

DATANG TELECOM (H.K.) HOLDING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Amounts are expressed in CNY unless otherwise stated)

1 Company profile

Datang Telecom (H.K.) Holding Limited (hereinafter referred as “the Company”) is a wholly-owned subsidiary of Datang Telecom (H.K.) Limited (hereinafter referred as “Datang HK”) incorporated in the British Virgin Islands. The Datong HK contributed USD 1.00 as registered capital of the Company.

Registered place: The British Virgin Islands

2 Basis of preparation for financial statements

2.1 Basis of preparation

On the basis of going concern and transactions and events actually occurred, the Company prepares its financial statements in accordance with the Accounting Standards for Business Enterprises – Basic Standards, specific accounting standards and the Accounting Standards for Business Enterprises – Interpretations and other relevant provisions (hereinafter collectively known as “Accounting Standards for Business Enterprises”).

2.2 Going concern

The Company has the ability to continue as a going concern within at least 12 months from the period end of this report. No significant events that would impact the Company’s ability to continue as a going concern exist.

3 Major accounting policies and estimates

3.1 Statement on compliance with Accounting Standards for Business Enterprises

The financial statements prepared by the Company meet the requirements of the Accounting Standards for Business Enterprises, truly and completely reflect the Company’s financial position, operating results, cash flows and other relevant information in the reporting periods.

3.2 Accounting period

The accounting year is from January 1 to December 31.

3.3 Business cycle

The Company’s business cycle is 12 months.

3.4 Currency of book-keeping

Chinese Renminbi (CNY) is adopted as the currency for book-keeping.

3.5 Accounting treatment methods for business combinations under and not under common control

Business combination under common control: Assets and liabilities (including goodwill formed in the acquisition) acquired from the acquiree through business combination are measured at the book value on the combination date.

The stock premium in the capital reserve is adjusted according to the difference between the book value of net assets acquired through combination and the book value of consideration paid for the combination (or total par value of shares issued). If the stock premium in the capital reserves is insufficient to cover the difference, the remaining amount shall be deducted from retained earnings.

Business combination not under common control: The Company shall, on the acquisition date, measure the assets surrendered and liabilities incurred or assumed by the Company for a business combination at their fair values, and shall record the differences between their fair values and their book values into the current profit and loss.

The Company shall recognize the difference of the combination costs in excess of the fair value of the net identifiable assets acquired from the acquiree as goodwill. The Company shall recognize the difference of the combination costs in short of the fair value of the net identifiable assets acquired from the acquiree in the current profit and loss.

Intermediary service charges, including audit, legal service, evaluation and consultancy fees and other relevant general and administrative expenses incurred by the acquirer for business combination, shall be charged to current profit and loss when they are incurred. Transaction expenses incurred by the acquirer for issuance of equity or debt securities as consideration for business combination shall be included in the initial recognition amount of those equity securities or debt securities.

3.6 Preparation of consolidated financial statements

3.6.1 Scope of consolidation

Scope of consolidation for the Company's consolidated financial statements shall be determined on the basis of control, and all its subsidiaries (including separable section of investees controlled by the Company) shall be included into the consolidated financial statements.

3.6.2 Process of consolidation

The consolidated financial statements are prepared based on the individual financial statements of the Company and its subsidiaries, with reference to other relevant documents. The Company prepares consolidated financial statements considering the whole group as one accounting entity and using uniform accounting policies to reflect the whole group's financial position, operation result, and cash flows, in accordance with recognition, measurement and presentation requirements of the accounting standards.

All the subsidiaries within the scope of consolidation shall adopt the same accounting policies and accounting periods as those of the Company. If the accounting policies or accounting periods of a subsidiary are different from those of the Company, the financial statements of the subsidiary shall be adjusted according to the accounting policies and accounting periods of the Company when preparing consolidated financial statements. For subsidiaries acquired from business combination not under common control, their financial statements shall be adjusted on the basis of fair value of their identifiable net assets on the acquisition date. For subsidiaries acquired from business combination under common control, their financial statements shall be adjusted based on book value of assets and liabilities (including goodwill formed by acquisition) stated on ultimate holding company's book.

Equity and profits or losses attributable to minority shareholders of the subsidiaries are separately listed under the shareholders' equity in the consolidated balance sheet, and under the net profit and comprehensive income in the consolidated income statement. If the current losses attributable to the minority shareholders of a subsidiary exceed the shareholders' equity attributable to minority shareholders of the subsidiary at the beginning of the period, the excess shall be deducted from the minority equity of the Company.

(1) Addition of subsidiary or business

During the reporting period, if the Company acquired subsidiaries or businesses from business combination under common control, the beginning balance in the consolidated balance sheet shall be adjusted. The income, expenses and profits of the newly acquired subsidiaries from the beginning to the end of the reporting period shall be included in the consolidated income statement. The cash flows of the newly acquired subsidiaries from the beginning to the end of the reporting period shall be included in the consolidated statement of cash flows. The relevant items in the comparative financial statements of the subsidiaries shall be adjusted accordingly, as if the reporting entity after the business combination has existed in prior periods.

When control over an investee under common control is obtained through additional investments or other means, both acquirer and acquiree shall make adjustments as if the ultimate controller gained the control at the current status since beginning. For equity investments held before the Company gained control over the acquiree, the profit or loss, other comprehensive income and other changes in net assets that have been recognized during the period from the later of the date when the Company obtains the original equity and the date when the acquirer and the acquiree are under common control to the date of business combination, shall be used to offset the beginning balance of retained earnings or the profit and loss in current period.

During the reporting period, if the Company acquired subsidiaries from the business combination not under common control, the beginning balance of the consolidated balance sheet shall not be adjusted. The income, expenses and profits of the newly acquired subsidiaries from acquisition date to the end of the reporting period shall be included in the consolidated income statement. The cash flows of the newly acquired subsidiaries from acquisition date to the end of the reporting period shall be included in the consolidated statement of cash flows.

When control over an investee not under common control is obtained through additional investments or other means, the Company shall re-measure the equity held before the acquisition date at fair value at acquisition date and record the difference between book value and fair value in the current investment income. If the equity in the acquire held before the transaction date generates other comprehensive income accounted for using the equity method and changes in owner's equity other than those caused by net income, other comprehensive income and profit distribution, the related other comprehensive income and other changes in owner's equity shall be transferred to current investment income at the transaction date, except the other comprehensive income that is generated as a result of changes in net liability or net asset because of the investee's re-measurement of predefined benefit plans.

(2) Disposal of subsidiary

① General accounting treatment

During the reporting period, if the Company disposes of a subsidiary, the income, expenses and profits from beginning of the period to the date of disposal of the subsidiary shall be included in the consolidated income statement. The cash flows of

the disposed subsidiary from beginning of the period to the date of disposal shall be included in the consolidated statement of cash flows.

In case of loss of control over the original subsidiary due to the disposal of some equity investments or for other reasons, the Company should re-measure the remaining equity after the disposal at its fair value on the date of loss of control. The sum of the consideration of equity disposal and the fair value of the remaining equity, less the sum of the share of net assets of the subsidiary attributable to the Company calculated continuously since the acquisition date in accordance with the original shareholding ratio and goodwill, shall be included in the investment income for the current period when the control is lost. Other comprehensive income and changes in owner's equity other than those caused by net income, other comprehensive income and profit distribution, the other comprehensive income and other changes in owner's equity related to the original investment in the subsidiary shall be transferred to current investment income when the control is lost, except other comprehensive income generated as a result of changes in net liability or net asset because of the investee's re-measurement of predefined benefit plans.

