

SUMMARY OF THE RISK PROFILE AND U.S. CAPITAL MARKETS FOOTPRINT OF CHINA COMMUNICATIONS CONSTRUCTION COMPANY AND ITS SUBSIDIARIES

AUGUST 28, 2020

BACKGROUND

China Road and Bridge Corporation (CRBC) and China Harbour Engineering Company (CHEC) merged on December 18, 2005 to form China Communications Construction Group (CCCC), a major 100% state-owned conglomerate that would subsequently establish China Communications Construction Company (CCCC) as its primary operational subsidiary. Under the full control of CCCG, CCCC is engaged in infrastructure engineering and construction projects worldwide, including ports, railways, roads, bridges, and dredging. The company has auxiliary businesses in the asset management, real estate development, and other industries. As is the case with many other Chinese state-owned (and even private) enterprises, CCCC has strong operational and strategic ties to the Chinese Communist Party (CCP).¹

PROMINENT RISK FACTORS

CCCC Involvement in Military-Civil Fusion

CCCC has a Military-Civil Fusion Office that leads its maritime defense cooperation efforts. Separately, various subsidiaries have worked with the PLA Navy (PLAN) to expand its amphibious warfighting capabilities and to equip installations with communications networks.

- ❖ In early August 2020, the Eastern Theatre Command of the People's Liberation Army (PLA) carried out combat drills in the Taiwan Strait, aimed at improving "multi-service

¹ <https://doc.irasia.com/listco/hk/greentownchina/announcement/a181224.pdf>

joint combat capabilities” and to intimidate the island nation.² The exercises included the use of civilian semi-submersible ships as a platform for maritime military replenishment, using ships produced by CCCC subsidiary, Shanghai Zhenhua Heavy Industries (ZPMC), which are equipped with helipads that transform the PLA’s helicopter units into amphibious combat units with the ability to conduct cross-Strait operations using civilian ships in wartime.³

- ❖ On July 10, 2018, CCCC’s Military-Civil Fusion Office signed a strategic cooperation agreement with the PLA’s Naval Service Academy.⁴ Under the agreement, both sides plan to cooperate on “coastal defense projects, scientific research projects, special theoretical research, talent training and exchange, information and big data, and national defense education.”⁵ CCCC reportedly plans to set up an educational platform at the academy’s campus in Tianjin for the integration of military and civilian capabilities. Subsidiary CCCC Tianjin Port Exploration & Design Institute (Tianhang Institute) was reportedly designated an academy practice/training base.
- ❖ CCCC hosts an annual Military-Civil Fusion Equipment Conference. The 2018 conference was held at the ZPMC Changxing Base and gathered company executives from equipment divisions, including China Highway Vehicles & Machinery, CCCC Xi’an Road Construction Machinery (Xizhu), CCCC Tianhe Machinery Equipment Manufacturing, and CCCC Chenzhou Road Construction Machinery, as well as military experts and professors from the PLA National Defense University, to discuss the future of CCCC’s military-civilian fusion program. The attendees visited ZPMC Changxing Base to study its facilities, port machinery, and ships under construction.⁶
- ❖ CCCC Beijing Engineering Bureau has reportedly undertaken various telecommunications network engineering and system installation projects for government and military customers, including the PLA Naval Command.⁷

² http://www.mod.gov.cn/topnews/2020-08/13/content_4869549.htm

³ https://www.guancha.cn/military-affairs/2020_08_20_562254.shtml

⁴ The Naval Service Academy was originally established in 1952 as the PLA Naval Logistics School and was successively renamed several times. It offers programs of study in various disciplines including naval logistics command, military port construction engineering, military port management, and military science.

⁵ https://www.sohu.com/a/240781638_696334

⁶ <https://www.104909.com/news/show-384.html>

⁷ <http://company.zhaopin.com/CZ787223320.htm>

- ❖ According to reports, the PLA Macau Garrison Museum was built by CHEC in January 2015, in commemoration of Macau's return to China. The \$25 million project began construction in January 2013 and includes halls for exhibitions, shooting, and audiences.⁸
- ❖ The predecessor of CCCC's subsidiary, CCCC First Highway Engineering Company (CFHEC), was the Highway Engineering Bureau of China's Ministry of Communications, originally established as a division of the PLA. CFHEC became a wholly-owned subsidiary of China Road and Bridge Corporation in 1963 following a series of reforms.⁹

