

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

1 Company profile

1.1 Reporting entity

Datang Telecom (H.K.) Limited (hereinafter referred to as the “Company”) is a wholly-owned subsidiary of Datang Telecom Technology Co., Ltd. (hereinafter referred to as “Company Limited”) incorporated in Hong Kong according to the resolution of the 23rd meeting of the first board of directors and the WJMH [2002] No.764 approval of the original Ministry of Foreign Trade and Economic Cooperation. Company Limited contributed investment using intangible assets and the Company’s registered capital is HKD100, 000.00.

On August 25, 2014, the Company incorporated a wholly-owned subsidiary, Datang Telecom (H.K.) Holding Limited, with a registered capital of USD1.00. In December 2014, the Company purchased from Datang Telecom Technology Co., Ltd 100% share of Datang Terminal Technology Co., Ltd with CNY 600 million.

As at December 31, 2013, the Company issued 100,000 shares in total and had a registered capital of HKD100,000.00. Hong Kong laws do not provide specific descriptions of the Company’s business scope. The Company’s business operations are limited to electronic and communication equipment; system integration, technological development, technology transfer, technology consulting, technical services, research and development and sales as related to electronic computer software and hardware and external devices; and information service. The Company is mainly engaged in research and development, manufacturing and sales of electronic commerce system platform. The Company is registered and headquartered in Hong Kong.

1.2 Scope of consolidation

The Company’s consolidated financial statements as of and for the year ended December 31, 2014 included the following subsidiaries.

Name of Subsidiaries
Datang Telecom (Hong Kong) Holding Co., Limited
Datang Terminal Technology Co., Limited
Shanghai Uniscope Communication Technologies Co., Ltd.
Shanghai Puge Electronics Co., Ltd.
Shanghai Jingyou Communication Technology Co., Ltd.
Shenzhen Yousi Weiye Communication Technology Co., Ltd.
Shengyao Wireless Communication Technology (Beijing) Co., Ltd.
Qidong Uniscope Electronics Co., Ltd.

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 As at December 31, 2013 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 As at December 31, 2013 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 As at December 31, 2013 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 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
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DATANG TELECOM (H.K.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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 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 are 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 cancelation 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

The major impacts by implementing above standards are presented as follows:

In accordance with *Accounting Standards for Business Enterprises No.30: Presentation of Financial Statements (Revised)*, the Company reclassified deferred revenue under other non-current liabilities to deferred revenue and foreign currency translation adjustments under shareholder's equity to other comprehensive income. The adjustments was made respectively.

The adjustments will put the following impact on current financial statements:

Jan.1, 2014/ Year 2013	Balance before changes in accounting policies	Adjustments for changes in accounting policies	Balance after changes in accounting policies
Deferred revenue		407,928.88	407,928.88
Other non-current liabilities	407,928.88	-407,928.88	
Other comprehensive income		-2,030,754.52	-2,030,754.52
Foreign currency translation adjustments	-2,030,754.52	2,030,754.52	

(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 types	Tax rates	Basis of tax assessment
Value added tax (VAT)	17%	Output VAT is calculated and paid on taxable revenue, and VAT is paid at the net amounts after deducting input VAT for the current period
Business tax	5% 3%	Business tax is calculated and paid on taxable revenue
Urban maintenance and construction tax	5% 7%	Urban maintenance and construction tax is paid on actually paid business tax, VAT and consumer tax
Enterprise income tax	15% 16.5% 25%	Enterprise income tax is paid on taxable profits

(1) The income taxes of the Company, and Datang Telecom(H.K) Holding Limited are levied according to the local tax policies of Hong Kong, and the applicable rate of profit tax is 16.5%.

4.2 Preferential tax treatment and approval

4.2.1 Shanghai Uniscope Communication Technologies Co., Ltd.

According to the Administrative Measures for Certification of New and High Technology Enterprises and the Working Guidance on the Recognition of New and High Technology Enterprise jointly issued by the Ministry of Science and Technology, the Ministry of Finance, the State Administration of Taxation, Shanghai Uniscope Communication Technologies Co., Ltd. passed the review on September 4, 2014 and obtained the Certificate of New and High Technology Enterprise jointly issued by the Shanghai Municipal Science and Technology Commission, Municipal Bureau of Finance, Municipal Bureau of State Taxation and Municipal Bureau of Local Taxation with certificate number:

GR201431000413. It was entitled to preferential enterprise income tax for high-tech enterprises with a rate of 15% for a period of three years since 2014.

4.2.2 Shengyao Wireless Communication Technology (Beijing) Co., Ltd.

Shengyao Wireless Communication Technology (Beijing) Co., Ltd. was officially recognized by Beijing Municipal Commission of Economy and Information Technology as a software enterprise (Certificate of Software Enterprise: Jing No. R-2011-0626) in November 2011, and was entitled to the preferential policy of “tax exemption for the first two years and tax reduction by half for the following three years” for enterprise income tax since the profit-making year in 2011. According to the provisions of the document Cai Shui [2008] No. 1, Shengyao Wireless was exempted from enterprise income tax for two years from January 2011 to December 2012; was entitled to reduction of enterprise income tax by half for three years from January 2013 to December 2015, and the preferential enterprise income tax rate was 12.5%.

4.2.3 Shanghai Jingyou Communication Technology Co., Ltd.

Shanghai Jingyou Communication Technology Co., Ltd. passed the review on September 4, 2014 and obtained the Certificate of New and High Technology Enterprise jointly issued by the Shanghai Municipal Science and Technology Commission, Municipal Bureau of Finance, Municipal Bureau of State Taxation and Municipal Bureau of Local Taxation with certificate number: GR201431000364. It was entitled to preferential enterprise income tax for high-tech enterprises with a rate of 15% for a period of three years from September 4, 2014 to September 3, 2017.

5 Notes to the main items of consolidated financial statements

5.1 Cash and cash equivalents

Item	As at December 31, 2014	As at December 31, 2013
Cash	60,447.38	66,278.84
Bank deposit	117,806,776.03	16,013,648.97
Other cash and cash equivalents		240,980.58
Total	117,867,223.41	16,320,908.39
Including: funds deposited overseas		

Restricted cash and cash equivalents are listed as follows:

Item	As at December 31, 2014	As at December 31, 2013
L/C deposit		240,980.58
Total		240,980.58

5.2 Notes receivable

Item	As at December 31, 2014	As at December 31, 2013
Bank acceptance bills	800,000.00	
Commercial acceptance bill		2,027,900.00
Total	800,000.00	2,027,900.00

