

Hangzhou Hikvision Digital Technology Co., Ltd.

2017 Annual Report

***HIKVISION***

April 21<sup>st</sup> 2018

### **To shareholders**

In 2017, Hikvision maintained steady and healthy growth, reporting sales revenue of RMB 41.91 billion, representing year-over-year growth of 31.22%, and net profit attributable to the listed company of RMB 9.41 billion, representing year-over-year growth of 26.77%.

In 2017, the Company focused on Hikvision-developed products, notably its intelligent products, enhancing solution through product innovation and creating more value for customers. For the overseas market, the Company continues to expand from a channel distribution market to a project-based market. Despite a significant increase in the selling expense ratio, the Company continued to strengthen its investments in the project-based market. After several years of exploration, our innovative businesses saw certain growth. EZVIZ, business based on internet application, reported its first-ever annual profit, with sales revenue in excess of RMB 1 billion.

In the window period for development of the artificial intelligence industry, the Company has enhanced its investment in artificial intelligence technology research and development to ensure its industry leadership in niche areas. Capital-driven innovation leads to increasing competition for talent, rising housing prices, cost of living, and personnel costs have contributed to a rapid increase in operating costs of the Company. With enterprise growth, internal management of the enterprise becomes much more complex, and diseconomy problems resulting from increased scale increase are more prominent. Continuing to improve the internal management ability of the Company becomes more important. At the same time, rewarding shareholders with current profits is also the responsibility and obligation of the Company. The Company is working hard to balance technology accumulation, market expansion, employee stability, improvement of internal management ability and current reward to shareholders. We understand that customers come first and that the continuous development of the company, greater room for employees' growth and continuous rewards for shareholders can be secured only by creating more value for customers through continuous product innovation and providing convenient services to customers through improvement in the marketing system.

In 2017, the Company put forward the concept of AI Cloud aligning with the Internet of Things (IoT) industry development under the artificial intelligence (AI) era. The Company defined

a three-layered architecture incorporating the edge node, edge domain and cloud center of AI Cloud, and proposed the core principle of “Edge perception, on-demand (data) convergence, multi-layered cognition, multi-tier application” of AI Cloud. Over the next few years, the Company will focus on AI Cloud open platforms and cooperate with numerous partners to promote development of the IoT industry.

In spite of uncertainties in operation, especially uncertainties arising out of trade protectionism, we look forward to the Company maintaining a steady and healthy development in 2018: The trend of artificial intelligence is just getting started, the global marketing network of the Company becomes more and more balanced, and the development speed of innovative businesses will accelerate, all of which will further stabilize the operation of the Company. The Company will further enhance its management ability, pay more attention to profitable growth, continue to promote sustainable and healthy development, and provide long-term rewards for shareholders.

In closing, we would like to express our heartfelt gratitude to all shareholders for trusting, understanding and supporting the Company’s operation and management team.

See far, go further.

Board of Hangzhou Hikvision Digital Technology Co., Ltd.

April 2018

## Section I Important Notes, Contents and Definitions

The Board of Directors, Board of Supervisors, directors, supervisors and senior management of Hangzhou Hikvision Digital Technology Co., Ltd. (hereinafter referred to as the “Company”) hereby guarantee that the information presented in this report shall be together be wholly liable for the truthfulness, accuracy and completeness of its contents and free of any false records, misleading statements or material omissions, and will undertake individual and joint legal liabilities.

Chen ZongNian, the Company's legal representative; Jin Yan, the person in charge of the Company's accounting work and the head of accounting department, hereby declare and warrant that the financial statements in this report are authentic, accurate and complete.

The Company's chairman Chen Zongnian, and director Gong Hongjia, Qu Liyang, Hu Yangzhong, Wu Weiqi, independent director Cheng Tianzong , Lu Jianzhong, Wang Zhidong attend the board meeting to review this report in person. Independent director Hong Tianfeng was on a business trip and not able to attend the board meeting in person, and Hong authorized independent director Cheng Tianzong to attend and exercise the voting right for him.

The profit distribution proposal passed upon deliberation at the meeting of the Board of Directors is set out as follows: Based on the Company's current total share capital of 9,227,270,473 shares, the Company proposed to distribute cash dividend of RMB 5 (tax inclusive) per each 10 shares to all shareholders, bonus share and share distribution from capital reserve is nil.

### Note:

This document is a translated version of the Chinese version 2017 Annual Report (“2017 年年度报告”), and the published announcements in the Chinese version shall prevail. The complete published Chinese 2017 Annual Report may be obtained at [www.cninfo.com.cn](http://www.cninfo.com.cn).

**Please read the annual report and pay particular attention to the following risk factors:**

- 1) **Risk of technology upgrade:** With the development of cloud computing, big data, artificial intelligence, and other technologies, the demand and business models of the industry will change accordingly. If the Company cannot follow the changes in the cutting-edge technologies, or fail to realize the business innovation rapidly, the risks of future development uncertainties will increase.
- 2) **Risk of cyber-security:** Risk of cyber-security: The Company has always attached importance and taken active measures to enhance security performance of our products and systems, but under the Internet application environment, there is still a possibility of deliberate attempts, including computer viruses, malicious software, hacker and similar disruptions, to damage our systems or products, causing the security issues.
- 3) **Risk of exchange rate fluctuation:** At the overseas market, the Company carries out operations in various countries and regions with different currencies. The risk of exchange rate mainly comes from foreign exchange exposures arising out of sales, purchase and financing that not settled in RMB (mainly in USD) as well as the exchange rate fluctuations, which may probably affect the profitability level of the Company.
- 4) **Risk of internal management:** The continual expansion of business scale, the continuous increase of new products and new businesses, the sustained growth in total number of employees and the significant rise of internal management complexity have posed challenges to the Company's management work and raised higher requirements on the Company's management team. The Company's sustainable development will face certain risks if the management level fails to match up with the Company's business expansion.
- 5) **Risk of global market expansion:** The Company's business covers more than 150 countries and regions worldwide. If various situations such as trade protectionism, debt problem or political conflict occur in the country where our business is carried out, adverse impact may be caused to the Company's business development.
- 6) **Risk of local debt:** In the government-related project field, the Company has been maintaining a prudent attitude towards PPP (Public-Private Partnership) and other construction modes, and endeavors to reduce risks in the course of management and control for signing the project and implementing project. However, the risk of extension of project schedule and failure of capital recovery might still appear if some government policies change or the financial payment ability reduces.
- 7) **Risk of intellectual property (IP) rights:** The Company continues to maintain the relative large scale of R&D investment, and produces considerable technical achievements. At the same time, the Company implements well-organized intellectual property right (IPR) protection measures, however, the risk of provoking IPR disputes and suffering from IPR infringements still exists.

The above notices might not be all-inclusive of all other potential risks, please pay attention to the potential investment risks

## CONTENTS

To shareholders .....	1
Section I Important Notes, Contents and Definitions .....	3
Section II Corporate Profile & Key Financial Data .....	7
Section III Corporate Business Summary .....	13
Section IV Operation Discussion and Analysis .....	35
Section V Significant Events .....	57
Section VI Changes in Shares and Information about Shareholders.....	76
Section VII Information of Preferred Shares .....	87
Section VIII Information about Directors, Supervisors, Senior Management and Staffs .....	88
Section IX Corporate Governance .....	105
Section X Corporate Bonds.....	118
Section XI Financial Report.....	119
Section XII Documents Available for Reference.....	233

## Definitions

Term	Definition
Reporting Period	From January 1 <sup>st</sup> 2017 to December 31 <sup>st</sup> 2017
Articles of Associations	<i>Articles of Associations for Hangzhou Hikvision Digital Technology Co., Ltd</i>
Hikvision, our Company, the Company	Hangzhou Hikvision Digital Technology Co., Ltd
CETHIK	CETHIK Group Co., Ltd. Controlling Shareholder of the Company
Innovative Co-investment Partnership	Hangzhou Hikvision Equity Investment Partnership (Limited Partnership)
Ezviz, Ezviz Network Inc.	Hangzhou Ezviz Network Co., Ltd. (According to the context, also refers to the corresponding business)
Hikvision Robotics	Hangzhou Hikvision Robotics Technology Co., Ltd. (According to the context, also refers to the corresponding business)
Hikvision Automotive Technology	Hangzhou Hikvision Automotive Technology Co., Ltd. (According to the context, also refers to the corresponding business)
Hikvision Weiyang	Hangzhou Hikvision Weiyang Sensor Technology Co., Ltd. (According to the context, also refers to the corresponding business)
Hikvision Storage	Wuhan HIK Storage Technology Co., Ltd. (According to the context, also refers to the corresponding business)
Security Industrial Base (Tonglu)	Located in Tonglu economic development area, Hangzhou, Zhejiang province, purposes for production factories, warehousing logistics center. Initially disclosed in <i>Announcement about the Company's Investment in Tonglu to Set up Wholly Owned Subsidiary and New Hikvision Security Industry Base (Tonglu) Project</i> (《关于在桐庐投资设立全资子公司及新建海康威视安防产业基地(桐庐)项目的公告》)(NO. 2014-044).
Internet Security Industry Base	Located in Binjiang district, Hangzhou, Zhejiang province, purposes for the office building. Initially disclosed in <i>Announcement about the Company's New Construction of Internet Security Industry Base Project</i> (《关于新建海康威视互联网安防产业基地项目的公告》)(NO. 2014-035).
Chongqing Manufacture Base	Located in Chongqing, purposes for manufacturing facility, initially disclosed in <i>Announcement about Resolution of the 20<sup>th</sup> Meeting of the 3<sup>rd</sup> Session Board</i> (No: 2016-068)
Innovative Business	A long investment cycle, business prospects uncertain, has the high risk and uncertainty, in need for direct or indirect investment in exploration, in order for the Company to timely enter into new areas of business. Initially disclosed in <i>Announcement about Management Measures for Core Staff Investment in Innovative Business</i> (《核心员工跟投创新业务管理办法》)( <a href="http://www.cninfo.com.cn">www.cninfo.com.cn</a> )  In this report, innovative business also refers to Ezviz, Hikvision Robotics, Hikvision Automotive Technology, Hikvision Weiyang, Hikvision Storage, and their related business or products.
Euro Bond	The Company publicly issued the bond with nominal value amounting to Euro 400 million; and the bond was settled, listed and traded on the Irish Stock Exchange on February 18 <sup>th</sup> 2016. For details, please refer to <i>Announcement about Issuing Foreign Currency Bond</i> (《关于境外发行外币债券的进展公告》)(NO. 2016-004)

## Section II Corporate Profile & Key Financial Data

### I. Corporate Information

Stock abbreviation	HIKVISION	Stock code	002415
Stock exchange where the shares of the Company are listed	Shenzhen Stock Exchange		
Name of the Company in Chinese	杭州海康威视数字技术股份有限公司		
Abbr. of the Company name in Chinese	海康威视		
Name of the Company in English (if any)	HANGZHOU HIKVISION DIGITAL TECHNOLOGY CO., LTD		
Abbr. of the Company name in English (if any)	HIKVISION		
Legal representative	Chen Zongnian		
Registered address	No. 555 Qianmo Road, Binjiang District, Hangzhou		
Postal code of Registered address	310051		
Business address	No. 555 Qianmo Road, Binjiang District, Hangzhou		
Postal code of Business address	310051		
Company website	www.hikvision.com		
E-mail	market@hikvision.com; ir@hikvision.com		

### II. Contacts and contact information

	Board Secretary	Securities Affairs Representative
Name	Huang Fanghong	Li Yi
Address	No. 555 Qianmo Road, Binjiang District, Hangzhou	No. 555 Qianmo Road, Binjiang District, Hangzhou
Tel.	0571-89710492	0571-89710492
Fax	0571-89986895	0571-89986895
E-mail	hikvision@hikvision.com	hikvision@hikvision.com

### III. Information disclosure and place of the report

Newspaper designated by the Company for information disclosure	<i>Securities Times, China Securities Journal</i>
Website specified by CSRC for release of the Annual Report	www.cninfo.com.cn
Place where the Annual Report is available for inspection	Office of the Board of Directors of the Company

**IV. Company Registration and Alteration**

Organization code	91330000733796106P
Changes in principle business activities since the Company was listed (if any)	During the reporting period, the Company operating range newly added electronic technology consulting service, training service (excluding the organizational training). After the change, the Company's business scope is: the electronic products (including explosion-proof electrical products, communication equipment and related ancillary equipment, multimedia equipment), aircrafts, robots, intelligent equipment, auto parts and accessories, research and development (R&D) and production of automotive electrical signal equipment; Sales of self-produced products; provide technical services, electronic technology consulting service, training service (excluding the organizational training), electronic equipment installation; electrical engineering, design, construction and maintenance of intelligent system projects. (except country prohibited and restricted items, relating to the specific mandatory license certificate) (subject to ratification in accordance with the project, approved by the relevant departments to operate)
Changes of controlling shareholders of the Company (if any)	No change during the reporting period

**V. Other Relevant Information**

Accounting firm engaged by the Company

Name of the accounting firm	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Business address of the accounting firm	30F Bund Center 222 Yan An Road East Shanghai
Name of accountants for writing signature	Mou Zhenfei, Zhang Shushu

Sponsor institution engaged by the Company to continuously perform its supervisory function during the Reporting Period

Applicable  Inapplicable

Financial advisor engaged by the Company to perform the duties of continuous supervision during the reporting period

Applicable  Inapplicable

## VI. Key accounting data and Financial Indicators

Whether the Company performed a retroactive adjustment or restatement of previous accounting data

Yes  No

The reason for retroactive adjustment or restatement of previous accounting data:

Accountant arrangement method for business merger involving enterprises under the common control

Unit: RMB

	2017	2016		YoY Change (%)	2015	
		Before Adjustments	After Adjustments	After Adjustments	Before Adjustments	After Adjustments
Operating income (RMB)	41,905,476,572.07	31,924,020,872.44	31,934,544,088.82	31.22%	25,271,390,273.42	25,285,784,528.15
Net profits attributable to shareholders of the Company (RMB)	9,410,855,084.82	7,422,261,983.16	7,423,683,960.91	26.77%	5,869,049,646.23	5,869,119,852.19
Net profits attributable to shareholders of the Company excluding non-recurring gains and losses (RMB)	9,177,116,964.06	7,270,742,762.47	7,270,742,762.47	26.22%	5,604,890,259.09	5,604,890,259.09
Net cash flows from operating activities (RMB)	7,373,160,250.68	6,213,692,160.56	6,216,364,642.05	18.61%	3,216,722,169.17	3,216,816,901.02
Basic earnings per share (RMB/share)	1.030	0.818	0.818	25.92%	0.651	0.651
Diluted earnings per share (RMB/share)	1.024	0.817	0.817	25.34%	0.649	0.649
Weighted average ROE	34.96%	34.56%	34.58%	0.38%	35.28%	35.28%

	At December 31 <sup>st</sup> 2017	At December 31 <sup>st</sup> 2016		YoY Change (%)	At December 31 <sup>st</sup> 2015	
		Before Adjustments	After Adjustments	After Adjustments	Before Adjustments	After Adjustments
Total assets (RMB)	51,570,963,466.61	41,339,007,814.83	41,348,428,750.40	24.72%	30,316,442,436.17	30,325,728,486.51
Net assets attributable to shareholders of the Company (RMB)	30,358,072,874.22	24,288,634,890.08	24,285,707,211.82	25.00%	19,253,803,738.78	19,249,454,082.77

**VII. Differences in Accounting Data between Domestic and Overseas Accounting Standards**

**1. Difference in the financial report of net profits and net assets according to the disclosure of International Financial Reporting Standards and China Accounting Standards**

Applicable  Inapplicable

There is no difference in the financial report of net profits and net assets according to the disclosure of International Financial Reporting Standards (IFRS) and China Accounting Standards in the reporting period.

**2. Difference in the financial report of net profits and net assets according to the disclosure of Overseas Accounting Standards and China Accounting Standards**

Applicable  Inapplicable

There is no difference in the financial report of net profits and net assets according to the disclosure of Overseas Accounting Standards and China Accounting Standards in the reporting period.

