

Accounting Standard for Business Enterprises No. 33 - Consolidated financial statements**Caikuai [2006] No.3****Chapter I General Provisions**

Article 1: These Standards are formulated in accordance with the Accounting Standards for Enterprises - Basic Standards for the purpose of regulating the preparation and presentation of consolidated financial statements.

Article 2: 'consolidated financial statements' are structural reports about the financial status, business performances and cash flows of the enterprise group formulated by parent companies and subsidiary companies.

Parent company means the company has one or more subsidiary companies (or main body).

Subsidiary companies mean which are controlled by their parent company.

Article 3: The consolidated financial statements shall at least comprise the following parts:

- (1) The consolidated balance sheet;
- (2) The consolidated profit statement;
- (3) The consolidated cash flow statement;
- (4) The consolidated statement of changes in the owner's equities (or shareholder's equities, the same below); and
- (5) The notes.

Article 4: parent company should prepare consolidated financial statements.

Article 5: foreign currency financial statement translation shall be subject to the Accounting Standard for Business Enterprises No.19- Foreign Currency Translation and the Accounting Standards for Enterprises No. 31 - Cash Flow Statements.

Chapter II Consolidated Scope

Article 6: the scope of consolidated financial statements shall be confirmed base on the control.

Control means an enterprise can decide the financial and manage policy of another enterprise and have authority to earn the benefit from another enterprise.

Article 7: parent enterprises have more than half of voting rights of invested enterprises directly or by subsidiaries. Parent enterprises are able to control the invested company, so the invested company shall be determined its subsidiary within the consolidated scope. However, except for the invested company which can't be proved to without controlled by parent enterprise.

Article 8: parent enterprises having less than half of voting rights of invested enterprises, which meet one of the following conditions, shall be deemed that parent enterprise can control invested enterprises. The invested company shall be determined its subsidiary within the consolidated scope. However, except for the invested company which can't be proved to without controlled by parent enterprise:

more than half of voting rights of invested enterprises, through the agreement among the other investors of the invested company

rights to decide the financial and business policy of invested enterprise as the article of association or agreement

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have rights to appoint and removal most of members of the board of directors or such institutions have most of voting right in the board of directors or such institutions of invested enterprises.

Article 9: Whether controlling the invested enterprises, shall consider potential factors of voting rights, including the term of convertible bonds, executable warrants in the period and so on which deprive from invested enterprises owned by the enterprise and others.

Article 10: parent company shall put all subsidiaries involved in the consolidated scope of consolidated financial statement.

Chapter III consolidated process

Article 11: consolidated financial statement shall be prepared by parent enterprise based on the financial statement of parent enterprise and subsidiaries, according with other relevant materials, as adjusted long term share investment by equity method.

Article 12: parent company shall unify the accounting policy of each subsidiary and enable accounting policy of subsidiaries to keep consistent with which of parent enterprise.

The accounting policy is different from which of parent enterprise, which shall be adjusted as parent enterprise; or subsidiaries shall prepare financial statement again required by parent company.

Article 13: parent company shall unify the accounting periods of each subsidiaries to keep consistent with parent company.

The accounting period is different from parent enterprise's, which shall be adjusted as parent enterprise; or subsidiaries shall prepare financial statement again required by parent company.

Article 14: when preparing consolidated financial statement, subsidiaries shall provide listed materials besides financial statement:

- (1) Accounting policy inconsistent with its parent enterprise and its effected amount
- (2) Explanation of inconsistent accounting period
- (3) All relevant materials of internal transaction occurred among the parent enterprise and other subsidiaries
- (4) relevant materials for change of owner's equity
- (5) other materials for preparing consolidated financial statement

Sector I consolidated balance sheet

Article 15: consolidated balance sheet shall be prepared by parent enterprise based on the balance sheet of parent enterprise and subsidiary companies, which is offset the effect on the internal transaction between the parent enterprise and subsidiary company or among the subsidiaries.

(1) long-term share investment from parent companies to subsidiary companies and the parent enterprise enjoyed share of owner's equity of subsidiaries shall be offset against each other and corresponding depreciation preparation of long term share investment.

On the acquisition date, the balance of long-term share investment from parent companies to subsidiary companies and the parent company enjoyed share of owner's equity of subsidiaries shall be indicated in the goodwill item. For the depreciation of goodwill, shall be indicated according with test for devaluation.