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

5.3 Accounts receivable

5.3.1 Disclosure of accounts receivable by category

Category	As at December 31, 2014					As at December 31, 2013				
	Book balance		Allowance for bad debt		Book value	Book balance		Allowance for bad debt		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
1. Accounts receivable with significant single amount and individual provision for bad debts										
2. Accounts receivable with provision for bad debt based on portfolio										
Portfolio 1: portfolio with insignificant risks of accounts receivable with significant single amount	374,408,262.44	87.53	1,872,041.31	0.50	372,536,221.13	475,184,504.15	87.80	2,375,922.52	0.50	472,808,581.63
Portfolio 2: portfolio with insignificant risks of accounts receivable with insignificant single amount										
Portfolio 3: portfolio with significant risks	53,361,992.30	12.47	4,826,144.97	9.04	48,535,847.33	66,003,354.85	12.20	1,280,225.10	1.94	64,723,129.75
Sub-total of portfolios	427,770,254.74	100.00	6,698,186.28		421,072,068.46	541,187,859.00	100.00	3,656,147.62		537,531,711.38
3. Accounts receivable with insignificant single amount and individual provision for bad debts										
Total	427,770,254.74		6,698,186.28		421,072,068.46	541,187,859.00		3,656,147.62		537,531,711.38

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

Accounts receivable with provision for bad debts estimated by aging analysis method:

Aging	As at December 31, 2014		
	Amount	Allowance for bad debt	Proportion (%)
Within 1 year (including 1 year)	406,239,500.15	2,807,282.87	0.50
1 - 2 years (including 2 years)	6,547,794.18	113,455.88	2.00
2-3 years (including 3 years)	5,708,000.76	285,400.04	5.00
3-4 years (including 4 years)	4,339,731.65	1,301,919.49	30.00
4-5 years (including 5 years)	3,922,200.00	1,961,100.00	50.00
Over 5 years	1,013,028.00	1,013,028.00	100.00
Total	427,770,254.74	6,698,186.28	

5.3.2 Top five of accounts receivables

Company name	As at December 31, 2014		
	Amount	Proportion in the total accounts receivable (%)	Allowance for bad debt
Chengdu JiaHao Technology Co., Ltd	141,837,588.00	33.16	709,187.94
Shenzhen HaiFa Import & Export Trade Co., Ltd	120,520,869.70	28.17	602,604.35
Shanghai Yu Global Co., Ltd.	65,664,607.40	15.35	328,323.04
Datang Telecom Technology International Co., Ltd.	24,271,312.11	5.67	121,356.56
Datang Telecom Technology International (HK) Co., Ltd.	22,113,885.23	5.17	110,569.43
Total	374,408,262.44	87.53	1,872,041.32

5.4 Advances to suppliers

5.4.1 Disclosure of advances to suppliers by aging

Aging	As at December 31, 2014		As at December 31, 2013	
	Book balance	Proportion (%)	Book balance	Proportion (%)
Within 1 year (including 1 year)	86,210,826.85	96.07	20,320,836.81	92.51
1 - 2 years (including 2 years)	2,267,244.57	2.53	674,570.97	3.07
2-3 years (including 3 years)	550,722.34	0.61	943,180.04	4.29
Over 3 years	705,598.69	0.79	26,964.23	0.12
Total	89,734,392.45	100.00	21,965,552.05	100.00

5.4.2 Top five of advances to suppliers

Company name	As at December 31, 2014	Proportion in total amount of advances to suppliers
Sichuan Jiuzhou Appliances Group Co., Ltd	33,850,198.50	37.72
Richpower Electronic Devices Co. Limited	9,300,880.00	10.36
Shenzhen Zetrax Electronics Technology Co., Ltd	6,636,719.81	7.40
Guangdong Day Strength of New Energy Technology Co., Ltd	5,046,422.04	5.62
Shenzhen Shitong Technology Co., Ltd	4,892,373.49	5.45
Total	59,726,593.84	66.55

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

5.5 Other receivables

5.5.1 Disclosure of other receivable by category

Category	As at December 31, 2014					As at December 31, 2013				
	Book balance		Allowance for bad debt		Book value	Book balance		Allowance for bad debt		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
1. Other receivables with significant amount and individual provision for bad debt										
2. Other receivables with provision for bad debts made based on portfolio										
Portfolio 1: portfolio with insignificant risks of other receivables with significant amount	77,973,823.25	96.04	865,757.89	1.11	77,108,065.36	3,615,783.00	64.98	241,775.37	6.69	3,374,007.64
Portfolio 2: portfolio with insignificant risks of other receivables with insignificant amount										
Portfolio 3: portfolio with significant risks	3,217,843.35	3.96	245,164.46	7.62	2,972,678.89	1,948,743.29	35.02	32,126.70	1.65	1,916,616.59
Sub-total of portfolio	81,191,666.60	100.00	1,110,922.35		80,080,744.25	5,564,526.29	100.00	273,902.07		5,290,624.23
3. Other receivables with insignificant risks and individual provision for bad debts										
Total	81,191,666.60		1,110,922.35		80,080,744.25	5,564,526.29		273,902.07		5,290,624.22

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

Other receivable with provision for bad debts estimated by aging analysis method:

Aging	As at December 31, 2014		
	Amount	Allowance for bad debt	Proportion (%)
Within 1 year (including 1 year)	77,465,481.55	4,078.19	0.50
1 - 2 years (including 2 years)	226,686.05	3,249.16	2.00
2-3 years (including 3 years)	56,150.00	2,807.50	5.00
3 - 4 years (including 4 years)	3,141,935.00	942,580.50	30.00
4 -5 years (including 5 years)	286,414.00	143,207.00	50.00
Over 5 years	15,000.00	15,000.00	100.00
Total	81,191,666.60	1,110,922.35	

5.5.2 Top five of other receivables

Company name	Nature	As at December 31, 2014	Aging	Proportion in total amount of other receivables (%)	Allowance for bad debt
Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd.		13,000,014.00	Within 1 year	16.01	
Datang Telecom Technology Co., Ltd.		61,751,081.39	Within 1 year	76.06	
Beijing Rentong Lida Technology Co., Ltd		1,480,150.00	3-4years	1.82	444,045.00
Beijing Xingda Sheji Technology Co., Ltd		1,400,000.00	3-4years	1.72	420,000.00
VenusTech Enterprise Management (Shanghai) Co., Ltd		342,577.86	Within 1 year	0.42	1,712.89
Total		77,973,823.25		96.03	944,991.16

5.6 Inventories

Item	As at December 31, 2014			As at December 31, 2013		
	Book balance	Provision	Book value	Book balance	Provision	Book value
Raw materials	418,241,467.34		418,241,467.34	148,472,930.89		148,472,930.89
Goods in process	30,722,919.31		30,722,919.31	30,164,559.42		30,164,559.42
Stocks	106,625,432.94		106,625,432.94	125,973,629.18		125,973,629.18
Total	555,589,819.59		555,589,819.59	305,295,820.63		305,295,820.63

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

5.7 Long-term receivables

Item	As at December 31, 2014			As at December 31, 2013			Range of discount rate
	Book balance	Provision	Book value	Book balance	Provision	Book value	
Financing lease							
Include: The unrealized financing income							
Sales of goods by installments							
Render of labor services by installment							
Others	110,000,000.00		110,000,000.00				
Total	110,000,000.00		110,000,000.00				

