Statement of
Financial Accounting Standards
No. 7

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Statement of Financial Accounting Standards No. 7

Consolidated Financial Statements

I Introduction

(1) This Statement establishes the accounting standards for the preparation and presentation of consolidated financial statements.

(2) This Statement does not deal with methods of accounting for business combinations and their effects on consolidation, including goodwill arising on a business combination.

II Definitions

(3) Terms used in this Statement are defined below:

(a) *Consolidated financial statements*: the financial statements of a group presented as those of a single economic entity;

(b) *Control*: the power to dominate and govern the financial, operating and personnel policies of an entity so as to obtain benefits from it's economic activities;

(c) *A subsidiary*: an entity that is controlled by another entity (known as the parent);

(d) *A parent*: an entity that has one or more subsidiaries;

(e) *A group*: a general term referring to a parent and all of its subsidiaries;

(f) *Majority interests*: the portion of the net income and net assets of a subsidiary attributable to equity interests that are owned, directly or indirectly through subsidiaries, by the parent;

(g) *Minority interests*: the portion of the net income and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent;

(h) *Intra-group gains* or *losses*: the resultant gains or losses from transactions entered into between a parent and its subsidiaries or between the subsidiaries.

(i) *Group net income*: the net income arrived by aggregating the individual net income of a group of entities under the control of a parent and then eliminating all intra-group transactions and the resulting unrealized gains or losses;

(j) *Parent's share of group net income*: the portion of group net income attributable to equity interests that are owned, directly or indirectly through subsidiaries, by the parent;

(k) *Associate*: an entity or a partnership over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture;

III Explanations

(4) Accounting information should focus on economic substance regardless of legal form. Considering legal, economic or other factors, a business sometimes may, through two or more legal entities (such as parent and subsidiaries), combine in order to operate. In such circumstances, it is impossible to understand the activities of the whole economic entity by merely reading a single entity's financial statements. Therefore, businesses should prepare consolidated financial statements to present the substance of the whole economic

entity.

(5) The stockholders of a parent are concerned about the financial position, operating results and changes in financial position of a group rather than individual statements of the parent.

(6) The financial information of a group can be presented by preparing consolidated financial statements as if they are a single economic entity regardless of each company's independent legal position. This reporting form can fairly present the financial position, operating results, and changes in financial position.

(7) An investor may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the holder additional voting power or reduce another party's voting power over the financial, operating and personnel policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial, operating and personnel policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

(8) A subsidiary is not excluded from consolidation simply because the investor is a venture capital organization, mutual fund, unit trust or similar entity.

(9) A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different nature of business activities of subsidiaries. For example, the disclosures required by the Statement of Financial Accounting Standards No. 20

"Operating Segments" help to explain the significance of different nature of business activities within the group.

(10) A parent loses control when it loses the power to govern the financial, operating and personnel policies of an investee so as to obtain benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when a subsidiary becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

(11) In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:

(a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated (in accordance with the Statement of Financial Accounting Standards No. 25 "Business Combinations");

(b) minority interests in the net income of consolidated subsidiaries for the reporting period are identified; and

(c) minority interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them. Minority interests in the net assets consist of:

(i) the amount of those minority interests at the date of the original combination calculated in accordance with the Statement of Financial Accounting Standards No. 25 "Business Combinations"; and

(ii) the minority's share of changes in equity since the

date of the combination.

(12) When potential voting rights exist, the proportions of net income and changes in equity allocated to the parent and minority interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

(13) Intra-group balances and transactions, including income, expenses and dividends, are eliminated in full. Gains or losses resulting from intra-group transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full. Intra-group losses may indicate an impairment that requires recognition in the consolidated financial statements. The Statement of Financial Accounting Standards No. 22 "Income Taxes" applies to temporary differences that arise from the elimination of profits and losses resulting from intra-group transactions.

(14) Consolidated financial statements should include the following financial statements and footnotes:

(a) Consolidated Balance Sheet,

(b) Consolidated Income statement,

(c) Consolidated Changes of Owners' (Stockholders') Equity Statement, and

(d) Consolidated Cash Flows Statement.