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Long-term share investment from each company and long-term share investment from subsidiaries to parent company shall be offset correspondence with the long-term share investment as above regulation.

(2) the credit and debt from parent enterprises and subsidiary company or among subsidiaries shall be offset against each other, meanwhile corresponding to offset the bad debt provision and depreciation preparation for bond investment.

After the bond investments and bond payable from parent enterprises and subsidiary company or among subsidiaries are offset against each other, the balance shall be included into investment income item.

(3) The unrealized internal sales profit and loss, which included in the sales of goods or inventory, fixed assets, construction materials, construction in process and intangible assets, from the parent enterprise and subsidiary enterprise or among the subsidiaries, shall be offset.

The devaluation preparation or depreciation preparation for inventory, fixed assets, construction materials, construction in process and intangible assets shall be offset with relevant unrealized internal sales profit and loss.

(4) Other internal transactions occurred between parent enterprise and subsidiary company or among the subsidiaries, which have an effect on consolidated financial statement, shall be offset.

Article 16: for the shares in the owner's equity of subsidiary company not belong to parent enterprise, shall be indicated in the item of "minority shareholders' equity" belonging the owner's equity in the consolidated balance sheet.

Article 17: In the period of report, for the added subsidiary companies controlled by the same enterprise preparing the balance sheet, shall adjust the beginning balance of the consolidated financial statement.

The added subsidiary company not controlled by the same enterprise preparing the balance sheet, shall not adjust the beginning balance of the consolidated financial statement.

Article 18: for parent enterprise settle the subsidiary company during the report period, preparing the consolidate balance sheet shall not adjust the beginning balance of the consolidated financial statement.

Sector II consolidated profit statement

Article 19: consolidated profit statement shall be prepared by parent company based on the profit statements of parent company and subsidiaries, which is offset the effect on the internal transaction occurred between parent company and subsidiaries or among the subsidiaries.

(1) Operating revenue and operating cost from the sales of goods among the parent company and subsidiary company or subsidiaries each other shall be offset.

For realized total external sales of goods between parent enterprise and subsidiaries or among the subsidiaries with each other in the end of period, the operating cost of purchaser shall be offset against the operating revenue of supplier.

For inventory, fixed assets, construction materials, construction in process and intangible assets resulting from not realized total external sales of goods between parent enterprise and subsidiaries or among the subsidiaries with each other, the operating cost and operating revenue shall be offset against by each other, meanwhile shall offset the unrealized sales profit and loss

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involved in several assets.

(2) The unrealized internal sales profit and losses including the fixed assets or intangible assets resulting from the sales of goods between the parent company and subsidiary company or among the subsidiaries shall be offset, as well as the fixed assets depreciation or the intangible amortization and the relevant part with the unrealized internal sales profit and losses shall be offset.

(3) the investment income from holding counterpart's bond between the parent company and subsidiary company or among the subsidiaries, shall be offset against the corresponding issuers' interest expense.

(4) The investment income from holding counterpart's long-term share investment from the parent company to subsidiary company or among the subsidiaries, shall be offset.

(5) Other internal transactions having effect on consolidated profit statement, which occurred between the parent company and subsidiary company or among the subsidiaries, shall be offset.

Article 20: The shares belonging to the minority shareholder's equity in the net profit and loss in the current period shall be indicated in the item of minority shareholders' equity under the net profit of consolidated financial statement.

Article 21: for the deficit of current period exceeding the share in the beginning of owner's equity, the balance should be treated separately as following situations:

(1) The balance shall offset against the minority shareholder's equity, which minority shareholders having obligation to assume and minority shareholders have capacity to compensate as article of association or agreements.

(2) For not regular minority shareholders to assume, the balance shall be offset against owner's equity of parent enterprise. The profit of the subsidiary company to be realized in the following periods, which is not belong the owner's equity until it compensate the minority shareholders loss assumed by owner's equity of parent company.

Article 22: In the period of report, for the added subsidiary companies controlled by the same enterprise, shall involve the incomes, expenses and profits of the combining party incurred from the beginning of the current period to the combining date into consolidated profit statement.

For the added subsidiary company not controlled by the same enterprise, the incomes, expenses and profits of the combing party incurred from the acquisition date to the end of reporting period shall be involved into the consolidated profit statement.