5.8 Fixed assets

Item	Buildings and constructions	Vehicles	General equipment	Special equipment	Instruments and Apparatuses	Other equipment	Total
1. Costs:							
(1) As at December 31, 2013	21,870,644.05	4,563,961.07	10,339,758.11	315,498.59	46,715,161.63	1,785,265.60	85,590,289.05
(2) Increase in 2014:		656,379.89	3,626,238.01	2,500.00	10,647,046.58	271,779.17	15,203,943.65
Purchases		656,379.89	3,626,238.01	2,500.00	10,647,046.58	271,779.17	15,203,943.65
Transfers from construction in progress							
Additions from business combination							
(3) Decrease in 2014:		273,885.54					273,885.54
Disposals		273,885.54					273,885.54
(4) As at December 31, 2014	21,870,644.05	4,946,455.42	13,965,996.12	317,998.59	57,362,208.21	2,057,044.77	100,520,347.16
2. Accumulated depreciation and amortization:							
(1) As at December 31, 2013	6,721,479.70	4,164,364.53	6,800,261.93	170,348.80	9,934,160.95	850,708.24	28,641,324.15
(2) Increase in 2014:	1,038,855.57	105,924.16	1,237,146.11	52,443.76	4,578,614.25	202,316.68	7,215,300.53
Provisions	1,038,855.57	105,924.16	1,237,146.11	52,443.76	4,578,614.25	202,316.68	7,215,300.53
(3) Decrease in 2014:		175,703.26					175,703.26

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

Item	Buildings and constructions	Vehicles	General equipment	Special equipment	Instruments and Apparatuses	Other equipment	Total
Write-offs		175,703.26					175,703.26
(4) As at December 31, 2014	7,760,335.27	4,094,585.43	8,037,408.04	222,792.56	14,512,775.20	1,053,024.92	35,680,921.42
3. Provisions for impairment loss:							
(1) As at December 31, 2013							
(2) Increase in 2014:							
Provisions							
(3) Decrease in 2014:							
Write-offs							
(4) As at December 31, 2014							
4. Net book value:							
(1) As at December 31, 2014	14,110,308.78	851,869.99	5,928,588.08	95,206.03	42,849,433.01	1,004,019.85	64,839,425.74
(2) As at December 31, 2013	15,149,164.35	399,596.54	3,539,496.18	145,149.79	36,781,000.68	934,557.36	56,948,964.90

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

5.9 Intangible assets

Item	Software, system, license fee	Non-proprietary technology	Total
1. Costs:			
(1) As at December 31, 2013	35,649,675.03	10,351,282.06	46,000,957.09
(2) Increase in 2014:	48,126.50	729,230.77	777,357.27
Purchases	48,126.50	729,230.77	777,357.27
Internal research and development			
Additions from business combination			
(3) Decrease in 2014:			
Disposals			
(4) As at December 31, 2014	35,697,801.53	11,080,512.83	46,778,314.36
2. Accumulated amortization			
(1) As at December 31, 2013	24,992,621.08	2,614,861.38	27,607,482.46
(2) Increase in 2014:	4,286,458.46	3,612,548.93	7,899,007.39
Provisions	4,286,458.46	3,612,548.93	7,899,007.39
(3) Decrease in 2014:			
Write-offs			
(4) As at December 31, 2014	29,279,079.54	6,227,410.31	35,506,489.85
3. Provisions for impairment loss:			
(1) As at December 31, 2013			
(2) Increase in 2014:			
Provisions			
(3) Decrease in 2014:			
Write-offs			
(4) As at December 31, 2014			
4. Net book value:			
(1) As at December 31, 2014	6,418,721.99	4,853,102.52	11,271,824.51
(2) As at December 31, 2013	10,657,053.95	7,736,420.68	18,393,474.63

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

5.10 Development expenditures

Item	As at December 31, 2013	Increase in 2014	Decrease in 2014			As at December 31, 2014	Starting-point of capitalization	Reasons for capitalization	Development Progress as at December 31, 2014
		Internal development expenditures	Recognized as intangible assets	Included in current profit or loss	Other				
4G Integrated service platform		4,035,661.74		3,915,659.52		120,002.22			
Intelligent mobile terminal based on Gaotong platform		23,360,570.55		19,666,581.48		3,693,989.07			
Total		27,396,232.29		23,582,241.00		3,813,991.29			

5.11 Goodwill

5.11.1 Cost of goodwill

Name of the investee or matter giving rise to the goodwill	As at December 31, 2013	Increase in 2014		Decrease in 2014		As at December 31, 2014
		Formed by business combination	Other	Disposals	Other	
Shanghai Uniscope Communication Technologies Co., Ltd.	130,558,011.23					130,558,011.23
Shengyao Wireless Communication Technology (Beijing) Co., Ltd.	12,943,971.37					12,943,971.37
Qidong Uniscope Electronics Co., Ltd.	45,619,509.99					45,619,509.99
Total	189,121,492.59					189,121,492.59

5.11.2 Impairment for goodwill

Name of the investee or matter giving rise to the goodwill	As at December 31, 2013	Increase in 2014		Decrease in 2014		As at December 31, 2014
		Provision	Other	Disposal	Other	
Shanghai Uniscope Communication Technologies Co., Ltd.	24,755,555.00					24,755,555.00
Shengyao Wireless Communication Technology (Beijing) Co., Ltd.	4,300,000.00	1,000,000.00				5,300,000.00
Total	29,055,555.00	1,000,000.00				30,055,555.00

5.12 Long-term deferred expenses

Item	As at December 31, 2013	Increased in 2014	Amortization in 2014	Other decreases	As at December 31, 2014
Office decoration	1,354.06		1,354.06		
Construction decoration	12,283.33		12,283.33		
Furniture	167.3		167.3		
Second workshop add-line cost	26,207.81		7,670.64		18,537.17
The manufacturing building door	5,400.00		1,800.00		3,600.00
Color steel	23,999.96		8,000.04		15,999.92
Workshop renovation costs	386,790.00		41,815.20		344,974.80
Anti-theft door for financial room	1,234.99		260.04		974.95
Repair for epoxy floor in workshop	7,400.80		1,531.20		5,869.60
Mold	807,368.86	836,289.74	1,076,954.53		566,704.07
Construction light current costs	13,926.46		1,576.58		12,349.88
ROCK support	25,436.67		23,196.67		2,240.00
Touch screen and Integrated touch module	94,166.67		10,000.00		84,166.67
Total	1,405,736.91	836,289.74	1,186,609.59		1,055,417.06

5.13 Deferred income tax assets and deferred income tax liabilities

5.13.1 Non-offset deferred income tax assets

Item	As at December 31, 2014		As at December 31, 2013	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Impairment for assets	8,537,112.17	1,418,280.87	3,973,670.26	826,968.81
Total	8,537,112.17	1,418,280.87	3,973,670.26	826,968.81

5.13.2 Non-offset deferred income tax liabilities

Item	As at December 31, 2014		As at December 31, 2013	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Assets appreciation by business combination under non-common control	2,981,932.37	372,741.54	4,642,081.95	582,190.11
Total	2,981,932.37	372,741.54	4,642,081.95	582,190.11

5.14 Short-term borrowings

Item	As at December 31, 2014	As at December 31, 2013
Pledged borrowings		
Mortgaged borrowings		
Guaranteed borrowings		
Credit borrowings	197,319,748.58	205,916,597.98
Total	197,319,748.58	205,916,597.98

