

Chapter 1 General Provisions

Article 1 This Standard is formulated in accordance with the Enterprise Accounting Standard – Basic Standard to prescribe the preparation and presentation of consolidated financial statements.

Article 2 Consolidated financial statements refer to financial statements that reflect the overall financial position, operating results, and cash flows of an enterprise group formed by a parent and all its subsidiaries.

A parent is an entity that controls one or more entities (including enterprises, separable portions of investees, structured entities controlled by the enterprise, etc., the same below).

A subsidiary is an entity controlled by the parent.

Article 3 Consolidated financial statements shall include at least the following components:

- (1) Consolidated balance sheet;
- (2) Consolidated income statement;
- (3) Consolidated cash flow statement;
- (4) Consolidated statement of changes in owners' equity (or shareholders' equity, the same below);
- (5) Notes.

If an enterprise group prepares consolidated financial statements at the end of an interim period, they shall include at least the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, and notes.

Article 4 A parent shall prepare consolidated financial statements.

If the parent is an investment entity and does not have a subsidiary that provides relevant services for its investment activities, it shall not prepare consolidated financial statements. Such a parent shall measure its investments in all subsidiaries at fair value in accordance with Article 21 of this Standard, with changes in fair value recognized in profit or loss.

Article 5 The translation of foreign currency financial statements shall comply with Enterprise Accounting Standard No. 19 – Foreign Currency Translation and Enterprise Accounting Standard No. 31 – Cash Flow Statements.

Article 6 The disclosure of interests in subsidiaries shall comply with Enterprise Accounting Standard No. 41 – Disclosure of Interests in Other Entities.

Chapter 2 Scope of Consolidation

Article 7 The scope of consolidation for consolidated financial statements shall be determined based on control.

Control refers to the power of an investor to govern the financial and operating policies of an investee so as to obtain variable returns from its involvement with the investee and the ability to use that power to affect the amount of those returns.

Related activities, as referred to in this Standard, are activities that significantly affect the investee's returns. The related activities of an investee shall be judged based on specific circumstances and usually include the sale and purchase of goods or services, management of financial assets, purchase and disposal of assets, research and development activities, and financing activities.

Article 8 An investor shall assess whether it controls an investee by considering all relevant facts and circumstances. If changes in relevant facts and circumstances cause changes in the elements involved in the definition of control, the investor shall reassess accordingly. Relevant facts and circumstances mainly include:

- (1) The purpose of the investee's establishment;
- (2) The investee's related activities and how decisions about those activities are made;
- (3) Whether the rights enjoyed by the investor currently give it the ability to direct the relevant activities of the investee;
- (4) Whether the investor obtains variable returns through its involvement in the investee's relevant activities;
- (5) Whether the investor has the ability to use its power over the investee to affect the amount of its returns;

(6) The relationship between the investor and other parties.

Article 9 An investor that enjoys present rights that give it the current ability to direct the relevant activities of an investee, regardless of whether it actually exercises those rights, is considered to have power over the investee.

Article 10 If two or more investors each enjoy present rights that unilaterally allow them to direct different related activities of an investee, the investor that can direct the activities that most significantly affect the investee's returns has power over the investee.

Article 11 When assessing whether it has power over an investee, an investor shall consider only substantive rights related to the investee, including substantive rights held by itself and by other parties.

Substantive rights are executable rights that the holder has the practical ability to exercise when making decisions about relevant activities. To determine whether a right is substantive, all relevant factors shall be considered, including whether there are financial, price, term, mechanism, information, operational, legal, or regulatory barriers that prevent the holder from exercising the right; when rights are held by multiple parties or require agreement from multiple parties for exercise, whether there is a practical mechanism that enables these rights holders to exercise their rights unanimously if they wish to do so; and whether the rights holder can benefit from exercising the right.

In some cases, substantive rights held by other parties may prevent the investor from controlling the investee. Such substantive rights include both proactive rights to propose motions for decision-making and passive rights to make decisions on proposed motions.

Article 12 An investor that holds only protective rights does not have power over an investee.

Protective rights are rights designed to protect the interests of the holder but not to give the holder decision-making rights over relevant activities. Protective rights are usually exercisable only when fundamental changes occur to the investee or in certain exceptional circumstances. They do not give the holder power over the investee, nor can they prevent other parties from having power over the investee.

