, Southeast Asia, North Africa, Central and West Africa, South Africa, the Middle East and Central Asia.

**Real estate development and investment:** China Construction operates three leading real estate brands, China Overseas Land & Investment Ltd., China Overseas Grand Oceans Group Ltd. and China State Construction Land. China Overseas Land & Investment Ltd. owns several real estate brands operated by China Overseas Holdings Limited, a subsidiary of China Construction. It has established a balanced and robust strategic business network, with real estate development operations in some of the most dynamic regional economies including Hong Kong, Macau, the Yangtze River and Pearl River deltas, the Bohai Rim and northeastern, central and western cities. China Overseas Holdings Limited was founded in 1979 in Hong Kong, and became the first mainland firm ever listed on the Hong Kong stock market in 1992 for its local businesses operated on the island (CHINA OVERSEAS, 00688.HK). In March 2015, through a capital injection into China Overseas Holdings Limited and subscription to a share placement, we completed business integration between real estate projects directly operated by China Construction and China Overseas Land & Investment Ltd., and the overall operational efficiency and competitiveness were improved as a result. In October 2015, China Overseas Property Holdings Limited (CHINA OVS PPT, 02669.HK), an affiliate of China Overseas Land & Investment Ltd., floated its shares on Hong Kong Exchanges and Clearing (HKEx) through distribution in specie and way of introduction and thus became the second public company in the industry. In September 2016, China Overseas Land & Investment Ltd. ramped up reserves of high-quality land in tier-1 and tier-2 cities with an acquisition of majority of residential businesses from CITIC Real Estate and CITIC Pacific, significantly boosting the firm's growth potential on the real estate market in the future.

**Survey and design:** The survey and design business arm of China Construction mainly consists of seven top-rated major survey and design service providers, with businesses covering architectural design, urban planning, engineering survey, public utility design, etc. Having established itself as a market leader in airport, hotel, sports and exhibition venue, ancient architect and ultra high-rise buildings, the company currently employs almost 10,000 high-end technical professionals specializing in construction engineering and design, public utility engineering, engineering survey and geotechnical engineering, outranking all other market players, and has made outstanding contributions to development of the sector in terms of design originality, technology innovation and industry standards development.

**Overseas operations:** China Construction is an industry brand for being the first company that conducted international engineering contracting business in China, and the company has always upheld the operating philosophy of “going global”. After continuous overseas market development and operation over the decades, the company has established strong business presence on the global markets, and its foreign engineering contracting businesses cover housing construction, manufacturing, energy, transportation, water conservancy, industry, petrochemical, hazardous substance treatment, telecommunications and sewage/waste treatment projects, while exploring and successfully completing overseas real estate projects. In terms of project operation, apart from the traditional general contracting model, the company actively explored financing and investment channels to give an impetus to such project operating models as general contracting, DB (Design-Build), EPC (Engineering-Procurement-Construct), BOT (Build-Operate-Transfer) and PPP. Meanwhile, capital operations such as mergers and acquisitions have been pushed ahead to drive a quantum leap in core businesses overseas. Closely following the national “Belt and Road” Initiative and an operating principle revolving around the “mega overseas business”, the Company revamped its business coverage, market structure, resource backup system as well as the overall management philosophy and model.

For details about the development of the construction industry, please refer to “Market Landscapes and Trends” in III “Discussions and Analyses on Future Development” under Section IV – “Management Discussions and Analyses”.

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### (iii) Main accounting data and financial indicators

#### 1. Main accounting data and financial indicators (2015-2017)

Unit: RMB ,000

	2017	2016	Change YoY (%)	2015
Total assets	1,550,983,306	1,391,953,279	11.4	1,074,904,899
Operating income	1,054,106,503	959,765,486	9.8	880,577,134
Net profit attributable to shareholders of listed companies	32,941,799	29,870,104	10.3	26,061,898
Net profit attributable to shareholders of listed companies after deducting non-recurring gains and losses	31,824,170	29,091,680	9.4	25,108,195
Net assets attributable to shareholders of listed companies	214,755,519	190,490,539	12.7	167,977,392
Net cash flow from operating activities	-43,456,932	107,047,858	-140.6	54,603,641
Basic EPS (RMB/share)	1.07	0.96	11.5	0.84
Diluted EPS (RMB/share)	1.05	0.94	11.7	0.83
Weighted average return on net assets (%)	15.82	15.87	- 0.05%	16.00