5.15 Notes payable

Item	As at December 31, 2014	As at December 31, 2013
Bank acceptance bill		
Commercial acceptance bill		5,150,000.00
Total		5,150,000.00

5.16 Accounts payable

5.16.1 Details of accounts payable

Item	As at December 31, 2014	As at December 31, 2013
Within 1 year (including 1 year)	208,653,894.10	260,577,818.43
1-2 years (including 2 years)	12,497,300.53	2,611,535.74
2-3 years (including 3 years)	666,863.11	1,144,582.75
Over 3 years	1,622,162.37	521,055.78
Total	223,440,220.11	264,854,992.70

5.16.2 Significant accounts payable with aging over one year

Item	As at December 31, 2014	Reasons for outstanding
Newtronics Hangzhou Co., Ltd.	6,887,832.02	Not call in collection yet
Guangdong Weiliwang Electronic Co., Ltd	2,561,243.10	Not call in collection yet
Evertex Electronic (Kun Shan) Co., Ltd	482,583.76	Not call in collection yet
Huizhou Trust Industrial Co., Ltd	136,930.50	Not call in collection yet
Shenzhen Yifanxing Technology Co., Ltd	136,207.30	Not call in collection yet
Total	10,204,796.68	

5.17 Advances from customers

5.17.1 Details of Advances from customers

Item	As at December 31, 2014	As at December 31, 2013
Within 1 year (including 1 year)	32,242,089.02	14,257,941.05
1-2 years (including 2 years)	1,495,737.30	1,544,441.94
2-3 years (including 3 years)	610,641.94	7,553,560.58
Over 3 years	2,566,171.46	671,801.38
Total	36,914,639.72	24,027,744.95

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

5.17.2 Significant advances from customers with aging over one year

Item	As at December 31, 2014	Reasons for outstanding
Zhejiang Gaoxiang Communication Equipment Co., Ltd	647,282.80	Unsettled
Qingdao Huashiji Electronic Co., Ltd	610,884.00	Unsettled
Shenzhen Senmi Technology Co., Ltd	426,000.00	Unsettled
Beijing Hengxin Caihong Technology Co., Ltd	300,000.00	Unsettled
Yunan Dehong International Economic and Technology Cooperation Co., Ltd	271,908.00	Unsettled
Yulong Computer Communication and Technology (Shen Zhen) Co., Ltd	254,635.00	Unsettled
Hangzhou Shijing Electronic Co., Ltd\	223,980.80	Unsettled
Ningbo Xinwang Software Co., Ltd	200,000.00	Unsettled
Xiamen Hongkang Technology and Communication Co., Ltd	200,000.00	Unsettled
Dalian Daxian Distribution Co., Ltd	147,500.38	Unsettled
Shenzhen Ruita Communication and Technology (Shen Zhen) Co., Ltd	136,857.78	Unsettled
Zoeru (Fu Jian) Communication Co., Ltd	129,720.00	Unsettled
Shenzhen Oubei Electronic Co., Ltd	109,479.81	Unsettled
Total	3,658,248.57	

5.18 Employee compensation payable

5.18.1 Details of employee compensation payable

Item	As at December 31, 2013	Increase in 2014	Decrease in 2014	As at December 31, 2014
Short-term compensation	1,698,211.44	104,883,164.59	106,482,474.68	98,901.35
Post-employment benefits - defined contribution plan	192,071.03	10,429,535.42	10,440,725.48	180,880.97
Termination benefits	-27,097.00		32,664.00	-59,761.00
Other benefits due within one year				
Total	1,863,185.47	115,312,700.01	116,955,864.16	220,021.32

5.18.2 Details of the short-term compensation

Item	As at December 31, 2013	Increase in 2014	Decrease in 2014	As at December 31, 2014
Wages, bonuses, allowances and subsidies	1,419,761.96	87,601,475.98	89,017,320.65	3,917.29
Worker welfare funds		1,631,440.43	1,631,440.43	
The social insurance premiums	104,617.04	6,731,311.58	6,987,197.83	-151,269.21
Include:				
-The medical insurance premium	92,474.22	4,638,665.38	4,882,583.14	-151,443.54
-Industrial injury insurance premium	4,779.55	1,724,996.24	1,729,543.72	232.07
-Maternity insurance	7,363.27	367,649.96	375,070.97	-57.74

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

Housing fund	173,832.44	4,809,009.69	4,925,044.69	57,797.44
Union funds and employee education expenses		819,225.83	630,770.00	188,455.83
Short-term compensated absences				
Short-term profit-sharing plan				
Others		60,715.25	60,715.25	
Total	1,698,211.44	101,592,463.51	103,191,773.60	98,901.35

5.18.3 Details of defined contribution plans

Item	As at December 31, 2013	Increase in 2014	Decrease in 2014	As at December 31, 2014
Basic endowment insurance premium	183,946.97	9,533,457.68	9,689,948.24	27,456.41
Unemployment insurance premium	8,124.06	896,077.74	750,777.24	153,424.56
Enterprise annuity payment				
Total	192,071.03	10,429,535.42	10,440,725.48	180,880.97

5.19 Taxes and surcharges payable

Item	As at December 31, 2014	As at December 31, 2013
Value-added tax (VAT)	-17,346,573.43	-7,134,219.15
Consumption tax		
Business tax		
Enterprise income tax	8,110,468.33	3,320,705.61
Individual income tax	248,195.51	159,346.22
Urban maintenance and construction tax	349,964.06	228,758.64
Property tax		
Land appreciation Tax		
Educational surtax	265,661.90	188,936.67
Resource tax		
Land-use tax		
The stamp tax	3,426.19	2,576.20
Others	95,466.70	33,849.00
Total	-8,273,390.74	-3,200,046.81

5.20 Interest payable

Item	As at December 31, 2014	As at December 31, 2013
Interest on long-term borrowings with interest paid by installments and principal paid on maturity date		
Interest on corporate bonds	13,687,367.82	
Interest payable on short-term borrowings		
Interest on preferred stock or perpetual debt interest recognized as financial liabilities		
Total	13,687,367.82	

5.21 Dividends payable

Item	As at December 31, 2014	As at December 31, 2013
Datang Telecom Technology Co., Ltd.	23,400,000.00	93,400,000.00
Xiong Bihui	9,800,000.00	9,800,000.00
Gu Xinhui	9,800,000.00	9,800,000.00
Total	43,000,000.00	113,000,000.00

5.22 Other payable

5.22.1 Aging of other payables

Item	As at December 31, 2014	As at December 31, 2013
Within 1 year (including 1 year)	8,491,929.60	6,943,659.77
1- 2 years (including 2 years)	2,531,132.01	61,810,361.48
2-3 years (including 3 years)	61,247,316.60	287,126.82
Over 3 years	481,126.82	194,000.00
Total	72,751,505.03	69,235,148.07

5.22.2 Significant other payables with aging of over 1 year

Item	As at December 31, 2014	Reason for outstanding
Datang Telecom Technology Co., Ltd.	60,000,000.00	Fund-raising for free use

5.23 Bonds payable

5.23.1 Details of bonds payable

Item	As at December 31, 2014	As at December 31, 2013
Guaranteed bonds	988,062,220.35	
Total	988,062,220.35	