② Disposal of subsidiary in stages

Where the Company loses control over its subsidiary after disposing its equity investment in the subsidiary through multiple transactions, if the terms, conditions and economic influence of the fore-mentioned disposal transactions meet one or multiple of the following circumstances, it generally means that these transactions shall be deemed as a package deal and be accounted for accordingly:

- i. The transactions are entered at the same time or in contemplation of each other;
- ii. The transactions can only achieve one overall commercial effect in entirety;
- iii. Occurrence of one transaction is dependent on the occurrence of at least one other transaction;
- iv. A single transaction is not economically justified, but it is economically justified when considered together with other transactions.

When these transactions of disposing equity investment in subsidiary cause loss of control and be deemed as a package deal, they are accounted for by the Company as a transaction of disposing subsidiary and losing control; however, the difference between the accumulated disposal considerations before loss of control and the Company's share of the net assets of the subsidiary is recognized as other comprehensive income in the consolidated financial statements, and is transferred into current profit and loss upon loss of control.

When these transactions of disposing equity investment in subsidiary cause loss of control but are not deemed as a package deal, they shall be accounted for according to "Partial disposal of equity investments in subsidiaries without loss of control" as specified in Note 2.6.2 (4) before the loss of control and shall be accounted for according to "General method for treatment" as specified in Note 2.6.2 (2) ① when losing the control.

(3) Purchase of minority interests in subsidiary

The difference between long-term equity investments acquired by the Company through purchase of minority interest and the subsidiary's net identifiable asset attributable to the Company calculated in accordance with the newly increased shareholding ratio from the acquisition date (or combination date), shall be charged against stock premium within

capital reserves in the consolidated balance sheet; when stock premium within capital reserves is insufficient to offset, the retained earnings shall be adjusted.

- (4) Partial disposal of equity investments in subsidiaries without loss of control
The difference between the proceeds from partial disposal of equity investments in the subsidiary and the share of net assets of the subsidiary attributable to the Company corresponding to the disposal of long-term equity investments without losing control, shall be charged against stock premium within capital reserves in the consolidated balance sheet; when stock premium within capital reserves is insufficient to offset, the retained earnings shall be adjusted.

3.7 Joint arrangements and accounting treatment

Joint arrangements are classified as joint operation or joint venture.

When the Company is a party to a joint arrangement whereby the Company has rights to the assets and obligations for the liabilities relating to the arrangement, the joint arrangement is a joint operation. The Company recognizes the following items in relation to its interests in the joint operation and accounts for them in accordance with Accounting Standards for Business Enterprises:

- a) Its own assets, and its share of any assets held jointly;
- b) Its own liabilities, and its share of any liabilities incurred jointly;
- c) Its revenue from the sale of its share of the output arising from the joint operation
- d) Its share of the revenue from the sale of the output by the joint operation; and
- e) Its own expenses, and its share of any expenses incurred jointly

3.8 Recognition criteria of cash and cash equivalents

For the purpose of preparing the statement of cash flows, the term “cash” refers to the cash on hand and the unrestricted deposit. The term “cash equivalents” refers to the investments that are short-term (maturing within three-months from purchase date), highly liquid, readily convertible to known amount of cash and subject to an insignificant risk of change in value.

3.9 Foreign currency denominated transactions and the translation of foreign currency statements

3.9.1 Foreign currency denominated transactions

Foreign currency denominated transactions are converted into CNY for recording purpose at the spot exchange rate on the day when the transaction occurs.

Balances of foreign currency denominated monetary items are measured at the spot exchange rate on the balance sheet date. The exchange difference arising therefrom shall be included in the current profit and loss, except for the exchange differences arising from the special borrowings of foreign currency related to acquired and constructed assets, which are eligible for capitalization in accordance with the principle of borrowing cost capitalization. Foreign currency non-monetary items measured at historical costs shall still be converted at the spot exchange rates when the transactions occur, and the amount in functional currency shall remain unchanged. Foreign currency non-monetary items measured at fair value shall be converted at the spot exchange rates on the date when the fair value is determined. The exchange difference arising therefrom shall be included in the current profit and loss or capital reserves.

3.9.2 Translation of foreign currency financial statements

Assets and liabilities in the balance sheet are translated at the spot exchange rates on balance sheet date. Shareholders' equity items, except for the item of “retained earnings”, are translated at the spot exchange rates on the dates when the transactions occur. Revenue and expense items

in the income statement are translated at the spot exchange rates on the dates when the transactions occur (or at the rates that are determined using systematic and reasonable methods and that are close to spot rate at transaction date. If such methods are adopted, the method and the base shall be disclosed).

Where the Company disposes of an overseas business, it shall transfer the exchange difference relating to the business disposed of, which is presented under the items of the shareholders' equity in the balance sheet, from shareholders' equity to current gain or loss.

3.10 Financial instruments

Financial instruments include financial assets, financial liabilities and equity instruments.

3.10.1 Classification of financial instruments

Financial assets and liabilities are classified into the following categories according to the purpose of acquisition: financial assets or financial liabilities measured at fair value through current profit and loss, including financial assets or financial liabilities held for trading and financial assets or financial liabilities directly designated to be measured at fair value through current profit and loss; held-to-maturity investments; receivables; available-for-sale financial assets and other financial liabilities.

3.10.2 Recognition and measurement of financial instruments

- (1) Financial assets (financial liabilities) measured at fair value through current profit and loss are initially recorded at fair values when acquired (deducting cash dividends that have been declared but not distributed and bond interest that has matured but not drawn). The relevant transaction expenses are included in the current profit and loss.

The interest or cash dividends to be received during the holding period are recognized as investment income. Changes in fair values are included in the current profit and loss at the end of the period.

Difference between the fair value and initial book-entry value is recognized as investment income upon disposal of the financial asset (financial liability); meanwhile, adjustment is made to gains or losses from changes in fair values.

- (2) Held-to-maturity investments
Held-to-maturity investments are initially recorded at the sum of fair values (deducting bond interest that has matured but not drawn) and the relevant transaction expenses when acquired.

During the holding period, interest income is recognized as investment income based on the amortized cost and effective interest rate. The effective interest rates are determined upon acquisition and remain unchanged during the expected holding period, or a shorter period if applicable.

Difference between the proceeds and the book value of the investment is recognized as investment income upon disposal.

- (3) Receivables
For the Company's receivable rights arising from sales of goods or rendering of services and other creditor's rights against other enterprises (excluding debt instruments quoted in an active market) held by the Company, including accounts receivable and other

receivables, the initial recognition and measurement amount shall be the contract price or agreement price receivable from purchasing party; for those with a financing nature, they are initially recognized at their present values.

The difference between the amount received and the book value of the accounts receivable is included in the current profit and loss upon recovery or disposal.

(4) Available-for-sale financial assets

Available-for-sale financial assets are initially recorded at the sum of fair values (deducting cash dividends that have been declared but not distributed and bond interests that have matured but not drawn) and transaction costs when acquired.

The interest and cash dividends to be received during the holding period are recognized as investment income. Available-for-sale financial assets are measured at fair value at the end of the period, and changes in fair value are included in other comprehensive income. However, equity instrument investments that do not have quotes in an active market and their fair values cannot be reliably measured, and derivative financial assets that are linked to the underlying equity instrument and must be settled through delivery of the instrument are measured at cost.

Difference between the proceeds and the book value of the financial assets is recognized as gains or losses on investment upon disposal. Meanwhile, the amount of disposal corresponding to the accumulated amount of the changes in fair value originally and directly included in other comprehensive income shall be transferred out and recognized as gains or losses of investment.

(5) Other financial liabilities

Other financial liabilities are initially recognized at the sum of fair value and the relevant transaction expenses and subsequently measured at amortized costs.

3.10.3 Recognition and measurement of transfer of financial assets

When the transfer of financial assets occurs, if nearly all of the risks and rewards related to the ownership of the financial assets have been transferred to the transferee, the Company derecognizes the financial assets; if nearly all of the risks and rewards related to the ownership of the financial assets are retained, the Company shall not derecognize the financial assets.