**VIII. Key Quarterly Financial Indicators**

Unit: RMB

	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
Operating income	7,043,724,101.73	9,403,815,634.79	11,282,202,421.66	14,175,734,413.89
Net profit attributable to shareholders of the Company	1,480,780,632.01	1,810,765,424.69	2,861,268,129.82	3,258,040,898.30
Net profit attributable to shareholders of the Company excluding non-recurring gains and losses	1,440,574,125.37	1,749,292,093.49	2,819,127,478.83	3,168,123,266.37
Net cash flows from operating activities	-3,035,286,557.20	1,092,485,754.78	2,038,650,373.18	7,277,310,679.92

Whether there is significant difference between the above individual or aggregate financial indicators and that of what disclosed in the quarterly report, half-year report

Yes  No

**IX. Items and Amounts of Non-recurring Gains and Losses**

Applicable  Inapplicable

Unit: RMB

Item	2017	2016	2015
Profit or loss from disposal of non-current assets (including the write-off for the impairment of assets)	1,585,222.50	-736,149.02	1,715,423.04
The government subsidies <sup>1</sup> included in the current profits and losses (excluding the government subsidy closely related to regular course of business of the Company and government subsidy based on standard quota or quantitative continuous application according to the state industrial policy.)	184,557,043.27	171,321,088.31	169,279,486.81
Net gains and losses from beginning of the reporting period to the merge date for the subsidiary merged involving enterprises under common control	-42,070.90	3,949,938.20	195,016.56
Held-to-maturity financial assets, profits and losses of fair value held-for-trading financial liabilities, and investment income in disposal of held-for-trading financial assets and liabilities and available-for sale financial assets excluding the effective hedging business related to the regular business operation of the Company.	86,740,196.23	321,708.86	132,518,794.00
Other non-operating income and expenditures except the items mentioned above	30,044,820.52	18,276,871.37	15,481,300.69
Less: Impact of income tax	50,405,620.44	36,000,258.26	54,882,891.58
The impact of the minority interests (after tax)	18,741,470.42	4,192,001.02	77,536.42
<b>Total</b>	<b>233,738,120.76</b>	<b>152,941,198.44</b>	<b>264,229,593.10</b>

Explain the reasons if the Company classifies an item as a non-recurring gain/loss according to the definition in the <Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Non-recurring Gains and Losses>, or classifies any non-recurring gain/loss item mentioned in the aforementioned note as a recurrent gain/loss item

Applicable  Inapplicable

In the reporting period, the Company did not classify an item as a non-recurring gain/loss according to the definition in the <Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Non-recurring Gains and Losses> into a recurrent gain/loss item

<sup>1</sup> Please refer to Note (V) 48 for details about government subsidy (Value-added Tax Rebate for Software Product), which is closely related to daily operations of the Company.

## **Section III Corporate Business Summary**

### **I. The principal business of the Company during the reporting period**

#### **1. Main Business and industry position**

Hikvision is a provider of video-centered IoT solutions, which provides security, intelligence business and big data services to customers around the world. As the world's largest security manufacturer, Hikvision is the witness, practitioner and important promoter of video surveillance revolutions in digitalization, HD networking, and intelligence. Global research firm IHS Markit has ranked Hikvision as global No.1 in the video surveillance industry for six consecutive years, with 21.4% of the global video surveillance market share.

First established as an audio-video compression board provider, Hikvision has gradually developed into a provider of a broad range of products and solutions covering the demands of security and visualized management of the entire video surveillance industry. In 2017, Hikvision led the intelligent application trend based on the fusion of cloud and edge computing, innovatively launching the three-tier AI Cloud architecture of edge node, edge domain and cloud center, and vigorously promoting the development and application of AI in the IoT field.

#### **2. Main Products and Solutions**

##### **2.1 Hikvision's AI Cloud Architecture**

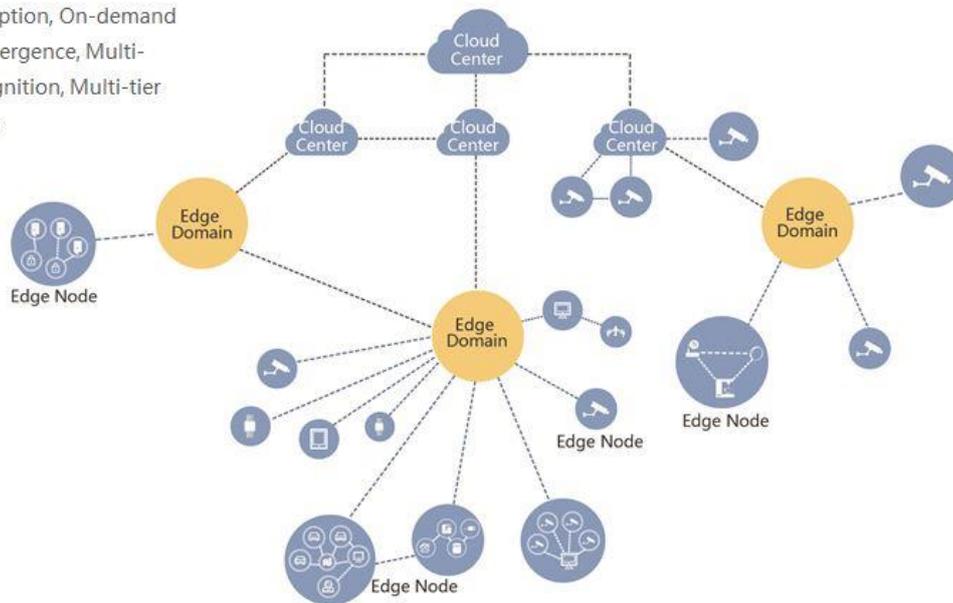
Cloud computing is a commonly used in the Internet industry, but the pure cloud computing mode based on Internet does not apply to IoT. Massive heterogeneous data has been generated as the IoT scale continues to expand. If all of such data is converged to the cloud center for centralized processing, swift business response will not be able to fulfilled, and network bandwidth, storage resources, computing power, etc. will also be exposed to tremendous pressure. Take a video network with 100,000 cameras as an example: approximately 30PB video data can be generated every month, and if all of the original data is converged to the cloud center for processing, the construction cost will be significantly increased, and the business response agility will be affected as well, making it unfeasible. Coping with the bottleneck in the course of IoT development is a challenge faced by the whole industry.

In the opinion of Hikvision, the fusion of edge and cloud computing is the reasonable architecture to better solve the current practical problems related to IoT. For example, video surveillance not only requires proximal

storage and intelligent analysis of the original data flow, on-demand convergence and big data analysis of structured data, but also needs to conduct uniform management, operation and maintenance of various IoT and IT equipment. It's similar to the human body, where connecting sensory nerve endings with the brain to enable orderly operation is a very complicated meridian system, rather than a simple information channel. Therefore, we need an intelligent architecture capable of realizing both edge computing and on-demand centralized processing of massive heterogeneous data, so as to achieve organic fusion of AI, big data, cloud computing and terminal equipment. With this in mind, Hikvision launched the AI Cloud architecture incorporating cloud and edge computing.

### AI Cloud Core Concept

Edge perception, On-demand (data) convergence, Multi-layered cognition, Multi-tier application



Hikvision’s AI Cloud architecture consists of three levels, which are edge node, edge domain and cloud center. Edge node focuses on the acquisition of multi-dimensional perception data and front-end intelligent processing of such data; edge domain focuses on convergence, storage, processing and intelligent application of perception data; cloud center focuses on the fusion of business data and multi-dimensional analysis and application of big data. From edge node to edge domain, data from edge nodes is processed in real time and converged to edge domains; from edge domain to cloud center, data from edge nodes and edge domains is converged to the cloud center on demand to support multi-dimensional big data analysis. The edge domain and cloud center architecture could consists of multiple layers and tiers, and according to different applications, the data converged and uploaded to the cloud center from edge domain will be different in format and content. The edge domain serves like a football “midfield”, as it is responsible to determine the time, type and processing degree of the data transmitted to the

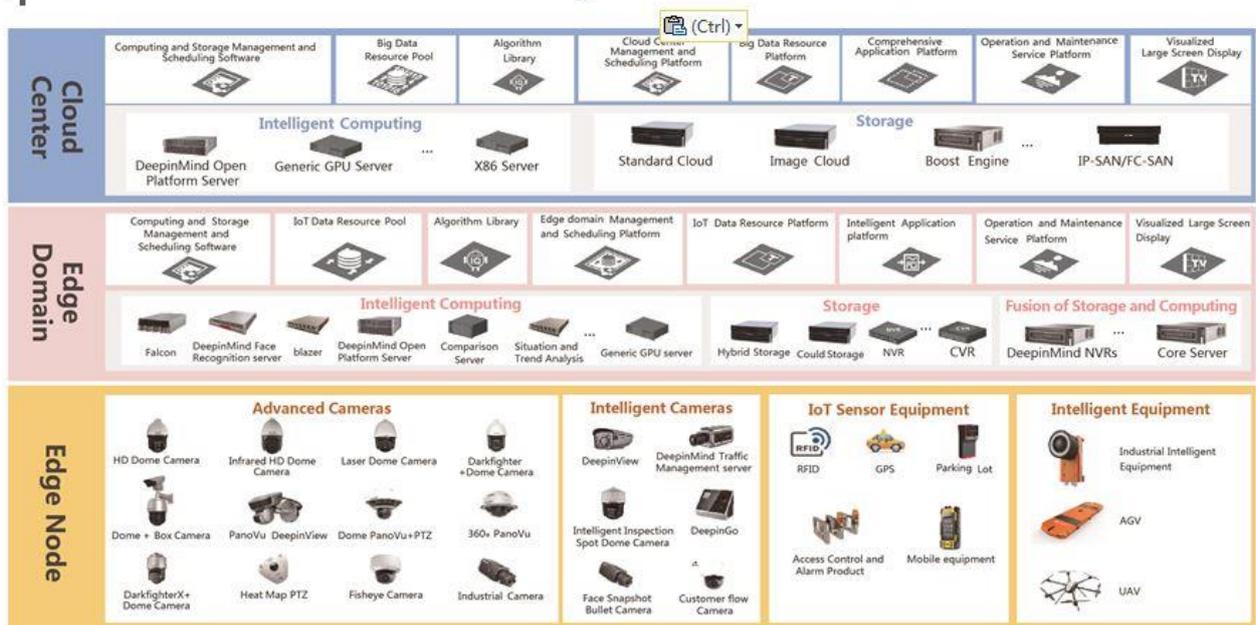
cloud center and achieve “on-demand data convergence”.

In summary, cloud-edge fusion of Hikvision AI Cloud is neither the simple cloud + edge, nor to simply divide into numerous so-called “little clouds” and converged to a larger scale cloud; but instead it is a new architecture that can practically solve a series of problems in real application, data processing and management incurred from edge to cloud. AI Cloud adheres to the core concept of “edge perception, on-demand data convergence, multi-layered cognition and multitier application”, designs and constructs a multi-dimensional intelligent service system. In short, AI Cloud is not Cloud Computing, but an aggregation of infrastructure, data resources, platform services and application software.

## 2.2 Product Innovation in the Era of Intelligence

In 2017, the Company completed the core product layout of edge node, edge domain and cloud center based on the AI Cloud architecture, injects AI into the products, and continuously leading the market by virtue of technology and product innovation.

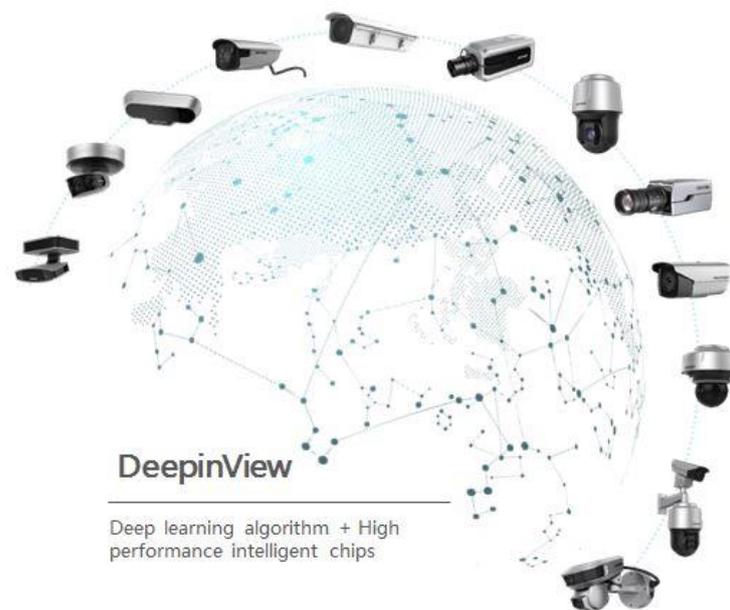
### Hikvision AI Cloud Product Family



The rapid development of AI technology unfolds a new chapter of intelligent products. Hikvision’s intelligent products, represented by the “DeepInview”(深眸) series intelligent video cameras, DeepinMind Traffic Management Server, intelligent traffic products (神捕), DeepinMind open platform (深思) series intelligent servers, and “DeepinGo”(明眸) series swing barrier turnstile with facial recognition terminal, have been widely applied in the government market, enterprise market and consumer market.

**Front-End Products**

In 2017, Hikvision comprehensively integrated deep intelligence into front-end products, and endeavored to facilitate the iterative upgrade of products through the increasingly diversified intelligent chips. For example, Hikvision “DeepinView” series intelligent video camera is a typical representative of edge perception, which achieves intelligent perception and understanding functions such as object detection and feature extraction in edge nodes by "intelligentizing" the edge, which makes perception and understanding more efficient and more accurate.



Attributable to the breakthroughs in wide scenario, long distance and HD object capture, it can obtain clearer, more effective, richer and more valued video data information; as for the complicated environment like serious backlight and side mount, the camera has a special algorithm to optimize face recognition scenarios, which can achieve a higher face capture rate; Hikvision’s “DeepinView” Darkfighter X (深眸黑光) camera uses the proprietary dual lighting fusion technology, and enables users to capture the HD full-color visual perception effect under extremely low illumination circumstances; Hikvision’s ”DeepinView” AR series camera lays a solid foundation for three-dimensional security control and achieves the visualization of business management and control.

**Back-End Products**

In 2017, Hikvision realized comprehensive intelligence of the back-end products. The product system

consists of storage and computing all-in-one integrated equipment and GPU video image intelligent computing equipment with better adaptability to IT environment, showing higher cost-effectiveness and being dedicated to video perception computing, as well as data center equipment with higher universalization, better openness, and better openness, and that can achieve free switching of algorithms and pooled deployment of computing and storage resources.