5.23.2 The movement on bonds payable: (excluding financial liabilities such as preferred stock, perpetual bonds and other financial instrument)

Bonds name	Par value	Issue Date	Duration	Issue amount	As at December 31, 2013	Issued in 2014	Accrued interest based on par value	Interest adjustment	Foreign currency translation adjustment	As at December 31, 2014
Guaranteed bonds	1,000,000,000.00	2014-9-29	3 years	1,000,000,000.00		1,000,000,000.00	13,687,367.82	7,382,712.14	4,555,067.51	988,062,220.35
Total	1,000,000,000.00			1,000,000,000.00		1,000,000,000.00	13,687,367.82	7,382,712.14	4,555,067.51	988,062,220.35

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

5.24 Long term payables

Item	As at December 31, 2014	As at December 31, 2013
Datang Telecom Technology Co., Ltd.	13,000,000.00	
Total	13,000,000.00	

5.25 Deferred income

Item	As at December 31, 2013	Increase in 2014	Decrease in 2014	As at December 31, 2014	Reasons
Government grants	407,928.88	2,050,000.00	825,927.66	1,632,001.22	
Total	407,928.88	2,050,000.00	825,927.66	1,632,001.22	

Item associated with government grants:

Item	As at December 31, 2013	Increase in 2014	Included in non-operating income in 2014	Other changes	As at December 31, 2014	Related to assets / related to income
Special subsidies on integrated circuit		1,800,000.00	750,000.00		1,050,000.00	Related to assets
2013 Technological innovation subsidies		250,000.00	25,556.54		224,443.46	Related to assets
2012 Technological innovation subsidies	407,928.88		50,371.12		357,557.76	Related to assets
Total	407,928.88	2,050,000.00	825,927.66		1,632,001.22	

5.26 Share capital

Investor name	As at December 31, 2013		Increase in 2014	Decrease in 2014	As at December 31, 2014	
	Investment amount	Proportion (%)			Investment amount	Proportion (%)
Datang Telecom Technology Co., Ltd.	106,101.70	100.00			106,101.70	100.00
Total	106,101.70	100.00			106,101.70	100.00

5.27 Capital reserves

Item	As at December 31, 2013	Increased in 2014	Decreased in 2014	As at December 31, 2014
Capital premium (Share premium)	186,455,773.42	24,894,274.69	202,084,264.90	9,265,783.21
Include: amounts formed by business combination under common control	186,455,773.42	24,894,274.69	202,084,264.90	9,265,783.21
Other capital reserves				
Total	186,455,773.42	24,894,274.69	202,084,264.90	9,265,783.21

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

5.28 Other comprehensive income

Item	As at December 31, 2013	2014					As at December 31, 2014
		Amount before income tax	Less: recognized as other comprehensive income previously and transferred in the profit or loss in 2014	Less: Income tax	Attributable to the parent company after tax	Attributable to the minority shareholders after tax	
1. Other comprehensive income can't be reclassified to gains and losses subsequently							
Include:							
Changes in net liabilities or assets due to the re-measurement and redefinition of the benefit plan							
The shares in other comprehensive income of the investee that can't be reclassified to gains and losses under the equity method							
2. Other comprehensive income to be reclassified to gains and losses subsequently							
Include:							
The shares in other comprehensive income of the investee that can be reclassified to gains and losses under the equity method							
Gains and losses from changes in fair value of available-for-sale financial assets							
Gains and losses from the reclassification of the held-to-maturity investment to held-for-sale financial assets							
The effective portion of the gains and losses from cash flow hedging							
Currency translation differences	-2,030,754.52	3,681,255.64			3,681,255.64		1,650,501.12
Total	-2,030,754.52	3,681,255.64			3,681,255.64		1,650,501.12

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

5.29 Surplus reserve

Item	As at December 31, 2013	Increased in 2014	Decreased in 2014	As at December 31, 2014
Statutory surplus reserve	14,628,491.48	1,152,290.03		15,780,781.51
Discretionary surplus reserve				
Reserve fund				
Enterprise development fund				
Other				
Total	14,628,491.48	1,152,290.03		15,780,781.51

5.30 Retained earnings

Item	2014	2013
Retained earnings as at December 31, 2013 before adjustments	245,076,246.08	
Adjustments totaling for Retained earnings as at January 1, 2014 (Increase +, Decrease -)		223,384,629.41
Retained earnings as at January 1, 2014 after adjustments	245,076,246.08	223,384,629.41
Add: net profit attributable to parent company in current year	86,564,936.47	95,819,762.35
Less:		
- Appropriation for statutory surplus reserve	1,152,290.03	1,128,145.68
- Appropriation for Discretionary surplus reserve		
- Appropriation for General risk reserve		
- Dividends payable on common stock		73,000,000.00
- Dividends on common stock converted to capital stock		
Others	322,810,009.79	
Retained earnings as at December 31, 2014	7,678,882.73	245,076,246.08

5.31 Operating income and operating cost

Item	2014		2013	
	Revenue	Costs	Revenue	Costs
Income from primary business	1,883,292,824.96	1,662,717,803.42	1,355,864,681.51	1,156,414,780.59
Income from other business	464,535.51	104,473.80	41,500.00	12,271.15
Total	1,883,757,360.47	1,662,822,277.22	1,355,906,181.51	1,156,427,051.74

5.32 Business taxes and surcharges

Item	2014	2013
Consumption tax		
Business tax	1,992,179.19	1,942,439.81
Urban maintenance and construction tax	1,391,720.76	1,384,131.20
education costs and surcharge	187,580.03	179,108.16
Channel management fees	110,818.16	129,713.57
Other		
Total	3,682,298.14	3,635,392.74

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

5.33 Selling and distribution expenses

Item	2014	2013
Employee compensation	12,226,093.14	10,581,665.28
Business costs	2,512,775.88	2,518,615.01
Transportation costs	56,160.06	319,522.53
Repair costs	93.17	94.65
Depreciation	44,187.19	25,767.02
Samples and product loss	259,303.20	58,059.83
Insurance premium	1,075,539.75	297,077.87
Other	1,426,182.11	1,088,277.00
Total	17,600,334.50	14,889,079.19

5.34 General and administrative expenses

Item	2014	2013
Research and development expenses	42,868,915.19	43,141,590.23
Employee compensation	14,789,981.48	12,419,926.16
Amortization of intangible assets	4,262,674.04	4,860,810.14
Depreciation	1,917,551.27	1,966,744.91
Rental fee	1,860,984.88	1,038,403.72
Travel expense	818,154.19	1,098,484.66
Business entertainment expenses	866,312.35	1,297,738.45
Office expenses	2,439,997.71	2,141,089.43
Tax	465,923.59	493,352.07
Utilities	570,857.20	565,978.12
Consulting fees	287,735.85	647,927.48
Repair fees	870.27	7,214.25
Insurance premium	1,342,377.09	621,511.66
Amortization of low value consumable	176,086.82	42,136.21
Other	2,658,832.93	2,266,403.23
Transportation costs	4,976,396.94	3,113,518.03
Property management fees	381,120.21	88,804.68
Amortization of long-term deferred expenses	515,034.53	439,728.17
Total	81,199,806.54	76,251,361.60