The principle of substance over form is adopted when determining whether the transfer of a financial asset satisfies the criteria as described above for derecognition of a financial asset. The Company classifies transfer of a financial asset into entire transfer and partial transfer of financial asset. If the entire transfer of financial asset satisfies the criteria for derecognition, the difference between the following two amounts is included in the current profit and loss:

- (1) the book value of the transferred financial asset;
- (2) the sum of the consideration received from the transfer and the accumulated amount of the changes in fair value originally and directly included in the shareholders' equity (when the financial asset transferred involve available-for-sale financial assets).

If the partial transfer of financial asset satisfies the criteria for derecognition, the entire book value of the transferred financial asset shall be split into the derecognized and recognized part according to their respective fair value and the difference between the amounts of the following two items is included in the current profit and loss:

- (1) the book value of derecognized part;
- (2) the sum of the consideration for the derecognized part and the portion of derecognition

corresponding to the accumulated amount of the changes in fair value originally and directly included in shareholders' equity (when the financial asset transferred involve available-for-sale financial assets).

If the transfer of financial assets does not meet the derecognition criteria, the financial assets shall continue to be recognized, and the consideration received will be recognized as a financial liability.

3.10.4 Derecognition criteria of financial liabilities

A financial liability shall be entirely or partially derecognized if its present obligations are wholly or partly dissolved. Where the Company enters into an agreement with a creditor so as to substitute existing financial liabilities with any new financial liability, and the new financial liability is substantially different from the contractual stipulations regarding the existing financial liability, the Company derecognizes the existing financial liability and recognizes the new one at the same time.

Where substantial revisions are made to some or all of the contractual stipulations of the existing financial liability, the Company derecognizes the existing financial liability wholly or partially, and at the same time recognizes the financial liability with revised contractual stipulations as a new financial liability.

Upon entire or partial derecognition of financial liabilities, the difference between the book value of the financial liabilities derecognized and the consideration paid (including non-cash assets surrendered or new financial liabilities assumed) shall be included in the current profit and loss.

Where the Company redeems part of its financial liabilities, it allocates on the redemption date the entire book value of financial liabilities according to the relative fair values of the part that continues to be recognized and the de-recognized part. The difference between the book value allocated to the derecognized part and the considerations paid (including non-cash assets surrendered and the new financial liabilities assumed) shall be included in the current profit and loss.

3.10.5 Determination method of fair values of financial assets and financial liabilities

For financial instruments that have an active market, fair values are measured at quoted prices. For financial instruments that do not have an active market, fair values are measured using valuation techniques. The Company uses valuation techniques that are applicable under current circumstances and that can be supported by available data and information and selects those inputs that have the same characteristics with assets or liabilities that market participants would consider in related asset or liability transactions. Observable inputs are used with priority. Inputs that cannot be observed are only used only when relevant observable inputs cannot be obtained or are infeasible to be obtained.

3.10.6 Impairment of financial assets (excluding receivables) and accounting treatment

Except for the financial assets measured at fair values through current profit and loss, the Company evaluates book value of financial assets on the balance sheet date. If there is objective evidence that a financial asset is impaired, provision for impairment is made.

(1) Provision for impairment of available-for-sale financial assets

If the fair value of available-for-sale financial assets has significantly declined at the end of the period, or it is expected that the trend of decrease in value is non-temporary after considering various relevant factors, the impairment shall be recognized, and accumulated

DATANG TELECOM (H.K.) HOLDING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

losses from decreases in fair value originally and directly included in shareholders' equity shall be all transferred out and recognized as impairment loss.

For available-for-sale debt instruments that have recognized impairment losses, if their fair values rise in the subsequent accounting period and such rise is objectively related to the matters occurred after the recognition of impairment loss, the previously recognized impairment loss shall be reversed and recorded into the current profit and loss.

Impairment losses on available-for-sale equity instruments shall not be reversed through profit or loss.

- (2) Provision for impairment of held-to-maturity investments
Measurement of provision for impairment loss on held-to-maturity investments is treated in accordance with the measurement method of impairment loss on receivables.

3.11 Allowance for bad debts of receivables

3.11.1 Allowance for bad debts of individually significant receivables

Assessment basis or standard for determining individually significant amounts	The top five receivables or the total of all individual amounts that each account for over 10% in the balance of receivables
Method of allowance for bad debts of individually significant receivables	Individually significant receivables are individually tested for impairment. If there is objective evidence that the impairment has occurred, the allowance for bad debts is made at the difference of the present value of future cash flows in short of the book value.

3.11.2 Receivables that are provided for bad debts on portfolio basis:

Basis for determining portfolios	
Portfolio 1	Individually significant but with lower risk in portfolio
Portfolio 2	Individually insignificant but with lower risk in portfolio
Portfolio 3	With higher risk in portfolio

Method of providing allowance for bad debts on portfolio basis

Portfolio 1	Aging analysis method
Portfolio 2	Aging analysis method
Portfolio 3	Aging analysis method

For these portfolios, details about the allowance for bad debt estimated by using aging analysis method are as follows:

Aging	Percentage for provision for accounts receivable (%)	Percentage for provision for other receivables (%)
Within 1 year (inclusive)	0.50	0.50
1 to 2 (inclusive) years	2.00	2.00
2 to 3 (inclusive) years	5.00	5.00
3 to 4 (inclusive) years	30.00	30.00
4 to 5 (inclusive) years	50.00	50.00
Over 5 years	100.00	100.00

3.11.3 Accounts receivable that are individually insignificant but are provided for bad debts on individual basis

Reason for providing bad debts allowances individually	There is objective evidence that the impairment may have occurred, e.g., after the debtor's revocation, bankruptcy or death, the receivable still cannot be recovered from the debtor's salaries receivable or legacy assets, there exists a serious shortage of cash flows, etc..
Method of providing bad debts allowance	If there is objective evidence that the impairment may have occurred to a receivable, the Company shall separate such receivable from the underlying portfolio and individually test the same for impairment so as to recognize impairment loss.

3.12 Inventories

3.12.1 Classification of inventories

Inventories are classified as goods in transit, raw materials, revolving materials, consigned processing materials, goods in progress, self-manufactured semi-finished products, finished products (stock commodities), packaging materials and low-cost consumables, etc.

3.12.2 Measurement of dispatched inventories

Inventories are measured at actual costs when acquired. Weighted average method is used to measure dispatched inventories to determine the actual cost.

3.12.3 Basis to determine net realizable values of inventories

In normal operation process, for merchandise inventories held directly for sale, including finished goods, stock commodities and materials for sale, their net realizable values are determined at the estimated selling prices minus the estimated selling expenses and relevant taxes and surcharges. In normal operation process, for material inventories that need further processing, their net realizable values are determined at the estimated selling prices of finished goods minus estimated costs to completion, estimated selling expenses and relevant taxes and surcharges. For inventories held to execute sales contract or service contract, their net realizable values are calculated on the basis of contract price. If the quantities of inventories held by the Company are more than those specified in sales contracts, the net realizable value of the excess portion of inventories shall be based on general selling prices.

At the end of the period, provisions for inventory are made on an individual basis. For inventories with large quantity and low unit price, the provisions for inventory are made on a category basis. For inventories related to the product portfolios manufactured and sold in the same area, and of which the final usage or purpose is identical or similar thereto, and which is difficult to separate from other items for measurement purposes, the provisions for inventory shall be made on a portfolio basis.

The net realizable values of inventory items are determined based on the market price on the balance sheet date, unless there is obvious evidence showing the market price on the balance sheet date is abnormal. The net realizable value of inventories at the end of current period is determined based on the market price on the balance sheet date.

3.12.4 Inventory system

The Company adopts the perpetual inventory system.

3.12.5 Amortization methods of low-cost consumables and packaging materials

Packaging materials and low-cost consumables are amortized using the lump-sum method.