Article 13 Unless there is conclusive evidence that it cannot direct the relevant activities of the investee, the following circumstances indicate that an investor has power over an investee:

- (1) The investor holds more than half of the voting rights of the investee.
- (2) The investor holds half or less of the voting rights of the investee but can control more than half of the voting rights through an agreement with other holders of voting rights.

Article 14 If an investor holds half or less of the voting rights of an investee, but after considering the following facts and circumstances, determines that the voting rights it holds are sufficient to give it the current ability to direct the relevant activities of the investee, it is considered to have power over the investee:

- (1) The size of the investor's voting rights relative to those held by other investors and the dispersion of voting rights held by other investors;
- (2) Potential voting rights in the investee held by the investor and other investors, such as convertible bonds, executable warrants, etc.;
- (3) Rights arising from other contractual arrangements;
- (4) Other relevant facts and circumstances, such as the investee's historical voting patterns.

Article 15 When voting rights cannot significantly affect the investee's returns, such as when they relate only to routine administrative activities of the investee and the investee's relevant activities are determined by contractual arrangements, the investor needs to assess these contractual arrangements to evaluate whether the rights it enjoys are sufficient to give it power over the investee.

Article 16 In some cases, it may be difficult for an investor to determine whether the rights it enjoys are sufficient to give it power over an investee. In such cases, the investor shall consider evidence of its practical ability to unilaterally direct the relevant activities of the investee to determine whether it has power over the investee. Factors the investor should consider include but are not limited to:

- (1) Whether the investor can appoint or approve the investee's key management personnel;
- (2) Whether the investor can make or veto significant transactions of the investee for its own benefit;
- (3) Whether the investor can control the appointment process of members of the investee's board of directors or similar governing body, or obtain proxies from other voting rights holders;
- (4) Whether there are related party relationships between the investor and the majority of members of the investee's key management personnel or board of directors or similar governing body.

If a special relationship exists between the investor and the investee, the impact of this special relationship shall be appropriately considered when assessing whether the investor has power over the investee. Special relationships usually include: the investee's key management personnel are current or former employees of the investor; the investee's operations depend on the investor; a significant portion of the investee's activities involve the investor or are conducted in the investor's name; the investor bears the risk or enjoys the profit of variable returns from the investee far exceeding the proportion of its voting rights or other similar rights.

Article 17 Returns obtained by an investor from an investee that may vary with the performance of the investee are considered variable returns. The investor shall assess the variability of returns based on the substance of the contractual arrangements rather than their legal form.

Article 18 When assessing whether it controls an investee, an investor shall determine whether it exercises decision-making rights as a principal or an agent. If other parties hold decision-making rights, it shall also determine whether those other parties exercise decision-making rights as its agents.

An agent exercises decision-making rights on behalf of a principal and does not control the investee. If an investor delegates decision-making rights over the relevant activities of an investee to an agent, those decision-making rights shall be considered as held directly by the investor.

Article 19 When determining whether a decision-maker is an agent, the relationship between the decision-maker and the investee and other investors shall be considered comprehensively.

(1) If a single party has substantive rights to remove the decision-maker unconditionally, the decision-maker is an agent.

(2) In cases other than (1), judgment shall be made based on comprehensive consideration of factors such as the scope of the decision-maker's authority over the investee, substantive rights held by other parties, the level of the decision-maker's remuneration, and the risk of variable return borne by the decision-maker due to holding other interests in the investee.

Article 20 An investor shall generally assess whether it controls the investee as a whole. However, in very rare circumstances, if there is conclusive evidence that all the following conditions are met and relevant laws and regulations are complied with, the investor shall treat a portion of the investee (hereinafter referred to as "that portion") as a separable portion (separate entity) and then assess whether it controls that portion (separate entity).

(1) The assets of that portion are the only source of payment for the liabilities or other equity of that portion and cannot be used to repay other liabilities of the investee outside that portion;

(2) Parties other than those related to that portion have no rights to the assets of that portion and no rights to the residual cash flows from the assets of that portion.

Article 21 A parent shall include all its subsidiaries (including separate entities controlled by the parent) in the scope of consolidation for consolidated financial statements.