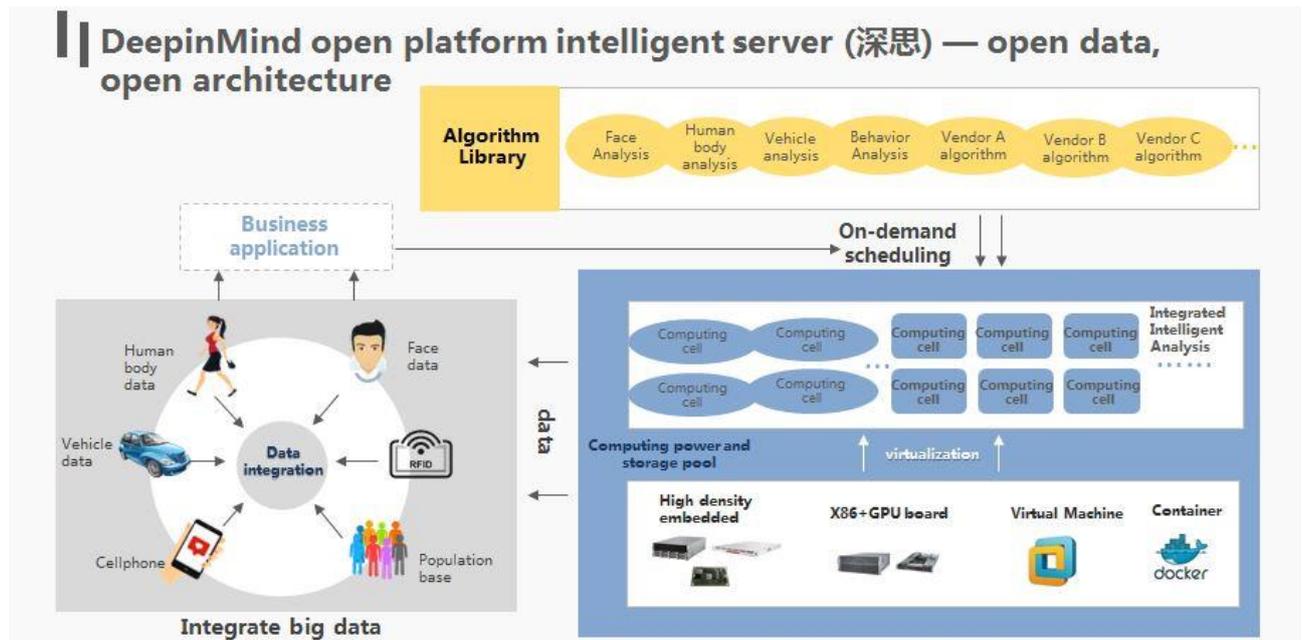
For example, Hikvision's DeepinMind NVR (超脑) adopts the embedded design, integrates with high-performance GPU chips, builds in the deep learning algorithm, combines video storage with intelligent analysis, and achieves facial analysis, perimeter protection, video structuring and other analysis applications while taking into account the conventional NVR video storage. For different markets, Hikvision caters to customer demand by launching intelligent products for scattered scenarios such as financial ATM security protection, student campus security protection, academic analysis, vehicle analysis in gas stations, safety helmet-wearing monitoring, etc., thereby providing competitive solutions for various industries. Hikvision's DeepinMind NVR products have been recognized for high quality and innovative intelligent applications, and we were honored as *2017 China Top Ten New Prominent Security Products*.<sup>2</sup>

In terms of the enterprise-level intelligent server, Hikvision has launched "Falcon" (猎鹰), a video cloud structuring server, "Blade" (刀锋), an image cloud structuring server, DeepinMind Face Recognition server (脸谱) for intelligent facial analysis, behavioral trend analysis server etc., integrated the industry-leading deep learning algorithm, and deeply developed the public security, traffic and other industries. As a result, we've successfully developed the first generation of intelligent servers for practical business applications in the industry.

Based on open architecture and pooled resource application, Hikvision launched the DeepinMind open platform (深思) image fusion intelligent analysis system product. Open architecture and open data are one of the core concepts of the DeepinMind open platform. It opens the algorithm engine to allow all kinds of algorithm vendors to develop, train and commercially operate different algorithms on it. Meanwhile, the data generated by DeepinMind open platform through fusion with video analysis can be opened to the outside via standard interface and protocol, and any platform vendors with certain development capability can use such data for upper-level business applications, thereby supporting the industry to develop an AI ecological environment.

---

<sup>2</sup> *2017 China Top Ten New Prominent Security Products* was selected and issued by *China Public Security Magazine*, together with competent authorities like Ministry of Public Security, the Science Research Institute, and the Security Industry Association.



**Display Products**

In 2017, Hikvision created multi-layer products of cloud center, edge domain and edge node incorporating AI Cloud strategy, and continues to expand the central display business field, and achieve interactive access to information, intelligent delivery of information, and comprehensive presentation of big data through diversified display approaches such as seamless splicing, transparent, curved surface and holographic display. For example, Hikvision’s central decoding and splicing control system, which is based on the technologies of video-audio processing, multimedia data integration, UHD display, AI, clustering and scattering, "intelligentizes" products such as universal decoder, splicing controller, multifunction video center, etc., diversifies the application of monitoring center and command center, and maintains the leadership position in the industry.

**Access Control and Alarm Products**

In 2017, Hikvision launched various kinds of innovative application products in the access control and alarm product field by applying AI technology. For example, Hikvision “DeepinGo”(明眸) series close-range facial recognition product, which covers numerous edge devices for access control, attendance checking, visitors, consumption, elevator control, personnel access, visual intercom, etc., has greatly expanded the application scenarios of facial recognition technology with rapid response speed, a friendly interactive interface, and support for massive face matching and picture anti-faking. “DeepinGo” (明眸) series products have not only upgraded the traditional one-card access control system to the AI era, but more importantly enhanced the security and usability effectively by combining with intelligent surveillance products. It has also laid a foundation for the smart

communities and campuses to improve their access control solutions. Moreover, based on its fast, accurate and convenient features, facial recognition technology is highly accepted by users in such scenarios as face and identity matching in hotels, real-name attendance checking on construction sites, face, identity and ticket verification in high-speed railway stations and bus stations, school dormitory management, and more.

### **Intelligent Traffic Products**

In 2017, Hikvision further enriched its intelligent traffic deep learning products, and launched a series of intelligent traffic products based on AI Cloud and incorporating the concept of edge node and edge domain. The intelligent traffic product line helps technical bottlenecks, builds in new IoT applications by virtue of IT approaches, lays out the ecological road environment, and achieves sustainable development.

For example, Hikvision's DeepinMind series intelligent traffic management server (神捕) has been extensively applied to urban areas with such intelligent functions as "pedestrian jaywalking", "vehicles not being courteous to pedestrians", "high beam light detection", etc.

In terms of road perception, the Company took the lead in upgrading the new generation of intelligent traffic products, switched the sensor of road capture camera from CCD to CMOS for the first time, and designed the 900-megapixel (MP) intelligent tollgate and off-site traffic law enforcement products. The brand-new sensor has contributed to qualitative leaps in high frame rate and low illumination level night view, and explored into many business types including off-site traffic law enforcement.

In terms of road cognition, the Company launched terminal products such as "Intelligent Cube" (智能魔方) series, "ALL IN ONE", adaptive intelligent signal controller, etc. As a typical product of the edge domain, the intelligent road terminal enables unified management of the data within the domain and proximal agile business responses. The "ALL IN ONE" comprehensive integrated management and control machine has further simplified the construction wiring cost at the crossroad, and helped simplify design of crossroads by virtue of excellent structural composition and thermal design.

### **Transmission Products**

Hikvision's transmission products support the access and networking of all kinds of IoT terminal equipment, and achieve the all-weather, all-region reliable transmission. Such products include the optical transmission products such as video optical transceivers and network optical transceivers, as well as network transmission products such as network switches, industrial switches, wireless bridges, wireless AP (access point) and AC

(access point controller), and etc. In 2017, the Company launched the remote POE switch product series and wireless bridge product series for elevators, making a more rapid and convenient network access for perception-end equipment.

### **2.3 AI Cloud Boosting Intelligent Applications to Industries**

According to the AI Cloud architecture, Hikvision is devoted to enhancing its top four capability in AI resources schedulability, on-demand data convergence, scenario-based application and integrated operation and maintenance services for public security, transportation, law enforcement, education and healthcare, energy, finance, intelligent building, etc., in an attempt to empower various industries to realize intelligent transformation. For example, in the public security field, AI Cloud helps to combat crime and maintain a stable civil life; in the public service field, AI Cloud serves intelligent transportation and creates a green and harmonious ecological environment; in the commerce field, AI Cloud helps owners optimize products and services, and enhance operational efficiency; in the finance field, AI Cloud enables precision marketing and improves customer experience; and in the education field, AI Cloud will help achieve intelligent education and innovate upon teaching management.

#### **2.3.1 Public Security ---- Taking XueLiang Project (雪亮工程) Solution as an Example**

Hikvision XueLiang Project Solution regards “multi-dimensional and stereoscopic mode, distributed intelligence, and global sharing” as the core concept, focuses on networking application construction of public security video surveillance, takes the five-level comprehensive treatment centers covering village (community), town (street), county (district), city and province as the command platform, bases on grid management, and applies technologies such as video surveillance, face matching, license plate recognition, intelligent pre-alert, radio frequency identification and Big Dipper Navigation System, so as to build up the stereoscopic security prevention and control system, improve the refined and intelligent level in comprehensive treatment of social security, and get through the “last mile” of convenience service for the public.



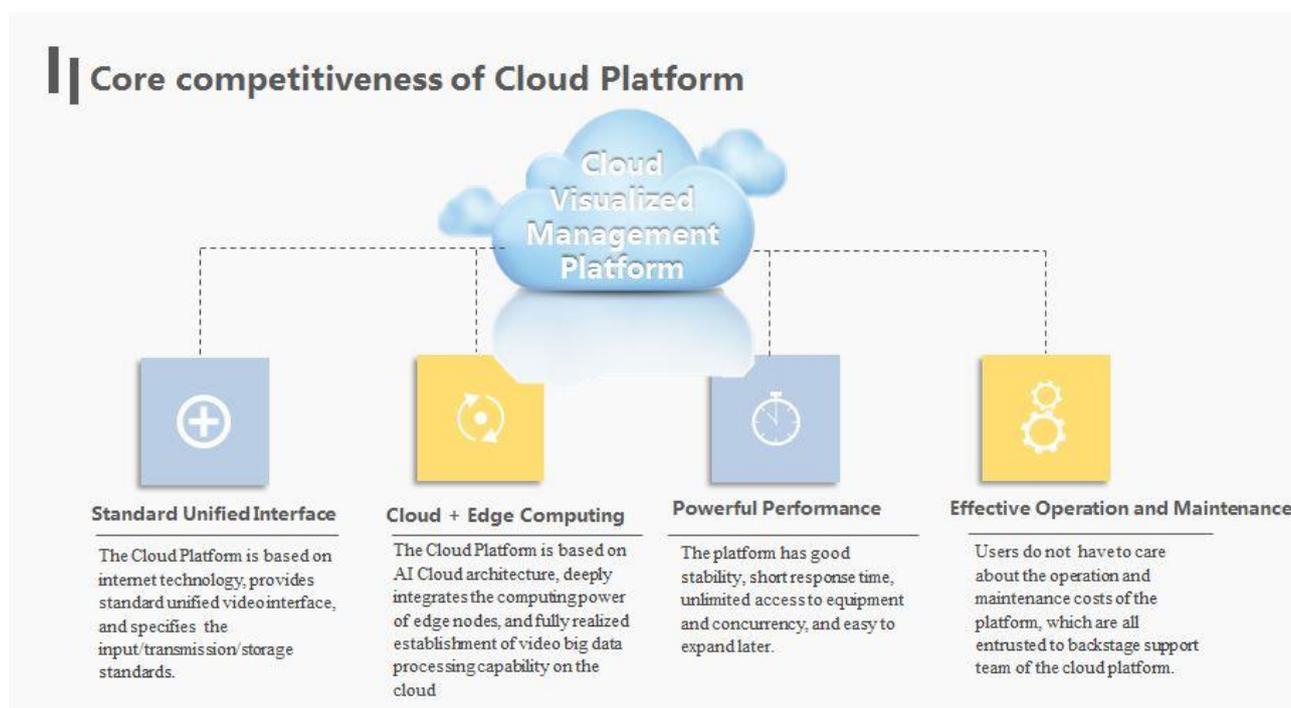
Through hierarchical establishment of the public security video image information sharing platform, XueLiang Project converges massive governmental, industrial and social video image resources, so as to promote the sharing of video resources, and provide visualized support services in real-time monitoring, access to videos, etc. Meanwhile, based on AI capability, it converts video image resources into data resources, and maximizes the extraction of valued information; and based on massive valued data, it carries out in-depth analysis and mining by big data technology, and provides data and service support for deep business application of government sectors and industries, so as to enhance public safety and security

### 2.3.2 Public Services ---- Taking Intelligent Traffic Comprehensive Management and Control Solution as an Example

In the intelligent traffic field, Hikvision considers the big traffic data platform as the commanding height, and converges the data of urban bus, taxi, online car-hailing service, “passenger transport coach, tourism transport coach and dangerous goods transport vehicle”, highway passenger transportation, railway passenger transportation, freeway traffic flow, urban parking lot, etc. Based on the construction concept of “AI Cloud + urban traffic intelligent management”, the Company has achieved front-end side intelligent advancement, on-demand data convergence, layered autonomy and traffic management on cloud, and provided integrated solutions and services for business applications of transportation management and urban traffic control, in order to safeguard the road traffic security, alleviate traffic flow pressure, optimize the external traffic services, enhance the traffic operation



deliver results of video inspection according to management requirements. Meanwhile, through the front-end intelligent device, it can collect structured data in multiple aspects such as customer flow, human body attributes, etc., and provide management and operation data by combining the scenario-based demands, such as terminal customer analysis, customer group analysis, targeted advertising push, facial attendance system, etc. In addition, the Cloud Visualized Management Platform (云眸) has optimized the overall product design in terms of convenient operation and efficient management, and greatly enhanced the usability and friendliness of the mobile APP terminal while intensifying the service capability of cloud data in the central terminal, thereby providing efficient technical tools for commercial users to improve their overall operation.

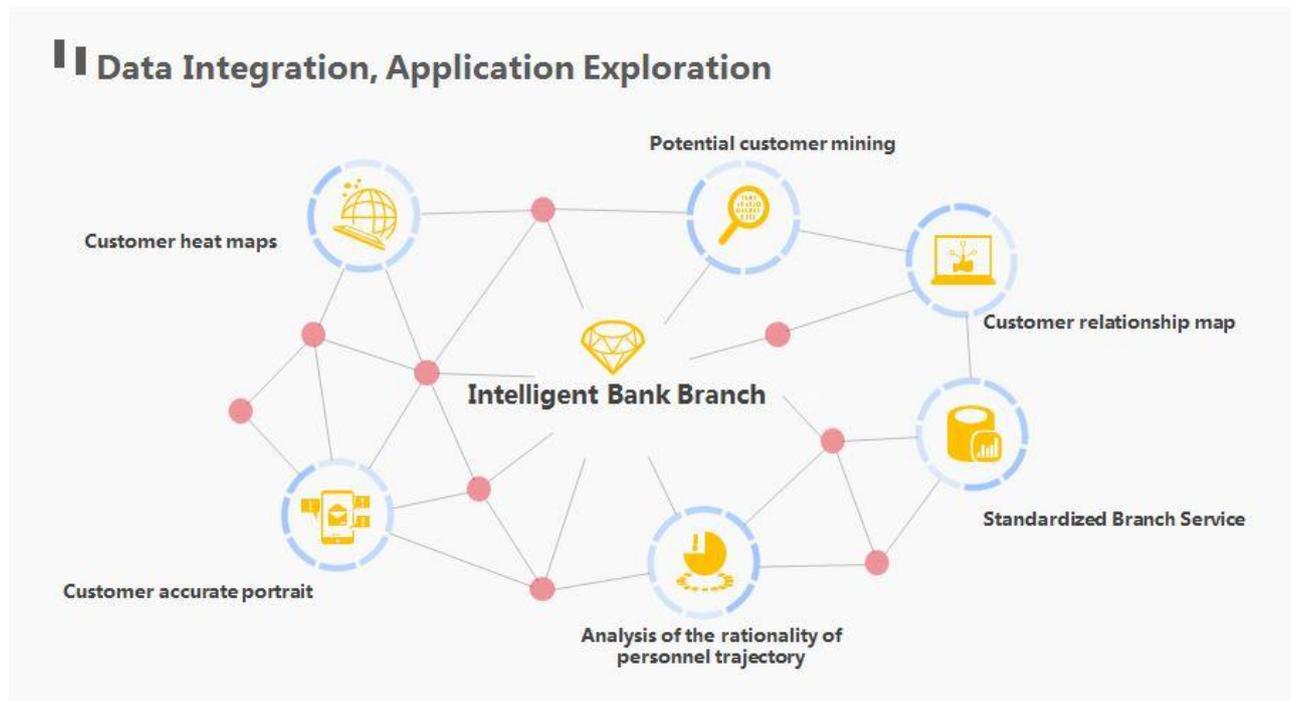


For example, Hikvision’s Cloud Visualized Management Platform (云眸) helps to achieve precise marketing in the chain retail industry. Through the store traffic statistics device, it collects customer traffic data in and around the store; by combining the transaction settlement data via POS system, users can see the sales turnover rate of products in the focus areas, which is helpful for retail analysis and decision making.

