Accounting Standard for Business Enterprises No. 2 — Long-Term Equity Investments (China)

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Unofficial English translation prepared for reference only. The official Chinese text prevails.

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Chapter I — General Provisions

Article 1 — For the purpose of regulating the recognition and measurement of long-term equity investments, this Standard is formulated in accordance with the Accounting Standards for Business Enterprises — Basic Standard.

Article 2 — For the purposes of this Standard, “long-term equity investments” refers to equity investments through which the investor exercises control over, or exercises significant influence on, the investee, and equity investments in the investor’s joint ventures. When determining whether the investor can exercise control over the investee, the investor shall make the judgment in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 33 — Consolidated Financial Statements. Where the investor can exercise control over the investee, the investee is its subsidiary, except where the investor is an investment entity as defined in Accounting Standards for Business Enterprises No. 33 — Consolidated Financial Statements and the subsidiary is not included in the consolidated financial statements. “Significant influence” refers to the power to participate in the decision-making on the financial and operating policies of

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the investee, but not the power to control, or jointly with other parties control, the formulation of those policies. When determining whether the investor can exercise significant influence over the investee, the investor shall consider potential voting rights factors such as the investee's currently convertible corporate bonds and currently exercisable warrants held by the investor and other parties. Where the investor can exercise significant influence over the investee, the investee is its associate. When determining whether the investee is a joint venture, the judgment shall be made in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 40 — Joint Arrangements.

Article 3 — The following items shall be subject to other relevant accounting standards: (1) The translation of long-term equity investments denominated in foreign currency shall be subject to Accounting Standards for Business Enterprises No. 19 — Foreign Currency Translation. (2) Financial assets held by venture capital institutions, mutual funds, and similar entities that, at initial recognition, are measured at fair value with changes recognized in profit or loss for the current period in accordance with Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments, equity investments made by an investment entity in a subsidiary that is not included in the consolidated financial statements, and other equity investments not governed by this Standard, shall be subject to Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments.

Article 4 — The disclosure of long-term equity investments shall be subject to Accounting Standards for Business Enterprises No. 41 — Disclosure of Interests in Other Entities.

Chapter II — Initial Measurement

Article 5 — For a long-term equity investment formed through a business combination, its initial investment cost shall be determined in accordance with the following provisions: (1) For a business combination under common control, where the combining party pays cash, transfers non-cash assets, or assumes liabilities as the consideration for the combination, the initial investment cost of the long-term equity investment shall be the share of the book value of the owners' equity of the combined party in the consolidated financial statements of the ultimate controlling party as at the combination date. The difference between the initial investment cost of the long-term equity investment and the book value of the cash paid, the non-cash assets transferred, and the liabilities assumed shall be adjusted against capital reserve; where the capital reserve is insufficient to offset the difference, the retained earnings shall be adjusted. Where the combining party issues equity securities as the consideration for the combination, the initial investment cost of the long-term equity investment shall be the share of the book value of the owners' equity of the combined party in the consolidated financial statements of the ultimate controlling party as at the combination date. The total par value of the shares issued shall be treated as share capital, and the difference between the initial investment cost of the long-term equity investment and the total par value of the shares issued shall be adjusted against capital reserve; where the capital reserve is insufficient to offset the difference, the retained earnings shall be adjusted. (2) For a business combination not under common control, the acquirer shall, as at the acquisition date, use the cost of combination determined in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 20 — Business Combinations as the initial investment cost of the long-term equity investment. Intermediary expenses such as audit, legal service, and valuation and consulting fees, and other related administrative expenses incurred by the combining party or the acquirer for the business combination, shall be recognized in profit or loss for the current period when incurred.