Allegations of Corruption, Non-Transparency and Unethical Bidding Practices

A number of reports allege that CCCC and its subsidiaries have offered bribes to foreign officials and companies in exchange for project bids and to escape fines. CCCC has also allegedly been involved in illegal campaign financing and fraudulent contract awards through anticompetitive collusion.¹⁰

- ❖ On March 27, 2018, CCCC's construction facilities in Dodoma, Tanzania were seized and retained by local authorities over alleged non-payment of about \$2 million in royalty taxes related to the 260-km Dodoma Iringa Road contract that CCCC had been awarded by the Tanzania National Roads Agency.¹¹
- ❖ On September 11, 2015, two CRBC employees pleaded guilty at the Machakos Anti-Corruption Court to bribing Kenya National Highway Authority (KeNHA) officials.¹² Tang, an engineer, and Liu, a liaison officer, allegedly offered and provided KeNHA officials about \$1,285 to avoid charges for overloading vehicles carrying construction materials for the Standard Gauge Railways (SGR) project. They were arrested on September 4 and 5 on the orders of the Kenya Ethics and Anti-Corruption Commission.¹³

⁸ <http://www.chec.bj.cn/zg/tabid/898/InfoID/6509/Default.aspx>

⁹ <http://www.136034.xyz/show-355-1100-1.html>

¹⁰ These are select excerpts from the RWR CCCC Risk Tracker tool, which comprehensively documents various risk concerns associated with CCCC and its network of subsidiaries in an interactive online format.

¹¹ <https://www.dailynews.co.tz/news/chinese-firms-go-slow-on-payment-after-govt-deals.aspx>

¹² <http://www.scmp.com/news/china/diplomacy-defence/article/1863452/managers-chinese-state-owned-enterprise-building-us38b>

¹³ <http://nairobi.news.nation.co.ke/news/china-roads-managers-to-be-charged-with-sh100k-bribery>

- ❖ On March 6, 2015, Sri Lanka's government suspended CHEC's Colombo Port City Project (CPCP) due to allegations of corruption during the bidding process, and failure to acquire the necessary permits. The government also launched an investigation into allegations that CHEC had illegally financed the election campaign of former Sri Lankan President Mahinda Rajapaksa. Allegedly, CHEC had paid the campaign \$200 million through 11 separate transactions.¹⁴

Alleged Involvement in China's Artificial Island-Building in Disputed Waters of the South China Sea

CCCC owned over half of China's dredging industry capacity as of 2015.¹⁵ Although a company spokesperson "would neither confirm nor deny" CCCC's involvement with South China Sea land reclamation efforts when asked, several CCCC subsidiaries have been observed operating in disputed territories.¹⁶

- ❖ On August 26, 2020, the U.S. Department of Commerce introduced new sanctions on several Chinese companies involved in South China Sea island-building activities, including five subsidiaries of CCCC: CCCC Dredging Group, CCCC Tianjin Waterway Bureau, CCCC Shanghai Waterway Bureau, and CCCC Guangzhou Waterway Bureau.¹⁷ The companies will be added to the Bureau of Industry Security (BIS) Entity List and subject to U.S. visa and export restrictions.
- ❖ On March 5, 2017, U.S. Senators Marco Rubio and Ben Cardin introduced the South China Sea and East China Sea Sanctions Act of 2017, which would impose sanctions on Chinese entities involved in illegal island-building activities. This was a revival of an earlier version of the bill, originally introduced in December 2016. Specific entities identified include CCCC and several of its subsidiaries, CHEC, CCCC Tianjin Dredging, and CCCC Dredging.¹⁸

¹⁴ <https://thediplomat.com/2016/11/china-and-sri-lanka-between-a-dream-and-a-nightmare>

¹⁵ <http://www.nationalinterest.org/feature/dredging-under-the-radar-china-expands-south-sea-foothold-13701>

¹⁶ <https://www.wsj.com/articles/chinese-dredger-delays-ipo-over-questions-about-island-building-1448623226>

¹⁷ <https://www.wsj.com/articles/u-s-imposes-visa-export-restrictions-on-chinese-firms-and-executives-active-in-contested-south-china-sea-11598446551>

¹⁸ https://www.rubio.senate.gov/public/_cache/files/d4a15bd1-e438-4b5f-915c-604facc1246e/1EAFA470A2A27CE228FF1B5C61F9C22D.mrw16d01-south-china-sea-and-east-china-sea-pdf

Below are several examples of dredging activity that has reportedly been carried out by CCCC's subsidiaries in the context of China's island-building activities in the South China Sea.