3.13 Held-for-sale assets

The Company classifies the components (or non-current assets) into held-for-sale assets if the following conditions have been met simultaneously:

- a) The components must be immediately salable under current circumstances only based on usual terms on sales of such kind of assets.
- b) The Company has made resolutions with respect to the disposal of such components (or non-current assets), e.g. approvals by shareholders' meeting obtained, etc.
- c) The Company has signed irrevocable transfer agreement with the transferee.
- d) The transfer will be completed within one year.

3.14 Long-term equity investments

3.14.1 Basis for determining joint control and significant influence over the investees

Joint control is the contractually agreed sharing of control over an arrangement, and activities in relation to the arrangement require the unanimous consent of the parties sharing control. Where the Company exercises joint control together with other parties over the investee and has the right to the investee's net assets, the investee is the Company's joint venture.

Significant influence refers to the power to participate in decision-making of a company's financial and operating policies, but cannot control or jointly control with other parties the formulation of the policies. Where the Company can exert significant influence over the investee, the investee is the Company's associate.

3.14.2 Determination of initial investment costs

- (1) Long-term equity investments resulted from business combinations

For the business combination under common control: if the consideration is in the form of cash paid, non-monetary assets transferred, liabilities assumed or equity securities issued, the initial costs of investments shall be recognized at the proportionate share of the carrying amounts of the owners' equity of the acquiree in the consolidated financial statements of the ultimate controller at the acquisition date.

If control is obtained through additional investments and other reasons over the investee that is under common control, the initial costs of investments shall be recognized at the proportionate share of the carrying amounts of the owners' equity of the acquiree in the consolidated financial statements of the ultimate controller at the acquisition date. Differences between the initial costs of long-term equity investments at the acquisition date and the book value of long-term equity investments before consolidation together with the book value of the consideration of newly acquired shares at the acquisition date are recognized in share premium of capital reserves. If share premium of capital reserves is insufficient to cover the differences, the excessive amounts are charged to retained earnings.

For the business combination not under common control: the initial costs of investments shall be stated at the combination costs determined at the acquisition date. If control is obtained through additional investments and other reasons over the investee that is not under common control, the initial costs of investments shall be recognized at the sum of the book value of long-term equity investments originally held and the additional cost of investment made at the acquisition date.

- (2) Long-term equity investments acquired through other means

The initial costs of long-term equity investments acquired through payment of cash shall be the purchase price actually paid.

The initial costs of long-term equity investments acquired through issuance of equity securities shall be stated at the equity securities' fair value.

The initial costs of long-term equity investments made by investors shall be stated at the value stipulated in the investment contracts or agreements (deducting cash dividends or profits declared but not distributed), unless the value thereof are not fair.

In the event that non-monetary asset exchange has commercial substance in nature and the fair value of assets exchanged can be reliably measured, the costs of long-term equity investments traded in with non-monetary assets are initially stated at the fair value of the assets traded out plus relevant tax and surcharges, unless conclusive evidence indicates that the fair value of the assets traded in are more reliable. If the above conditions are not met, the initial investment costs shall be measured at the carrying amounts of the assets traded out plus relevant taxes and surcharges paid or payable.

The initial costs of long-term equity investments acquired through debt restructuring shall be stated based on fair values.

3.14.3 Subsequent measurements and the recognition of profit or loss

- (1) Long-term equity investments under cost method
Investments in subsidiaries are measured under the cost method. Except for cash dividends or profits declared but not yet distributed which are included in the payments or consideration of the investments when acquired, the Company recognizes its share of cash dividends or profits declared by the investees as the investment income of current period.
- (2) Long-term equity investments under equity method
Long-term equity investments in joint ventures or associates are measured under the equity method. If the initial costs of long-term equity investments are higher than the investors' share of the fair value of identifiable net assets of the investees, no adjustment is necessary. Otherwise, differences between the initial costs of long-term equity investments and the investors' share of the fair value of identifiable net assets of the investees shall be recognized in profit or loss for the current period.

The Company shall recognize the investment income and other comprehensive income respectively based on its proportionate share of net profit/loss and other comprehensive income in the investee, and at the same time adjust carrying amount of the long-term equity investments. The carrying amount of the long-term equity investments shall be reduced according to the Company's share of cash dividends or profits declared to be distributed by the investee. For changes in the owners' equity of the investee other than net profit /loss, other comprehensive income or profit distribution, the carrying amount of long-term equity investments shall be adjusted and the change shall be recognized in the owners' equity.

When the Company's share in net profit/loss of the investee is recognized, it should be based on the fair value of identifiable net assets of the investee at its acquisition, and the net profit of the investee shall be adjusted and recognized in line with the Company's accounting policies and accounting periods. If the investee prepares consolidated financial statements during the period that the Company's holds the long-term equity investment, the long-term equity investments shall be measured based on the net profit, other comprehensive income and other changes in owners' equity attributable to the investee in the consolidated financial statements.

Under the equity method, the Company's share of losses of the investee is treated in the following sequence: firstly, it is deducted from book value of the long-term equity

investments. Secondly, if the book value of the long-term equity investments is not sufficient to cover the losses, the losses on investments shall continue to be recognized to reduce the book value of long-term receivables to the extent that the amounts of loss shall not exceed the book value of long-term equity in the investees, which essentially constitutes other net investments in the investees. Lastly, after the above treatment, if the Company still has additional obligations according to investment contracts or agreements, the anticipated obligations should be recognized as anticipated liabilities and charged to losses on investments of the current period.

(3) Disposal of long-term equity investments

When long-term equity investments are disposed of, the difference between their book value and the proceeds received shall be recognized as profit or loss for the current period.

When long-term equity investments measured under the equity method are disposed of, the part originally recorded in other comprehensive income shall be accounted for in proportion using the same base as used by the investee to dispose of relevant assets or liabilities. The owners' equity recognized as the result of changes in equity of the investee other than net profit/loss, other comprehensive income or profit distribution shall be charged into profit or loss for the current period proportionately, except the other comprehensive income resulted from the investee's re-measurement of changes in net assets or liabilities of its predefined benefit plans.

In the event that the joint control or significant influence over the investee is lost due to disposal of part of equity investments, the remaining investments shall be measured in accordance with the principles for financial instruments, and the difference between the fair value on the date when the joint control or significant influence over the investee is lost and the book value of such investments shall be charged into current profit and loss. When the equity method is no longer adopted, other comprehensive income that has been recognized as the result of original long-term equity investments measured under the equity method shall be accounted for in the same way as relevant assets or liabilities are directly disposed by the investee. The owners' equity recognized as the result of changes in equity of the investee other than net profit/loss, other comprehensive income or profit distribution shall be totally charged into profit or loss for the current period when the equity method ceases to be applied.

If control over the investee is lost due to disposal of part of equity investments but the remaining investments are still sufficient to jointly control or significantly influence the investee after the disposal for the purpose of preparation of individual financial statements, the remaining investment shall be measured under the equity method and adjusted as if they have always been measured under the equity method since they are acquired. However, if the remaining investments are insufficient to jointly control or significantly influence the investee after the disposal, the remaining investments shall be measured in accordance with the same principle as for accounting for financial instruments, and the difference between the fair value and the book value of such investments when the control over the investee is lost shall be charged into profit or loss for the current period.

If the equity investments disposed of are acquired in business combination through making further investments or other reasons and the remaining investments after disposal are measured under the cost method or equity method for the purpose of preparation of individual financial statements, other comprehensive income and other owners' equity recognized as the result of equity investments held before the acquisition date measured under the equity method shall be charged into profit or loss for the current period proportionately. If the remaining investments are measured as financial instruments after

disposal, other comprehensive income and other owners' equity shall be totally charged into profit or loss for the current period

3.15 Investment properties

Investment properties are properties held for earning rentals or for capital appreciation or both. Examples include land use rights that have been leased out, land use rights held for transfer upon appreciation, buildings leased out (including buildings that have been constructed or developed for lease and buildings that are being constructed or developed for future lease).