Article 23: In the period of report, for the parent company settling the subsidiaries company, the incomes, expenses and profits from the beginning to the settlement date shall be involved in the consolidated profit statement.

Sector III consolidated cash flow statement

Article 24: consolidated cash flow statement shall be prepared by parent company based on the cash flow statements of parent company and subsidiaries, which is offset the effect on the internal transaction occurred between parent company and subsidiaries or among the subsidiaries.

The cash as mentioned in these Standards shall include cash and cash equivalents unless the cash equivalents are mentioned simultaneously

Article 25: preparing the cash flow statement shall be according with the following requirements:

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(1) for cash investment or added investment by purchasing equity incurred from between the parent company and subsidiaries company or among the subsidiaries in the current period, the cash flow shall be offset.

(2) for investment income from between the parent company and subsidiaries company or among the subsidiaries, the cash shall be offset against the dividend distribution, profit or interest payment of cash by each other.

(3) for credit and debt of cash settlement from the parent company and subsidiaries or among the subsidiaries, the cash flow shall be offset.

(4) for sales of goods incurred from between the parent company and subsidiaries company or among the subsidiaries, the cash flow of the current period shall be offset.

(5) for the settlement of fixed assets, intangible assets and other long term assets incurred from between the parent company and subsidiaries company or among the subsidiaries, the net cash of collection shall be offset against the payment of cash for purchasing fixed assets, intangible assets and other long term assets.

(6) for other internal transaction incurred from between the parent company and subsidiaries company or among the subsidiaries, the cash flow shall be offset.

Article 26: the supplementary of consolidated cash flow statement is prepared on basis of consolidated balance sheet and consolidated profit statement.

Article 27: during the added subsidiaries under the same control, the consolidated cash flow statement shall include the cash flow of the parties to the combination from the beginning of the current period to the reporting period.

The subsidiary company not controlled by the same enterprise, the consolidated cash flow statement shall include the cash flow from the acquisition date to the end to reporting period.

Article 28: during the settling the subsidiary company, the consolidated cash flow statement shall include the cash flow from the beginning of the current period to the settlement date.

Sector IV The consolidated statement of changes in the owner's equities

Article 29: The consolidated statement of changes in the owner's equities shall be prepared by parent company based on the statement of changes in the owner's equities of parent company and subsidiary company, which is offset the effect on the statement of changes in the owner's equities resulting from internal transaction between parent company and subsidiaries or among the subsidiaries.

(1) long term share investment from parent company to subsidiary company shall be offset against the parent company's shares in the owner's equity of subsidiary company.

For the long-term share investment from each company and from subsidiaries to parent company shall be offset against the shares in the owner's equity of corresponding subsidiaries or parent company as above regulation.

(2) for the long term share investment from parent company to subsidiary company or among each other subsidiaries, the investment income shall be offset.

(3) for the other internal transaction between parent company and subsidiary or among the subsidiaries, the changes of owner's equity shall be offset.

The consolidated statement of changes in the owner's equities may be prepared based on the

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consolidated balance sheet and consolidated profit statement.

Article 30: minority shareholders shall be separately presented in the changes of owner's equities, which reflect the situations of changes in the minority shareholders' equities.

Chapter IV Disclosure

Article 31: enterprises shall disclose the following information:

- (1) list of subsidiaries include name of enterprises, registered address, business operation, share proportion of parent company and the proportion of voting right.
- (2) the reason for having control rights but holding the less than half of voting right of invested company directly or through the subsidiary company.
- (3) the reason for not having control rights but holding the more than half of voting right of invested company directly or through the subsidiary company.
- (4) the accounting policy adopted by subsidiary company is different from that by the parent company, the process method for preparing consolidated financial statement and its effect.
- (5) the accounting period of subsidiary company is different from that of parent company, the process method for preparing consolidated financial statement and its effect.
- (6) the added subsidiaries in the current period shall be disclosed as <Accounting Standards for Enterprises No. 20 - Business Combinations>
- (7) for the original subsidiaries without involved in the consolidated scope, shall explain the name of enterprise, registered address, business operation, share proportion of parent company, the proportion of voting right, reason for no to be subsidiaries; the assets, liabilities and owner's equities on the settlement date and last accounting period; and the income, cost, profit from the begging of the current period to the settlement date.
- (8) explanation for the capacity of transfer cash from subsidiaries to parent company being severely restricted
- (9) other subject matters in the explanatory note

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