Stock Codes: 600801, 900933 Stock Abbreviations: Huaxin Cement, Huaxin B Share Ref: Lin 2020-036

Huaxin Cement Co., Ltd.
Announcement on the Modification of Corporate Accounting Policy

To the best of our knowledge, the Board of Directors of the Company and its members confirm that there is no material false or misleading statement or material omission in this announcement and shall be severally and jointly liable for the truthfulness, accuracy and completeness of its content.

Highlight:

- The modification of corporate accounting policy will not pose any impact on 2019 total assets, total liabilities, net assets and net profit.
- By June 30, 2020, the modification will impact the operating revenue 17,956,158 RMB.

I. Summary of the modification of accounting policy

1. Reasons of the modification

The Ministry of Finance of the People's Republic of China issued a notice on the revision and issuance of the "Accounting Standards for Business Enterprises No. 14-Revenue" on July 5, 2017, and requires companies that are listed both at home and abroad and listed overseas and adopt International Financial Reporting Standards or Accounting Standards for Business Enterprises Companies that prepare financial statements to implement such modification on January 1, 2018; other domestic listed companies will implement on January 1, 2020; and non-listed companies that implement the Accounting Standards for Business Enterprises will follow suit on January 1, 2021.

The Company should make changes to corporate accounting policy according to the above new standard.

2. Review of the Board

On August 26, 2020, the Twentieth Meeting of the Ninth Board of Directors approved the Proposal on the Modification of Corporate Accounting Policy. The voting result: affirmative 8, negative 0, abstention 0.

The above matter does not require the approval of Shareholders' General Meeting.

II. The impact of the accounting policy change on the company

1. Revenue

Revenue means the total inflow of economic benefits that are generated in the Company's normal course of businesses, would lead to increased shareholders' equity and are irrelative to capital contributions of shareholders.

The Company's revenue mainly comes from the following business activities:

(1) Sales of goods

(2) Provision of services

Upon fulfillment of its obligations under a contract or, in other words, upon acquisition by the customer of the control over the goods or services provided by the Company under a contract, the Company will do revenue recognition according to the transaction price in proportion to the obligations fulfilled. The foregoing obligations mean the Company's promise to transfer the distinguishable goods or services to the customer under the contract. The foregoing transaction price means the amount of consideration that the Company expects to be paid for the goods or services transferred by it to the customer, without taking into account of any amount charged by the Company on behalf of third parties and any amount expected to be refunded by the Company to the customer.

Under any one of the following circumstances, the foregoing obligations are deemed to be fulfilled within a certain period of time and the Company will do revenue recognition within a period of time according to the progress in performing the contract:

(1) The customer obtains and consumes the economic benefits generated as a result of performance of the contract by the Company while the Company performs the contract;

(2) The customer has the control over the products in process existing during performance of the contract by the Company;

(3) The goods produced during performance of the contract by the Company are for non-replaceable uses, and the Company has the right to be paid an amount in proportion to the progresses it has made so far in performing the contract during the whole term of the contract.

In all other cases, the foregoing obligations are deemed to be fulfilled at a certain time-point:

If the foregoing obligations are deemed to be fulfilled at a certain time-point, the Company will do revenue recognition at the time-point when the customer obtains the control over the goods or services concerned. When determining whether or not the customer has obtained the control over the goods or services concerned, the Company will take into consideration of the following preconditions:

(1) The Company has the right to be timely paid for the goods or services concerned;

(2) The goods concerned have been delivered by the Company to the customer;

(3) Legal title of the goods concerned or major risks and benefits therein or thereto have been transferred by the Company to the customer;

(4) The goods or services concerned have been accepted by the customer.

The Input Method is adopted by the Company to measure the progress of performance, which means that the progress of performance is measured based on the inputs from the Company for the purpose of fulfilling its contractual obligations. If the progress of performance is unlikely to be measured reasonably and the costs incurred by the Company therefore are expected to be reimbursable, revenue recognition will be done according to the amount of costs incurred until the progress of performance can be reasonably measured.

If two or more obligations are provided under the contract, the total transaction price will be allocated to each single obligation in proportion to sales price of the goods or services contemplated under each single obligation on the effective date of the contract. However, if there is conclusive evidence showing that any contract discount or variable consideration is only related to one or more (not all) obligations provided under the contract, the contract discount or variable consideration will be allocated by the Company to the one or more obligations. The foregoing sales price means the price at which goods or services are sold by the Company to the customer. Where the sales price is not directly observable, it will be estimated by the Company by taking into full consideration of all relevant information reasonably available and making best use of the observable input values.

If a variable consideration (such as sales discount, etc.) is provided under the contract, the Company will determine the best estimate of the variable consideration based on the expected value or the most-likely amount. A transaction price with a variable consideration included will not exceed the accumulated amount of the recognized revenue at which significant reversal is unlikely to occur when related uncertainties are eliminated. On each balance sheet date, the Company will re-estimate the amount of variable consideration to be included in transaction price.

If non-cash consideration is paid by the customer, the Company will determine the transaction price according to fair value of the non-cash consideration, or when fair value of the non-cash consideration cannot be reasonably estimated, the Company will indirectly determine the transaction price with reference to the sales price at which the Company promises to transfer goods or services to the customer.

For the deals conditional on return terms, the Company, upon the customer's acquisition of the control over the goods concerned, will recognize its revenue and liabilities based on the amount of consideration expected to be paid to the Company for the goods transferred to the customer (excluding the amount expected to be refunded to the customer as a result of any return) and the amount expected to be refunded to the customer as a result of any return, respectively. Moreover, the book value of the goods expected to be returned when they are transferred to the customer after deducting the estimated costs incurred for recalling those goods (including the value impairment of the returned goods), will be recognized as an asset, and the book value of the transferred goods when they are transferred after deducting net costs of the asset will be included in carry-over costs.