In the catering industry, it enhances management efficiency and quality intensity by jointly establishing a operation and management cloud platform. Through Hikvision’s Cloud Visualized Management Platform (云眸), users can achieve services such as hygienic supervision on kitchens, management of store personnel, regular inspection on stores, upgrade supervision models, and streamline management of multi-site businesses. . Meanwhile, it allows enterprises to provide an open interface linked with the WeChat Official Account, which makes the store management more transparent and healthy.

**2.3.4 Intelligentizing Finance ---- Taking Intelligent Financial Branch Solution as an Example**

Hikvision considers “AI intelligentizing the edge, integrating cloud and edge computing, and enhancing business agility” as the design philosophy, and organically integrates with various scenarios of the finance industry by relying on deep learning algorithm model and the full series of intelligent products, to establish a brand new customer identification and interactive marketing mode.



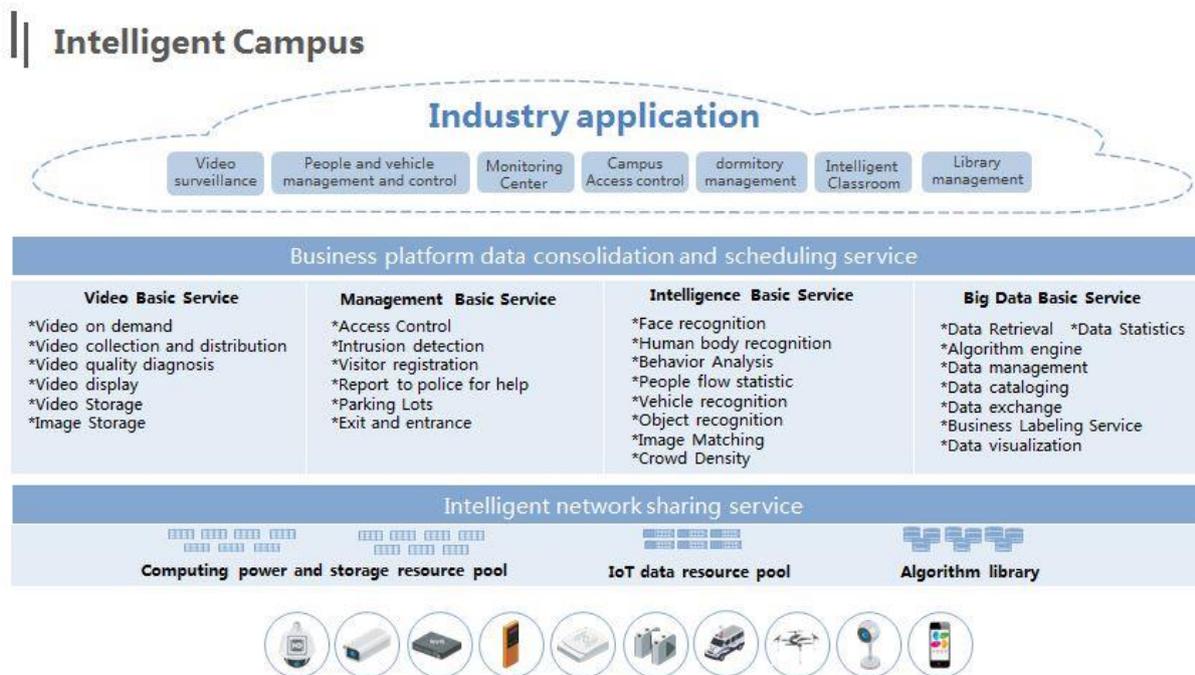
Facial identification technology enables better control of marketing, customer service as well as better design of bank branch facilities by identifying customers and the dynamic flow of customers in the offices. The information release and display technology is designed to engage customers with information about financial products. Intelligent branches provide a differentiated experience for customers, and according to the standardized and regulated service requirements, Hikvision applies intelligent products to business channels such as counter, e-banking, self-service equipment, etc., to provide financial customers with a safer identification matching approach, to prevent operational risks such as internal and external fraud, and to enhance overall business processing efficiency.

**2.3.5 Facilitating Campus Management ---- Taking Smart Education Solution as an Example**

Hikvision Smart Education provides a full series of intelligent applications based on various businesses scenarios for users like schools, education bureaus and education groups. With respect to the current situation of

numerous campus security protection subsystems, and to meet management requirements, Hikvision has launched a comprehensive integrated system for education security protection by integrating multiple subsystems including video surveillance, alarming management, personnel management and control, vehicle management and control, door access control management, dormitory management, school bus management and emergency response and command. This has deeply integrated the core work of safeguarding and achieving the “three-in-one” of security information system consisting of unified business planning, unified authority management and unified resource scheduling.

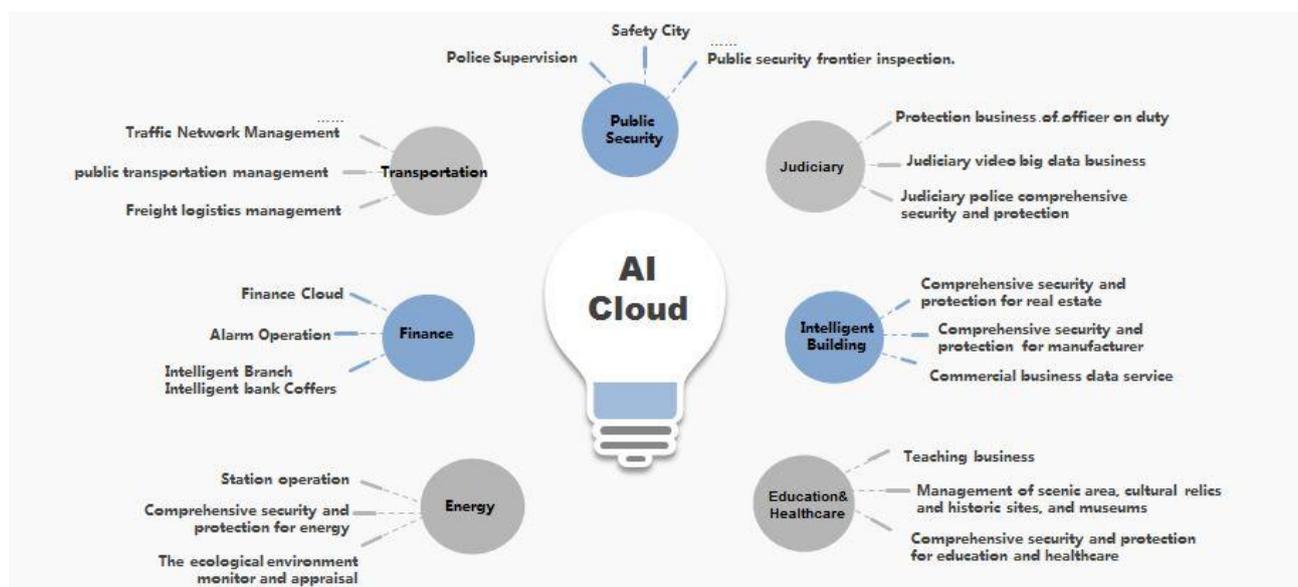
Through real-time identification of personnel information, the school gate personnel control system can achieve the functions of risk early-warning of blacklist personnel, high-frequency appearance early-warning of strangers, face and identification matching of visitors, and management of restricted range of areas; the dormitory management system deploys the facial capture camera at the entrance and exit of a student dormitory, which can simultaneously identify the faces of all personnel entering the dormitory, and help the dormitory administrator identify and check the identification of personnel while also ensuring access efficiency; based on the advanced analysis algorithm, the 4K teaching recording and broadcasting system can complete automatic broadcasting switching, achieve HD recording of routine teaching courses, and carry out teaching management and educational administration, such as analysis of class performance, attendance rate statistics, routine classroom inspection, etc.



Based on the development of deep learning technology, and by identification and analysis of face and vehicle,

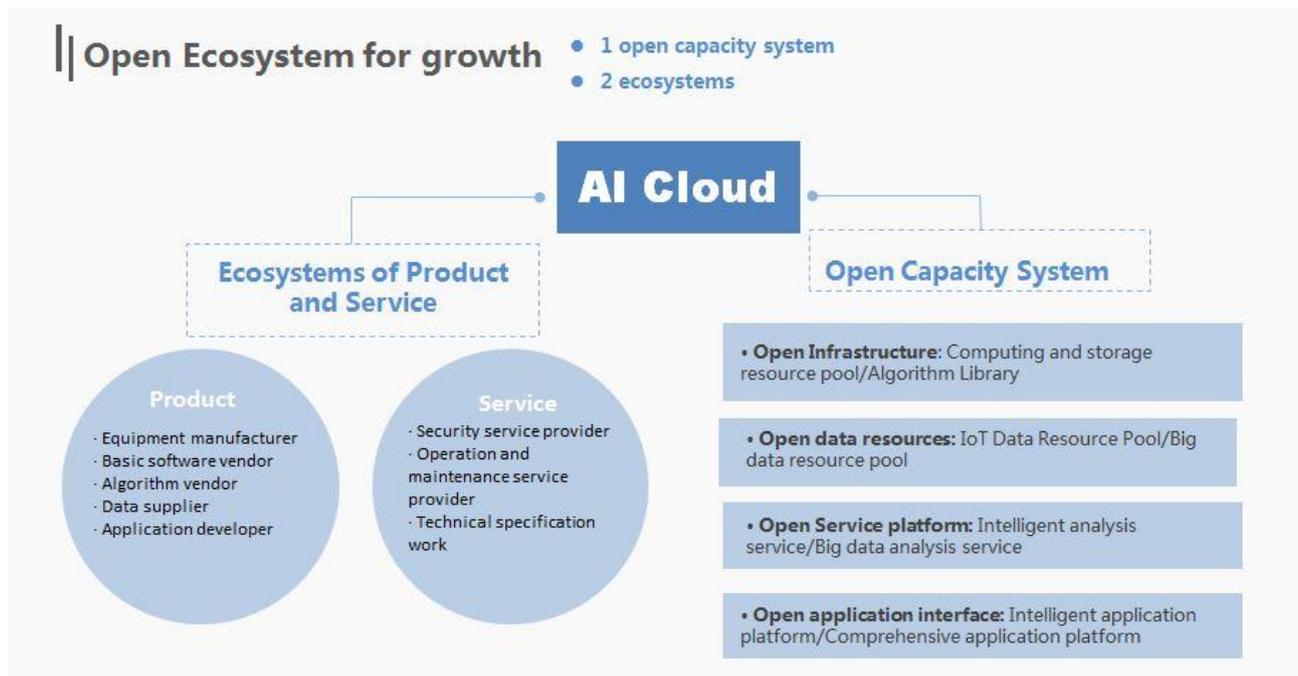
as well as the innovation in teaching and campus management, Hikvision Smart Education System further achieves the fusion, secondary refining and value adding of data. It is designed for comprehensive IoT perception and efficient and collaborative campus management, thus providing safe and convenient campus life services for teachers and students.

To sum up, Hikvision “AI Cloud” strategy centers on user demands, and integrates AI, big data, cloud computing, edge computing, and other technologies into an IoT application covering perception, transmission, cognition and application, in an effort to lead the intelligent IoT development based on the fusion of cloud and edge computing concepts. Hikvision continues to develop the market, provides customized solutions, products and services for various industries, and establishes new business development modes co-existing and co-developing with intelligent applications of various industries.



**2.4 Pursuing Prosperity Together with Industry Users and Building the New Ecosystem of AI Cloud**

AI Cloud involves numerous aspects of the industry, requires multiple factors such as algorithm, computing power, product, data, training system, software platform and application software to jointly participate. Hikvision adheres to the principle of “openness, cooperation and win-win”, establishes a complete system with open capabilities by opening the infrastructure, data resources, platform services and application interface, and collaborates with partners to build the new ecosystem of AI Cloud.



Meanwhile, it promotes and implements industry solutions based on AI Cloud architecture in various industries, cultivates and develops professional partners in segment industries and fields, and establishes an industrial ecological cooperation system; besides, Hikvision will also continue paying attention to the extension development of industry chain, and the construction of service ecosystems such as consultancy, operation and maintenance, security protection, etc.

### 3. Hikvision’s Innovative Businesses

Centered on video technology, Hikvision has deployed five new innovative businesses.

#### 3.1 EZVIZ Guiding the Growth of Innovation Business and Laying a Foundation for Commercial Intelligence

Hikvision EZVIZ Internet Business serves the smart home and intelligent commercial fields, and over five years’ development, it realized the revenue of more than RMB 1 billion and achieved profitability in 2017.

In terms of smart home, EZVIZ continues to improve the user experience by advanced technologies, products and services, and provide home users with intelligent security services. The new products debuted in 2017 include the active defense Wi-Fi camera C3W, smart entry kit with a smart door viewer DP1 and intelligent fingerprint lock, human-shape-detection smart Wi-Fi bullet camera C5Si, etc.. Together with EZVIZ cloud

platform and by combining IoT cloud platform and big data technology, these new products have effectively integrated home demands and scenarios such as intelligent control of household equipment, home environment perception, home security perception as well as information communication, consumption service, etc., so as to create a safe and convenient home, and provide users with the one-stop intelligent service solutions.

In terms of intelligent commerce, EZVIZ has many types of security equipment for business purposes, which provide video services for business operation and management through video analysis by combining the globalized video cloud service platform --- EZVIZ Cloud and by centering on the video content, and extend diversified applications. EZVIZ cloud can be connected to massive IoT equipment to support large-scale concurrence, achieve the interconnection between equipment and users, and interconnection between different equipment, and efficiently realize equipment networking. EZVIZ cloud provides rich and well-organized API interfaces, including the support of multiple platforms like Windows, Android, iOS and Linux, so as to achieve cross-industry cooperation. With the operation nodes covering throughout the globe, EZVIZ Cloud can provide borderless real-time data transmission and application services for both domestic and overseas users, and has gradually become a public cloud platform carrying commercial intelligence.