5.35 Financial expenses

Item	2014	2013
Interest expenses	27,376,861.81	11,332,559.01
Less: interest income	3,431,461.72	48,438.06
Gains or losses on exchange	1,658,727.87	-7,323,351.60
Others	162,487.31	537,078.93
Total	25,766,615.27	4,497,848.28

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

5.36 Impairment loss of assets

Item	2014	2013
Provision of bad debts allowance	4,536,198.76	1,834,468.43
Impairment loss for long-term equity investment	1,000,000.00	
Total	5,536,198.76	1,834,468.43

5.37 Non-operating income

Item	2014	2013	Included in non-recurring gain
Total gains on disposal of non-current assets			
Including:			
Gains on disposal of fixed assets			
Gains on disposal of intangible assets			
Gains on debt restructuring			
Gains non-monetary assets exchange			
Donations			
Government grant	17,033,732.36	16,279,723.22	3,964,152.16
Other	5,502.40	2,004.70	5,502.40
Total	17,039,234.76	16,281,727.92	3,969,654.56

Government grant included in current profit/loss:

Item	2014	2013	Related to assets / related to income
Receiving Haige project grants	1,700,000.00		Related to income
Receiving special funds for the development of integrated circuit	750,000.00		Related to assets
Receiving Zhangjiang local process tax returns	425,000.00		Related to income
Receiving patent subsidy fee	8,252.50		Related to income
Receiving training subsidy	136,342.00		Related to income
Receiving financial support grants	71,000.00	1,510,414.00	Related to income
Receiving financial support grants	1,520.00	652,400.00	Related to income
Receiving tax return from Hongmei	440,000.00	320,000.00	Related to income
Receiving grants from science commission, Xuhui district	150,000.00		Related to income
2013 Technological innovation subsidies	25,556.54		Related to assets
2013 Technological innovation subsidies	206,110.00		Related to assets
2012 Technological innovation subsidies	50,371.12	50,371.12	Related to assets
Export subsidies		50,000.00	Related to income
VAT return	13,069,580.20	13,696,538.10	Related to income
Total	17,033,732.36	16,279,723.22	

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

5.38 Non-operating expenses

Item	2014	2013	Included in non-recurring loss
Total losses on disposal of non-current assets			
Including:			
Losses from the disposal of fixed assets			
Losses from the disposal of intangible assets			
Debt restructuring gains			
Non-monetary assets exchange gains			
Donations			
Other	82.54	2,588.27	82.54
Total	82.54	2,588.27	82.54

5.39 Income tax expenses

Item	2014	2013
Current year income tax expenses	18,424,806.42	20,502,569.28
Adjustments on deferred income tax	-800,760.63	-1,672,212.45
Total	17,624,045.79	18,830,356.83

5.40 Notes to the items of the statement of cash flows

5.40.1 Cash received from other operating activities

Item	2014	2013
Government grants	823,033.72	3,206,561.34
Interest income	3,434,395.13	52,964.81
Accounts receivable and payable	411,975.54	17,155,442.95
Other	426,813.17	485,437.43
Total	5,096,217.56	20,900,406.53

5.40.2 Cash paid for other operating activities

Item	2014	2013
3Net payment on performance and guarantee securities		240,980.58
Sales and distribution expenses	4,344,722.40	3,701,725.13
General and administrative expenses	28,260,719.03	15,728,710.11
Financial expenses	229,540.66	537,078.93
Other receivable and payable	4,059,059.89	20,131,016.28
Others	2,469,340.71	5,291,412.84
Total	39,363,382.69	45,630,923.87

5.40.3 Cash received from other investing activities

Item	2014	2013
Receiving from related party	6,000,000.00	
Total	6,000,000.00	

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

5.40.4 Cash paid for other financing activities

Item	2014	2013
Payment to related party	19,000,000.00	
Underwriting fees on bond issuance	8,081,269.56	
Total	27,081,269.56	

5.41 Supplementary information to the statement of cash flows

5.41.1 Supplementary information to the statement of cash flows

Item	2014	2013
1. Net profit adjusted to cash flows from operating activities		
Net profit	86,564,936.47	95,819,762.35
Plus: provision for asset impairment	5,536,198.76	1,834,468.43
Depreciation of fixed assets, depreciation and depletion of oil and gas assets and depreciation of productive biological assets	7,215,300.53	6,274,562.64
Amortization of intangible assets	7,899,007.39	7,167,022.26
Amortization of long-term deferred expenses	1,186,609.59	663,213.34
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)	27,376,861.81	11,332,559.01
Investments losses ("-" for gains)		
Decreases in the deferred income tax assets ("-" for increases)	-591,312.06	-229,223.95
Increases in the deferred income tax liabilities ("-" for decreases)	-209,448.57	-1,442,988.50
Decreases in inventories ("-" for increases)	-250,293,998.96	-69,005,671.69
Decreases in operating payables ("-" for increases)	-24,521,097.66	-141,493,718.39
Increases in operating payables ("-" for decreases)	27,150,033.46	83,340,097.52
Others		
Net cash flows from operating activities	-112,686,909.24	-5,739,916.98
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		
As at December 31, 2014 of cash	117,867,223.41	16,079,927.81
Less: As at December 31, 2013 of cash	16,079,927.81	17,580,360.84
Plus: As at December 31, 2014 of cash equivalents		
Less: As at December 31, 2013 of cash equivalents		
Net increase in cash and cash equivalents	101,787,295.60	-1,500,433.03

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

5.41.2 Breakdown of cash and cash equivalents

Item	As at December 31, 2014	As at December 31, 2013
1. Cash	117,867,223.41	16,079,927.81
Including: cash on hand	60,447.38	66,278.84
Unrestricted bank deposits	117,806,776.03	15,772,668.39
Unrestricted other cash and cash equivalents		240,980.58
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		
3. Balance of cash and cash equivalents as at the end of the year	117,867,223.41	16,079,927.81
Include: Cash and cash equivalents of the parent company or subsidiary of the group using restricted		

5.42 Assets with restricted usage and ownership

Item	Book value as at December 31, 2014	Book value as at December 31, 2013
Cash and cash equivalent		240,980.58
Total		240,980.58

5.43 Monetary items denominated in foreign currency

Item	Foreign currency as at December 31, 2014	Exchange rate	Amount in CNY as at December 31, 2014
Monetary resources			
Include: USD	598,535.47	6.1190	3,662,438.54
HKD	87,634.29	0.7867	68,942.45
CNY	33,399,503.42	1.00	33,399,503.42
Account receivable			
Include: USD	22,135,434.88	6.1190	135,446,726.02
Advance to suppliers			
Include: USD	1,582,092.59	6.1190	9,680,824.56
Other receivable			
Include: USD	14,874,993.77	6.1190	91,020,086.86
Long-term receivable			
Include: USD	17,976,793.59	6.1190	110,000,000.00
Account payable			
Include: USD	16,067,393.48	6.1190	98,316,380.69
Advance from customers			
Include: USD	624,588.75	6.1190	3,821,858.56
Other payable			
Include: USD	29,338.41	6.1190	179,521.76