The Company adopts the cost model for measurement of investment properties. For investment properties held for lease purpose under the cost model, the Company adopts the same depreciation policy as that of fixed assets, and adopts the same amortization policy for land use rights as that of intangibles.

3.16 Fixed assets

3.16.1 Recognition of fixed assets

Fixed assets refer to tangible assets held for the purpose of producing commodities, providing services, renting or business management with useful lives exceeding one accounting year. Fixed assets are recognized when the following criteria are satisfied:

- i) It is probable that the economic benefits relating to the fixed assets will flow into the Company; and
- ii) The costs of the fixed assets can be measured reliably.

3.16.2 Depreciation methods of fixed assets

Depreciation is provided on a category basis using the straight-line method. The depreciation rates are determined according to the categories, estimated useful lives and estimated net residual rates of fixed assets. If the components of fixed assets have different useful lives or provide economic benefits in different ways to the company, depreciation is provided using different depreciation rates or depreciation methods.

The estimated useful lives and annual depreciation rates of fixed assets are listed by their respective categories as follows:

Categories of fixed assets	Depreciation method	Depreciation periods (years)	Residual rates (%)	Annual depreciation rates (%)
Buildings and constructions	straight-line	20-45	4.00,5.00,10.00	2.11-4.80
General equipment	straight-line	5-20	4.00,10.00	4.50-19.20
Vehicles	straight-line	8-10	4.00	9.60-12.00
Special equipment	straight-line	5-10	4.00	9.60-19.20
Instruments and meters	straight-line	8	4.00	12.00
Other equipment		5-10	4.00,10.00	9.00-19.20

3.16.3 Recognition and measurement of fixed assets acquired under finance leases

Fixed assets acquired under finance leases can be recognized if one of the following situations is specified in the lease agreement signed by the Company :

- i) The Company obtains ownership of the assets by end of the lease terms;
- ii) The Company has the option to purchase the asset at the price that is much lower than the asset's fair value at the date when the option is exercised;
- iii) The lease terms account for the majority of the economic lives of the assets;
- iv) At the inception of the leases, the present value of minimum lease payments has no significant difference from the fair value of the leased asset.

At the inception of the leases, the Company recognizes the leased assets at the lower of their fair value or the present value of the minimum lease payments and records long-term

payables at the amounts of the minimum lease payments. The difference between carrying amounts of the leased assets and the long-term payables is accounted for as unrecognized financing expenses.

3.17 Construction in progress

The initial book value of the construction in progress is stated at total expenditures incurred to make it reach working condition for intended use. For construction in progress that has reached working condition for intended use but relevant budgets settlement for projects have not been completed, the estimated value of project budgets, price, or actual costs should be included in the costs of relevant construction in progress, and depreciation should be provided according to relevant policies of the Company. After the completion of budgets settlement, the estimated value should be adjusted based on actual costs, but depreciation already provided is not adjusted.

3.18 Borrowing costs

3.18.1 Recognition criteria for capitalization of borrowing costs

Borrowing costs include interest of borrowings, amortization of discounts or premiums on borrowings, auxiliary charges and exchange differences on foreign currency borrowings.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that meet conditions for capitalization are capitalized and recorded in the asset's cost. Other borrowing costs are expenses as incurred and charged to profit or loss in the current period.

Qualifying assets that meet conditions for capitalization are fixed assets, investment property, inventory or other assets that take long time for construction or production in order to get ready for their intended use or sale.

Borrowing costs capitalization should commence when all of the following conditions are satisfied:

- i) Capital expenditures have incurred. Capital expenditures include payment of cash, transfer non-cash assets or assumption of assumption of interest-bearing debts for the purpose of acquiring, building or manufacturing assets that meet conditions for capitalization;
- ii) Borrowing costs are being incurred, and;
- iii) Purchase, construction or manufacturing activities that are necessary to prepare the assets for their intended use or sale have taken place.

3.18.2 Capitalization period for borrowing costs

Capitalization period refers to the period from commencement of capitalization of borrowing costs to its cessation. The period during which capitalization is suspended is excluded.

Capitalization should cease when substantially all of the purchase, construction or manufacturing activities necessary to prepare the assets for their intended use or sale are complete.

If construction for assets purchased, constructed or manufactured eligible for capitalization is completed in stages, which can be used while construction of the other parts continues, capitalization of attributable borrowing costs should cease when substantially all of the activities necessary to prepare that part for its intended use or sale are complete.

If construction for each part of assets purchased, constructed or manufactured has been completed separately but can be used or sold only after the entire assets have been completed,

capitalization of attributable borrowing costs should cease at the completion of the entire assets.

3.18.3 Period of suspension for capitalization

Capitalization should be suspended during periods in which purchase, construction or manufacturing of assets eligible for capitalization is interrupted abnormally and the interruption lasts over three months. If the interruption is the necessary procedure to prepare the assets purchased, constructed or manufactured eligible for capitalization for their intended use or sale, the borrowing costs should continue to be capitalized. Borrowing costs incurred during the interruption should be charged to profit or loss for the current period, and should continue to be capitalized when purchase, construction or manufacturing of the relevant assets resumes.

3.18.4 Measurement of capitalized amounts of borrowing costs

If funds are borrowed specifically for purchase, construction or manufacturing of assets eligible for capitalization, costs eligible for capitalization are the actual costs incurred less any interest income earned on the funds deposited in bank or investment income earned from temporary investment of such borrowings.

For general borrowings occupied for purchase, construction or manufacturing of assets eligible for capitalization, the general borrowing amounts eligible for capitalization are determined by applying a capitalization rate to the weighted average capital expenditures that are accumulated capital expenditures in excess of those on specific borrowings. The capitalization rate is determined based on weighted average interest rate of the general borrowings.

3.19 Intangible assets

3.19.1 Measurement of intangible assets

- 1) Intangible assets are measured initially at cost upon acquisition.

Costs of acquisition of intangible assets include purchase price, relevant taxes and surcharges, and other expenditures that are directly attributable to the intangible assets before they reach working conditions for their intended use. If payments for acquiring intangible assets are extended beyond the normal credit terms with a financing nature, the costs of intangible assets are determined on the basis of present value of the purchase price.

For intangible assets obtained from debtors in settlement of the debts in debt restructuring, the intangible assets are initially stated at their fair value. Differences between the book value and the fair value of the intangible assets are charged to profit or loss for the current period.

If the exchange of non-monetary assets has commercial substance and the fair value of these assets can be measured reliably, the book value of intangible assets traded in are based on fair value of the assets traded out unless there is any conclusive evidence that the fair value of the assets traded in are more reliable. If the exchange of non-monetary assets does not meet the above criteria, the costs of the intangible assets traded in should be the book value of the assets traded out and relevant taxes and surcharges paid or payable, and no profit or loss shall be recognized.

- 2) Subsequent measurement

The useful lives of intangible assets are analyzed and determined upon acquisition.

Intangible assets with definite useful lives are amortized on a straight-line basis over the period during which they can bring economic benefits to the Company. If the period in which the

intangible assets may bring economic benefits to the Company is unforeseeable, they are deemed as intangible assets with indefinite useful lives and are not amortized.

3.19.2 Estimated useful lives of intangible assets with definite useful lives

Items	Estimated useful lives	Basis
Land use right	50-70 years	Contracts of land transfer
Software, system, license fee	3-10 years	Useful lives estimated in purchase contracts and agreements
Proprietary technology	3-10 years	Estimated useful lives

At each year end, the Company shall review the useful lives and amortization methods of intangible assets with definite useful lives. As reviewed, the useful lives and amortization methods of intangible assets at the end of the current year is not different from previous estimates.