Article 6 — For a long-term equity investment acquired by means other than a business combination, its initial investment cost shall be determined in accordance with the following provisions: (1) For a long-term equity investment acquired by paying cash, the initial investment cost shall be the purchase price actually paid. The initial investment cost includes fees, taxes, and other necessary expenditures directly related to the acquisition of the long-term equity investment. (2) For a long-term equity investment acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued. Expenses directly related to the issuance of the equity securities shall be determined in accordance with the relevant

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provisions of Accounting Standards for Business Enterprises No. 37 — Presentation of Financial Instruments. (3) For a long-term equity investment acquired through an exchange of non-monetary assets, its initial investment cost shall be determined in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 7 — Exchange of Non-Monetary Assets. (4) For a long-term equity investment acquired through a debt restructuring, its initial investment cost shall be determined in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 12 — Debt Restructurings.

Chapter III — Subsequent Measurement

Article 7 — A long-term equity investment through which the investor can exercise control over the investee shall be accounted for using the cost method.

Article 8 — A long-term equity investment accounted for using the cost method shall be measured at its initial investment cost. Where an investment is added or recovered, the cost of the long-term equity investment shall be adjusted. Cash dividends or profits declared for distribution by the investee shall be recognized as investment income for the current period.

Article 9 — A long-term equity investment of the investor in an associate or a joint venture shall be accounted for using the equity method in accordance with Articles 10 to 13 of this Standard. Where part of the investor's equity investment in an associate is held indirectly through a venture capital institution, a mutual fund, a trust company, or a similar entity including unit-linked insurance funds, the investor may, regardless of whether the above entities exercise significant influence over that part of the investment, elect to measure that indirectly held part of the investment at fair value with changes recognized in profit or loss in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments, and account for the remaining part using the equity method.

Article 10 — Where the initial investment cost of a long-term equity investment is greater than the investor's share of the fair value of the investee's identifiable net assets at the time of investment, the initial investment cost of the long-term equity investment shall not be adjusted; where the initial investment cost of the long-term equity investment is less than the investor's share of the fair value of the investee's identifiable net assets at the time of investment, the difference shall be recognized in profit or loss for the current period and the cost of the long-term equity investment shall be adjusted accordingly. The fair value of the identifiable net assets of the investee shall be determined by analogy with the relevant provisions of Accounting Standards for Business Enterprises No. 20 — Business Combinations.

Article 11 — After obtaining a long-term equity investment, the investor shall recognize investment income and other comprehensive income respectively according to its share of the net profit or loss and other comprehensive income realized by the investee, and adjust the carrying amount of the long-term equity investment accordingly; the investor shall reduce the carrying amount of the long-term equity investment correspondingly by the portion computed according to the profits or cash dividends declared for distribution by the investee; for other changes in the owners' equity of the investee other than net profit or loss, other comprehensive income, and profit distribution, the investor shall adjust the carrying amount of the long-term equity investment and recognize the changes in owners' equity. When recognizing its share of the net profit or loss of the investee, the investor shall recognize the share after adjusting the net profit of the investee based on the fair value of the identifiable net assets of the investee at the time the investment was obtained. Where the accounting policies and accounting periods adopted by the investee are inconsistent with those of the investor, the financial statements of the investee shall be adjusted in accordance with the accounting policies and accounting periods of the investor, and investment income and other comprehensive income shall be recognized on that basis.

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Article 12 — Where the investor recognizes a net loss incurred by the investee, the recognition shall be limited to reducing the carrying amount of the long-term equity investment and other long-term interests that in substance form a net investment in the investee to zero, except where the investor is obligated to bear additional losses. Where the investee subsequently realizes net profit, the investor shall resume recognizing its share of the profit after its share of the profit makes up for the unrecognized share of losses.

Article 13 — When the investor calculates and recognizes its share of the net profit or loss of the investee, the portion of unrealized profits or losses from internal transactions between the investor and the associate or joint venture attributable to the investor, computed according to the investor's shareholding proportion, shall be offset, and investment income shall be recognized on that basis. Where unrealized internal transaction losses incurred between the investor and the investee constitute asset impairment losses in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 8 — Impairment of Assets and other standards, they shall be recognized in full.