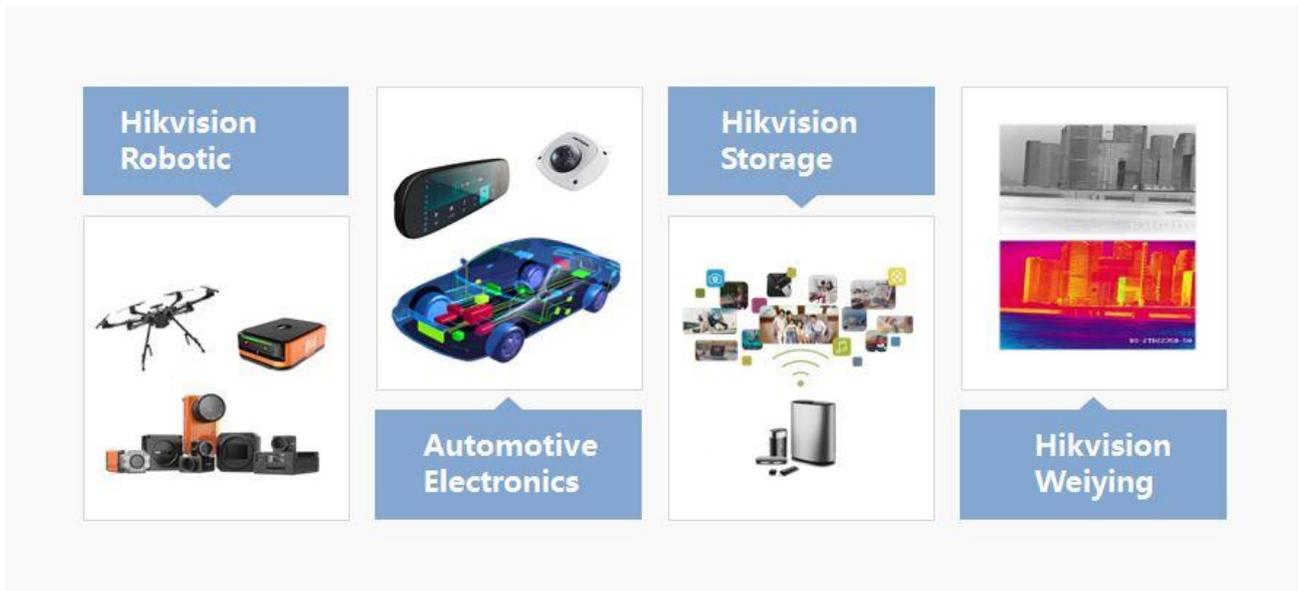


### 3.2 The Rapid Growth in Other Innovative Businesses Laying the Foundation for the Company’s Long-term and Sustainable Development

Based on the Company’s technical accumulation in the multi-dimensional perception and system control fields, Hikvision Robotics is mainly engaged in intelligent manufacturing, and developing mobile robots, machine

vision and industrial-level unmanned aerial vehicle (UAV). In the mobile robot field, Hikvision continues to launch reliable AGV (Auto Guided Vehicle) products and solutions, and help JD.COM, SF EXPRESS and other partners to reduce operating costs and improve business efficiency. In 2017, the Company released the carrying robot (forklift) and carrying robot (compound robot) based on laser navigation, which has further enriched the product choices for customers. In the machine vision field, Hikvision endows the machine with perceptual ability by virtue of image identification, uses cameras to measure and judge in place of human eyes, and facilitates industrial automation; and it achieves stronger resolving power, larger sensitivity range and higher observation accuracy, and greatly enhances productivity. As the UAV influence on the consumer market increases, the application of industrial-level UAV is also increasing. For this purpose, the Company has presented various products such as the Falcon Series quad-rotor and hex-rotor aerial vehicles, Commander-Series All-In-One Ground Station, and Defender-Series Unmanned Aerial Vehicle Jammer, etc., which help extend the security industry solutions from two-dimensional surface to three-dimensional space.

Attributable to the increase in perception and computing power of semiconductor devices and the iterative development of network technology, automotive intelligence is emerging. The Company extends the advantages of video technology to the automotive electronics field, and provides powerful protection for the driving safety of both industrial-level and consumer-level users by using advanced image capture technology and video analysis technology. The Company has developed various intelligent automotive electronics products and solutions including the intelligent vehicle-mounted rearview mirror (云镜), 360° panoramic view system and vehicle-mounted intelligent surveillance system, which covers double chips of both the industrial-level image processor and the intelligent processor. The Company has also launched the Advanced Driver Assistance Systems (ADAS) integrating the functions of vehicle front detection, lane departure warning (LDW), vehicle driver behavior analysis and right side blind area detection, etc., so as to facilitate intelligent, comfortable and safe driving in future.



The data size of data generated by the video surveillance industry reaches ZB level every year. As a leader in the video surveillance industry, Hikvision has deployed the business of solid state disks (SSD) and intelligent storage solutions by combining the development prospects of AI and big data. In 2017, the Company launched a number of industrial-level, industry-level, data center-level and consumer-level products based on SSD as the carrier, as well as personal portable NAS, private cloud and other storage application solutions to meet the data storage demands of personal and home users.

Hikvision Weiying (海康微影) is a provider of far infrared (IR) sensors centered on MEMS (Micro-electromechanical Systems) technology. Based on the deep understanding of security applications, Hikvision lays out the uncooled infrared (IR) sensors, and has launched thermal imaging sensors applicable to multiple fields such as security surveillance, driving assistance, disaster forecast, industrial temperature measurement, medical inspection and quarantine, consumer electronics, etc.

The Company’s innovative businesses are carried out on the basis of video technology and based on users’ demands. Hikvision will continuously expand the new technologies and new applications, look for more market opportunities, and lay a solid foundation for the Company’s long-term and sustainable development.

**4. Market Demands and Technology Motivation**

Security is a priority in countries and regions worldwide, and the continual improvement of security protection capability is in demand. Governments, enterprises and families in various countries want security products, and complex business demands further promotes the diversity of products and the development of

overall solutions. Meanwhile, growth of the existing market and the increasing new demands have contributed to video surveillance industry growth.

In terms of technical R&D for satisfying and leading customer demands, the long-term planning and continual investment contribute to the Company’s sustainable development and innovation in technical fields, as technical innovation is the powerful impetus driving corporate development. Along with the application of Artificial Intelligence (AI) technology in the video field, video as the perception dimension with the richest information content is gradually becoming an important method for supporting transformation and upgrading of traditional industries. The combination of AI, video technologies and business demands is promoting development of video technologies from an application focusing on security assurance to an important application for improving business management efficiency in more and more industries.

Based on our accumulation in products, software, solutions and industry applications, we’ve constructed a three-dimensional IoT-based intelligent system architecture --- AI Cloud, which puts forward the core concept of “edge perception, on-demand (data) convergence, multi-layer cognition and multi-tier application”, responds to the basic construction ideas for IoT infrastructure, data resources, platform services and application software, goes beyond R&D at specific scheme level, forms into a systematically theoretic architecture and guideline, and provides the direction for industry development.

**II. Significant changes in main assets**

**1. Major Changes in Main Assets**

Major assets	Explanation on Major Changes
Equity Assets	Increased by 31.08%, mainly due to investment to Maxio Technology (Hangzhou) Ltd.
Fixed Assets	No significant changes
Intangible Assets	No significant changes
Construction in Progress	Increased by 353.84%, mainly due to the investment to Internet Security Industry Base and Security Industrial Base (Tonglu) project-phase 2.

**2. Major Overseas Assets**

Applicable  Inapplicable

**III. Core Competitiveness**

As an industry leader, Hikvision insists on technology leadership, centers on customer demands, widely

converges the talents and builds global comprehensive competitive advantages by virtue of strong R&D, sales, production and service integration capabilities as well as software, hardware and system integration capabilities.

### **1. Closely Focusing on Customer Demands to Develop the Segment Industry**

Hikvision promotes R&D by centering on meeting the market demands; based on customer demands, Hikvision carries out in-depth development and customization close to the industry, ensuring the products and solutions comply with and properly guide the market demands, and helps users to create value.

The video application scenarios are scattered. Customers of various industries have their respective and rich business scenarios of different business logics, and they have very different demands for video applications. In terms of hardware, the Company has more than 10,000 product models available for sale, and provides rich product types and segmented product models for differentiated scenario demands to achieve the best performance requirements. In terms of solutions, the Company has multiple scenario-based software platform solutions for the seven industries of public security, transportation, law enforcement, education and healthcare, finance, energy and intelligent building, and provides software and hardware combination solutions and business operation modes specific to different business demands.

All of our actions from supplying products to providing solutions and launching the strategy of “platform + ecosystem” are based on the Company’s deep understanding and confidence of the market. Hikvision will closely center on the customer demands to promote the concept of “industry segmentation, regional grass-roots marketing and end-to-end business development” continuously, always listening to customers to continue improving the solution customization capability and consultative selling capability, and constantly transforming technology into market value.

### **2. Optimizing the R&D System and Enhancing the R&D Efficiency**

Hikvision has established a R&D center system, which is headquartered in Hangzhou and covers Beijing, Shanghai, Chongqing, Wuhan, Xinjiang, and Montreal in Canada, Silicon Valley in the United States and Liverpool in Britain, and plans to establish new R&D bases in Xi’an, Wuhan, Chengdu, Chongqing and Shijiazhuang.

Hikvision has established a three-in-one hierarchical R&D system consisting of the technology platform, product platform and solution platform. Technology platform is the foundation of product platform and solution

platform. Innovation and growth of the technology platform, products and solutions ensures continual competitiveness; without the support of product platform and solution platform, the technology would be prone to remaining at the academic research level. The Company's three R&D platforms are subject to different functions and mutual cooperation at the same time, enabling the technology, product and solution platforms to integrate and complement each other, thereby jointly facing and quickly satisfying the users' needs. A sound operation system enables the R&D team to achieve continual innovation and launch the products and applications leading the industry, and meanwhile, to summarize and adjust the R&D priorities according to market feedbacks, enhance product functions and performance, and form effective, market-oriented R&D.

### **3. Improving Manufacturing Flexibility and Enhancing Product Delivery Capability**

The fragmentation of video application scenarios leads to a relatively scattered market. The Company receives more than 1,000 product orders every day, and each order contains more than 10 types of product items on average. Effectively and accurately conducting demand forecasts and management for raw materials, and flexibly and efficiently coordinating plans and organizing production are key for the Company's supply chain to cope with the diversified demands, optimize costs and enhance efficiency.

Hikvision currently has three manufacturing bases in Hangzhou, Tonglu and Chongqing, and has a large-scale production expansion plan in Tonglu, Wuhan and Chongqing, so as to ensure steady and rapid development of the Company's business. So far, the Company has gradually launched more than 800 intelligent warehouse robots (阡陌) at the Tonglu Production Base, so as to comprehensively implement the warehousing and internal logistics automation, reducing the labor cost by approximately 50% and improving efficiency by nearly 80%. The Company will continue implementing the intelligent factory construction to strengthen the intelligence level of the design and manufacturing system with the support of a comprehensive information system and by virtue of the IoT technology and automation technology. Based on the Tonglu Production Base template, we'll build up more agile, flexible and scaled intelligent factories, develop the leading production, manufacturing and service capability, and further enhance production efficiency.

### **4. Optimizing the Marketing Service System to Better Serve the Users**

Hikvision's marketing service network spreads all over the world to achieve resource allocation worldwide. The Company owns 35 branches and more than 200 liaison offices in Mainland China; and has established 37 overseas sales branches, forming a marketing network covering more than 100 countries and regions in overseas

markets, with the independently branded products being sold to more than 150 countries and regions.

In addition to the self-built marketing network, Hikvision has also established a three-tier service system, which comprises the Global Customer Service Center, the Branch Customer Service Department and the Authorized Customer Service Station. Through cooperating with tens of thousands of partners, such as engineering contractors, distributors and outsourced service providers, the Company provides multi-dimensional services including product delivery, project delivery, software deployment, system operation and maintenance, etc. to customers in various industries and different regions. Moreover, the Company continuously improves the product and technical service standards, provides an all-round certification and training system for partners, and enhancing their professional qualifications to serve the users together.

#### **5. Establishing a Long-term Talent Training and Incentive System to Support the Company's Sustainable Development**

Talent training is the top priority of the Company. A well-organized talent development and training system helps the employees grow and gain the sense of accomplishment and sense of belonging, and is the impetus for the Company's sustainable and sound development. The Company has always adhered to the "talent-focused, growing together" employment concept, and has set up a dual career development path consisting of management sequence and professional sequence, established a professional qualification evaluation system and a talent assessment system, and implemented a multi-level training mechanism, so as to continuously cultivate the core talents and back-up talents for the Company.

In addition to providing employees comprehensive welfare and compensation benefits, which are competitive in the industry, the Company has implemented three restricted share incentive schemes since 2012, awarding nearly 5,000 employees, covering the core talent team from the management staffs and business backbones of various levels and focusing on business backbones as the main incentive objects, thereby maintaining the stability and motivation of core talents.

In 2016, the Company implemented the innovative business co-investment mechanism for core staffs, under which employees can become a shareholder of our innovative businesses. Such innovative businesses have become an incubator for entrepreneurship and growth of employees, while the employee co-investment mechanism is becoming a significant system guarantee for the Company's sustainable development.

## Section IV Operation Discussion and Analysis

### I. Overview

In 2017, the global economy recovered slowly in fluctuation, the increasing protectionist tendency in developed economies led to continuously rising uncertainty risks. The video surveillance industry benefited from the overall stability in domestic economic environment and the development of AI technology, but also suffered from the pressure due to changes in trade protection and increased cross-industry competition. Hikvision continued to maintain solid growth through our own operations and efforts.

Facing the complicated domestic and overseas environment, the Company took a targeted regional strategy, and insisted on guidance by customer demands and stimulation by technological innovation, thereby promoting the profitable growth. During the reporting period, the Company achieved total operating income of RMB 41.91 billion, increased by 31.22% on a year-over-year basis; and net profit attributable to shareholders of the listed company of RMB 9.41 billion, increased by 26.77% on a year-over-year basis. The Company's overall gross profit margin was 44.00% in 2017, increased by 2.41% on a year-on-year basis.

### II. Core business analysis

#### 1. Overview

##### (1) Leading the Industry Development by Technological Innovation

In 2017, the Company's research and development (R&D) investment reached RMB 3.19 billion, accounting for 7.62% of its total sales volume. The Company maintains a relatively large scale R&D investment, with the number of R&D and technical service personnel in excess of 13,000.

The Company considered the construction of intelligent product systems and solutions as the strategic direction, completed the core product layout of edge node, edge domain and cloud center based on the AI Cloud architecture, developed numerous industry intelligent application solutions, injected AI into the products and solutions, formed the competitive edges in video intelligence, and continued to maintain the leading position by virtue of technology, product innovation and solution innovation.

The Company has kept continual investment and innovation in technology, and maintained the competitiveness in products and solutions through the three-in-one R&D system consisting of the technology platform, product platform and solution platform. Meanwhile, the Company constantly strengthened the inputs in

systematic work such as R&D management, quality management and cyber-security management, and helped enhance the systematic, standard and security level of R&D.

## **(2) Optimizing Marketing Strategy and Continuing Expand the Market**

For the domestic market, the Company constantly promoted the marketing strategy of “industry segmentation, regional grass-roots marketing and end-to-end business development”, enabled regional sales branches to cooperate closely with the business departments of vertical industries, and further optimized the coverage of the marketing network. The Company continued to improve the product and technical service system, and continuously enhanced the technical service capability while providing high-quality products and solutions to users. As for the channel market, the Company established partnerships with multiple channel partners, strengthened sales supervision and standardized the channel market; the Company continued improving the Internet marketing platform, promoted product standardization and market transparency, and facilitated well-organized competition and healthy development of the industry.

For the overseas market, the Company established seven overseas subsidiaries in Kenya, Uzbekistan, Hungary, New Zealand, Czech, Malaysia and Germany and two new offices respectively in Indonesia and Vietnam in 2017; with 37 overseas branches, 106 overseas service points and 77 authorized repair centers, the Company’s overseas sales network has been further improved. The Company continued expanding from channel distribution market to project market, strengthened the input in overseas project market, improved the product influence in overseas markets, and better served local customers. In 2017, the Company achieved major project breakthroughs in Singapore, and made some progress in the project markets of many countries and regions.

## **(3) Development of Innovative Businesses to Create Innovation Impetus**

EZVIZ business continued to develop rapidly. By the end of 2017, the devices connected to EZVIZ Cloud reached 28 million, and the number of EZVIZ Cloud APP users exceeded 20 million. In 2017, EZVIZ launched new products such as smart door viewer and smart door lock to enrich the product choices of medium-to-small and micro enterprises, families and individual users. Based on the growing opening platform of EZVIZ Cloud business, the Company has carried out new types of business such as Hikvision Cloud Visualized Management Platform (云眸) to provide SaaS-based comprehensive services of video analysis and big data information management for business users, which integrated with traditional security business of the Company to

complement each other and promote the rapid development of intelligence in the industry. In 2017, EZVIZ recorded operating revenue of more than RMB 1 billion and succeeded in making profits, thereby becoming the first innovation business of the Company to achieve profitability.

The robot business of Hikvision made rapid breakthroughs. In 2017, Hikvision Robotics launched the carrying robot (forklift) and carrying robot (compound robot) based on laser navigation, as well as the more advanced industrial camera products and platform software, to further enrich the product choices for customers. Hikvision Robotics succeeded in helping JD.com, SF EXPRESS and other logistics industry customers to complete the implementation and application of complicated automation projects, and developed a number of successful cases with great influence. In the UAV field, the Company has developed full product lines covering the Falcon Series quad-rotor and hex-rotor aerial vehicles, Commander-Series All-In-One Ground Station, and Defender-Series Unmanned Aerial Vehicle Jammer, etc., indicating that the industrial-level UAV market is being gradually opened up.