- ❖ CCCC Shanghai Dredging's Xin Hai Tun CSD was allegedly identified operating at Mischief (Meiji) Reef from February 24 to February 28, 2015.¹⁹ Mischief Reef is occupied by China and claimed by Taiwan, the Philippines, and Vietnam.²⁰
- ❖ CCCC Tianjin Dredging's Tian Kai trailing suction hopper dredger (TSHD) was reportedly identified dredging a channel at Mischief (Meiji) Reef from January 14 to February 16, 2015.²¹
- ❖ CCCC Tianjin Dredging's Tian Jing Hao CSD was reportedly identified operating at Hughes (Dongmen) Reef in the Union Bank from March 20 to April 3, 2014, which is occupied by China and claimed by Taiwan, the Philippines, Malaysia, and Vietnam.²²
- ❖ In 2013 and 2014, CCCC Tianjin Dredging's Tian Jing Hao cutter-section dredger (CSD) was allegedly identified operating at the Union and Tizard (Zhenghe) Banks, where the islands and reefs are occupied by China and Vietnam and claimed by various other regional governments.²³

¹⁹ <https://news.usni.org/2015/09/17/essay-chinas-island-building-campaign-could-hint-toward-further-expansions-in-indian-ocean>

²⁰ <http://www.sunway-logistics.com/sp/index.php?controller=news&action=view&id=336>

²¹ <http://www.sunway-logistics.com/sp/index.php?controller=news&action=view&id=336>

²² <https://news.usni.org/2015/09/17/essay-chinas-island-building-campaign-could-hint-toward-further-expansions-in-indian-ocean>

²³ <https://news.usni.org/2015/09/17/essay-chinas-island-building-campaign-could-hint-toward-further-expansions-in-indian-ocean>

CCCC'S INTERNATIONAL PUBLIC EQUITY LISTINGS

CCCC is publicly traded and listed on the Hong Kong and Shanghai Stock Exchanges. Among its various subsidiaries and affiliates are four other public companies.²⁴

1. China Communications Construction Co. Ltd. (CCCC)

H Shares are listed on the Hong Kong Stock Exchange (SEHK: 01800)

A Shares are listed on the Shanghai Stock Exchange (SSE: 601800)

- ❖ CCCC is the wholly-owned, primary operational subsidiary of CCCG. It operates primarily as a global large-scale infrastructure engineering and construction conglomerate, with various other businesses including dredging, asset management, and equipment manufacturing.

2. Shanghai Zhenhua Heavy Industries Co., Ltd. (ZPMC)

A Shares and B Shares are listed on the Shanghai Stock Exchange (SSE: 600320)

- ❖ ZPMC is one of the world's largest manufacturers of cranes and large steel structures and primarily engaged in the design and construction of large port handling equipment, heavy marine equipment, and construction machinery. CCCG is the controlling shareholder of the company.²⁵

3. CCCG Real Estate Corp. Ltd. (CREC)²⁶

A Shares are listed on the Shenzhen Stock Exchange (SZE: 000736)

- ❖ CCCG Real Estate (formerly China Real Estate Corporation Ltd.) is principally engaged in real estate development and operates real estate brokerage, property management, and investment services.

²⁴ A Shares are Chinese companies listed on either the Shanghai or Shenzhen Stock Exchanges and traded in RMB. B Shares are Chinese companies listed on the Shanghai Stock Exchange and traded in USD or listed on the Shenzhen Stock Exchange and traded in HKD. H Shares are Chinese companies listed on the Hong Kong Stock Exchange and traded in HKD. P Chips are privately-owned Chinese companies listed on the Hong Kong Stock Exchange, but incorporated in the Cayman Islands, Bermuda, and the British Virgin Islands. Red Chips are partially state-owned Chinese companies incorporated outside of mainland China and listed on the Hong Kong Stock Exchange.

