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Abbreviation: CSCEC

No.: Interim 2023-018



中國建築股份有限公司
CHINA STATE CONSTRUCTION ENGRG.CORP.LTD

Announcement on Provision for Asset Impairment in 2022

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.

The *Proposal on Provision for Asset Impairment of China State Construction Engineering Corporation Limited* was reviewed and adopted at the 33rd meeting of the third Board of Directors and the 20th meeting of the third Board of Supervisors of China State Construction Engineering Corporation Limited (hereinafter referred to as the "Company") held on April 17, 2023. The details are as follows:

I. Overview of provision for asset impairment

In order to get a clear and objective picture of the financial standing and operations of the Company in 2022, and in accordance with the *Accounting Standards for Business Enterprises* and relevant accounting policies, as well as the principle of prudence, the Company inspected all assets in the consolidated financial statements as of December 31, 2022 and conducted impairment test before making provision for assets showing signs of impairment, as verified by the accounting firm responsible for the annual audit. In 2022, the total impairment provision of the Company was RMB 13.55 billion, with the details as follows:

1. Provision for impairment of accounts receivable and other financial assets

The provision for impairment of financial assets, such as the accounts receivables, other receivables, long-term receivables and debt investments was made using the expected credit loss measuring method. The provision for credit losses of the Company in 2022 was RMB 8.59 billion, which was made based on a comprehensive assessment of the recoverability of the Company's receivables by taking into account the risk profile, customer type, and age distribution of receivables at the end of the year.

2. Provision for inventory impairment

The Company made a provision for inventory impairment in response to various factors, including declining selling prices of some real estate projects and unsatisfactory transaction prices of neighboring properties. To determine the provision, the Company considered the expected selling prices, sales progress, and the latest cost budget of real estate projects. In 2022, the provision for inventory impairment amounted to RMB 2.22 billion.

3. Provision for impairment of contract assets

Contract assets or contract liabilities were listed in the balance sheet based on customers' payment obligation and actual payment, alongside with the net amount

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after the assets and liabilities under the same contract were offset against each other. The contract assets were by nature divided into investment funds unconfirmed by owners, quality assurance deposits, funds not yet settled for completed projects, and assets under real estate contracts. For contract assets, the provision for impairment of financial assets was made using the expected credit loss measuring method. In 2022, the provision for impairment of contract assets was RMB 2.27 billion, which was made based on the expected credit losses that took into account the credit standing of customers owning the contract assets at the end of the year and the economic outlook.

4. Provision for impairment of other assets

The provision for impairment of intangible and fixed assets in 2022 was RMB 460 million, which was made based on the asset assessment and impairment test conducted in accordance with the *Accounting Standards for Business Enterprises* and the Company's accounting policies.

II. Impact of the impairment provision on the Company

The provision for impairment in 2022 resulted in an increase of RMB 8.59 billion in credit losses, an increase of RMB 4.96 billion in asset losses, and a decrease of RMB 13.55 billion in total profits as shown in the Company's consolidated financial statements.

III. Decision-making process

The impairment provision in 2022 was reviewed at the 17th meeting of the Audit and Risk Management Committee under the third Board of Directors, and was reviewed and approved at the 33rd meeting of the third Board of Directors and the 20th meeting of the third Board of Supervisors. The Independent Directors of the Company consented to the provision.

The Audit and Risk Management Committee under the Board of Directors agreed with the impairment provision scheme for 2022, believing that it was in compliance with the *Accounting Standards for Business Enterprises* and the Company's accounting policies and accounting estimates, able to objectively reflect the assets of the Company, in the interests of the Company and its shareholders as a whole, and not prejudicing the legitimate rights or interests of the Company and its minority shareholders, and submitted the scheme to the Board of Directors for deliberation. The Board of Directors agreed with the impairment provision of RMB 13.55 billion in 2022, considering that the impairment provision was in compliance with the accounting policies and the Company's accounting estimates, internal control policies and the actual asset condition, and was well-grounded and able to objectively reflect the assets of the Company.

The Independent Directors of the Company were of the view that the impairment provision made by the Company was in compliance with the *Accounting Standards for Business Enterprises* and the Company's accounting policies, and was in line with the reality of the Company; it was well-grounded, and its review and decision-making process was lawful; the financial statements after the provision could truly and accurately reflect the Company's financial situation and asset value, and could provide investors with true and reliable accounting information; it would not prejudice the interests of shareholders, especially small and medium investors. The Independent Directors consented to the impairment provision.

The Board of Supervisors of the Company agreed with the impairment provision, holding that the provision was lawful, well-grounded, and in compliance with the

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Accounting Standards for Business Enterprises and the Company's accounting policies, and the financial statements after the provision could objectively reflect the assets of the Company.

IV. List of documents for reference

1. Resolutions of the 33rd Meeting of the Third Board of Directors of CSCEC;
2. Resolutions of the 20th Meeting of the Third Board of Supervisors of CSCEC;
3. Opinions of Independent Directors on Provision for Asset Impairment in 2022.

The above is hereby announced.

The Board of Directors of China State Construction Engineering Corporation Limited
April 17, 2023