The automotive electronics business has developed comprehensively. The Company continuously diversified the post-mounted product types such as video and millimeter wave radar, and launched the intelligent automotive electronics products and solutions including the intelligent vehicle-mounted rearview mirror (云镜), 360° panoramic view system and vehicle-mounted intelligent surveillance system. In terms of systems, the Company has also launched the Advanced Driver Assistance Systems (ADAS) integrating the functions of vehicle front detection, lane departure warning (LDW), vehicle driver behavior analysis and right side blind area detection, etc., and applied the product to the pre-mounted customers and industry customers and markets.

Hikvision Smart Storage launched a number of industrial-level and consumer-level storage products and household storage center products, achieving rapid market breakthrough. Hikvision Weiyang accumulated imaging technology, and promoted thermal imaging products to develop from the industrial-level application to the public market by virtue of better cost performance advantages.

#### **(4) Increasing Infrastructure Investment and Deploying R&D and Manufacturing Sub-Centers**

In 2017, the Company disclosed the investment plan of more than RMB 10 billion to prepare the construction of four R&D bases in Xi'an Wuhan, Chengdu and Shijiazhuang, expand Hangzhou R&D center, as well as construct two manufacturing bases in Chongqing and Wuhan. The investment will provide office space and help ensure productivity needed to meet Hikvision's current and future business demands, and help the Company

expand the market.

**(5) Management Reform and Optimizing Internal Management**

In 2017, the Company continuously strengthened process construction and optimization under the leadership of the Reform Management Committee; continuously promoted the system constructions such as BLM (Business Leadership Model) and IPD (Integrated Product Development) systems; continuously constructed the flat organization by implementing the policies of decentralization, disintermediation, downward shift of decision-making focus, etc.; and enhanced the internal management efficiency by continually promoting improvement and optimization of internal management.

**2. Operating incomes and operating costs**

**1) Operating income structure**

Unit: RMB

	2017		2016		YoY Change (%)
	Amount	Proportion to operating income	Amount	Proportion to operating income	
Total operating income	41,905,476,572.07	100.00%	31,934,544,088.82	100.00%	31.22%
Classified by industry					
Video products and video services	41,905,476,572.07	100.00%	31,934,544,088.82	100.00%	31.22%
Classified by product					
Front-end equipment	21,090,230,299.49	50.33%	15,881,528,158.70	49.73%	32.80%
Back-end equipment	6,151,038,063.70	14.68%	5,197,388,761.80	16.28%	18.35%
Central control equipment	5,073,899,931.95	12.11%	3,988,683,952.14	12.49%	27.21%
Constructions	2,540,799,165.58	6.06%	1,451,424,275.00	4.54%	75.06%
Others	5,394,298,987.25	12.87%	4,757,562,355.69	14.90%	13.38%
<b>Subtotal</b>	40,250,266,447.97	96.05%	31,276,587,503.33	97.94%	28.69%
Smart home business	1,090,629,830.13	2.60%	507,566,718.33	1.59%	114.87%
Other innovative businesses	564,580,293.97	1.35%	150,389,867.16	0.47%	275.41%
<b>Subtotal</b>	1,655,210,124.10	3.95%	657,956,585.49	2.06%	151.57%

	2017		2016		YoY Change (%)
	Amount	Proportion to operating income	Amount	Proportion to operating income	
Classified by region					
Domestic	29,661,186,316.32	70.78%	22,574,159,436.75	70.69%	31.39%
Overseas	12,244,290,255.75	29.22%	9,360,384,652.07	29.31%	30.81%

Note: in the category classified by product, “smart home business” under innovative businesses was listed separately starting from this reporting period, and the “other innovative businesses” includes corresponding business products of innovative business subsidiaries - Hikvision Robotics, and Hikvision Automotive Technology, Hikvision Weiyang, Hikvision Storage, and Similar hereinafter.

## 2) Industries, products or regions accounting for more than 10% of the Company’s operating income or operating profit

√ Applicable □ Inapplicable

Unit: RMB

	Operating income	Operating cost	Gross margin	YoY Change (%) of operating income	YoY Change (%) of operating cost	YoY Change (%) of gross margin
Classified by industry						
Video products and video services	41,905,476,572.07	23,467,310,590.76	44.00%	31.22%	25.81%	2.41%
Classified by product						
Front-end equipment	21,090,230,299.49	10,354,906,543.30	50.90%	32.80%	26.49%	2.45%
Back-end equipment	6,151,038,063.70	3,164,186,804.35	48.56%	18.35%	16.96%	0.61%
Central control equipment	5,073,899,931.95	2,320,570,446.43	54.26%	27.21%	12.15%	6.14%
Constructions	2,540,799,165.58	2,280,617,025.82	10.24%	75.06%	71.66%	1.78%
Others	5,394,298,987.25	4,293,560,908.63	20.41%	13.38%	8.27%	3.76%
<b>Subtotal</b>	40,250,266,447.97	22,413,841,728.53	44.31%	28.69%	22.78%	2.68%
Smart home business	1,090,629,830.13	708,022,298.25	35.08%	114.87%	114.86%	0.01%
Other innovative businesses	564,580,293.97	345,446,563.98	38.81%	275.41%	408.84%	-16.04%
<b>Subtotal</b>	1,655,210,124.10	1,053,468,862.23	36.35%	151.57%	165.07%	-3.25%
Classified by region						
Domestic	29,661,186,316.32	17,196,669,563.86	42.02%	31.39%	25.09%	2.92%
Overseas	12,244,290,255.75	6,270,641,026.90	48.79%	30.81%	27.84%	1.19%

Adjusted statistics of principal business are based on the caliber at the end of the reporting period of last year, if the statistics caliber of principal business has been changed during the reporting period

Applicable  Inapplicable

### (3) If revenue from physical products sales greater than revenue from providing services

Yes  No

Industry	Item	Unit	2017	2016	YoY Change (%)
Video products and video services	Sales volume	Per unit	98,345,860	68,801,020	42.94%
	Output volume	Per unit	100,205,025	70,402,646	42.33%
	Inventory	Per unit	6,883,937	5,024,772	37.00%

Explanation on why the related data varied by more than 30% on a YOY basis

Applicable  Inapplicable

During the reporting period, the Company's sales volume, output volume and inventory grew with the steady and healthy increase of the operating performance.

### (4) Fulfillment of signed significant sales contracts by the reporting period

Applicable  Inapplicable

### (5) Operating cost structure

Classified by industry and products

Unit: RMB

Industry	Item	2017		2016		Increase/decrease over previous year
		Amount	Proportion to operating cost	Amount	Proportion to operating cost	
Video products and video services	Operating cost	23,467,310,590.76	100.00%	18,652,707,155.56	100.00%	25.81%

Unit: RMB

Product	Item	2017		2016		Increase/decrease over previous year
		Amount	Proportion to operating cost	Amount	Proportion to operating cost	
Front-end equipment	Operating cost	10,354,906,543.30	44.12%	8,186,413,345.14	43.89%	26.49%
Back-end equipment	Operating cost	3,164,186,804.35	13.48%	2,705,461,109.51	14.50%	16.96%
Central control equipment	Operating cost	2,320,570,446.43	9.89%	2,069,135,295.77	11.09%	12.15%
Constructions	Operating cost	2,280,617,025.82	9.72%	1,328,601,510.98	7.12%	71.66%
Others	Operating cost	4,293,560,908.63	18.30%	3,965,672,628.93	21.26%	8.27%
<b>Subtotal</b>	Operating cost	22,413,841,728.53	95.51%	18,255,283,890.33	97.86%	22.78%
Smart home business	Operating cost	708,022,298.25	3.02%	329,534,759.28	1.77%	114.86%

Product	Item	2017		2016		Increase/ decrease over previous year
		Amount	Proportion to operating cost	Amount	Proportion to operating cost	
Other innovative businesses	Operating cost	345,446,563.98	1.47%	67,888,505.95	0.37%	408.84%
<b>Subtotal</b>	Operating cost	1,053,468,862.23	4.49%	397,423,265.23	2.14%	165.07%

**(6) Any change in consolidation scope during the reporting period**
 Yes  No

During the reporting period, the Company has newly set up eight wholly-owned subsidiaries and eight holding subsidiaries, acquired one company, and cancelled one company, which have caused the changes in consolidation scope. For more details, please refer to note (VI) “Changes in consolidation scope” of the financial statement.

**(7) Significant change or adjustment of the Company’s business, products or services during the reporting period:**
 Applicable  Inapplicable

**(8) Major customers and suppliers:**

Sales to major customers of the Company

Sales to top five customers (RMB)	2,224,928,412.84
Total sales to top five customers as a percentage of the total sales for the year (%)	5.31%
Total sales to the related parties in top five customers as a percentage of the total sales of the year (%)	1.90%

**Information on top five customers**

No.	Name of Customer	Sales Amount (RMB)	Percentage of total sales for the year
1	First	817,548,444.32	1.95%
2	Second (related party)	796,423,974.48	1.90%
3	Third	225,764,450.52	0.54%
4	Fourth	221,821,004.78	0.53%
5	Fifth	163,370,538.74	0.39%
Total	--	2,224,928,412.84	5.31%

Other information of major customers

 Applicable  Inapplicable

The Company’s second customer regarding sales amount is a related party: branch research institute and subsidiary of CETC (under the common control of CETC, consolidated as required)

**Major suppliers of the Company**

Total purchases from top five suppliers (RMB)	7,162,069,353.84
Total purchases from top five suppliers as a percentage of the total purchases for the year	29.23%
Total purchases from the related parties in the top five suppliers as a percentage of the total purchases for the year	0.00%

**Information on top five suppliers of the Company**

No.	Supplier Name	Purchase Amount (RMB)	Percentage of total purchase for the year
1	First	3,800,476,717.20	15.51%
2	Second	1,257,751,104.57	5.13%
3	Third	783,310,867.67	3.20%
4	Fourth	738,069,618.85	3.01%
5	Fifth	582,461,045.55	2.38%
Total	--	7,162,069,353.84	29.23%

Other information on major suppliers

 Applicable  Inapplicable

**3. Expenses**

Unit: RMB

	2017	2016	Increase/decrease over previous year	Note of significant change
Sales expenses	4,430,220,065.13	2,991,273,819.81	48.10%	Improve sales network, increase personnel contribution
Administrative expenses	4,205,437,565.45	3,109,309,837.05	35.25%	Expansion of the scale of operation, increase of R&D expense
Financial expenses	265,411,287.66	-225,305,567.12	-217.80%	Increase of exchange losses

**4. R&D Investment**
 Applicable  Inapplicable

Benefited from the professional intellectual property management system, the Company has newly added 684 patents (including 93 patents for invention, 148 utility models and 443 product design patents), and newly added 165 software copyrights. As of the end of 2017, the Company had accumulatively owned 1959 patents (including 397 invention patents, 471 utility models and 1091 product design patents), and owned 769 software copyrights.

During the reporting period, the Company invested RMB 3.19 billion in R&D, which accounted for 7.62% of the operating income. Owing to the continuous relatively high level R&D investment and continuous innovation, the Company is able to keep and enhance its technology leading position and rapidly transform technical

advantage to product superiority, so as to continually promote the growth of the Company's performance.

## R&D investment of the Company

	2017	2016	Change Percentage
Number of Engineers (ppl)	13,085	9,366	39.71%
Percentage of Total headcount	49.70%	46.80%	2.90%
Amount of R&D expenses (RMB)	3,194,223,108.16	2,433,400,645.23	31.27%
R&D investment as a percentage of operating income	7.62%	7.62%	0.00%
Capitalized R&D expenses (RMB)	0.00	0.00	0.00%
Capitalized R&D expenses as a percentage of R&D expenses	0.00%	0.00%	0.00%

Reason of significant change of total R&D expenses as a percentage of operating income as compared to last year

Applicable  Inapplicable

Reason and explanation of its reasonableness of significant change of the capitalized R&D expenses

Applicable  Inapplicable

## 5. Cash flow

Unit: RMB

Item	2017	2016	Increase/decrease over previous year
Subtotal of cash inflows from operating activities	45,403,833,925.46	35,756,663,658.06	26.98%
Subtotal of cash outflows from operating activities	38,030,673,674.78	29,540,299,016.01	28.74%
<b>Net cash flows from operating activities</b>	7,373,160,250.68	6,216,364,642.05	18.61%
Subtotal of cash inflows from investing activities	10,418,044,681.02	5,071,127,419.52	105.44%
Subtotal of cash outflows from investing activities	11,626,742,349.71	8,454,293,960.61	37.52%
<b>Net cash flows from investing activities</b>	-1,208,697,668.69	-3,383,166,541.09	64.27%
Subtotal of cash inflows from financing activities	3,642,688,936.06	8,480,182,623.37	-57.04%
Subtotal of cash outflows from financing activities	7,044,435,588.93	8,037,387,072.16	-12.35%
<b>Net cash flows from financing activities</b>	-3,401,746,652.87	442,795,551.21	-868.24%
<b>Net increase in cash and cash equivalents</b>	2,506,847,571.89	3,488,868,947.09	-28.15%

Explanation of why the related data varied significantly on a YoY basis

Applicable  Inapplicable

The fluctuation of net cash flows from operating activities is mainly due to the increase in sales collection;

the fluctuation of net cash flows from investing activities is mainly due to the increase in the net recovery amount of principal-guaranteed financial products; the fluctuation of net cash flows from financing activities is mainly due to the euro bonds financing in prior year, versus no similar fund-raising activity in this year.