3.19.3 Determination of intangible assets with indefinite useful lives

The Company shall review the useful lives of intangible assets with indefinite useful lives at the end of each accounting period. As reviewed, the useful lives of this category of intangible assets remain uncertain.

3.19.4 Criteria for classifying the research phase and the development phase

Costs incurred by the Company on internal research and development projects can be classified into research phase costs and development phase costs.

Research phase: This is the phase where innovative planned investigation and research activities are undertaken for the purpose of gaining understanding and knowledge of new sciences or technologies.

Development phase: This is the phase where research results or knowledge is applied to a plan or design for the production of new or substantially improved materials, devices, or products prior to the start of commercial production or use.

3.19.5 Criteria for capitalization of qualifying expenditures during the development phase

Expenditures during the development phase on internal research and development projects are capitalized if all of the following criteria are met:

- i) There is technical feasibility of completing the intangible assets so that they will be available for use or sale;
- ii) There is intention to complete the intangible assets for the purpose to use or sell the assets;
- iii) The means that the intangible assets generate economic benefits, including existence of a market for products produced by the intangible assets or for the intangible assets themselves, can be proved. If the intangible assets to be used internally, the usefulness of the assets can be proved;
- iv) Adequate technical, financial, and other resources are available to complete the assets, and the Company has the ability to use or sell the assets; and
- v) The costs of attributable to the intangible asset's development phase can be measured reliably.

Expenditures incurred during the development phase, if not meeting the above conditions, are charged to profit or loss for the current period. Expenditures incurred during the research phase are charged to profit or loss for the current period when incurred.

3.20 Impairment of long-term assets

On each balance sheet date, the Company assesses if there is any sign that long-term equity investment, investment properties, fixed assets, construction in progress, intangible assets and other long-term assets have been or may be impaired. If the estimated recoverable amounts are lower than their book values, the impairment loss is provided as the difference between the book values and the recoverable amounts and included in current profit and loss.

The estimated recoverable amounts are determined at the higher of its fair value less disposal expense and the present value of the estimated future cash flow of such assets. The impairment of assets shall be measured and recognized on an individual basis. If it's difficult to assess recoverable amount of an individual asset, the recoverable amount of the asset group which the individual asset belongs to is determined.

The asset group is the minimum portfolio of assets that could generate cash flow independently.

The Company conducts impairment tests for goodwill. Impairment tests are conducted for goodwill at least at the end of every accounting year. The book value of goodwill arising from business combinations is allocated on the date of acquisition to relevant asset groups using reasonable methods. If the allocation to asset groups is difficult, the book value is then allocated to relevant combination of asset groups. The book value of goodwill is amortized to relevant asset groups or combinations of asset groups according to the proportion of the fair value of such asset groups or combinations of asset groups in the total fair value of relevant asset groups or combinations of asset groups. Where the fair value cannot be reliably measured, it should be amortized according to proportion of the book value of each asset group or combination of asset group in the total book value of relevant asset groups or combinations of asset groups.

When making an impairment test on the relevant asset groups or combination of asset groups containing goodwill, if there are signs the asset groups or combinations of asset groups related to the goodwill may be impaired, the Company first conducts an impairment test on the asset groups or combinations of asset groups without goodwill, calculates the recoverable amount and compares it with the relevant book value to recognize the corresponding impairment loss. Then the Company shall conduct an impairment test on the asset groups or combinations of asset groups containing goodwill, and compare the book value of these asset groups or combinations of asset groups (including the book value of the goodwill apportioned thereto) with the recoverable amount. Where the recoverable amount of the relevant asset groups or combinations of asset groups is lower than the book value thereof, the Company recognizes the impairment loss of the goodwill.

The impairment losses of assets will not be reversed in subsequent periods once they are recognized.

3.21 Long-term deferred expenses

Long-term deferred expenses refer to expenses that have been incurred but should be amortized over one year in the current period and subsequent periods, mainly including renovation costs, contracting fees, and so on. Long-term deferred expenses are amortized by stages over the beneficial period of the expense items. Where the expense items of the long-term deferred expenses cannot generate economic benefits during the subsequent accounting periods, the unamortized amount of such items is completely transferred to the current profit and loss.

3.22 Employee benefits

3.22.1 Short-time employee benefits

Employee benefits payable shall be recognized as liabilities and included in current profit and loss or costs of relevant assets in the accounting periods during which the employees provide services to the Company.

The payment of social insurance and housing provident funds by the Company as well as labor union expenditures and education costs that are recorded based on the rule are calculated and accounted for as employee benefits pursuant to regulated basis and percentage in the accounting periods during which the employees provide services to the Company.

Non-monetary employee welfare is measured at fair value, if it can be reliably measured.

3.22.2 Post-employment benefits

(1) Defined contribution plans

The Company pays the basic pension and unemployment insurance in accordance with the regulations set by local government. During the accounting period in which employees provide the service, the Company calculates the insurance payable according to the basis and percentage required by local government and recognizes the liability and includes it in current profit and loss or related asset cost.

In addition to basic pension, the Company also has established the annuity payment system (supplementary pension insurance) or annuity plan in accordance with related policies of national enterprise pension system. The Company contributes a certain percentage of total employees' salary to local insurance companies or annuity plan, and includes the expense into current profit and loss or related asset cost.

(2) Defined benefit plans

Using projected accumulated benefit unit credit method, the Company includes the obligation incurred by defined benefits plans to periods in which the employees rendered services and records the obligation into current profit and loss or related asset cost.

The net deficit or surplus resulted from the present value of the defined benefit obligation minus fair value of defined benefit plan assets is recognized as a net liability or net asset of the defined benefit plan. If any surplus in the plan, the Company measures the net defined benefit asset at lower of the surplus and asset ceiling of the defined benefit plan.

Defined benefit obligations, including expected compensation payables in twelve months after completion of accounting period during which employees provide services, is discounted on the balance sheet date using the market yield rates of government bonds or high quality corporate bonds in an active market that match with duration and currency of defined benefit obligation.

The service cost incurred by defined benefit plans and net interest on the net defined benefit liability or net defined benefit asset are recorded in current profit and loss or related asset cost. Change in re-measurements of the net defined benefit liability or net defined benefit asset is included in other comprehensive income and are not transferred back to profit or loss in subsequent periods.

Gains or losses on the settlement of a defined benefit plan are recognized at difference between present value of defined benefit obligation and settlement price on the date when the settlement occurs.

3.22.3 Termination benefits

Termination benefits is accrued and included in current profit and loss at the earlier of the date when the Company cannot unilaterally revoke the redundancy compensation resulted from termination of employment relationship plan or demission recommendation and when the Company recognizes the cost or expense related to reconstruction of redundancy compensation payment.

3.23 Estimated liabilities

3.23.1 Recognition of estimated liabilities

The Company recognizes estimated liabilities when obligations in contingent events such as litigation, debt-guarantee, onerous contract or restructuring meet all the following conditions:

- i) The obligation is a present obligation of the Company;
- ii) It is probable that performance of such an obligation will result in the economic benefit to flow out from the Company; and
- iii) The amount of the obligation can be measured reliably.

3.23.2 Measurement of estimated liabilities

The Company's estimated liabilities are initially measured at the best estimates of the necessary expenditures for the fulfillment of the present obligations.

To determine the best estimates, the Company takes into full account the risks, uncertainties, time value of money, and other factors relating to the contingencies. If the time value of money is significant, the best estimates shall be determined after discounting the relevant future cash outflows.

The best estimates are accounted for according to different circumstances. If there is a continuous range (or period) for the necessary expenses and probabilities of occurrence of all the outcomes within this range are equal, the best estimate shall be determined at the average amount of upper and lower limits within the range.

Where there is no continuous range (or period) for the necessary expenses, or probabilities of occurrence of each outcome within this range are unequal despite such a range exists, if the contingency involves a single item, the best estimate shall be determined at the most likely outcome. If the contingency involves two or more items, the best estimate should be determined according to all the possible outcomes with their relevant probabilities.