#### 2. Main accounting data by quarter during the reporting period

Unit: RMB ,000

	Q1 (Jan. – Mar.)	Q2 (Apr. – Jun.)	Q3 (Jul. – Sep.)	Q4 (Oct. – Dec.)
Operating income	234,827,342	290,427,350	245,644,738	283,207,073
Net profit attributable to shareholders of listed companies	7,083,478	10,954,251	7,744,450	7,159,620
Net profit attributable to shareholders of listed companies after deducting non-recurring gains and losses	6,927,794	10,772,573	7,664,860	6,458,943

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Net cash flow from operating activities	-66,792,361	8,066,021	-16,528,161	31,797,569
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Note: Accounting data by quarter shown above have not been audited.

Explanations of discrepancies between the quarterly data and information contained in regular reports disclosed

□Applicable √N/A

#### (iv) Equity and shareholders

##### 1. Number of common stock shareholders and preferred stock shareholders whose voting right has been reinstated & shareholdings of top-10 shareholders

Unit: share

No. of common stock shareholders as of end of reporting period		598,962					
No. of common stock shareholders as of end of the month preceding the disclosure of the annual report		604,380					
No. of preferred stock shareholders whose voting right has been reinstated as of end of reporting period		N/A					
No. of preferred stock shareholders whose voting right has been reinstated as of end of the month preceding the disclosure of the annual report		N/A					
Holdings of top-10 shareholders							
Shareholder (full name)	Change during the reporting period	No. of shares as of end of the reporting period	% of total equity	No. of shares subject to trading restrictions	Shares pledged/frozen		Shareholder type
					Status	Amount	
China State Construction Engineering Corporation	0	16,879,068,569	56.26	0	None	0	State-owned corporate entity
Anbang Asset – CMB – Anbang Asset – CMB – Anbang Asset – Win-win Collective Asset Management Product (III)	0	3,000,000,009	10.00	0	None	0	Other
China Securities Finance	627,266,584	733,868,982	2.45	0	None	0	State-owned

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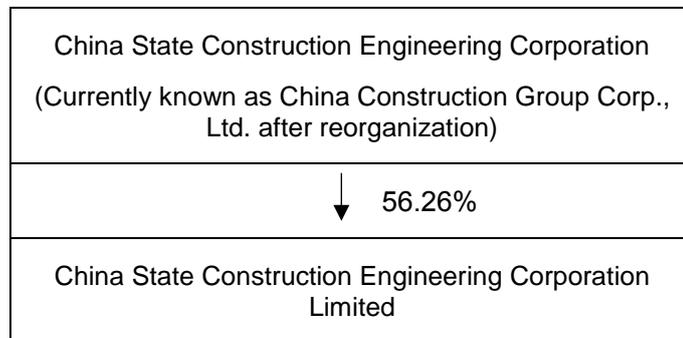
Corporation Limited							corporate entity
Central Huijin Asset Management	0	425,730,300	1.42	0	None	0	State-owned corporate entity
Anbang Asset – Minsheng Bank – Anbang Asset – Shengshi Select Collective Asset Management Product (III)	27,779,700	199,143,303	0.66	0	None	0	Other
Hong Kong Securities Clearing Company Limited	-33,557,482	178,976,101	0.6	0	None	0	Foreign corporate entity
National Social Security Fund 101 Portfolio	11,500,375	160,234,982	0.53	0	None	0	Other
Anbang Asset – Ping An Bank – Anbang Asset – Win-win Collective Asset Management Product (II; sixth tranche)	118,102,155	118,102,155	0.39	0	None	0	Other
ICBC – SSE 50 Open-end Index Equity Fund	3,983,596	115,134,116	0.38	0	None	0	Other
Guotai Junan Securities	-68,704,680	97,711,619	0.33	0	无 None	0	其他 Other
Affiliation or acting in concert between shareholders	Affiliation or acting in concert does not exist between the Company's largest shareholder, China State Construction Engineering Corp., and the other shareholders listed above. Anbang Asset Management – CMB – Anbang Asset Management Win-win Collective Asset Management Product (III), Anbang Asset – Minsheng Bank – Anbang Asset – Shengshi Select Collective Asset Management Product (III) and Anbang Asset – Ping An Bank – Anbang Asset – Win-win Collective Asset Management Product (II; sixth tranche) are asset management products offered by Anbang Asset Management Company. Apart from these products, the Company is not aware of any affiliation or acting in concert between the aforementioned shareholders. China State Construction						