Explanation of reasons leading to the material difference between cash flow from operating activities during the reporting period and net profit for the year

Applicable  Inapplicable

### **III. Non-Core Business Analysis**

Applicable  Inapplicable

#### IV. Analysis of assets and liabilities

##### 1. Material changes of asset items

Unit: RMB

	December 31 <sup>st</sup> 2017		December 31 <sup>st</sup> 2016		YoY Change (%)	Note of significant change
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Cash and bank balances	16,468,430,702.64	31.93%	13,638,078,139.56	32.98%	-1.05%	Increase in sales collection
Accounts receivable	14,705,210,072.81	28.51%	11,243,843,324.90	27.19%	1.32%	Increase follows the increase in sales revenue
Inventory	4,940,332,311.65	9.58%	3,829,947,876.75	9.26%	0.32%	Inventory increases as sales increase
Long-term equity investment	130,474,733.58	0.25%	35,000,000.00	0.08%	0.17%	Mainly due to investments in associates
Fixed assets	3,024,025,496.31	5.86%	2,853,913,621.12	6.90%	-1.04%	No significant change in fixed assets during the current period
Construction in process	1,436,319,118.30	2.79%	316,482,522.36	0.77%	2.02%	Mainly due to increase of investments in projects i.e. Internet Security Industry Base ,Security Industrial Base (Tonglu) Project Phase 2, and etc.
Short-term loans	97,114,655.91	0.19%	32,291,324.85	0.08%	0.11%	Increase due to increasing demand in temporary capital turnover
Long-term loans	490,000,000.00	0.95%	1,722,207,584.33	4.17%	-3.22%	Long-term loans due within one year were transferred to non-current liabilities due within one year.
Non-current liabilities due within one year	1,546,407,270.89	3.00%	15,340,813.03	0.04%	2.96%	

**2. Assets and liabilities measured at fair value**

Applicable  Inapplicable

Unit: RMB

Item	Opening balance	Profit or loss from change in fair value during the period	Difference in conversion of foreign currency statements	Provision for decline in value during the current period	Purchase during the period	Sales during the period	Closing balance
<b>Financial assets</b>							
1. Financial assets at fair value through profits and losses(exclude derivative financial assets)	15,547,537.34	-11,752,575.40	305,695.60				4,100,657.54
Subtotal of financial assets	15,547,537.34	-11,752,575.40	305,695.60				4,100,657.54
<b>Financial Liabilities</b>	69,789,502.97	53,842,666.51					15,946,836.46

Whether there were any material changes on the measurement attributes of major assets of the Company during the Reporting Period:

Yes  No

**3. Assets right restrictions as of the end of reporting period**

Unit: RMB

Item	Closing Book Value	Reasons for being restricted
Monetary fund	439,245,433.47	Various cash deposits and deposit pledge for long-term loan
Notes receivable	99,091,810.24	Pledge for issuance of bank acceptance
Accounts receivable	60,646,697.33	Pledge for long-term loan
Total	598,983,941.04	

**V. Analysis of Investments**

**1. Overview**

Applicable  Inapplicable

Investment during 2017 (RMB)	Investment during 2016 (RMB)	Fluctuation (%)
1,804,851,313.86	884,389,030.00	104.08%

**2. Significant equity investment during the reporting period**

Applicable  Inapplicable

**3. Significant non-equity investment during the reporting period**

√ Applicable □ Inapplicable

Unit: RMB

Project name	Invest method	Fixed assets investment or not	Project industry	Investment during the current reporting period	Cumulative amount of investment by the end of reporting period	Source of funds	Project schedule
Internet Security Industry Base	Self-built	YES	Video product and video service	675,744,837.71	914,014,265.08	Bond	71%
Security Industrial Base (Tonglu) phase 2	Self-built	YES	Video product and video service	297,975,685.07	300,688,913.96	Bond	32%
Chongqing Manufacture Base	Self-built	YES	Video product and video service	87,310,592.95	89,393,611.81	Self-fund	17%
Total	--	--	--	1,061,031,115.73	1,304,096,790.85	--	--

**4. Financial assets measured at fair values**

√ Applicable □ Inapplicable

Unit: RMB

Category	Initial investment cost	Current profits or losses on the changes in fair value	Cumulative fair value change charged to equity	Purchase during the reporting period	Sales during the reporting period	Cumulative investment income	Closing balance	Source of funds
Derivative instruments	2,485,985,565.37	42,090,091.11	0.00	4,769,836,134.05	0.00	15,885,274.53	1,400,293,692.23	Company's own funds
Total	2,485,985,565.37	42,090,091.11	0.00	4,769,836,134.05	0.00	15,885,274.53	1,400,293,692.23	--

**5. Use of raised funds**

□ Applicable √ Inapplicable

During the reporting period, there was no use of raised fund

**VI. Disposal of significant assets and equity****1. Disposal of significant assets:**

Applicable  Inapplicable

During the reporting period, there was no disposal of significant assets

**2. Sale of significant equity:**

Applicable  Inapplicable

## VII. Analysis of major subsidiaries and investees

√ Applicable □ Inapplicable

Information about major subsidiaries, and investees that contribute above 10% of the Company's Net Profit

Unit: RMB

Company name	Company type	Principal business	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Hangzhou Hikvision System Technology Co., Ltd.	Subsidiary	<u>Technology development and service</u> : computer system integration, electronic product, communication product; <u>service</u> : the installation of electric security engineering, the design, construction and maintenance of intelligent system; <u>manufacturing</u> : video surveillance system, selling its self-produced products, import and export its own products and technology.	600 million	3,221,059,335.96	1,141,353,846.43	3,333,441,412.17	-1,201,888.82	21,765,952.09
Hangzhou Hikvision Science and Technology Co. Ltd.	Subsidiary	<u>Manufacturing</u> : security electronic product, intelligent hardware electronic products, explosion-proof electric products., IC card and IC card RW device, mobile phone, cordless phone, handheld wireless police terminal, hand held mobile police terminal; <u>technology development, technology consulting, results transferring</u> : computer software, electronic product, communication product, digital security product; <u>wholesale</u> : security electronic product and its auxiliary equipment, intelligent hardware electronic product, explosion-proof electrics, security electronic product and its auxiliary equipment, intelligent hardware electronic product, explosion-proof electrics, IC card and IC card RW device, mobile phone, cordless phone, handheld wireless police terminal, hand held mobile police terminal;; import and export business	1000 million	21,355,691,123.68	1,991,103,008.73	39,233,313,930.37	695,206,278.08	535,840,371.64

Information about obtaining and disposal of subsidiaries during the reporting period

Applicable  Inapplicable

Company name	Equity acquisition and disposal method during the reporting period	Impact on overall production results
Hangzhou Haikang Ximu Intelligent Technology Co., Ltd.	Business merger involving enterprises under common control	Business development
Hikvision New Zealand Limited	Cash contribution	Expand overseas sales channels
Wuhan Hik Storage Technology Co., Ltd.	Cash contribution	Business development
Urumchi Hai Shi Xin An Electronics Technology Co., Ltd.	Cash contribution	Business development
Chengdu Hikvision Digital Technology Co., Ltd.	Cash contribution	Business development
Hangzhou Hik Automotive Software Co., Ltd.	Cash contribution	Business development
Hangzhou Haikang Intelligent Technology Co., Ltd.	Cash contribution	Business development
Wuhan Hik Storage Software Co., Ltd.	Cash contribution	Business development
Hangzhou EZVIZ Software Co., Ltd.	Cash contribution	Business development
PiShanHaiShi Yong' An Electronic Technology Co., Ltd.	Cash contribution	Business development
MoYuHaiShi Electronic Technology Co., Ltd.	Cash contribution	Business development
Hikvision Kenya (Pty) Ltd.	Cash contribution	Expand overseas sales channels
Hikvision Tashkent LLC	Cash contribution	Expand overseas sales channels
Hikvision Hungary Kft	Cash contribution	Expand overseas sales channels
Hikvision (Malaysia) SDN. BHD.	Cash contribution	Expand overseas sales channels
Hikvision Czech s.r.o.	Cash contribution	Expand overseas sales channels
Hikvision Deutschland GmbH	Cash contribution	Expand overseas sales channels
Wuhan Hikvision System Technology Co., Ltd.	Liquidation	Adjustments of organizational framework

## VIII. Structural entities controlled by the Company

Applicable  Inapplicable

## IX. Outlook for the Future Development of the Company

### 1. Industry developing trends

#### 1.1 Continual Growth in Traditional Comprehensive Security Needs with Emerging Intelligent Business Demands

Security is the basis of a happy life, so continuously enhancing the security and protection capability is an inevitable requirement for development. The security needs of governments, enterprises and families in various countries will increase continually, while the demand for traditional comprehensive security business will maintain stable growth.

Along with the application of AI technology in video field, video surveillance has become an important approach to facilitate transformation and upgrade of the traditional industry, and the segment markets of various industries have generated substantial demands for video intelligence; the intelligence business cases of various industries are being implemented and copied, and the new market growth space is opening up.

### **1.2 Expansion of the Industry Pattern with new competition format emerges**

The application of AI technology has enabled the video surveillance industry to transform from post investigation to pre-warning and interim management, and greatly expanded the feasibility of video technology application in business management. As the industry pattern further opens, video surveillance industry starts to have cross-business with high-tech, Internet and other industries, forming into a new competition pattern, which brings both opportunities and challenges.

### **1.3 Continuously Increasing Uncertainty Factors of the Global Market Leading to both Opportunities and Challenges**

The competition of Chinese companies at the overseas market was restricted by economic and political environment of respective countries and regions, and the uncertainty risk of overseas market increased continuously, leading to further higher uncertainty in business development.

## **2. Development Strategy of the Company**

Hikvision is an IoT solution provider with video as its core competence. The Company adheres to the business philosophy of "professionalism, honesty, and integrity", is dedicated to core corporate value of "clients' success, value-oriented, integrity and down-to-earth, pursuit of excellence" The Company provides high-quality products and services for global customers and create greater values for customers worldwide through continuous innovation.

With the corporate mission of "exploring innovative ways to better perceive and understand the world, empowering vision for decision-makers and practitioners and work together to enhance safety and advance sustainable development of the world" ("善见致知、同行致远"), the Company is committed to developing new

vision for the security.

### **3. Key Operation Priorities in 2018**

(1) Effectively promote the AI Cloud and boost the rapid development of intelligent applications. The Company will follow up the development of new technologies such as AI, big data, cloud computing, edge computing, etc., grasp the market opportunities in public security upgrade, urban treatment upgrade and corporate management upgrade, and lead the intelligent development direction of the industry.

(2) Continuously increase R&D investment and constantly promote technological innovation. Based on the R&D system advantages of technology platform, product platform and solution platform, the Company will maintain its leading level in core technology fields including video technology, multi-dimensional perception, AI, big data analysis, etc., and conduct research and development of more excellent products and solutions to lead, response to and fulfill the customer demands.

(3) Optimize the marketing system and listen to the customers' voice. The Company will continuously construct and adjust the marketing system according to regional market features, and establish the sales and service system closer to customers.

(4) Orient on both products and solutions and constantly expand the overseas project market. The Company will accelerate the upgrade and iteration of overseas products, enrich the product lines for overseas markets, and enlarge the market share of overseas channels; and expand the overseas project market for more breakthroughs by focusing on key regions and industries.

(5) Constantly develop innovative business and cultivate more development opportunities. The Company will continue to develop EZVIZ, robotics, automotive electronics, intelligent storage, Hikvision Weiyong and other innovative businesses, and continue to deploy the emerging business with a promising prospect and the key technical segments.

(6) Continuously deepen organizational reform and enhance management efficiency. The Company will continue to learn from the world-class enterprises about the successful practical experience, improve the internal management level, and enhance the management efficiency.

## X. Reception of activities including research, communication and interviews during the report period

√ Applicable □ Inapplicable

### (1) Reception of research activities during the reporting period.

Time of reception	Method of reception	Type of reception object	Basic situation of the research
From January 3 <sup>rd</sup> , 2017 to January 20 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From January 3<sup>rd</sup>, 2017 to January 20<sup>th</sup>, 2017</i>
From February 6 <sup>th</sup> , 2017 to February 10 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From February 6<sup>th</sup>, 2017 to February 10<sup>th</sup>, 2017</i>
From February 13 <sup>th</sup> , 2017 to February 24 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From February 13<sup>th</sup>, 2017 to February 24<sup>th</sup>, 2017</i>
From February 27 <sup>th</sup> , 2017 to March 10 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From February 27<sup>th</sup>, 2017 to March 10<sup>th</sup>, 2017</i>
April 14 <sup>th</sup> , 2017	Annual performance result Conference Call	Institutional and individual investors	CNINF, <i>Investor Relations Activity Record: April 14<sup>th</sup>, 2017</i>
From April 17 <sup>th</sup> , 2017 to April 28 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From April 17<sup>th</sup>, 2017 to April 28<sup>th</sup>, 2017</i>
May 4 <sup>th</sup> , 2017	Investor Reception Day	Institutional and individual investors	CNINF, <i>Investor Relations Activity Record: May 4<sup>th</sup>, 2017</i>
From May 8 <sup>th</sup> , 2017 to May 19 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From May 8<sup>th</sup>, 2017 to May 19<sup>th</sup>, 2017</i>
From May 22 <sup>nd</sup> , 2017 to May 27 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From May 22<sup>nd</sup>, 2017 to May 27<sup>th</sup>, 2017</i>
From June 5 <sup>th</sup> , 2017 to June 9 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From June 5<sup>th</sup>, 2017 to June 9<sup>th</sup>, 2017</i>
From June 12 <sup>th</sup> , 2017 to June 23 <sup>rd</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From June 12th, 2017 to June 23rd, 2017</i>
July 24 <sup>th</sup> 2017	Performance result Conference Call	Institutional and individual investors	CNINF, <i>Investor Relations Activity Record: July 24<sup>th</sup> 2017</i>
From July 25 <sup>th</sup> , 2017 to August 4 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors and media	CNINF, <i>Investor Relations Activity Record: From June 25<sup>th</sup>, 2017 to August 4<sup>th</sup>, 2017</i>
From August 7 <sup>th</sup> , 2017 to August 25 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From August 7<sup>th</sup>, 2017 to August 25<sup>th</sup>, 2017</i>
From August 28 <sup>th</sup> , 2017 to September 8 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From August 28<sup>th</sup>, 2017 to September 8<sup>th</sup>, 2017</i>
From September 11 <sup>th</sup> , 2017 to September 29 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional and individual investors	CNINF, <i>Investor Relations Activity Record: From September 11<sup>th</sup>, 2017 to September 29<sup>th</sup>, 2017</i>
October 31 <sup>st</sup> , 2017	Performance result Conference Call	Institutional and individual investors	CNINF, <i>Investor Relations Activity Record: October 31<sup>st</sup>, 2017</i>
From November 1 <sup>st</sup> , 2017 to November 10 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From November 1<sup>st</sup>, 2017 to November 10<sup>th</sup>, 2017</i>
From November 13 <sup>th</sup> , 2017 to December 1 <sup>st</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From November 13<sup>th</sup>, 2017 to December 1<sup>st</sup>, 2017</i>

Time of reception	Method of reception	Type of reception object	Basic situation of the research
From December 4 <sup>th</sup> , 2017 to December 15 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From December 4<sup>th</sup>, 2017 to December 15<sup>th</sup>, 2017</i>
From December 18 <sup>th</sup> , 2017 to December 29 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From December 18<sup>th</sup>, 2017 to December 29<sup>th</sup>, 2017</i>

### (2) Participation of conferences for investor relationship activities during 2017.

Time of conference	Location	Conference Name	Type of reception object	Method of reception
January 2017	Beijing	Morgan Stanley China Technology, Media & Telecoms Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
January 2017	Shanghai	UBS Greater China Conference 2017	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
January 2017	Beijing	Deutsche Bank Access China Conference 2017	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
February 2017	Hangzhou	ZhongTai Securities 2017 Capital Market Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
March 2017	Shanghai	GuangFa Securities Innovation and Recovery Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
March 2017	Taipei	BoA Merrill Lynch 2017 Asia Pacific Telecom, Media & Technology Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
April 2017	Hongkong	Jefferies GetSmart Experts Summit on AI	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
April 2017	Hangzhou	Guosen Securities 2017 Spring Leading Listed Company Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
April 2017	Hongkong	CITI HK/China Corporate day – AI and Emerging Technologies	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
April 2017	Hangzhou	Haitong Securities 2017 Spring A-share Corporation Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
April 2017	Hongkong	Macquarie 2017 Greater China Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
April 2017	Hongkong	HongKong NDR – via Macquarie	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
April 2017	Hangzhou	GF Securities Spring Listed Company Non-disclosure Investment Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	New York	UBS 2 <sup>nd</sup> China A-Share Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Shenzhen	Credit Suisse SZ-HK Connection Investment Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Shenzhen	HSBC Annual China Investment Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.

Time of conference	Location	Conference Name	Type of reception object	Method of reception
May 2017	Tianjin	CLSA 2017 China Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Hongkong	BNP Paribas 8 <sup>th</sup> Asia Pacific TMT Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Hongkong	CICC TMT Summit-AI Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Hongkong	Goldman Sachs TechNet Conference Asia Pacific 2017	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Beijing	Morgan Stanley's Third Annual China Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Shenzhen	Bank of America Merrill Lynch 2017 Innovative China Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Beijing	J.P. Morgan Global China Summit 2017	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Singapore	Nomura Investment Forum Asia (NIFA) 2017	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Qingdao	Haitong Securities 2017 Mid-year A-share Corporation Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Guangzhou	Merchants Securities 2017 Mid-year Conference and Investment Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	NYC -Chicago	USA NDR-via CITI	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Hangzhou	Huatai Securities 2017 Summer Investment Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Shanghai	CICC 2017 2 <sup>nd</sup> Half Year Investment Conferenc	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Shanghai	Industrial Securities 2017 Greater China Mid-year Investment Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Hongkong	DB Access China Industrials Corporate Day	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
July 2017	Shenzhen	Macquarie 2017 A-share Annual Investor Forum	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
July 2017	London -Edinburgh	UK NDR – via BNP Paribas	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
August 2017	Singapore -Hongkong	Singapore & Hong Kong NDR-via BoA Merrill Lynch	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2017	Shenzhen	UBS 2017 A-Share Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2017	Shenzhen	Goldman Sachs 2017 China Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2017	Taipei	Credit Suisse 18th Annual Asian Technology Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.

