

Enterprise Accounting Standard No. 35 – Segment Reporting

Chapter 1 General Provisions

Article 1 This Standard is formulated in accordance with the Enterprise Accounting Standard – Basic Standard to prescribe the preparation of segment reporting and the disclosure of related information.

Article 2 An enterprise with multiple business operations or cross-regional operations shall disclose segment information in accordance with this Standard, unless otherwise specified by laws or administrative regulations.

Article 3 An enterprise shall disclose segment information based on the financial statements provided to external users.

An enterprise that provides consolidated financial statements to external users shall disclose segment information based on the consolidated financial statements.

Chapter 2 Identification of Reportable Segments

Article 4 An enterprise shall distinguish between business segments and geographical segments when disclosing segment information.

Article 5 A business segment is a distinguishable component of an enterprise that provides a single product or service or a group of related products or services, and that is subject to risks and returns that are different from those of other components.

When identifying business segments, an enterprise shall consider its internal management structure and the following factors:

- (1) The nature of individual products or services, including their specifications, models, and end uses;
- (2) The nature of production processes, including whether production is labor-intensive or capital-intensive, whether similar equipment and raw materials are used, and whether subcontracting or processing arrangements are employed;
- (3) The types of customers for products or services, including bulk customers and retail customers;
- (4) The methods of selling products or providing services, including wholesale, retail, direct sales, commission sales, and contracting;
- (5) The impact of laws and administrative regulations on the production of products or provision of services, including restrictions on business scope or transaction pricing.

Article 6 A geographical segment is a distinguishable component of an enterprise that provides products or services within a specific economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

When identifying geographical segments, an enterprise shall consider its internal management structure and the following factors:

- (1) The similarity of economic and political environments, including the stability of the economy and politics in foreign locations;
- (2) The relationships between operations in different regions, such as producing products in one region and selling them in another;
- (3) The proximity of operations, including whether products produced in one region require further processing in another region;
- (4) Specific risks associated with operations in a particular region, such as abnormal climate changes;
- (5) Foreign exchange control regulations, i.e., whether foreign exchange restrictions exist in the region of operation;
- (6) Exposure to foreign exchange risks.

Article 7 Two or more business segments or geographical segments may be combined if they meet all the following conditions:

- (1) They have similar long-term financial performance, including similar long-term average gross profit margins,

returns on capital, and future cash flows;

(2) They are similar in terms of the factors considered in identifying business segments or geographical segments.

Article 8 An enterprise shall identify reportable segments based on business segments or geographical segments. If a business segment or geographical segment derives a majority of its revenue from external customers and meets one of the following conditions, it shall be identified as a reportable segment:

- (1) Its segment revenue (including external and internal revenue) is 10% or more of the total revenue of all segments;
- (2) The absolute amount of its segment profit or loss is 10% or more of the greater of (a) the total profit of all profitable segments, or (b) the total loss of all loss-making segments (in absolute terms);
- (3) Its segment assets are 10% or more of the total assets of all segments.

Article 9 If a business segment or geographical segment does not meet the conditions specified in Article 8 of this Standard, it may be handled as follows:

- (1) It may be designated as a reportable segment regardless of its size;
- (2) If not designated as a reportable segment, it may be combined with one or more similar segments that also do not meet the conditions specified in Article 8 into a single reportable segment;
- (3) If not designated as a reportable segment and not combined with other segments, it shall be disclosed separately as an "other" category in segment reporting.

Article 10 If the total external revenue of reportable segments is less than 75% of the total consolidated or enterprise revenue, additional segments shall be identified as reportable segments (even if they do not meet the conditions in Article 8) until the 75% threshold is reached.

Article 11 If an enterprise's internal management is organized along different levels of vertical integration, each level may be identified as a separate reportable business segment, even if a majority of its revenue is not derived from external transactions.