Article 14 — Where, as a result of additional investment or other reasons, the investor becomes able to exercise significant influence over, or to exercise joint control over, the investee without constituting control, the sum of the fair value of the previously held equity investment determined in accordance with Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments and the cost of the newly added investment shall be used as the initial investment cost for switching to the equity method. Where the previously held equity investment was classified as an available-for-sale financial asset, the difference between its fair value and carrying amount, and the accumulated changes in fair value previously recognized in other comprehensive income, shall be transferred to profit or loss for the current period when switching to the equity method. Where, as a result of additional investment or other reasons, the investor becomes able to exercise control over an investee not under common control, the sum of the carrying amount of the previously held equity investment and the cost of the newly added investment shall, when preparing separate financial statements, be used as the initial investment cost for switching to the cost method. Other comprehensive income recognized on the equity investment held before the acquisition date as a result of applying the equity method shall be accounted for, upon disposal of that investment, on the same basis as if the investee directly disposed of the related assets or liabilities. Where the equity investment held before the acquisition date was accounted for in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments, the accumulated changes in fair value previously recognized in other comprehensive income shall be transferred to profit or loss for the current period when switching to the cost method. When preparing consolidated financial statements, the accounting treatment shall be made in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 33 — Consolidated Financial Statements.

Article 15 — Where the investor loses joint control over, or significant influence on, the investee as a result of disposing of part of its equity investment or for other reasons, the remaining equity interest after the disposal shall be accounted for in accordance with Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments, and the difference between its fair value and carrying amount on the date of losing joint control or significant influence shall be recognized in profit or loss for the current period. Other comprehensive income recognized on the original equity investment as a result of applying the equity method shall be accounted for, upon ceasing to apply the equity method, on the same basis as if the investee directly disposed of the related assets or liabilities. Where the investor loses control over the investee as a result of disposing of part of its equity investment or for other reasons, the remaining equity interest after the disposal, where it enables the investor to exercise joint control over or significant influence on the investee, shall, when preparing separate financial statements, be accounted for using the equity method, and the remaining equity interest shall be adjusted as if the equity method had been applied from the time it was obtained; where the remaining equity interest after the disposal does not enable the investor to exercise joint control over or significant influence on the investee, it shall be accounted for in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 22 —

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Recognition and Measurement of Financial Instruments, and the difference between its fair value and carrying amount on the date of losing control shall be recognized in profit or loss for the current period. When preparing consolidated financial statements, the accounting treatment shall be made in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 33 — Consolidated Financial Statements.

Article 16 — Where all or part of an equity investment in an associate or a joint venture is classified as held for sale, the investor shall account for it in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 4 — Fixed Assets, and the remaining equity investment not classified as held for sale shall be accounted for using the equity method. Where an equity investment in an associate or a joint venture that has been classified as held for sale no longer meets the conditions for classification as held for sale, the equity method shall be applied retrospectively from the date on which it was classified as held for sale. The financial statements for the period during which it was classified as held for sale shall be adjusted accordingly.

Article 17 — Upon disposal of a long-term equity investment, the difference between its carrying amount and the consideration actually received shall be recognized in profit or loss for the current period. For a long-term equity investment accounted for using the equity method, upon disposal of the investment, the portion previously recognized in other comprehensive income shall be accounted for on the same basis as if the investee directly disposed of the related assets or liabilities, in the corresponding proportion.

Article 18 — The investor shall pay attention to whether the carrying amount of a long-term equity investment is greater than its share of the book value of the owners' equity of the investee and similar circumstances. Where such circumstances arise, the investor shall perform an impairment test on the long-term equity investment in accordance with Accounting Standards for Business Enterprises No. 8 — Impairment of Assets, and where the recoverable amount is lower than the carrying amount of the long-term equity investment, an impairment allowance shall be recognized.

Chapter IV — Transitional Provisions

Article 19 — An enterprise that had already applied the Accounting Standards for Business Enterprises before the effective date of this Standard shall make retrospective adjustments in accordance with this Standard, except where retrospective adjustment is impracticable.

Chapter V — Supplementary Provisions

Article 20 — This Standard shall come into force on July 1, 2014.

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