If the parent is an investment entity, it shall include only subsidiaries that provide relevant services for its investment activities (if any) in the scope of consolidation and prepare consolidated financial statements; other subsidiaries shall not be consolidated, and the parent's investments in other subsidiaries shall be measured at fair value with changes in fair value recognized in profit or loss.

Article 22 A parent qualifies as an investment entity if it meets all the following conditions:

- (1) It obtains funds from one or more investors for the purpose of providing them with investment management services;
- (2) Its only business purpose is to generate returns for investors through capital appreciation, investment income, or both;
- (3) It measures and evaluates the performance of substantially all its investments on a fair value basis.

Article 23 An investment entity typically exhibits all the following characteristics:

- (1) It has more than one investment;
- (2) It has more than one investor;
- (3) Its investors are not related parties of the entity;
- (4) Its ownership interests are in the form of equity or similar interests.

Article 24 If the parent of an investment entity is not itself an investment entity, it shall consolidate all entities it controls, including those controlled indirectly through the investment entity.

Article 25 When a parent changes from a non-investment entity to an investment entity, it shall cease consolidating its other subsidiaries from the date of change, except for subsidiaries that provide relevant services for its investment activities, which shall be included in the consolidation. It shall account for other subsidiaries by reference to Article 49 of this Standard, following the principle that the subsidiaries are disposed of on the date of change but the remaining equity is retained.

When a parent changes from an investment entity to a non-investment entity, it shall include subsidiaries that were previously not consolidated from the date of change. The fair value of previously unconsolidated subsidiaries on the date of change shall be treated as the transaction consideration for acquisition.

Chapter 3 Consolidation Procedures

Article 26 A parent shall prepare consolidated financial statements based on its own and its subsidiaries' financial statements and other relevant information.

When preparing consolidated financial statements, the parent shall treat the entire enterprise group as a single accounting entity and, in accordance with the recognition, measurement, and presentation requirements of relevant enterprise accounting standards and using uniform accounting policies, reflect the overall financial position, operating results, and cash flows of the enterprise group.

- (1) Combine items such as assets, liabilities, owners' equity, income, expenses, and cash flows of the parent and subsidiaries.
- (2) Offset the parent's long-term equity investments in subsidiaries against the parent's share of the subsidiaries' owners' equity.
- (3) Eliminate the effects of internal transactions between the parent and subsidiaries and among subsidiaries. If internal transactions indicate that related assets have incurred impairment losses, those losses shall be fully recognized.
- (4) Make adjustments for special transactions from the perspective of the enterprise group.

Article 27 The parent shall ensure that subsidiaries adopt uniform accounting policies consistent with those of the parent.

If a subsidiary's accounting policies differ from those of the parent, the subsidiary's financial statements shall be adjusted to conform to the parent's accounting policies, or the subsidiary shall be required to prepare financial statements using the parent's accounting policies.

Article 28 The parent shall ensure that subsidiaries have uniform accounting periods consistent with that of the parent. If a subsidiary's accounting period differs from that of the parent, the subsidiary's financial statements shall be adjusted to conform to the parent's accounting period, or the subsidiary shall be required to prepare financial statements using the parent's accounting period.

Article 29 When preparing consolidated financial statements, in addition to providing financial statements to the

parent, subsidiaries shall also provide the following information:

- (1) Accounting policies that differ from those of the parent and their impact;
- (2) Explanations of accounting periods that differ from that of the parent;
- (3) Relevant information on all internal transactions with the parent and other subsidiaries;
- (4) Information on changes in owners' equity;
- (5) Other information needed to prepare consolidated financial statements.

Section 1 Consolidated Balance Sheet

Article 30 The consolidated balance sheet shall be prepared by the parent based on the balance sheets of the parent and subsidiaries, after eliminating the effects of internal transactions between the parent and subsidiaries and among subsidiaries on the consolidated balance sheet.

(1) The parent's long-term equity investments in subsidiaries shall be offset against the parent's share of the subsidiaries' owners' equity, and any corresponding impairment provisions for long-term equity investments shall also be eliminated.

Long-term equity investments held by subsidiaries in the parent shall be treated as treasury shares of the enterprise group and presented as a deduction from owners' equity under the "Less: Treasury shares" item in the consolidated balance sheet.

