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中國建築股份有限公司

CHINA STATE CONSTRUCTION ENGRG.CORP.LTD

## Announcement on the Modifications to the Accounting Policy

The Board of Directors of the Company and each member of the Board of Directors guarantee that the contents of the public announcement contain no false or misleading statements or major omission, and they are jointly and severally liable for the truthfulness, accuracy and completeness of the said contents.

### Important Notice:

- In accordance with the *Accounting Standards for Business Enterprises No. 21 – Leases*, China State Construction Engineering Corporation Limited will start to implement the *New Leasing Standards* on January 1, 2021.
- The implementation thereof will not bring significant impacts to the Company's financial standing and business performance.

China State Construction Engineering Corporation Limited (hereinafter, the "Company") deliberated on and adopted the *Proposal on the Implementation of the New Leasing Standards by China State Construction Engineering Corporation Limited* at the 50th meeting of the 2nd Board of Directors and the 33rd meeting of the 2nd Board of Supervisors on December 23, 2020.

### I. Overview of Change of the Accounting Policy

The Ministry of Finance promulgated the *Accounting Standard for Business Enterprises No. 21 – Leases* (Cai Kuai [2018] No. 35) (hereinafter, the "New Leasing Standards") in December 7, 2018. According to the requirements of the *New Leasing Standards*, enterprises that are listed overseas or go public domestically and overseas (A+H Share) at the same time shall implement the *New Leasing Standards* as of January 1, 2019; other enterprises (including companies listed in China A stock exchange) to which the *New Leasing Standards* are applicable shall implement the same as of January 1, 2021; besides, enterprises whose parent companies or subsidiaries are listed overseas and which prepare their overseas financial statements in accordance with the *International Financial Reporting Standards* or the *Accounting Standards for Business Enterprises* shall be implemented in advance. As required, the Company shall implement the *New Leasing Standards* as of the beginning of 2021. The implementation thereof will not bring significant impacts to the Company's financial standing and business performance.

### II. Detailed Modifications to the Accounting Policy

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Significant modifications are made in the *New Leasing Standards* in terms of the definition and identification of lease and the accounting procedure for lessees, while the existing accounting procedure for lessors remains effective. The main revisions are as follows:

**(I) The definition of leasing is improved by adding the identification, splitting and consolidation of leasing thereto**

In the *New Leasing Standards*, "lease" is defined as "a contract in which the lessor conveys the right to use an asset to the lessee for consideration over a period of time" and it is further specified that a contract constitutes or contains a "lease" if a party thereto conveys its control of the use of one or more identified assets for consideration over a period of time. Besides, the *New Leasing Standards* stipulates the ways of splitting a contract that contains both lease and non-lease contents, as well as the circumstances in which multiple contracts shall be consolidated into a single lease contract for accounting.

**(II) The classification of leases entered into operating leases and financial leases from the perspective of the lessee is cancelled, and it is required to determine the right-of-use assets and lease liabilities for all leases (except short-term leases and low-value asset leases)**

Under the *New Leasing Standards*, leases are no longer divided into operating leases and financial leases from the perspective of the lessee; instead, a unified accounting model is adopted, and the right-of-use assets and lease liabilities for all leases except short-term leases and low-value asset leases are determined, from which depreciation and interest are accrued respectively.

A short-term lease refers to a lease with a lease term under 12 months. A low-value asset lease refers to a lease of low value when a single leased asset is a brand new asset. For short-term leases and low-value asset leases, the lessee can choose not to determine the right-of-use assets and lease liabilities, but to adopt an accounting method similar to that for the existing operating leases.

**(III) Subsequent measurements by the lessees are improved, and accounting in the case of option re-evaluation and lease changes is added**

The former Leasing Standards did not specify the accounting method under the circumstances of option revaluation or contract change following the starting date of the lease term, resulting in many disputes and inconsistent accounting methods in practice. The *New Leasing Standards* clearly stipulate that, if a significant event or change occurs within the control of the lessee to the extent that such event or change affects whether the lessee exercises the corresponding options in a reasonable manner, the lessee shall re-evaluate the lease and determine whether to reasonably exercise the options to renew the lease, make purchases, or not to exercise the option to terminate the lease. Change of lease refers to the modification of the lease scope, consideration, or term beyond the terms and conditions of the original contract. Depending on the change, the enterprise shall perform accounting thereof as a separate lease or remeasure the lease liabilities.

**(4) The contents disclosed by the lessor are enriched and more useful information is provided for the users of statements**

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With regard to operating leases incurred by the lessor, the former *Leasing Standards* only required the lessor to disclose the book values of the leased assets. The *New Leasing Standards* require the lessor to disclose additional information such as the relevant lease income and undiscounted amounts of payment received from the lease. In addition, the lessor shall disclose other qualitative and quantitative information about the leases to facilitate understanding of financial statements.

### **III. Impact of the Modifications to the Company**

Compared with the former *Leasing Standards*, the *New Leasing Standards* features the core change that the classification of leases entered into financial leases and operating leases from the perspective of the lessee is cancelled, and requires the lessee to determine the corresponding right-of-use assets and lease liabilities, as well as the depreciation and interest expenses respectively in the balance sheet for all leases (except short-term leases and low-value asset leases for which the simplified accounting method is adopted).

The Company will implement the *New Leasing Standards* as of January 1, 2021, and disclose accounting statements according to the requirements thereof as of the Q1 2021, without repeating the comparable data by the end of 2020. The modifications to the accounting policy will not bring significant impacts to the Company's financial standing and business performance.

### **IV. Conclusive Opinions of the Company's Independent Directors and Board of Supervisors**

The Company's Independent Directors and Board of Supervisors hold that the modifications to the accounting policy are reasonable adjustments made according to the relevant accounting standards of the Ministry of Finance, and that the decision-making procedure for the implementation thereof conforms to relevant laws, regulations and the *Articles of Association* and objectively and fairly reflects the financial standing and business performance of the Company. It is expected that the implementation thereof will not cause significant impacts to the Company's financial statements, nor will it bring harm to the interests of the Company or its shareholders, particularly minority shareholders. The modifications to the accounting policy is agreed.

The above is hereby announced.

The Board of Directors of China State Construction Engineering Corporation Limited  
December 23, 2020