²⁵ <http://en.ccccltd.cn/investorrelations/announcement/201907/P020190717315343243421.pdf>

²⁶ <http://webcache.googleusercontent.com/search?q=cache:rNj7iwB4TC0J:en.cccgreg.com/index.default.aboutUs%26catid%3D6%26pid%3D13+&cd=7&hl=en&ct=clnk&gl=us>

4. Greentown China Holdings Ltd.

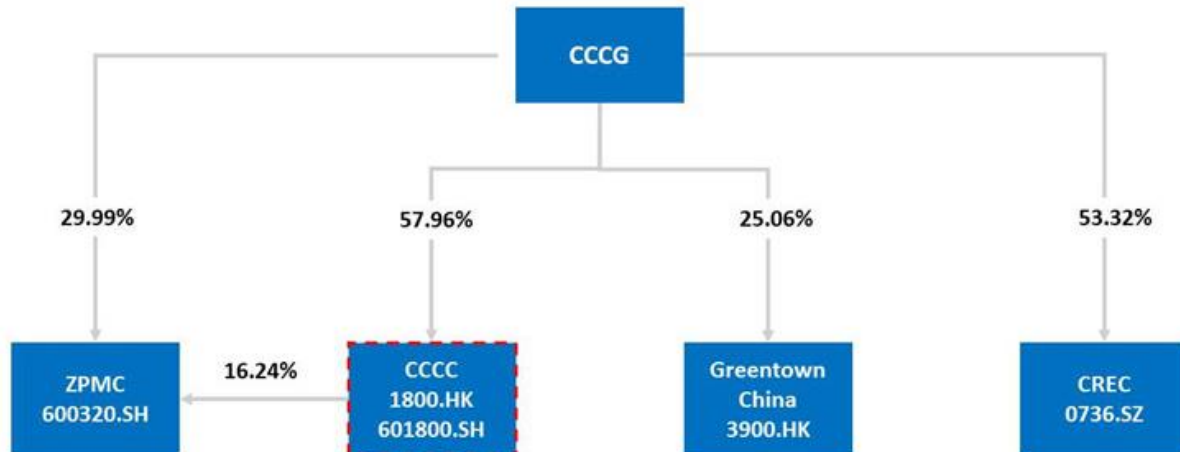
H Shares are listed on the Hong Kong Stock Exchange (SEHK: 03900)

- ❖ Greentown is a property developer that also operates project management and architecture technology businesses, and has properties in various Chinese provinces, autonomous regions, and overseas (including Indonesia, Canada, and the United States). CCCG is the controlling shareholder of the company, which it acquired in December 2014.²⁷

5. Greentown Service Group Co., Ltd.

H Shares are listed on the Hong Kong Stock Exchange (SEHK: 02869)

- ❖ Greentown Service is involved in the real estate service industry and mainly provides residential property management services in mainland China. It was originally a subsidiary of Greentown China Holdings, but spun off and is now operating independently. As of October 2016, Greentown China held only 5% of the company's issued share capital.²⁸



Ownership chart showing CCCG's publicly listed subsidiaries, taken from CCCC's Investor Relations website. Data may be outdated by about one year.

²⁷ <http://www.bondsupermart.com/main/file-depository/download-file?paramCategory=bondDocument¶mDocumentNo=4996;>
http://en.ccccltd.cn/newscentre/companynews/201412/t20141231_35138.html
²⁸ <http://www.lvchengfuwu.com/upload/2017/12/12/15130569179594j532r.pdf>

CCCC'S FIXED-INCOME SECURITIES

CCCCG has \$2.8 billion in outstanding USD-denominated international debt securities issued by its subsidiaries. CCCG's core subsidiary, CCCC is an active domestic and international bond issuer and recently borrowed \$1.5 billion after its wholly-owned subsidiary, CCCC International (CCCI), Treasure issued two perpetual bonds in February 2020.²⁹ Another CCCC subsidiary, real estate developer Greentown China Holdings Ltd., borrowed \$1.3 billion after its subsidiaries, including Champion Sincerity Holdings and Twinkle Lights Holdings, issued bonds last January, last February, and this past July.

Greentown China has dozens of wholly-owned subsidiaries that ostensibly operate as real estate companies, but appear to function as financing vehicles and subsidiary guarantors for Greentown securities. Some of the more prominent and frequently utilized subsidiaries in this connection are Twinkle Lights Holdings, Champion Sincerity Holdings, Wisdom Glory Group, Moon Wise Global, and Apex Top Group.³⁰

STATUS	BORROWER	ISSUER [OR GUARANTOR]	ISSUE DATE [OR ANNOUNCEMENT DATE]	MATURITY DATE	AMOUNT
Outstanding	Greentown China Holdings	N/A	July 13, 2020	July 13, 2025	\$300,000,000
Outstanding	China Communications Construction Company	CCCI Treasure	February 21, 2020	Perpetual	\$500,000,000

²⁹ CCCC International (CCCI) Holding is the overseas financing platform of CCCC subsidiary China Communications Construction Company (CCCC).