When all or part of the expenses necessary for the settlement of estimated liabilities of the Company are expected to be compensated by a third party, the compensation should be separately recognized as assets only when it is virtually certain that the compensations will be received. The amounts recognized for the compensations should not exceed the carrying amounts of the estimated liabilities.

3.24 Share-based payments

Share-based payment refers to the equity instrument granted by the Company to obtain the service rendered by the employees or other parties, or transactions to assume liabilities that are determined based on equity instruments. The Company's share-based payments include share-based payments settled using equity and share-based payments settled using cash.

(1) Share-based payment settled using equity and equity instruments

Share-based payment settled using equity in exchange for services rendered by employees is measured at fair value of the equity instruments granted to the employee. If the Company settles the payment using restricted stocks, the employee purchases restricted stocks and such stocks cannot be transferred on public markets before the stocks meet vesting conditions and get vested. If vesting conditions as prescribed in stock option incentive plan cannot be satisfied, the Company will redeem stocks at agreed-upon price. When payments are received from employees' subscription of restricted stocks, the Company recognizes paid-in capital and capital reserves (share premium). At the same time, the Company recognizes the full amount of redemption obligations as a liability while recognizing treasury stock. At each balance sheet date during the vesting period, the Company makes best estimate on the number of exercisable equity instruments based on the latest available subsequent information such as changes in number of employees that can exercise rights and whether the performance conditions are met. On such basis, the Company records services obtained in current period into cost or expense at fair value of grant date, and increases capital reserves accordingly. After the vesting date, the Company makes no adjustments to the relevant costs or expenses as well as the total amount of owner's equity that have already been recognized. However, if the rights can be exercised immediately after grant, the Company shall record cost or expense at fair value of grant date, and increase capital reserves accordingly.

The Company shall not recognize cost or expenses on those stock payments that are not vested in the end, unless the vesting condition is either market-based condition or non-vested condition. At this point, no matter whether market-based condition or non-vested condition is satisfied, the instrument will be deemed as exercisable as long as the non-market-based conditions among vesting conditions are satisfied.

If the terms of share-based payments settled using equity are modified, the Company shall recognize at least services obtained in accordance with those terms that remain unmodified. In addition, any changes of increase of fair value of equity instruments granted or changes that are favorable to employees on modification date shall be recognized as increase of services obtained. If the share-based payments settled using equity is cancelled, this is accounted for as an acceleration of the vesting on the cancellation date. Therefore any unrecognized amount is recognized immediately

If employees or other parties choose to satisfy un-vesting conditions but do not satisfy the conditions during the vesting period, this shall be treated as cancellation of share-based

payments settled using equity. However, if new equity instruments are granted and the grant is determined on the grant date as a substitute of the cancelled equity instruments, the replacement equity instruments are accounted for as a modification, the substitute equity instruments shall be accounted for in the same manner and conditions as for the original equity instruments.

(2) Share-based payment settled using cash and equity instruments

Share-based payments settled using cash are measured at fair value of the liability assumed by the Company that is calculated based on stocks or other equity instruments. The initial measurement is the fair value on the grant date determined using the Black-Scholes Model taking into consideration terms and conditions of equity instruments. If the grant can be exercised immediately after the grant, the fair value of the liability assumed on the grant date is charged to relevant costs or expenses, and the liabilities are increased accordingly. Where the grant can be exercised only when the services during the vesting period are rendered or when specified performance conditions are met, at each balance sheet date within vesting period, based on the best estimate of exercisability during the vesting period, the services received in the current period are measured at fair value of the liabilities assumed and included in relevant costs or expenses. The corresponding liabilities are increased. The Company shall re-measure fair values of the liabilities on each balance sheet date prior to settlement of relevant liabilities and on the settlement date and record the changes in the current profits and losses.

3.25 Revenue

3.25.1 Recognition of revenue from sale of goods

Revenue from sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; the Company retains neither continuing managerial involvement nor effective control over the goods; relevant cash or proof of collection has been received; and the relevant costs associated with the sales of goods can be measured reliably.

3.25.2 Recognition of revenue from rendering of service

When the outcome of a service transaction can be estimated reliably, revenue from rendering of service is recognized using the percentage-of-completion method.

3.25.3 Revenue arising from the use by others of the Company's assets

Revenue arising from use by others of the Company's assets is recognized according to the following conditions when the economic benefits associated with the transactions are probable to flow into the Company and the amounts of the revenue can be measured reliably.

- i) Interest income is measured based on the length of time for which the Company's cash is used by others and the applicable interest rate.
- ii) Royalties are measured according to the period and method of charging as stipulated in the relevant agreements or contracts.

3.25.4 Principles and methods for determining the percentage of completion when revenue from services and construction contracts are recognized under percentage-of-completion method

If the outcome of transactions can be estimated reliably at the end of the reporting period, revenue from rendering services is recognized using the percentage of completion method. The percentage of completion is determined by measurement of completed work or costs already

incurred as a percentage of total costs.

Revenue from provision of services is determined by contracts or agreement prices that have been received or are receivable, unless the relevant prices are unfair. At the end of the reporting period, total revenue from provision of services multiplied by percentage of completion minus accumulated revenue from provision of services in previous accounting periods are recognized as the revenue from provision of services in the current period. Meanwhile, total costs of provision of services multiplied by percentage of completion minus accumulated costs of provision of services in previous accounting periods are recognized as the costs of provision of services in the current period.

When the outcome of transactions involving the rendering of services cannot be estimated reliably at the end of the reporting period, revenue should be recognized and measured as follows:

- i) If the service costs incurred are expected to be fully recoverable, the amounts equal to the costs incurred should be recognized as revenue and the equivalent amounts of costs should be charged to profit or loss for the current period;
- ii) If the service costs incurred are not expected to be fully recoverable, revenue is not recognized and the costs incurred are recognized in profit or loss in the current period.

3.26 Government grants

3.26.1 Classification

Government grants refer to monetary or non-monetary assets obtained by the Company from the government without consideration. Government grants are classified into asset-related government grants and income-related government grants.

Asset-related government grants refer to subsidies that the Company receives to purchase or construct long-term assets, including fiscal appropriation for acquisition of fixed assets or intangible assets, and interest subsidy on special loans for acquisition of fixed assets, and so on.

Income-related government grants refer to subsidies other than asset-related government grants.

3.26.2 Timing of recognition

The government grants shall be recognized upon receipt of fund by the Company and measured at actual amounts received.

3.26.3 Accounting treatments

Asset-related government grants are recognized as deferred income and recorded into non-operating income based on the amount amortized over the useful lives of assets constructed or acquired.

Income-related government grants, if used for compensating the Company's expenses and losses for subsequent periods, are recognized as deferred income when received, and are recorded into non-operating income in the period during which the relevant expenses are incurred. If the grant is used for compensating the Company's expenses and losses that have been incurred, the amount is directly recognized as non-operating income in the current period.

3.27 Deferred tax assets and deferred tax liabilities

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences

can be utilized, and should be recognized for deductible loss or tax reduction that could be carried forward in subsequent periods to the extent that it is probable that taxable income will be available against which deductible loss or tax reduction can be utilized.

Deferred tax liabilities should be recognized for all taxable temporary differences unless allowed otherwise under other circumstances.

Situations where deferred tax assets or liabilities are not recognized include initial recognition of goodwill and other transactions or events than business combinations, which do not affect accounting profit nor taxable income (or deductible loss).

When the Company has the statutory right to account for current tax assets and current tax liabilities at net amounts, and has the intention to do so or acquisition of assets and settlement of liabilities are achieved simultaneously, the Company presents its current tax assets and current tax liabilities at the net amounts after offsetting of the two.