(15) A parent or its subsidiary may be an investor in an associate or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Statement are also prepared so as to comply with the Statement of Financial Accounting Standards No. 5 "Long-term Investments under Equity Method" and the Statement of Financial Accounting Standards No. 31 "Interests in Joint Ventures".

IV Accounting standards

Preparation and scope of consolidated financial statements

Assessment of control

(16) Control is presumed to exist when an investor owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when an investor owns half or less of the voting power of an entity when there is:

(a) power over more than half of the voting rights by virtue of an agreement with other investors;

(b) power to govern the financial, operating and personnel policies of the entity under a statute or an agreement;

(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body;

(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body; or

(e) other facts and circumstances that contribute to control.

The fact that an investor has the power to control its investees establishes a parent-subsidiaries relationship.

(17) In assessing whether potential voting rights contribute to control, the investor examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual

arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.

A parent preparing consolidated financial statements

(18) A parent shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Statement. However, a parent need not present consolidated financial statements if and only if:

(a) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(b) the parent's debt or equity instruments are not traded in a public market;

(c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with this Statement.

Subsidiaries incorporated into consolidated financial statements

(19) Consolidated financial statements shall include all subsidiaries of the parent.

Accounting for subsidiaries classified as held for sale

(20) Investments in subsidiaries that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with paragraph 21 to paragraph 24 of the Statement of Financial Accounting Standards No. 38 "Non-current Assets Held for Sale and Discontinued Operations" shall be accounted for in accordance with that Statement.

(21) Deleted

Consolidation procedures

(22) Intra-group balances, transactions, income and expenses shall be eliminated in full.

(23) The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.

(24) When, in accordance with paragraph 23, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a date different from that of the parent's financial statements, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the end of the reporting period of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

(25) Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Accounting for acquisition or loss of control

(26) The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date when the parent ceases to control the subsidiary.

(27) The calculation of a subsidiary's income and expenses subsequent to acquisition date or prior to loss of control should be based on the audited (reviewed) interim financial statements of which the end of reporting period is the acquisition date or the date when the parent ceases to control the subsidiary. If such interim financial statements are not available, the calculation should be based on the income and expenses proportionate to the audited (reviewed) interim financial statements or those of annual financial statements if such interim financial statements are not available.

The difference between the proceeds from the disposal of a subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognized in other comprehensive income in accordance with the Statement of Financial Accounting Standards No. 14 "The Effects of Changes in Foreign Exchange Rates", is reclassified to the consolidated income statement as a reclassification adjustment as the gains or losses on the disposal of the subsidiary.

Accounting for an investee company ceasing to be a subsidiary

(28) An investment in an entity shall be accounted for in accordance with the Statement of Financial Accounting Standards No. 34 "Financial Instruments: Recognition and Measurement" from the date that it ceases to be a subsidiary, provided that it does not become an associate or a jointly controlled entity.

(29) The carrying amount of the investment at the date that the investee ceases to be a subsidiary shall be regarded as the cost on initial measurement of a financial asset.

Accounting for the consolidated balance sheet

Elimination of reciprocal accounts

(30) The investments between the parent and subsidiaries and between the subsidiaries themselves should be eliminated with the investee's equity. Liabilities due to one group entity by another will be set off against the corresponding asset in the other group entity's financial statements. The allowance for consolidated doubtful accounts should be based on an amount after eliminating intra-group receivables and payables.

Impairment of long-term equity investment

(31) If the carrying amount of a parent's long-term equity investment in the subsidiary is impaired, the parent should apply the Statement of Financial Accounting Standards No. 35 "Impairment of Assets" when preparing consolidated financial statements.

Preferred shares issued by subsidiaries

(32) When a subsidiary issues both common and preferred stock, the preferred stock equity's carrying value should be determined by the attributes of the preferred stock. Common stock equity should be arrived by deducting preferred stock equity's carrying value from total stockholders' equity. The common stock equity should be then used to eliminate the carrying amount of the parent's investment. The preferred stock equity held by the parent should be treated as retired preferred stock when preparing consolidated financial statements.

A subsidiary holds its parent's common stock

(33) When a subsidiary holds its parent's stock, the parent should deduct the subsidiary's equity interest in its parent from the stockholders'

equity section of the consolidated balance sheet and account for as the treatment of treasury stock.