³⁰ Comprehensive list of the non-PRC incorporated subsidiaries of Greentown China Holdings that serve primarily as investment holding companies and other financing vehicles: Active Way Development Limited, Apex Top Group Limited, Champion Sincerity Holdings Limited, Crown Gain Development Limited, Dazzling Forever Limited, Fortune Pointer Limited, Great Horizons Limited, Greentown Australia Pty Ltd, Greentown Holdings (Canada) Inc., Greentown Holdings (US) Inc., Greentown Management Holdings Company Limited, Growiser Property Inc., Growiser Property Management Inc., GT Overseas Pte. Ltd., Mainwide (HK) Limited, Moon Wise Global Limited, Pacific Fame Pte. Ltd., Pacific Good (HK) Limited, CCG Land Indonesia Pt., Quality Fame Property Inc., Royal High Limited, Sinofame (HK) Limited, Twinkle Lights Holdings Limited, Win Most Global Limited, Wisdom Glory Group Limited, Greentown & DHI Investment Limited, Footstep Property Limited, Greentown US Management Service LLC, 800 Columbia Project Company, LLC, and Magic Delight Limited. <http://www.bondsupermart.com/main/file-depository/download-file?paramCategory=bondDocument¶mDocumentNo=4996>.

Outstanding	China Communications Construction Company	CCCI Treasure	February 21, 2020	Perpetual	\$1,000,000,000
Outstanding	Greentown China Holdings	Champion Sincerity Holdings	[February 9, 2019]	Perpetual	\$400,000,000
Outstanding	Greentown China Holdings	Champion Sincerity Holdings	[January 29, 2019]	Perpetual	\$100,000,000
Outstanding	Greentown China Holdings	Twinkle Lights Holdings	January 26, 2019	Perpetual	\$500,000,000
Early Redeemed	Wisdom Glory Group	[Greentown China Holdings]	July 20, 2017	July 19, 2020	\$450,000,000
Early Redeemed	China Communications Construction Company	CCCI Treasure	April 2015	April 21, 2020	\$1,100,000,000
Early Redeemed	Greentown China Holdings	Apex Top Group	N/A	April 23, 2019	\$400,000,000
Early Redeemed	Greentown China Holdings	Moon Wise Global	N/A	Jan. 28, 2019	\$500,000,000

According to a May 2020 assessment by FitchRatings:

“Fitch has assessed the socio-political implications from a default by CCCC as 'Strong'. A default would significantly disrupt construction of China's civil and naval maritime facilities, which may affect the deployment of national defence and maritime trading development in the long term. It could also have a significant impact on China's Belt and Road Initiative as CCCC plays an important role in building transportation infrastructure in central, south and south-east Asia and Africa.”³¹

³¹ <https://www.fitchratings.com/research/corporate-finance/fitch-affirms-china-communications-construction-company-at-a-stable-20-05-2020>

CCCC PRESENCE IN FLAGSHIP INDEXES AND EXCHANGE-TRADED FUNDS

On May 14, 2018, after three years of deliberation and negotiations with Chinese regulatory authorities global index provider Morgan Stanley Capital International (MSCI) released a list of large-cap China A Shares (i.e., stocks of Chinese companies traded on the Shanghai and Shenzhen Stock Exchanges) to be included in its MSCI China Index, Emerging Markets Index, and All Country World Index (ACWI) beginning on June 1, 2018.³² The MSCI EM Index previously only included Chinese companies listed in Hong Kong or the United States. Chinese securities currently comprise 31.38% of the MSCI Emerging Markets Index at 5% partial inclusion, and in the event of full inclusion, China equities would exceed 40% of the Index.³³

Following this action by MSCI, FTSE Russell was the second major index provider to include China A Shares in its index system. On June 24, 2019, FTSE added 1,097 China A Shares to its FTSE Global Equity Index Series (GEIS, which covers the FTSE Emerging and All-World Indexes) in the first stage of inclusion (20%), drawing an expected \$10 billion from U.S. passive investors. Exchange-traded fund (ETF) products are passively managed, tracking specific stock market indexes that measure the performance of a fixed set of securities. This list of CCCC securities included in various MSCI and FTSE Indexes, and their corresponding ETF products, is up to date as of August 19, 2020.