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

6 Changes in the scope of consolidation

6.1 Business Combination under Common Control

6.1.1 Business Combination under Common Control in current year

Name of acquiree	Equity acquired through business combination	Basis for Business combination under common Control	Combination date	Basis for determination of combination date	Acquiree's revenue from the beginning of year to combination date	Acquiree's net profit from the beginning of year to combination date	Acquiree's revenue during the comparative period	Acquiree's net profit during the comparative period
Datang Terminal Technology Co., Ltd	100%	Controlled by same parent company more than 1 year	December 31, 2014	Agreement of equity transfer	1,542,478,467.36	92,970,271.06		

6.1.2 Combination costs

	Datang Terminal Technology Co., Ltd	Datong Telecom (Hongkong) Holding Co., Ltd
Combination costs	600,000,000.00	6.15
- Cash	600,000,000.00	6.15
- Non-monetary assets book value		
- The book value of debt issued		
- The value of the equity securities issued		
- Contingent consideration		

6.1.3 The book value of acquiree's assets and liabilities on combination date

Item	Datang Terminal Technology Co., Ltd		Datong Telecom (Hongkong) Holding Co., Ltd	
	Combination date	As at December 31, 2013	Combination date	As at December 31, 2013
Assets:	1,208,218,739.80	1,070,047,076.07	27,622,940.00	
Cash and cash equivalent	53,113,399.00	11,795,249.08	27,622,940.00	
Account receivable	489,573,150.85	521,782,221.16		
Inventory	424,067,312.89	298,828,522.99		
Fixed assets	64,839,425.74	56,948,964.90		
Intangible assets	11,271,824.51	18,393,474.63		

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

Liabilities:	584,324,465.11	565,077,848.69	27,622,933.85	
Borrowings	197,319,748.58	205,916,597.98		
Account payable	337,053,343.19	318,102,515.80	27,622,933.85	
Net assets	623,894,274.69	433,374,704.64	6.15	
Less: minority equity				
Net assets gained	623,894,274.69	433,374,704.64	6.15	

6.2 Other reasons for the change in scope of consolidation

According to resolutions on 19th meeting of sixth board of directors reviewed and passed on August 15th, 2014, the Company was approved to establish an overseas wholly-owned subsidiary as entity issuing bond. On August 25th, 2014, the Company invested a wholly-owned subsidiary, Datang Telecom (Hong Kong) Holding, in British Virgin Islands with registered paid-in capital of USD 1.00.

7 Equity in other entities

7.1 Equity in subsidiary

The components of the Group

Name of subsidiaries	Primary place of operation	Registered place	Business nature	Shareholding ratio(%)		Acquisition method
				Direct	Indirect	
Datang Terminal Technology Co., Ltd	Beijing	Beijing	Electronic equipment production	100.00		Stock exchange
Datong Telecom (Hongkong) Holding Co., Ltd	British Virgin Islands	British Virgin Islands		100.00		Investment

8 Related parties and related party transactions

8.1 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 Technology Co., Ltd	Haidian District Yongjia Road NO.6, Beijing	State-owned enterprise	882,108,472.00	100.00	100.00

The ultimate controller of the company is Research Institute of Telecommunications Technology

8.2 The subsidiary of the company

See disclosures in “Note 7 equity in other entities” for more details.

8.3 Other related parties

Company name	Relationship with the company
Datang Telecom Technology International (HK) Co., Ltd.	Under same ultimate controller
Xinhua Ruide (Beijing) Network Technology Co., Ltd.	Under same parent company
Xi'an Datang Telecom Technology Co., Ltd.	Under same parent company
Leadcore Technology Co., Ltd.	Under same ultimate controller
Datang Mobile Communications Equipment Co., Ltd.	Under same ultimate controller
Datang Software Technologies Co., Ltd.	Under same parent company
Datang Lianyi Science and Technology Co., Ltd.	Under same ultimate controller
Datang Telecom Technology International (HK) Co., Ltd.	Under same ultimate controller
Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd. - Beijing Branch	Under same parent company
Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd.	Under same parent company
Beijing Datang Gaohong electronic commerce Co., Ltd.	Under same ultimate controller

8.4 Related transactions

Purchase of goods/receipt of services

Related party	Related transactions	2014	2013
Datang Telecom Technology Co., Ltd	Purchase of goods	11,393,735.51	4,955,404.87
Datang Telecom Technology International (HK) Co., Ltd.	Purchase of goods	281,497,269.43	154,536,264.90
Beijing Datang electronic commerce Co., Ltd.	Purchase of goods		24,828.20
Leadcore Technology Co., Ltd.	Purchase of goods	5,366.67	5,356,317.96
Datang Lianyi Science and Technology Co., Ltd.	Purchase of goods	6,379,487.18	1,550,000.00
Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd.	Purchase of goods	15,530,270.34	33,101,946.02
Total		606,579,231.67	479,393,939.66

Sales of goods/rendering of services

Related party	Related transactions	2014	2013
Datang Telecom Technology International (HK) Co., Ltd.	Sales of goods	295,438,531.04	148,140,526.17

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

Xinhua Ruide (Beijing) Network Technology Co., Ltd.	Sales of goods		1,559,829.06
Xi'an Datang Telecom Technology Co., Ltd.	Sales of goods		12,820.50
Datang Telecom Technology Co., Ltd.	Offering services	137,277.88	125,000.00
Datang Telecom Technology Co., Ltd.	Sales of goods	116,752.14	105,660.38
Datang Telecom Technology International Co., Ltd.	Offering services	492,253,574.88	252,746,588.01
Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd. Beijing Branch	Sales of goods	1,257,897.43	
Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd.	Offering services		903,388.14
Leadcore Technology Co., Ltd.	Offering services	17,122,641.51	5,050,000.00
Leadcore Technology Co., Ltd.	Sales of goods	129,613.67	666,127.68
Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd.	Sales of goods	26,232,697.81	27,327,388.70
Total		832,688,986.36	436,637,328.64

8.5 Receivable and payable with related party

Item	Related party	As at December 31, 2014		As at December 31, 2013	
		Book value	Allowance for bad debts	Book value	Allowance for bad debts
Account receivable					
	Datang Telecom Technology International (HK) Co., Ltd.	22,113,885.23	110,569.43	41,241,387.31	
	Xi'an Datang Telecom Technology Co., Ltd.			15,000.00	
	Leadcore Technology Co., Ltd.	151,648.00		499,799.99	
	Datang Mobile Communications Equipment Co., Ltd.	4,000,000.00	200,000.00	4,000,000.00	80,000.00
	Datang Telecom Technology Co., Ltd.	109,600.00		125,000.00	
	Datang Telecom Technology International Co., Ltd.	24,271,312.11	121,356.56	71,765,616.01	358,828.08
	Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd. Beijing Branch	189,240.00			
	Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd.	1,085,036.23		325,350.00	
	Xinhua Ruide (Beijing) Network Technology Co., Ltd.	875,000.00		875,000.00	
Long-term receivable					
	Datang Telecom Technology Co., Ltd.	110,000,000.00			
Other receivable					
	Datang Telecom Technology Co., Ltd.	61,751,081.39			
	Datang Software Technologies Co., Ltd.	49,113.92		25,995.74	
	Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd.	13,000,014.00			
	Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd. Beijing Branch	33,924.80			