For the deals conditional on return terms, the Company will analyze the nature of the warranty provided by it, and if any additional service is provided under the warranty in addition to assuring the customer that the goods sold are in compliance with the exiting specifications, the additional service will be deemed as a single contractual obligation by the Company or be subject to accounting treatment by the Company according to Accounting Standards for Enterprises No. 13 - Contingencies.

In the event of any significant financing component in the contract, the Company will determine the transaction price according to the amount that is supposed to be paid and payable in cash by the customer upon its acquisition of the control over the goods or services concerned. The difference between the transaction price and the consideration of the contract, if any, will be amortized using the Real Interest Method during the term of the contract. The significant financing component in the contract will be ignored on the effective date of the contract if it is expected by the Company that the time interval between the date when the customer obtains the control over the goods or services concerned and the date when the purchase price is paid by the customer is no more than one year.

If any portion of purchase price of goods or services is prepaid by the customer to the Company, the portion will be first recognized as liabilities and then included in revenue after related contractual obligations are fulfilled. If the foregoing prepayment paid to the Company is not required to be refunded to the customer and the customer might waive all or part of its contractual rights, and if the Company expects to be entitled to the amount related to the contractual rights waived by the customer, such amount will be recognized as revenue in proportion as if those contractual rights are exercised by the customer. In any other cases, the Company will only include the balance of the foregoing liabilities in revenue when it is rarely possible that the customer will request the Company to fulfill the contractual obligations left unfulfilled.

The right of the Company to be paid the consideration for the goods or services transferred to the customer (the right depends on other factors other than the passage of time) is listed as a contract asset whose provision for impairment is made based on expected credit losses.

The unconditional right of the Company (only dependent on the passage of time) to be paid by the customer the consideration is listed as a receivable.

The obligation of the Company to transfer goods or services to the customer based on the consideration paid or payable by the customer to it is listed as a contract liability.

2. Contract costs

Contract costs include incremental costs incurred for the purpose of concluding contracts as well as contract performance costs.

2.1 Costs for concluding contracts

The incremental costs incurred for the purpose of concluding contracts mean the costs that the Company would not incur without concluding contracts (such as sales commission, etc.). The incremental costs, if expected to be recoverable, will be deemed as costs for concluding contracts and recognized as an asset by the Company. Other costs incurred by the Company for the purpose of concluding contract other than the incremental costs expected to be recoverable will be included in current profit and loss when incurred.

2.2 Contract performance costs

The costs incurred for the purpose of performing contracts that do not fall within inventory and other categories set out in enterprise accounting standards and principles and meet the following conditions, will be deemed as contract performance costs and recognized as an asset by the Company:

(1) The costs are directly related to an existing or expected contract, including direct labor costs, direct material fees, manufacturing expenses (or similar expenses), costs to be borne by the customer and other costs incurred for the sole purposes of the contract;

(2) The costs lead to additional resources required for the Company to fulfill its contractual obligations in the future;

(3) The costs are expected to be recoverable.

Assets recognized for the costs for concluding contracts as well as assets recognized for the contract performance costs (hereinafter referred to as the "Assets Related to Contract Costs") will be amortized on the same basis on which revenue from the goods or services related to the assets are recognized and will be included in current profit and loss, and if the amortization period is no more than one year, will be included in current profit and loss when incurred.

When book value of the Assets Related to Contract Costs is higher than the difference between the following two items, the excess will be made provision for impairment and recognized as asset impairment loss by the Company:

(1) The surplus consideration that the Company expects to be paid for the goods or services transferred by it in relation to the assets;

(2) The estimated costs for transferring the goods or services concerned.

II. The impact on the company

In accordance with the "Accounting Standards for Business Enterprises No. 14-Revenue" standard, the point rebate plan provided by the company and its holding subsidiaries to customers falls within the standard scope of contract liabilities of the standard, so the accounting is adjusted from "operating revenue" to "contract "liability" statement item. As of June 30, 2020, the impact of this adjustment on operating income is RMB 17,956,158. Please see the table below for details.

Corporate	Item	June 30, 2020
Consolidated corporate	Operating revenue	-17,956,158
	Contract liability	17,956,158

III. Opinions of Independent Directors

Independent Directors believe that the company's revision of its accounting policies is reasonable in accordance with the relevant requirements of the "Accounting Standards for Business Enterprises No. 14-Revenue" revised by the Ministry of Finance in 2017. The revised accounting policies comply with the relevant provisions of the standards. The company implements the revised accounting policy, which can objectively and fairly reflect the company's financial status and operating results. The procedure for the revision of the company's accounting policy complies with the relevant laws, regulations and the "Articles of Association", and there is no harm to the interests of the company and all shareholders. Therefore, we agree to the revision of this accounting policy.

IV. Opinions of Supervisors Committee

Supervisors believe that the accounting policy change is a reasonable and modification based on the specific accounting standards revised or newly issued by the Ministry of Finance. It is in compliance with the regulations. The implementation of the accounting policy change can objectively and fairly reflect the company's financial status and operating results; related decisions procedures comply with relevant laws and regulations and the "Articles of Association" and other provisions, and there is no harm to the interests of the company and shareholders. It is agreed that the company will implement this accounting policy change.

V. Documents for reference

1. Resolution of the Twentieth Meeting of the Ninth Board of Directors
2. Resolution of the Ninth Meeting of the Ninth Supervisors Committee
3. Independent Opinions of Independent Directors on the Modification of Corporate Accounting Policy

It is herewith announced.

Huaxin Cement Co., Ltd.
Board of Directors
August 28, 2020