❖ MSCI Emerging Markets (EM) Index

Benchmark for BlackRock's iShares MSCI EM ETF

- China Communications Construction Company (A)
- Greentown Service Group (H)

❖ MSCI EM Investable Market Index (IMI)

Benchmark for BlackRock's iShares Core MSCI EM ETF

- China Communications Construction Company (A)
- Greentown Service Group (H)

³² The MSCI China Index represents the Chinese securities in the MSCI Emerging Markets and MSCI ACWI.

³³ https://www.msci.com/documents/1296102/12275477/China_A_Further_Weight_Increase_OA_Feb_2019.pdf/601ed226-477d-13e5-c6ea-6d9c12640641; <https://www.msci.com/msci-china-a-inclusion>

- ❖ MSCI All Country World International (ACWI) Index
Benchmark for BlackRock's iShares MSCI ACWI ETF
 - China Communications Construction Company (A)
 - Greentown Service Group (H)

- ❖ MSCI ACWI ex-U.S. Index
Benchmark for BlackRock's iShares MSCI ACWI ex.-U.S. ETF
 - China Communications Construction Company (A)
 - Greentown Service Group (H)

- ❖ FTSE Emerging Index
Benchmark for the Vanguard FTSE EM UCITS ETF
 - China Communications Construction Company (A)
 - China Communications Construction Company (H)
 - Shanghai Zhenhua Heavy Industries (B)
 - Greentown China Holdings (P Chip)

- ❖ FTSE All-World Index
Benchmark for the Vanguard FTSE All-World UCITS ETF
 - China Communications Construction Company (A)
 - China Communications Construction Company (H)
 - Shanghai Zhenhua Heavy Industries (B)
 - Greentown China Holdings (P Chip)

	ISHARES MSCI EM ETF	ISHARES CORE MSCI EM ETF	ISHARES MSCI ACWI ETF	ISHARES MSCI ACWI EX-US ETF	VANGUARD FTSE EM UCITS EM ETF	VANGUARD FTSE AW UCITS ETF
China Communications Construction Company	X	X	X	X	X	X
Shanghai Zhenhua Heavy Industries					X	X
Greentown China Holdings					X	X
Greentown Service Group	X	X	X	X		

RISK EXPOSURE OF SELECT STATE PUBLIC PENSION SYSTEMS

The savings of scores of millions of Americans across state lines are invested in Chinese companies that engage in less disclosure and transparency than their American corporate counterparts through large retirement and public pension systems. These include both active investments selected by fund managers, and passive investments determined using indexes as benchmarks, that have selection criteria devoid of diligence on material risk factors such as enabling national security and human rights abuses.

The chart below presents merely a sample of CCCC securities that are held by state public employee pension systems, notably California Public Employees’ System (CalPERS), New York State Common Retirement Fund (NYSCRF), Florida Retirement System (FRS) Pension Plan, and Texas Teachers’ Retirement System (TRS).³⁴

³⁴ CalPERS data is from the FY2019 report; NYSCRF data is from an asset list dated March 31, 2019; FRS Pension Plan data is from a Q2 2020 document, and Texas TRS data is from a July 31, 2020 report.

PENSION FUND	SECURITY NAMES	SHARES	MARKET VALUE
CalPERS	China Communications Construction Company (A)	13,000	\$21,426
CalPERS	China Communications Construction Company (H)	5,692,404	\$5,093,108
CalPERS	Shanghai Zhenhua Heavy Industries (B)	1,370,962	\$503,143
CalPERS	Greentown China Holdings (H)	515,000	\$366,515
CalPERS	Greentown Service Group (H)	924,000	\$746,296
CalPERS	iShares MSCI EM ETF	778	\$34,619
CalPERS	iShares Core MSCI EM ETF	87,729	\$4,933,798
NYSCRF	iShares MSCI ACWI ETF	12,600	\$909,090
NYSCRF	iShares MSCI ACWI ex-U.S. ETF	13,365	\$618,399
NYSCRF	iShares MSCI EM ETF	453,115	\$19,447,696
FRS Pension Plan	China Communications Construction Company (A)	N/A	\$397,587.63
FRS Pension Plan	Greentown Service Group	N/A	\$3,825,519.93
Texas TRS	China Communications Construction Company (H)	98,719	N/A
Texas TRS	Greentown Service Group	10,485,724	N/A
Texas TRS	iShares MSCI EM ETF	1,000	N/A
Texas TRS	Vanguard FTSE EM ETF	1,000,000	N/A

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