Accounting for reciprocally-held bonds

(34) Any bonds that are reciprocally held by other group entities under the control of a parent should be treated as retirement of bonds when preparing consolidated financial statements.

Accounting standards for consolidated income statement

Elimination of gain or loss accounts

(35) The gains or losses resulting from intra-group transactions must be eliminated from the consolidated financial statements.

Accounting for unrealized intra-group gains or losses

(36) The unrealized intra-group gains or losses on closing inventory, fixed assets and other assets resulting from intra-group transactions, must be eliminated until realization. The tax effect of the transaction should be accounted for in accordance with the Statement of Financial Accounting Standards No. 22 "Income Taxes".

Net income calculation when a subsidiary issuing cumulative preferred shares

(37) If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by minority interests, the parent computes its share of group net income and group net income applicable to minority interests after adjusting for the dividends on such shares, whether or not dividends have been declared.

Accounting for losses exceeding the minority interest

(38) Losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Accounting for reciprocally-held bonds

(39) When bonds are reciprocally held by other group entities under the control of a parent and are accounted for, as retirement of bonds in accordance with paragraph 34 of this Statement, the retirement gains or losses should be recognized when preparing the consolidated financial statements.

Accounting for consolidated changes of owners' equity statement

(40) When a parent prepares Consolidated Changes in Owners' Equity Statement, the ending balance of the consolidated owners' equity less the minority interest should equal the parent's ending balance of owners' equity.

Accounting for consolidated cash flows statement

(41) When a consolidated cash flows statement is prepared, cash flows from operating activities should include the parent's share of group net income and group net income allocated to minority. Cash flows from financing activities should include distributed cash dividends that are distributed by the parent and are distributed by a subsidiary to its minority stockholders.

Presentation and disclosure of consolidated financial statements

Disclosure of a subsidiary's minority stock equity

(42) Minority interests shall be presented in the total amount in owners' equity section of the consolidated balance sheet, separately from the equity of the owners of the parent without the need to distinguish it from capital stock, paid-in capital and retained earnings (or cumulative deficit).

Calculation of group net income

(43) Group net income on a consolidated income statement should be attributed to the parent's share of group net income and group net income allocated to the minority interests.

Disclosure in consolidated financial statements

(44) The notes to the consolidated financial statements should disclose the following items:

(a) the name of each subsidiary, the nature of its operations, and the percentage of shareholders' equity that is held by the parent;

(b) changes of subsidiaries that are included in the consolidated financial statements;

(c) the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;

(d) the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control;

(e) the name of each subsidiary not included in the consolidated financial statements, percentage of shareholder's equity that is held by the parent, and the reason for its exclusion from the consolidated financial statements;

(f) the arrangement made by a subsidiary in order to match the date of consolidated financial statements, the subsidiary's adjustments in its accounting period, reporting process and the reasons for differences;

(g) any specific operating risks incurred by a foreign subsidiary, such as changes in the exchange rate, etc.;

(h) the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances;

(i) details of the parent's stock that is held by it's subsidiaries; and

(j) the related information regarding a subsidiary's issuance of convertible bonds and new common stock.

V Notes

(45) This Statement was issued on December, 31, 1985, with the first revision on December 9, 2004, and the second revision on November 30, 2006.

The second revision of this Statement shall be effective for financial statements of fiscal years beginning on or after January 1, 2007. Earlier application is permitted. The financial statements prepared in accordance with the provisions of this Statement need not to retroactively apply the second revision of this Statement.

(46) When an enterprise initially applies the first revision of this Statement, the financial statements need not to retroactively apply the first revision of this Statement. However, the amount of the cumulative effect of changes in accounting principles, if any, should be shown separately in the current income statement.

In the consolidated financial statements, an enterprise shall additionally disclose:

(a) the difference between the reporting entity of period initially applying this Statement and that of prior periods, and the reasons for the change in the reporting entity;

(b) the subsidiaries underlying the previous difference of change in the reporting entity, and the enterprise (the parent) shall disclose the material transactions with these subsidiaries in prior periods and the items (a), (c), (g), (h), (i) and (j) of paragraph 44.

The provisions of this Statement need not be applied to immaterial items.