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	Engineering Corporation was remained China Construction Group Corp., Ltd. The registration modification filing is currently in progress.
Preferred stock shareholders whose voting right has been reinstated and their shareholdings	N/A

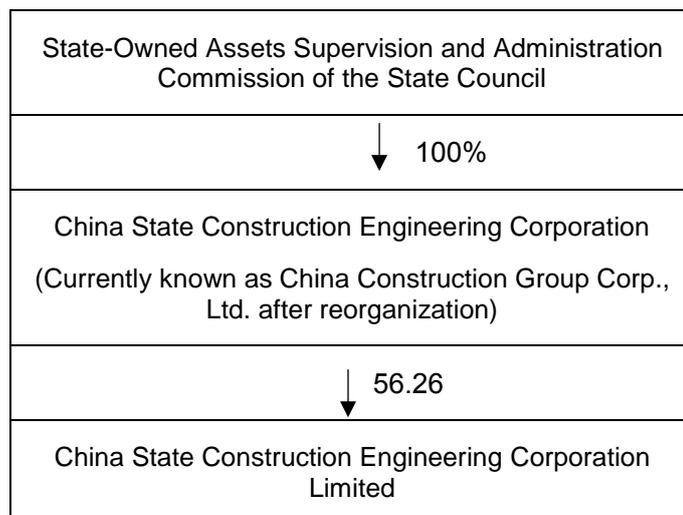
**2. Block diagram of the relationship between the Company and its controlling shareholder**

√ Applicable   □ N/A



**3. Block diagram of the relationship between the Company and its actual controller**

√ Applicable   □ N/A



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#### 4. Total number of the Company's preferred stock shareholders and top-10 shareholders as of the end of the reporting period

√Applicable □N/A

Unit: share

No. of preferred stock shareholders (end of reporting period)		10					
No. of preferred stock shareholders as of end of the month preceding the disclosure of the annual report		10					
Holdings of top-10 shareholders							
Shareholder	Shareholder type	Change in shareholder in the reporting period	Shareholding (%)	Share volume	Type of shares held	Pledge/freeze	
						Status	Volume
COFCO Trust – COFCO Trust Investment Capital Trust Plan No. 1	Other	0	23.33	35,000,000	Non-cumulative	N/A	0
Wisdom Asset Management – Ping An Bank – Ping An Bank Co. Ltd.	Other	0	20.00	30,000,000	Non-cumulative	N/A	0
Hwabao Trust – Investment Capital Trust No. 2	Other	0	13.33	20,000,000	Non-cumulative	N/A	0
Bosera Funds – ICBC – Bosera – ICBC – Flexible Allocation Multiple Client Asset	Other	0	13.33	20,000,000	Non-cumulative	N/A	0

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Management Plan No. 5							
BOCOMM Trustee – BOCOMM Trustee – Hui Li Stand-Alone Fund No. 22	Other	0	13.33	20,000,000	Non-cumulative	N/A	0
E-Fund – ABC – ABC Co.	Other	0	7.33	11,000,000	Non-cumulative	N/A	0
CIB Wealth – China Industrial Bank – China Industrial Bank Co.	Other	0	4.00	6,000,000	Non-cumulative	N/A	0
Bank of Beijing Scotiabank Asset Management – Bank of Beijing – Bank of Beijing Co.	Other	0	3.33	5,000,000	Non-cumulative	N/A	0
Bank of Beijing Co. – BoB Xin Xi Wealth Management Plan	Other	0	1.33	2,000,000	Non-cumulative	N/A	0
HuaAn Funds – China Industrial Bank – Shanghai Rural Commercial Bank	Other	0	0.67	1,000,000	Non-cumulative	N/A	0

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<p>Affiliation or acting in concert between shareholders between top-10 preferred stock shareholders, and between shareholders listed above and top-10 common stock shareholders</p>	<p>The Company is not aware of any affiliation or acting in concert between the shareholders specified above.</p>
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**(v) Corporate bonds**