Payable

Subject	Related party	Book value as at December 31, 2014	Book value as at December 31, 2013
Notes payable			
	Leadcore Technology Co., Ltd.		5,150,000.00

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

Subject	Related party	Book value as at December 31, 2014	Book value as at December 31, 2013
Notes payable			
	Leadcore Technology Co., Ltd.		5,150,000.00
Accounts payable			
	Datang Lianyi Science and Technology Co., Ltd.	4,104,130.00	1,050,000.00
	Datang Telecom Technology Co., Ltd.	25,291.90	3,282,650.12
	Datang Telecom Technology International (HK) Co., Ltd.	34,062,493.20	72,238,527.03
	Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd.	10,512,561.66	17,045,784.89
	Beijing Datang Gaohong electronic commerce Co., Ltd.		29,049.00
Other payable			
	Datang Telecom Technology Co., Ltd.	64,033,080.91	62,563,444.55
	Xi'an Datang Telecom Technology Co., Ltd.	34,635.11	
	Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd.	72,086.74	
	Datang Software Technologies Co., Ltd.	2,746.60	
	Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd. Beijing branch	11,069.88	
Deposit received			
	Datang Telecom (Tianjin) Communication Terminals Manufacturing Co., Ltd.	8,153,588.27	1,236,690.92
Dividends payable			
	Datang Telecom Technology Co., Ltd.	23,400,000.00	93,400,000.00

9 Share-based payment

The Company has no share-based payment related transactions that should be disclosed.

10 Commitments and contingencies

10.1 Commitments

As at December 31, 2014, there are no significant commitments required to be disclosed.

10.2 Contingencies

As at December 31, 2014, there are no significant contingencies required to be disclosed.

11 Post balance sheet events

There are no post balance sheet events required to be disclosed..

12 Other significant matters

There are no other significant events required to be disclosed.

13 Notes to the main items of the financial statements of the parent company

13.1 Account receivable

13.1.1 Disclosure of account receivable by type

Type	As at December 31, 2014					As at December 31, 2013				
	Book balance		Allowance for bad debt		Book value	Book balance		Allowance for bad debt		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable with significant single amount subject to provision for bad debts on an individual basis										
Accounts receivable provided for bad debts on a portfolio basis										
Portfolio 1: single significant amount with low portfolio risk	135,446,726.02	100.00	145,909.94	0.11	135,300,816.08	59,979,056.54	100.00	209,138.33	0.35	59,769,918.21
Portfolio 2: single insignificant amount with low portfolio risk										
Portfolio 3: portfolio with higher risk										
Sub-total of portfolios	135,446,726.02	100.00	145,909.94		135,300,816.08	59,979,056.54	100.00	209,138.33		59,769,918.21
Accounts receivable with insignificant single amount subject to provision for bad debts on an individual basis										
Total	135,446,726.02		145,909.94		135,300,816.08	59,979,056.54		209,138.33		59,769,918.21

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

Allowance for bad-debt of account receivable by using aging analysis:

Aging	Balance as at December 31, 2014		
	Amount	Allowance for bad debt	Proportion (%)
Within 1 year (including 1 year)	135,446,726.02	145,909.94	0.5
1-2 years (including 2 years)			
2-3 years (including 3 years)			
3-4 years (including 4 years)			
4-5 years (including 5 years)			
Over 5 years	135,446,726.02	145,909.94	

13.1.2 Top five of accounts receivable

Company name	Balance as at December 31, 2014		
	Amount	Proportion (%)	Allowance for bad debt
Shanghai Puge Electronics Co., Ltd.	106,264,739.34	78.45	
Datang Telecom Technology International (HK) Co., Ltd.	22,113,885.23	16.33	110,569.43
M1	6,636,100.05	4.90	33,180.50
Wise Wind International Co. Ltd	297,383.40	0.22	1,486.92
New World Department Stores Ltd	134,618.00	0.10	673.09
Total	135,446,726.02	100.00	145,909.94

13.2 Other receivable

13.2.1 Disclosure of account receivable by type

Type	As at December 31, 2014					As at December 31, 2013				
	Book balance		Allowance for bad debt		Book value	Book balance		Allowance for bad debt		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable with significant single amount subject to provision for bad debts on an individual basis										
Accounts receivable provided for bad debts on a portfolio basis										
Portfolio 1: single significant amount with low portfolio risk	91,020,086.86	100.00			91,020,086.86	895,309.94	100.00			895,309.94
Portfolio 2: single insignificant amount with low portfolio risk										
Portfolio 3: portfolio with higher risk										
Sub-total of portfolios	91,020,086.86	100.00			91,020,086.86	895,309.94	100.00			895,309.94
Accounts receivable with insignificant single amount subject to provision for bad debts on an individual basis										
Total	91,020,086.86				91,020,086.86	895,309.94				895,309.94

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

Allowance for bad-debt of other receivable by using aging analysis:

Aging	Balance as at December 31, 2014		
	Amount	Allowance for bad debt	Proportion (%)
Within 1 year (including 1 year)	90,981,705.33		
1-2 years (including 2 years)	38,381.53		
2-3 years (including 3 years)			
3-4 years (including 4 years)			
4-5 years (including 5 years)			
Over 5 years			
Total	91,020,086.86		

13.2.2 Top five of other receivable

Company name	Nature	Balance as at December 31, 2014		
		Amount	Proportion (%)	Allowance for bad debt
Datang Telecom Technology Co., Ltd	Receivable	61,751,081.39	67.84	
Datong Telecom (Hongkong) Holding Co., Ltd	Receivable	27,622,933.85	30.35	
China bank	Deposit	1,549,671.57	1.70	
IRD	Receivable	58,018.53	0.06	
Datang Software Technologies Co., Ltd.	Receivable	38,381.53	0.04	
Total		89,412,396.77	99.99	

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

13.3 Long-term equity investment

Investee	Balance as at December 31, 2013	Increase/decrease in 2014							Balance as at December 31, 2014	Provisions for impairment in 2014	Impairment provision as at December 31, 2014
		Investment	Decrease	Investment income or loss under equity method	Adjustment on other comprehensive income	Other changes in equity	Declaration of distribution on cash, dividends or profits	Other			
Subsidiaries:											
Datang Terminal Technology Co., Ltd		624,894,274.69							624,894,274.69		
Datang Telecom Hong Kong (holding) Co., Ltd.		6.15							6.15		
Total		624,894,280.84							624,894,280.84		

13.4 Operating income and operating costs

Item	2014		2013	
	Revenue	Cost	Revenue	Cost
Primary business	665,970,553.93	659,024,614.20	499,986,184.56	498,266,568.63
Total	665,970,553.93	659,024,614.20	499,986,184.56	498,266,568.63

14 Approval and disclosure of the financial statements

The financial statements have been approved for disclosure by the board of directors of the Company on March 20, 2015.

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