When the Company has the statutory right to account for current tax assets and current tax liabilities at net amounts, and the deferred tax assets and the deferred tax liabilities are related to income taxes imposed on the same taxpayer by the same tax authority or albeit they are related to income taxes imposed on different taxpayers, the taxpayers have the intention to account for current tax assets and current tax liabilities at net amounts or acquisition of assets and settlement of liabilities are achieved simultaneously during each future accounting periods when material deferred tax assets and deferred liabilities are reversed, the deferred tax assets and deferred tax liabilities are presented at the net amounts after offsetting of the two.

3.28 Leases

3.28.1 Accounting for operating leases

- (1) The lease payments paid for leasing in assets are amortized on a straight-line basis over the entire lease period including the rent-free period, and charged to current period's expenses. Initial direct costs relating to lease transactions that should be borne by the Company but have been paid by the lessor are deducted from the total lease payments. The remaining balance is then amortized over the lease terms and charged to expenses of the current period.
- (2) Lease payments received from leasing out assets are amortized on a straight-line basis over the entire lease period including the rent-free period, and charged to current period's lease income. Initial direct costs relating to lease transactions incurred by the Company are recognized as expenses in the current period. If the amounts are material, they are capitalized and amortized over the lease terms on the same basis as the recognition of lease income. If the Company pays for expenses related to the lease that should be borne by the lessee, these amounts should be deducted from the total lease income amount. The remaining balance is then amortized over the lease terms

3.28.2 Accounting for capital leases

- (1) Assets leased in through capital lease: At commencement of the lease term, the Company records the book value of assets acquired under capital leases at the lower of their fair value and the present value of the minimum future lease payments. The amount of minimum future lease payments is recorded as long-term payable and the difference between the fair value and the present value is charged to unrecognized financing charges. The Company adopts the effective interest rate method to amortize the unrecognized financing charges over the lease term and charges to financial expenses. Initial direct costs incurred by the Company are included in the costs of leased assets.

- (2) Assets leased out through capital lease: At commencement of the lease term, the Company recognizes the differences between the sum of undiscounted rents receivable and unguaranteed residual value and the present value as unrealized financing income, and amortizes it over the lease terms as lease income in the period when rents are received. Initial direct costs relating to lease transactions incurred by the Company are included in the initial measurement of the rents receivable and the lease income recognized over the lease terms shall be reduced accordingly.

3.29 Changes in major accounting policies and accounting estimates

3.29.1 Changes of significant accounting policies

(1) Adoption of accounting principles newly issued or revised in 2014 by Ministry of Finance. The Company has adopted the following accounting principles that were newly issued or revised in 2014 by Ministry of Finance.

- Accounting Standards for Business Enterprises – Basic Standards (Revised)
- Accounting Standards for Business Enterprises No.2: Long-term Equity Investments (Revised)
- Accounting Standards for Business Enterprises No.9: Employee Benefits (Revised)
- Accounting Standards for Business Enterprises No.30: Presentation of Financial Statements (Revised)
- Accounting Standards for Business Enterprises No.33: Consolidated Financial Statements (Revised)
- Accounting Standards for Business Enterprises No.37: Presentation of Financial Instruments
- Accounting Standards for Business Enterprises No.39: Measurement of Fair Value
- Accounting Standards for Business Enterprises No.40: Joint Arrangements
- Accounting Standards for Business Enterprises No.41: Disclosure of Equity in Other Entities

(2) The Company does not have other changes of significant accounting policies.

3.29.2 Changes of significant accounting estimates

There are no changes in the Company's significant accounting estimates during the reporting period.

4 Taxation

4.1 Major tax types and tax rates applicable to the Company

Tax type	Basis of taxation	Tax rate
Enterprise income tax	Taxable income	16.5%

5 Notes to the main items of the financial statements

5.1 Cash and cash equivalents

Item	As at December 31, 2014	As at December 31, 2013
Cash		
Bank deposit	27,622,940.00	
Other cash and cash equivalents		

DATANG TELECOM (H.K.) HOLDING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Item	As at December 31, 2014	As at December 31, 2013
Total	27,622,940.00	
Including: funds deposited overseas		

5.2 Other Payables

Item	As at December 31, 2014	As at December 31, 2013
Within 1 year (including 1 year)	27,622,933.85	
1-2 years (including 2 years)		
2-3 years (including 3 years)		
Over 3 years		
Total	27,622,933.85	

5.3 Paid-in Capital

Investor	As at December 31, 2013		Increase in 2014	Decrease in 2014	As at December 31, 2014	
	Investment amount	Share-holding ratio (%)			Investment amount	Share-holding ratio (%)
Datang Telecom (H.K.) Limited			6.15		6.15	100.00

5.4 Supplementary information to the statement of cash flows

5.4.1 Supplementary information to the statement of cash flows

Item	2014	2013
1. Net profit adjusted to cash flows from operating activities		
Net profit		
Plus: provision for asset impairment		
Depreciation of fixed assets, depreciation and depletion of oil and gas assets and depreciation of productive biological assets		
Amortization of intangible assets		
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)		
Losses on write-off of fixed assets ("-" for gains)		
Losses from changes in fair value ("-" for gains)		
Financial expenses ("-" for income)		
Investments losses ("-" for gains)		
Decreases in the deferred income tax assets ("-" for increases)		
Increases in the deferred income tax liabilities ("-" for decreases)		
Decreases in inventories ("-" for increases)		
Decreases in operating payables ("-" for increases)		
Increases in operating payables ("-" for decreases)		
Others		
Net cash flows from operating activities		
2. Significant investing and financing activities not involving cash inflow and outflow		
Conversion of debt into capital		
Convertible corporate bonds maturing within one year		
Fixed assets acquired under financial lease		
3. Net change in cash and cash equivalents		

DATANG TELECOM (H.K.) HOLDING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Item	2014	2013
Ending balance of cash	27,622,940.00	
Less: beginning balance of cash		
Plus: ending balance of cash equivalents		
Less: beginning balance of cash equivalents		
Net increase in cash and cash equivalents	27,622,940.00	

5.4.2 Breakdown of cash and cash equivalents

Item	As at December 31, 2014	As at December 31, 2013
1. Cash	27,622,940.00	
Including: cash on hand		
Unrestricted bank deposits	27,622,940.00	
Unrestricted other cash and cash equivalents		
Unrestricted deposits with central bank		
Deposits with banks and other financial institutions		
Loans to or from banks and other financial institutions		
2. Cash equivalents		
Including: bond investments maturing within three months		
Bill acceptance deposits maturing within three months		
3. Balance of cash and cash equivalents as at the end of the year	27,622,940.00	
Including: restricted cash and cash equivalents for use by the parent company or subsidiaries within the group.		

6 Related parties and related party transactions

6.1 The parent company of the Company

Name of the parent company	Registered place	Business nature	Registered capital	Shareholding ratio in the Company (%)	Voting ratio in the Company (%)
Datang Telecom (H.K.) Limited	Hong Kong	Stated-owned Enterprise	106,101.70	100.00	100.00

Note: The ultimate controller of the Company is Research Institute of Telecommunications Technology.

6.2 Accounts due from/to the related parties

Item	Related party	As at December 31, 2014		As at December 31, 2013	
		Book balance	Bad debts	Book balance	Bad debts
Other receivable	Datang Telecom (H.K.) Limited	27,622,933.85			

7 Share-based payment

There were no share-based payments required to be disclosed by the Company

8 Commitments and contingencies

8.1 Commitments

There were no significant commitments required to be disclosed by the Company.

8.2 contingencies

There were no contingencies required to be disclosed by the Company.

9 Post balance sheet events

There were no post balance sheet events required to be disclosed by the Company.

10 Other significant events required to be disclosed

There were no significant events required to be disclosed by the Company.

Datang Telecom (H.K.) Holding Limited
March 20, 2015