Applicable  N/A

**III. Business Operation Discussions and Analysis**

**(i) Main Earnings Results for the Reporting Period**

In 2017, investment in new-type urbanization and infrastructure continued to deepen in China. In particular, outbound infrastructure investment grew steadily driven by the “Belt and Road” Initiative. Based on thorough analysis of market trends, the Company pushed ahead the “Big Markets, Big Clients, Big Projects” marketing strategy in line with the Company’s 13<sup>th</sup> Five-Year Plan, revolving around the three major national strategies, i.e. the “Belt and Road” Initiative, the “coordinated development of the Beijing-Tianjin-Hebei region” and “Yangtze Economic Belt”. The value of new contracts executed rose 18.4% to RMB 2,224.9 billion, of which RMB 1,475 billion was yielded by new housing construction contracts, up 13.8% year-on-year; RMB 736.9 billion (30% of the total) came from new infrastructure construction contracts, a big 28.2% increase from a year earlier; RMB 199.5 billion from new contracts on foreign construction projects, up 74.8%. Contracted real estate sales totaled RMB 228.6 billion, up 20.6%; and contracted sales area reached 15.87 million square meters, up 9.8%.

The Company’s operating efficiency has improved further. During the reporting period, operating income topped RMB 1 trillion for the first time, up 9.8% year-on-year to RMB 1,054 billion. Specifically, housing construction logged RMB 625.1 billion in operating income, up 0.8% yoy. It remained the largest revenue earner, but its share of the total revenue fell by 5.3 percentage points to 59.3%, indicating continuous improvement in business structure. The infrastructure business registered operating income of RMB 230.9 billion, up 32.8% yoy, accounting for 21.9% (up 3.8 percentage points) of the total revenue. Operating income from real estate development rose 17.9% yoy to RMB 179.2 billion, accounting for 17% (up 1.2 percentage points) of the total.

The Company’s profitability has increased consistently. During the reporting period, net profit attributable to shareholders of the listed company grew by 10.3% yoy to RMB 32.94 billion, and the net profit margin nudged up 0.1 percentage point to 4.4%. The Company remained an industry leader by weighted average return on net assets (15.8%), with the basic earnings per share coming in at RMB 1.07, up 11.5% yoy.

During the reporting period, the asset-liability ratio of the Company slipped 1.1 percentage points to 78%, and yoy growth in total assets (11.4%) outstripped that of liabilities (9.8%) by 1.6 percentage points, indicating continued improvement in the asset-liability structure. The account receivable turnover ratio and turnover cycle remained largely unchanged from the year earlier at 6.9 times and 52 days respectively, outperforming most competitors.

For further information, please refer to V “Key Business Data” and VI “Key Earnings Results” under Section III “An Overview of Business Operations” hereof.

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(ii) Reasons for trading suspension

Applicable N/A

(iii) Trading suspension and reasons

Applicable N/A

(iv) Reasons for Amendments to the Company's Accounting Policies and Estimates and Analysis of Their Impacts

Applicable N/A

The Ministry of Finance issued the amended *Accounting Standards for Enterprises No. 16 – Government Subsidies* in 2017, calling on all enterprises to treat outstanding government subsidies as of Jan. 1, 2017 by employing the prospective application method; and promulgated *Accounting Standards for Enterprises No. 42 – Non-Current Assets Held for Sale, Disposal Groups and Termination Of Business* in 2017, which takes effect on May 28, 2017, stipulating that the prospective application methods should be adopted for outstanding non-current assets held for sale, disposal groups and termination of business as of the Standards' effective date; and released the *Notice of the Distribution of the Amended Financial Statement Templates for General Enterprises* (Cai Kuai [2017] No. 30) in 2017.

The Company compiled annual financial statements for 2017 in compliance with the Notice. The impact of the new policy on the financial reports is spelled out in Notes to Financial Statements II (32) "Significant Changes in Accounting Policies" under Section 11 "Financial Statements" hereof.

The Company passed the proposal regarding the *Report on the Company's Compliance with the Accounting Standards for Enterprises Amended by the Ministry of Finance and Changes in Accounting Policies* at the fourth meeting of the second Board of Directors on April 11, 2018. For further details, please refer to the *Announcement of China State Construction on Changes in Accounting Policies* that the Company released on April 12, 2018.

(v) Reasons for Corrections of Major Accounting Errors and Analysis of Their Impacts

Applicable N/A

(vi) Relative to the Previous Year, If There Are Any Inconsistencies in the Coverage of Consolidated Financial Statements, please provide detailed explanations.

Applicable N/A

Key subsidiaries included in this year's consolidated accounts are specified in Appendix 6. Key subsidiaries included for the first time in this year's consolidated accounts are specified in Notes to Financial Statements V (1). None of the key subsidiaries included in the consolidated accounts last year were removed from this year's consolidated reports.

These Financial Statements are released on April 11, 2018, with the approval of the Board of Directors.