Long-term equity investments held among subsidiaries shall be offset against the corresponding share of owners' equity in the investee subsidiaries by reference to the method for offsetting the parent's investments in subsidiaries.

(2) Receivable and payable items between the parent and subsidiaries and among subsidiaries shall be offset, and any corresponding impairment provisions shall be eliminated.

(3) Unrealized profits or losses from internal sales included in inventory, fixed assets, construction materials, construction in progress, intangible assets, etc., arising from sales of goods (or provision of services, the same below) or other ways between the parent and subsidiaries and among subsidiaries shall be eliminated.

Provisions for decline in value or impairment related to inventory, fixed assets, construction materials, construction in progress, intangible assets, etc., that relate to unrealized internal profits or losses shall be eliminated.

(4) The effects of other internal transactions between the parent and subsidiaries and among subsidiaries on the consolidated balance sheet shall be eliminated.

(5) If the elimination of unrealized internal profits or losses results in temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and their tax bases in the respective tax entities, deferred tax assets or deferred tax liabilities shall be recognized in the consolidated balance sheet, with corresponding adjustments to income tax expense in the consolidated income statement, except for deferred taxes related to transactions or events directly recognized in owners' equity and business combinations.

Article 31 The portion of subsidiaries' owners' equity not attributable to the parent shall be presented as non-controlling interests under the owners' equity section in the consolidated balance sheet.

Article 32 For subsidiaries and businesses added during the reporting period due to business combinations under common control, the opening balances of the consolidated balance sheet shall be adjusted when preparing the consolidated balance sheet, and corresponding adjustments shall be made to the comparative statements, as if the combined reporting entity had existed since the time it was initially controlled by the ultimate controlling party.

For subsidiaries and businesses added due to business combinations not under common control or other ways, the opening balances of the consolidated balance sheet shall not be adjusted when preparing the consolidated balance sheet.

Article 33 For subsidiaries and businesses disposed of during the reporting period, the opening balances of the consolidated balance sheet shall not be adjusted when preparing the consolidated balance sheet.

Section 2 Consolidated Income Statement

Article 34 The consolidated income statement shall be prepared by the parent based on the income statements of the parent and subsidiaries, after eliminating the effects of internal transactions between the parent and subsidiaries and among subsidiaries on the consolidated income statement.

(1) Revenue and cost of sales from sales of goods between the parent and subsidiaries and among subsidiaries shall be eliminated.

If goods sold between the parent and subsidiaries and among subsidiaries are all sold to external parties by the end of the period, the buyer's cost of sales shall be offset against the seller's revenue.

If goods sold between the parent and subsidiaries and among subsidiaries are not sold to external parties by the end of the period and form assets such as inventory, fixed assets, construction materials, construction in progress, intangible assets, etc., the unrealized profits or losses included in these assets shall be eliminated while offsetting the cost of sales and revenue from the sales of goods.

(2) While eliminating unrealized profits or losses from internal sales included in fixed assets or intangible assets formed by sales of goods between the parent and subsidiaries and among subsidiaries, the portion of depreciation of fixed assets or amortization of intangible assets related to the unrealized profits or losses shall also be eliminated.

(3) Investment income, interest income, and other comprehensive income arising from holding each other's bonds between the parent and subsidiaries and among subsidiaries shall be offset against the corresponding interest expense of the issuer.

(4) Investment income from long-term equity investments held by the parent in subsidiaries and among subsidiaries shall be eliminated.

(5) The effects of other internal transactions between the parent and subsidiaries and among subsidiaries on the consolidated income statement shall be eliminated.

Article 35 The portion of the current net profit or loss of subsidiaries attributable to non-controlling interests shall be presented under the net profit item in the consolidated income statement as "Non-controlling interests".

The portion of the current comprehensive income of subsidiaries attributable to non-controlling interests shall be presented under the total comprehensive income item in the consolidated income statement as "Total comprehensive income attributable to non-controlling interests".

Article 36 Unrealized profits or losses from internal transactions arising from the parent selling assets to subsidiaries shall be fully eliminated against "Net profit attributable to owners of the parent".

Unrealized profits or losses from internal transactions arising from subsidiaries selling assets to the parent shall be allocated and eliminated between "Net profit attributable to owners of the parent" and "Non-controlling interests" based on the parent's allocation ratio for the subsidiary.