Article 12 A segment identified as a reportable segment in the prior period shall continue to be treated as a reportable segment in the current period if it is still considered significant, even if it no longer meets the conditions in Article 8.

Chapter 3 Disclosure of Segment Information

Article 13 An enterprise shall disclose segment information in primary and secondary reporting formats.

- (1) If risks and returns are primarily influenced by differences in products and services, the primary format shall be business segments, and the secondary format shall be geographical segments.
- (2) If risks and returns are primarily influenced by operations in different countries or regions, the primary format shall be geographical segments, and the secondary format shall be business segments.
- (3) If risks and returns are significantly influenced by both differences in products and services and differences in geographical locations, the primary format shall be business segments, and the secondary format shall be geographical segments.

Article 14 For the primary reporting format, an enterprise shall disclose the following in the notes: segment revenue, segment expenses, segment profit or loss, total segment assets, and total segment liabilities.

- (1) Segment revenue includes revenue from external customers and revenue from transactions with other segments. Revenue from external customers and revenue from other segments shall be disclosed separately.
- (2) Segment expenses include expenses from external transactions and expenses from transactions with other segments. Depreciation, amortization, and other significant non-cash expenses shall be disclosed separately.
- (3) Segment profit or loss is the difference between segment revenue and segment expenses. In the consolidated income statement, segment profit or loss shall be determined before adjusting for non-controlling interests.
- (4) Segment assets are assets used in the segment's operating activities and attributable to the segment, excluding deferred tax assets.

The carrying amount of segment assets shall be disclosed after deducting accumulated depreciation, amortization,

and impairment losses.

The total cost of construction in progress, acquisitions of fixed assets, and intangible assets during the period shall be disclosed separately.

(5) Segment liabilities are liabilities arising from the segment's operating activities and attributable to the segment, excluding deferred tax liabilities.

Article 15 If a segment's activities are primarily financial in nature, interest income and interest expense shall be disclosed as segment revenue and segment expenses.

Article 16 Segment information disclosed shall be consistent with the aggregate information in the consolidated or enterprise financial statements.

Segment revenue shall reconcile to total external revenue (including external revenue not included in any segment); segment profit or loss shall reconcile to operating profit or loss and net profit or loss; total segment assets shall reconcile to total assets; and total segment liabilities shall reconcile to total liabilities.

Article 17 If the primary reporting format is business segments, the following shall be disclosed for the secondary reporting format (geographical segments):

(1) For geographical segments whose external revenue is 10% or more of total external revenue, disclose external revenue based on the location of external customers.

(2) For geographical segments whose segment assets are 10% or more of the total assets of all geographical segments, disclose total segment assets based on the location of assets.

Article 18 If the primary reporting format is geographical segments, the following shall be disclosed for the secondary reporting format (business segments):

(1) For business segments whose external revenue is 10% or more of total external revenue, disclose external revenue.

(2) For business segments whose segment assets are 10% or more of the total assets of all business segments, disclose total segment assets.

Article 19 Intersegment transactions shall be measured based on actual transaction prices. The basis for determining transfer prices and any changes thereto shall be disclosed.

Article 20 An enterprise shall disclose its accounting policies for segment reporting, unless they are the same as those used for consolidated or enterprise financial statements.

If a change in segment accounting policy has a material effect, it shall be disclosed in accordance with Enterprise Accounting Standard No. 28 – Changes in Accounting Policies and Accounting Estimates, and Corrections of Errors, and comparative data shall be provided. If it is impracticable to provide comparative data, the reason shall be stated. If an enterprise changes its segment classification and it is impracticable to provide comparative data, it shall disclose segment information for both the old and new classifications in the year of change.

Segment accounting policies include the policies adopted in preparing consolidated or enterprise financial statements and those specifically related to segment reporting, such as the basis for identifying segments, the method for determining transfer prices, and the basis for allocating revenue and expenses to segments.

Article 21 An enterprise shall provide comparative data when disclosing segment information, unless it is impracticable to do so.

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