

Accounting Standards for Enterprises No. 36 - Disclosure of Affiliated Parties**Cai Kuai [2006] No. 3****Chapter I General Provisions**

Article 1 With a view to regulating the disclosure of information about affiliated parties and transactions among them, these Standards are formulated in accordance with Accounting Standards for Enterprises - Basic Standards.

Article 2 An enterprise shall, in its financial statements, disclose the related information about all affiliated party relationships and the transactions among them.

If it offers consolidated financial statements to outsiders, it is not required to disclose the transactions among the enterprises that have been included in the scope consolidation, but it shall disclose the affiliated party relationships and transactions beyond the scope of consolidation.

Chapter II Affiliated Parties

Article 3 When a party controls, jointly controls or exercises significant influence over another party, or when two or more parties are under the control, joint control or significant influence of the same party, the affiliated party relationships are constituted.

The term "control" means having the power to decide an enterprise's financial and operating policy and obtains benefits from its business activities.

The term "joint control" means control over an economic activity as specified by contract, which exists only when the investing parties that need to share the power of control in important financial and operating decision-making agree unanimously.

The term "significant influence" means having the power to participate in the formulation of financial and operating policies of an enterprise, but not the power to control or jointly control the formulation of these policies together with other parties.

Article 4 The following parties constitute the affiliated parties of an enterprise:

- (1) The parent company thereof;
- (2) The subsidiaries thereof;
- (3) Other enterprises under the control of the same parent company thereof;
- (4) The investors having joint control over the enterprise;
- (5) The investors having significant influence thereon;
- (6) The joint ventures thereof;
- (7) The associated enterprises thereof;
- (8) The main individual investors and the close family members thereof. A main individual investor refers to an individual investor who can control or jointly control an enterprise, or has significant influence thereon; and
- (9) Key managerial personnel of the enterprise or of its parent company and the close family members thereof. Key managerial personnel refer to those who have the power of and responsibility for planning, directing and controlling the activities of the enterprise.

The close family members of a main individual investor or of a key managerial person refer to the family members who may influence or be influenced by that individual in handling transactions

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with the enterprise.

(10) Other enterprises the main individual investors, key managerial personnel, or close family members of such individuals control, jointly control or have significant influence over .

Article 5 Where one party has the following relationship with one enterprise, it is not an affiliated party thereof.

(1) The capital providers, public utility units, government departments and organs which have normal dealings therewith;

(2) A single customer, supplier, franchiser, distributor or agent with whom an enterprise transacts a significant volume of business by virtue only of the resulting economic dependence; and

(3) The joint venture operators which jointly control a joint venture therewith.

Article 6 Enterprises shall not be regarded as affiliated parties simply because they are all under the control of the state.

Chapter III Affiliated Party Transaction

Article 7 The term "affiliated party transaction" refers to an event whereby a transfer of resources, labor services or obligations takes place between affiliated parties, irrespective of whether money is charged.

Article 8 The types of affiliated party transaction usually include as follows:

(1) Purchases or sales of goods;

(2) Purchasing or selling assets other than goods;

(3) Rendering or receiving labor services;

(4) Guarantying;

(5) Providing capital (including loans or equity contributions);

(6) Leasing;

(7) Agency;

(8) Transfer of research and development projects;

(9) License agreements;

(10) Settling debts on behalf of an enterprise or by this enterprise that represents another party; and; and

(11) The emoluments for key managerial personnel.

Chapter IV Disclosure

Article 9 An enterprise shall, in the annotations to the financial statements, disclose the following information about the parent company and subsidiaries thereof, irrespective of whether there have been transactions between them:

(1) The names of the parent company and subsidiaries thereof

Where the parent company is not the ultimate controlling party of the enterprise, it shall disclose the name of the ultimate controlling party.

Where neither the parent company nor the ultimate controlling party provides the financial statements to outsiders, it shall disclose the name of the parent company which is its closest superior parent company providing financial statements to outsiders.

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- (2) The nature of business, name, place of registration, and registered capital (or actually paid-in capital, stock capital) and changes therein of the parent company and its subsidiaries; and
- (3) The proportion of shares or voting rights held by the parent company in this enterprise or by this enterprise in its subsidiaries.

Article 10 Where there have been transactions between an enterprise and its affiliated parties, it shall disclose the nature of the affiliated party relationships, the types of transactions and the elements of transaction in the annotations. The elements of transaction shall at least include:

- (1) the amount of transactions,
- (2) the amounts, terms and conditions of outstanding items, and the information about the guaranties granted to others or obtained,
- (3) the amounts of provisions for non-performing debts under outstanding items, and
- (4) price policies.

Article 11 Affiliated party transactions shall be disclosed on the basis of the affiliated parties and the types of the transactions involved.

The affiliated party transactions of similar types may be disclosed in aggregate in case that it does not affect readers' correct understanding of the financial statements.

Article 12 No enterprise may disclose an affiliated party transaction as a fair transaction unless it provides exact proofs.

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