Unrealized profits or losses from internal transactions arising from sales of assets among subsidiaries shall be allocated and eliminated between "Net profit attributable to owners of the parent" and "Non-controlling interests" based on the parent's allocation ratio for the selling subsidiary.

Article 37 If the share of current losses attributable to non-controlling interests of a subsidiary exceeds the non-controlling interests' share of the opening owners' equity of the subsidiary, the excess shall still be charged against non-controlling interests.

Article 38 For subsidiaries and businesses added during the reporting period due to business combinations under common control, the income, expenses, and profits of these subsidiaries and businesses from the beginning of the combination period to the end of the reporting period shall be included in the consolidated income statement. Comparative statements shall be adjusted as if the combined reporting entity had existed since the time it was initially controlled by the ultimate controlling party.

For subsidiaries and businesses added due to business combinations not under common control or other ways, the income, expenses, and profits of these subsidiaries and businesses from the acquisition date to the end of the

reporting period shall be included in the consolidated income statement.

Article 39 For subsidiaries and businesses disposed of during the reporting period, the income, expenses, and profits of these subsidiaries and businesses from the beginning of the period to the disposal date shall be included in the consolidated income statement.

Section 3 Consolidated Cash Flow Statement

Article 40 The consolidated cash flow statement shall be prepared by the parent based on the cash flow statements of the parent and subsidiaries, after eliminating the effects of internal transactions between the parent and subsidiaries and among subsidiaries on the consolidated cash flow statement.

When this Standard refers to cash, it includes cash and cash equivalents unless cash equivalents are also mentioned.

Article 41 The preparation of the consolidated cash flow statement shall meet the following requirements:

- (1) Cash flows arising from investments made in cash or acquisition of equity interests between the parent and subsidiaries and among subsidiaries during the period shall be eliminated.
- (2) Cash received as investment income or interest income between the parent and subsidiaries and among subsidiaries during the period shall be offset against cash paid for distributing dividends, profits, or paying interest.
- (3) Cash flows arising from the settlement of receivables and payables in cash between the parent and subsidiaries and among subsidiaries shall be eliminated.
- (4) Cash flows arising from sales of goods between the parent and subsidiaries and among subsidiaries during the period shall be eliminated.
- (5) Net cash received from the disposal of fixed assets, intangible assets, and other long-term assets between the parent and subsidiaries and among subsidiaries shall be offset against cash paid for the acquisition or construction of fixed assets, intangible assets, and other long-term assets.
- (6) Cash flows arising from other internal transactions between the parent and subsidiaries and among subsidiaries during the period shall be eliminated.

Article 42 The consolidated cash flow statement and its supplementary notes may also be prepared based on the consolidated balance sheet and consolidated income statement.

Article 43 For subsidiaries and businesses added during the reporting period due to business combinations under common control, the cash flows of these subsidiaries and businesses from the beginning of the combination period to the end of the reporting period shall be included in the consolidated cash flow statement. Comparative statements shall be adjusted as if the combined reporting entity had existed since the time it was initially controlled by the ultimate controlling party.

For subsidiaries and businesses added due to business combinations not under common control, the cash flows of these subsidiaries from the acquisition date to the end of the reporting period shall be included in the consolidated cash flow statement.

Article 44 For subsidiaries and businesses disposed of during the reporting period, the cash flows of these subsidiaries and businesses from the beginning of the period to the disposal date shall be included in the consolidated cash flow statement.

Section 4 Consolidated Statement of Changes in Owners' Equity

Article 45 The consolidated statement of changes in owners' equity shall be prepared by the parent based on the statements of changes in owners' equity of the parent and subsidiaries, after eliminating the effects of internal transactions between the parent and subsidiaries and among subsidiaries on the consolidated statement of changes in owners' equity.

- (1) The parent's long-term equity investments in subsidiaries shall be offset against the parent's share of the subsidiaries' owners' equity.

Long-term equity investments held by subsidiaries in the parent and among subsidiaries shall be handled in

accordance with Article 30 of this Standard.

(2) Investment income from long-term equity investments held by the parent in subsidiaries and among subsidiaries shall be eliminated.

