

**Accounting Standards for Enterprises No. 34 - Earnings Per Share****Cai Kuai [2006] No.3****Chapter I General Provisions**

Article 1 In order to regulate the methods for the calculation of the earnings per share and the presentation thereof, these Standards are formulated according to the Basic Standards of Accounting Standards for Enterprises.

Article 2 This Standards applies to enterprises whose ordinary shares or potential ordinary shares have been traded publicly, and those that are going on a public offering of ordinary stocks or potential ordinary shares.

The term "potential ordinary stock" refers to a financial instrument or other contract that could endow its holder ordinary with ordinary share rights within reporting term or the following term, such as convertible corporate bonds, share warrants, share options and etc.

Article 3 In the consolidated financial statements, an enterprise shall calculate and present the earnings per share based on the consolidated financial statements.

**Chapter II Basic Earnings Per Share**

Article 4 For an enterprise, the basic earnings per share shall be calculated by dividing the current net profits belonging to the shareholders of ordinary shares by the weighted average number of ordinary shares issued to the public.

Article 5 The weighted average number of ordinary shares which are issued to the public shall be calculated in the light of the formulas as follows:

The weighted average number of ordinary shares issued to the public = the number of ordinary shares issued to the public at the beginning of the period + the number of shares newly issued in the current period × the lapsed time after issuance ÷ the time during the reporting period - the number of ordinary shares repurchased in the current period × the lapsed time after repurchase ÷ the time during the reporting period

The lapsed time after issuance, the time during the reporting period as well as the time after the repurchase shall be calculated by days. On the precondition of not affecting the reasonableness of calculation result, a simplified calculation method may be employed.

Article 6 In accordance with the specific terms and clauses of the issuance contract, the number of newly issued ordinary shares shall be calculated and decided as of the date of receivable consideration (generally the date of issuance of stocks), consisting of the circumstances as follows:

- (1) The number of ordinary shares issued for cash collection shall be calculated as of the date of cash receivable;
- (2) The number of ordinary shares issued as a result of conversion of debt to capital shall be calculated as of the date of cessation of calculation of debt interest or the settlement date;
- (3) As to a business combination not under the same control, the number of ordinary shares issued as a consideration shall be calculated as of the purchase date.

As to a business combination under the same control, the number of ordinary shares issued as a

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consideration shall be charged to the weighted average number of ordinary shares presented during each reporting period; and

(4) The number of ordinary shares issued for buying non-cash assets shall be calculated as of the date of recognition of the purchase.

### Chapter III Diluted Earnings Per Share

Article 7 If an enterprise has any diluted potential ordinary shares, it shall modulate the current net profits belonging to the shareholder of ordinary shares, and the weighted average number of ordinary shares issued to the public in a separately way, and then calculate the diluted earnings per share according to the adjusted results.

The term "diluted potential ordinary shares" refers to the potential ordinary shares of which the earnings per share shall be reduced on supposing they would be converted to ordinary shares in the current period.

Article 8 When calculating the diluted earnings per share, an enterprise shall modulate the current net profits belonging to the shareholders of ordinary shares in accordance with the items as follows:

(1) The interests of the diluted potential ordinary shares determined to be expenses in the current period; and

(2) The gains or expenses to be resulted from the conversion of the diluted potential ordinary shares.

The effects of the income tax on the aforesaid modulation shall be taken into consideration.

Article 9 When calculating the diluted earnings per share, the weighted average number of the ordinary shares issued to the public in the current period shall be the sum of the weighted average number of ordinary shares in calculating the basic earnings per share and the weighted average number of increased ordinary shares on supposing that the diluted potential ordinary shares convert into ordinary shares already issued.

When calculating the weighted average number of increased ordinary shares resulted from that the diluted potential ordinary shares convert into ordinary shares already issued, the diluted potential ordinary shares issued in prior periods shall be supposed to be converted at the beginning of the current period.

The diluted potential ordinary shares issued in the current period shall be supposed to be converted on the date of issuance.

Article 10 In case the exercise prices of the share warrants and share options are lower than the average market price of the ordinary shares of the current period, the dilution shall be taken into consideration. When calculating the diluted earnings per share, an enterprise shall calculate the number of the ordinary shares increased in accordance with the formula as follows:

The number of ordinary shares increased = the number of ordinary shares to be converted in the exercise of warrants - the exercise price  $\times$  the number of ordinary shares to be converted in the exercise of warrants  $\div$  the average market price of ordinary shares in the current period

Article 11 The dilution shall be taken into consideration when an enterprise promises that the price for the repurchase of its shares provided in the contract is higher than the average market price of

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the current period.

When calculating the diluted earnings per share, an enterprise shall calculate the number of the ordinary shares increased in accordance with the formula as follows:

The number of ordinary shares increased = the repurchase price  $\times$  the number of ordinary shares promised to repurchase  $\div$  the average market price of the current period - the number of ordinary shares promised to repurchase

Article 12 The diluted potential ordinary shares shall be charged to the diluted earnings per share based on the extent of dilution according to the sequential order from the big to the small, until the diluted earnings per share to be the minimum.

#### Chapter IV Presentation

Article 13 If the number of ordinary shares issued to the public or of potential ordinary shares is increased because of the distribution of stocks or dividends, the increase of capital converted by accumulation fund or share split-up, or is reduced because of reverse split-up, but causing no affect on the amount of the owner's equities, an enterprise shall recalculate the earnings per share in each presentation period in accordance with the number of post-adjustment shares.

In case the aforesaid changes occur during the period from the balance sheet date to the date on which the financial reports are authorized for issue, the earnings per share in each presentation period shall be recalculated in the light of the number of post-modulation shares.

In case any of the profits and losses of any previous year are retroactively modulated or restated in the light of the Accounting Standards for Enterprises No. 28 - Changes of Accounting Policies, Estimates and Corrections of Errors, the earnings per share during the period of presentation shall be recalculated.

Article 14 The basic earnings per share and the diluted earnings per share shall be respectively shown in the profit statements of an enterprise.

Article 15 The information related to the earnings per share as follows shall be brought into the open by an enterprise in its notes:

- (1) The calculating process of the numerators and denominators on the basic earnings per share and diluted earnings per share;
- (2) The potential ordinary that not possessing dilution during the presentation period but likely to possess dilution in the subsequent periods; and
- (3) The information about the great changes on the number of the ordinary shares issued by the enterprise to the public or the potential ordinary shares during the period from the balance sheet date to the date on which the financial reports are authorized for issue.

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