

## Accounting Standards for Business Enterprises No. 19 - Foreign Currency Translation

### Chapter 1: General Provisions

#### Article 1

This Standard is formulated in accordance with the *Basic Standards for Enterprise Accounting* to regulate the accounting treatment of foreign currency transactions, translation of foreign currency financial statements, and related disclosures.

#### Article 2

Foreign currency transactions refer to transactions denominated or settled in foreign currencies. A foreign currency is any currency other than the functional currency. Foreign currency transactions include:

1. Purchase or sale of goods/services denominated in foreign currencies
2. Borrowing or lending of foreign currency funds
3. Other transactions denominated or settled in foreign currencies

#### Article 3

The following items are governed by other standards:

1. Exchange differences from foreign currency borrowings for qualifying assets (\*ASBE No. 17 - Borrowing Costs\*)
2. Hedging of foreign currency items (\*ASBE No. 24 - Hedge Accounting\*)
3. Foreign currency translation in cash flow statements (\*ASBE No. 31 - Cash Flow Statements\*)

### Chapter 2: Determination of Functional Currency

#### Article 4

The functional currency is the currency of the primary economic environment in which the enterprise operates. Enterprises shall normally use RMB as the functional currency. Enterprises with primary receipts/payments in foreign currencies may select one foreign currency as functional currency under Article 5, but financial statements must be translated to RMB.

#### Article 5

When selecting a functional currency, enterprises shall consider:

1. The currency that mainly influences sales prices (typically used for pricing/settlement)
2. The currency that mainly influences labor, materials and other costs
3. The currency obtained from financing activities and used for storing operating receipts

#### Article 6

For foreign operations, additionally consider:

1. Degree of autonomy in operations
2. Proportion of transactions with the reporting enterprise
3. Direct impact and repatriation ability of cash flows
4. Sufficiency of cash flows to settle debts

#### Article 7

Foreign operations include overseas subsidiaries, joint ventures, associates and branches. Domestic entities using different functional currencies are treated as foreign operations.

#### Article 8

The functional currency shall not be changed arbitrarily unless the primary economic environment changes significantly. Any change requires translation of all items at the spot exchange rate on the change date.

### Chapter 3: Accounting for Foreign Currency Transactions

#### Article 9

Foreign currency transactions shall be translated into the functional currency.

#### Article 10

Initial recognition shall use the spot exchange rate at transaction date or a systematically determined approximate rate.

#### Article 11

At balance sheet date:

1. Monetary items (cash/fixed amount assets/liabilities) are retranslated at closing rate, with differences recognized in profit or loss
2. Non-monetary items measured at historical cost remain at original transaction date rate

#### Chapter 4: Translation of Foreign Currency Financial Statements

#### Article 12

For foreign operations:

1. Assets/liabilities use closing rate; equity items (except retained earnings) use transaction date rates
  2. Income/expenses use transaction date rates or systematic approximations
- Translation differences are presented separately in equity.

#### Article 13

Hyperinflationary economies require price-level adjustments before translation.

#### Article 14

Upon disposal of foreign operations, cumulative translation differences are reclassified to profit or loss.

#### Article 15

Non-RMB functional currencies require RMB translation under Article 12.

#### Chapter 5: Disclosures

#### Article 16

Enterprises shall disclose:

1. Functional currencies and reasons for selection/changes
2. Methods for determining approximate rates
3. Exchange differences recognized in profit or loss
4. Effects of disposing foreign operations on translation differences

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