(3) The effects of other internal transactions between the parent and subsidiaries and among subsidiaries on changes in owners' equity shall be eliminated.

The consolidated statement of changes in owners' equity may also be prepared based on the consolidated balance sheet and consolidated income statement.

Article 46 If there are non-controlling interests, a "Non-controlling interests" column shall be added to the consolidated statement of changes in owners' equity to reflect changes in non-controlling interests.

Chapter 4 Accounting Treatment of Special Transactions

Article 47 When a parent acquires additional equity in a subsidiary from non-controlling shareholders, in the consolidated financial statements, the difference between the newly acquired long-term equity investment and the share of the subsidiary's net assets calculated based on the new ownership percentage and continuously measured from the acquisition date or combination date shall be adjusted to capital reserve (capital premium or share premium). If capital reserve is insufficient to absorb the difference, retained earnings shall be adjusted.

Article 48 If an enterprise gains control over an investee not under common control due to additional investment, etc., in the consolidated financial statements, the equity interest in the acquiree held prior to the acquisition date shall be remeasured at its fair value on the acquisition date. The difference between the fair value and the carrying amount shall be recognized in investment income for the current period. If the equity interest in the acquiree held prior to the acquisition date involves other comprehensive income under the equity method, the related other comprehensive income shall be reclassified to profit or loss of the period in which the acquisition date falls. The acquirer shall disclose in the notes the fair value of its previously held equity interest in the acquiree on the acquisition date and the amount of related gains or losses arising from remeasurement at fair value.

Article 49 If a parent disposes of part of its long-term equity investment in a subsidiary without losing control, in the consolidated financial statements, the difference between the disposal proceeds and the share of the subsidiary's net assets attributable to the disposed long-term equity investment, continuously measured from the acquisition date or combination date, shall be adjusted to capital reserve (capital premium or share premium). If capital reserve is insufficient to absorb the difference, retained earnings shall be adjusted.

Article 50 If an enterprise loses control of an investee due to disposal of part of its equity investment, etc., when preparing consolidated financial statements, the remaining equity interest shall be remeasured at its fair value on the date control is lost. The sum of the consideration received from the disposal and the fair value of the remaining equity interest, minus the share of the original subsidiary's net assets attributable to the original ownership percentage and continuously measured from the acquisition date or combination date, shall be recognized in investment income for the period in which control is lost, with goodwill written off accordingly. Other comprehensive income related to the original subsidiary's equity investment shall be reclassified to profit or loss when control is lost.

Article 51 If an enterprise disposes of its equity investment in a subsidiary in multiple transactions step by step until control is lost, and these transactions constitute a package deal, they shall be accounted for as a single transaction to dispose of the subsidiary and lose control. However, before control is lost, the difference between the disposal proceeds from each disposal and the share of the subsidiary's net assets corresponding to the disposed investment shall be recognized in other comprehensive income in the consolidated financial statements and reclassified to profit or loss of the period in which control is lost.

If the terms, conditions, and economic effects of the transactions involving the disposal of the equity investment in the subsidiary meet one or more of the following circumstances, it usually indicates that the multiple transactions should be accounted for as a package deal:

- (1) The transactions are entered into simultaneously or in contemplation of one another.
- (2) The transactions form a single transaction to achieve an overall commercial effect.
- (3) The occurrence of one transaction depends on the occurrence of at least one other transaction.
- (4) A transaction considered alone is not economically justified, but it is economically justified when considered together with other transactions.

Article 52 For transactions or events not listed in this chapter, if the recognition and measurement results from the perspective of the enterprise group's consolidated financial statements differ from those at the individual financial statement level of the parent or subsidiary, then when preparing consolidated financial statements, adjustments shall be made to the recognition and measurement results in accordance with Article 26(4) of this Standard.

Chapter 5 Transitional Provisions

Article 53 An enterprise adopting this Standard for the first time shall reassess its investees in accordance with this Standard to determine whether they should be included in the scope of consolidation. If the scope of consolidation changes due to first-time adoption of this Standard, retrospective adjustment shall be made, unless it is impracticable. Subsidiaries over which control was lost in comparative periods shall not be adjusted retrospectively.

Chapter 6 Supplementary Provisions

Article 54 This Standard shall be effective as of July 1, 2014.

Release Date: March 3, 2014