Time of conference	Location	Conference Name	Type of reception object	Method of reception
September 2017	Shanghai	Nomura China Investor Forum 2017	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2017	London	Morgan Stanley 2017 Asia Corporate Day	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2017	London	2017 CICC London Forum	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2017	Hongkong	24th CLSA Investors' Forum	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2017	Hongkong	Jefferies 7th Annual Greater China Summit	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2017	Beijing	BoA Merrill Lynch 2017 China Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2017	Singapore	Morgan Stanley Sixteenth Annual Asia Pacific Summit	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2017	Beijing	Macquarie Asia Internet and Media Conference 2016	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2017	Shenzhen	CITIC Securities 2018 Capital Market Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
December 2017	Seoul	Mirae Asset Daewoo 2H2017 Corporate Day	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.

### (3) Investor relations activity statistics during the current year

Number of daily research received (Site and telephone conference, times)	410
Number of institutional investors received (ppl)	2944
Number of individual investors received (ppl)	159
Number of investor relations conference participated	47

## Section V Significant Events

### I. Profit distribution of ordinary shares and capitalization of capital reserves

Profit distribution policy of ordinary shares in the reporting period, especially the formulation, implementation and adjustment of cash dividend policy

Applicable  Inapplicable

#### Profit distribution policy (proposal) and capitalizing of capital reserves policy (proposal) in last three years (including the current reporting period)

- (1) Profit distribution for the year 2015: Based on the total share capital of 4,068,772,253 shares of the Company on December 31<sup>st</sup> 2015, the Company distributed cash dividend of RMB 7 (tax inclusive) and 3 bonus shares (tax inclusive) per each 10 ordinary shares to all shareholders, and further distributed 2 shares per each 10 ordinary shares to all shareholders from capital reserves.
- (2) Profit distribution for the year 2016: Based on the total share capital of 6,152,576,743 shares on the actual date of record when implementing the 2016 profit distribution proposal, the Company distributed cash dividend of RMB 6 (tax inclusive) and 5 bonus shares (tax inclusive) per each 10 shares to all shareholders; share distribution from capital reserve is nil.
- (3) Profit distribution proposal for the year 2017: Based on the Company's total share capital of 9,227,270,473 shares, the Company proposed to distribute cash dividend of RMB 5 (tax inclusive) per each 10 shares to all shareholders, bonus share and share distribution from capital reserve is nil.

#### Cash dividend of ordinary shares in last 3 years (including the current reporting period)

Unit: RMB

Year	Cash dividends (including tax)	Net profit attributable to shareholders of listed Company in consolidated statements	Ratio of net profit attributable to shareholder of Company in consolidated financial statements (%)	Amount of cash dividends in other methods	Ratio of cash dividends in other methods
2017	4,613,635,236.50	9,410,855,084.82	49.02%	0.00	0.00%
2016	3,691,546,045.80	7,423,683,960.91	49.74%	0.00	0.00%
2015	2,848,140,577.10	5,869,119,852.19	48.53%	0.00	0.00%

During the reporting period, the company was profitable and the distributable profits to ordinary shareholders of the parent company was positive, but the Company did not propose a cash dividend distribution plan of ordinary shares.

Applicable  Inapplicable

**II. Profit distribution and capitalizing of capital Reserves proposal for the current reporting period**

Bonus issue per 10 shares (share)	0
Cash dividend per 10 shares (RMB) (tax inclusive)	5.00
Additional shares converted from capital reserves for 10 shares (share)	0
Total shares as the basis for the distribution plan (share)	9,227,270,473
Total cash dividend (RMB) (tax inclusive)	4,613,635,236.50
Distributable profits (RMB)	15,148,443,735.14
Percentage of cash dividends in the total distributed profit (%)	30.46%
<b>Cash dividend policy:</b>	
The Company is in the development stage and has a substantial plan of cash expenditure. In profit distribution, cash dividends shall account for at least 20%.	
<b>Details about the plan for profit distribution and capitalizing capital reserves into share capital</b>	
As audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, in 2017, the parent company of the Company realized net profit of RMB 8,683,050,963.77, after deducting the statutory surplus reserve of RMB 868,305,096.3, which was provided at 10% of the net profits, adding the undistributed profit of the parent company at the beginning of the year of RMB 14,138,569,341.95, deducting the cash dividends of RMB 3,728,583,103.20 and stock dividend of RMB 3,076,288,371.00 in 2016, as of December 31 <sup>st</sup> 2017, the profits attributable to shareholders of the parent company amounted to RMB 15,148,443,735.14. As of December 31 <sup>st</sup> 2017, the profits attributable to shareholders in the consolidated statement were RMB 16,598,328,692.63 (consolidated). To sum up, according to the principle of “whichever is lower”, the profits attributable to shareholders this year was RMB 15,148,443,735.14.	
Based on the Company’s total share capital of 9,227,270,473 shares, the Company proposed to distribute cash dividend of RMB 5 (tax inclusive) per each 10 shares to all shareholders, bonus share and share distribution from capital reserve is nil. The above scheme will distribute a total cash dividend of RMB 4,613,635,236.50, and the remaining undistributed profits will be transferred to the next year.	

**III. Performance of commitments**

**1. Complete and incomplete commitments of the Company and its actual controller, shareholders, related parties, acquirers, and other related parties for the commitments.**

Applicable  Inapplicable

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
<p>Commitments in offering documents or shareholding alterations</p>	<p>CETHIK Group Co., Ltd.</p>	<p>1. Commitments in non-competition within the industry: In the period as controlling shareholders of the Hikvision, CETHIK and its controlling subsidiaries (excluding Hikvision and its subsidiaries, the same below) will not be engaged in such business that is competitive to Hikvision and its subsidiaries directly or indirectly.</p> <p>2. Commitments in decrease and regulation of transactions with related party: Zhejiang Haikang Group Co., Ltd (hereinafter referred to as Haikang Group or actual controller) as the controlling shareholders of Hangzhou Hikvision Digital Technology Co., Ltd (hereinafter referred to as "Hikvision" or "Listed Company") are committed as below for the transactions with Hikvision:</p> <p>(1) Haikang Group will not make use of the controlling power to offer more favorable conditions to Hikvision than those to any independent third party in any fair market transactions in the cooperation with Hikvision.</p> <p>(2) Haikang Group will not make use of the controlling power to obtain the prior right to complete the transaction with Hikvision.</p> <p>(3) Haikang Group will not deal with Hikvision in not fair terms comparing to the market prices to prejudice the Company's interests.</p> <p>For unavoidable related transactions, the Company will observe the principles of justice and fairness to determine prices according to the market on the basis of equality, voluntarily. The Company will obey the Articles of Association and other regulatory documents related to the avoiding of issues about related transactions. The related transactions will go through approval procedures in accordance with related rules and complete legal procedures, fulfilling the information disclosure obligations in respect to the related transactions</p> <p>3. Commitment to the maintenance of the independence of the listed Company</p> <p>3.1 Commitment to Personnel Independence of the listed Company</p>	<p>October 29<sup>th</sup> 2013</p>	<p>Long-term</p>	<p>Strict performance</p>

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		<p>(1) Commitment that our general manager, deputy general manager, chief financial officer, secretary of the board and other members of senior management shall not assume any positions other than directors and supervisors or get any remuneration in CETHIK and/or any of its controlled entities; (2) Commitment in keeping the management of labor, human resources and issues related to remuneration of the listed Company independent from that of CETHIK;</p> <p>3.2 Commitment to the independence of the asset of the listed Company</p> <p>(1) Commitment to independent and complete asset of the listed Company</p> <p>(2) Commitment free of unlawful use of cash and asset of the listed Company by the controlling shareholders</p> <p>3.3 Commitment to financial independence of the listed Company</p> <p>(1) Commitment to an independent finance department with a team and accounting system;</p> <p>(2) Commitment to a regulated, independent accounting system and financial management system of the branches and subsidiaries</p> <p>(3) Commitment to maintaining accounts with banks independently of and not sharing any bank account with our controlling shareholders</p> <p>(4) Commitment that the financial staff shall not assume any positions in CETHIK</p> <p>(5) Commitment to paying taxes independently according to the law;</p> <p>(6) Commitment to implementing financial decisions independently</p> <p>3.4 The Company has set up an independent organizational structure which maintains its independent operations which is independent from that of CETHIK.</p> <p>3.5 Commitment to business Independence of the listed Company</p> <p>(1) The Company has the asset, personnel, aptitude and management capability for independent and complete business operation. The Company has the ability to operate independently in</p>			

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		<p>the market.</p> <p>(2) Commitment in independence in both business and operations</p> <p>4. Regarding plans for the development and relevant commitment for the listed Company, Haikang Group has committed as below for the subsequent development of Hikvision according to the Securities Acts and relevant laws and rules,</p> <p>4.1 Currently the Company has no plan to change or make significant adjustments for principal business in the next 12 months;</p> <p>4.2 Currently the Company has no plan to sell, merge or operate with another Company for the assets and business of the listed Company or its subsidiaries in the next 12 months.</p> <p>4.3 Currently the Company has no plan to alter the Board of the Directors and senior management and no agreement with other shareholders about the appointment and removal of the directors or senior management. The team of Board of Directors and senior management will remain unchanged for the foreseeable future.</p> <p>4.4 Currently the Company has no plan to make significant changes to the Articles of Association for the listed Company.</p> <p>4.5 Currently the Company has no plan to make significant changes to the existing employee recruitment for the listed Company.</p> <p>4.6 Currently the Company has no plan to make significant changes for the dividend distribution plan for the listed Company.</p> <p>4.7 Currently the Company has no plan to make significant changes for business</p>			

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		and organizational structure for the listed Company.			
Commitments in Initial Public Offering or re-financing	Hangzhou Weixun Investment Management Limited Partnership (later renamed as Xinjiang Weixun Investment Management Limited Partnership)	During Hu Yangzhong, Wu Weiqi, Jiang Haiqing, Zhou Zhiping, Xu Lirong, Cai Dingguo, He Hongli, Zheng Yibo, Hu Dan, Jiang Yufeng, Liu Xiang, Wang Ruihong, Chen Junke's tenure of the Company's board of directors, supervisors and senior management personnel, the annual transfer of Hikvision's total shares should not exceed 25% of total number of shares held under Weixun; within 6 months after abovementioned personnel's dimission, should not transfer Hikvision's shares held under Weixun.	May 17 <sup>th</sup> 2010	Long term	Strict performance
	Hangzhou Pukang Investment Limited Partnership (later renamed as Xinjiang Pukang Investment Limited Partnership)	During Hu Yangzhong, Wu Weiqi, Gong Hongjia's tenure of the Company's board of directors, supervisors and senior management personne, the annual transfer of Hikvision's total shares should not exceed 25% of total number of shares held under Pukang; whithin 6 months after abovementioned personnel's dimission, should not transfer Hikvision's shares held under Pukang.	May 17 <sup>th</sup> 2010	Long term	Strict performance
	The Company's directors, supervisors and executive: Hu Yangzhong, Wu Weiqi, Jiang Haiqing, Zhou Zhiping, Xu Lirong, Cai Dingguo, He Hongli, Zheng Yibo, Hu Dan, Jiang Yufeng, Liu Xiang, Wang Ruihong, Chen Junke	During their tenure of the Company's board of directors, supervisors and senior management personnel, the annual shares transfer should not exceed 25% of total number of shares held under Weixun; whthin 6 months after their dimission, they should not transfer their shares held under Weixun.	May 17 <sup>th</sup> 2010	Long term	Strict performance
	Directors, executive officers of the Company: Hu Yangzhong, Wu Weiqi	During their tenure of the Company's board of directors, supervisors and senior management personnel, the annual shares transfer should not exceed	May 17 <sup>th</sup> 2010	Long term	Strict performance

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		25% of total number of shares held under Pukang; within 6 months after their dimission, they should not transfer their shares held under Pukang.			
	The Company's director Gong Hongjia's spouse, Chen Chunmei	During Gong Hongjia's tenure of the Company's board of directors, supervisors and senior management personnel, Chen's annual shares transfer should not exceed 25% of total number of shares held under Pukang; within 6 months after the dimission of Gong Hongjia,Chen should not transfer her shares held under Pukang.	May 17 <sup>th</sup> 2010	Long-term	Strict performance
	China Electronics Technology Group Corporation (later renamed as China Electronics Technology Group Co., Ltd.)	To avoid any loss of the Company and other shareholders arising from any competing business, China Electronics Technology Group Corporation, the actual controller of the Company, issued Letters of non-competition on 18 September, 2008.	September 18 <sup>th</sup> 2008	Long term	Strict performance
	Gong Hongjia; Hangzhou Weixun Investment Management Limited Partnership (later renamed as Xinjiang Weixun Investment Management Limited Partnership); Hangzhou Pukang Investment Limited Partnership (later renamed as Xinjiang Pukang Investment Limited Partnership); ZheJiang Orient Holdings Co., Ltd.	To avoid any loss of the Company and other shareholders arising from any competing business, Gong Hongjia, Hangzhou WeiXun Investment Management Limited Partnership, ZheJiang Orient Holdings Co., Ltd and Hangzhou KangPu Investment Management Limited Partnership, the promoters of the Company, issued <i>Commitment Letters of non-competition in the same industry</i> on 10 July, 2008.	July 10 <sup>th</sup> 2008	Long term	Strict performance
Whether the undertaking is fulfilled in time	Yes				

**2. Where any profit forecast was made for any of the Company's assets or projects and the current reporting period is still within the forecast period, the Company shall explain whether the performance of the asset or project reaches the profit forecast and why:**

Applicable  Inapplicable

**IV. The Company's funds used by the controlling shareholder or its related parties for non-operating purposes.**

Applicable  Inapplicable

No such case in the reporting period.

**V. Explanation given by the board of directors, supervisory committee and independent directors (if applicable) regarding the "non-standard auditor's report" issued by the CPA firm for the current reporting period**

Applicable  Inapplicable

**VI. For changes in accounting policies, accounting estimates and accounting methods as compared to the financial report for the prior year**

Applicable  Inapplicable

**1. Changes in accounting policies**

On April 28<sup>th</sup> 2017, the Ministry of Finance (MOF) issued the *Notice on Printing and Distributing the Accounting Standards for Business Enterprises No. 42 --- Non-Current Assets and Disposal Groups Held for Sale and Termination of Business Operation* (Finance and Accounting No. 13 [2017]), which came into effect on May 28<sup>th</sup> 2017. It standardizes the classification, measurement and reporting of non-current assets or disposal groups held for sale and the reporting of termination of business operation, and stipulates that the non-current assets or disposal groups held for sale and the termination of business operation by enterprises on the date when the Accounting Standards hereto are implemented shall be disposed of by prospective applicable methods.

On May 10<sup>th</sup> 2017, the Ministry of Finance issued the *Notice on Printing and Distributing the Accounting Standards for Business Enterprises No. 16 --- Government Subsidies* (Finance and Accounting No. 15 [2017]), which came into effect on June 12<sup>th</sup> 2017. According to the Standards, government subsidies related to the enterprise's daily operations shall be booked into other income or offset related cost/expense according to the substance of economic transactions; those not related to the enterprise's daily operations shall be booked into non-operating income; and the enterprise shall separately list the item of "Other Income" under the column of "Operating profit" in the Income Statement, reflecting the government subsidies booked in other income. For government subsidies available as of January 1<sup>st</sup> 2017 shall be disposed of by prospective application methods; while those newly increased from January 1<sup>st</sup> 2017 to the date of implementation of the Standards hereto shall be

adjusted according to the Standards.

On December 25<sup>th</sup> 2017, the Ministry of Finance issued the *Notice on Revising, Printing and Distributing the Format of Financial Statements of General Enterprises* (Finance and Accounting No. 30 [2017]), requiring the non-financial enterprises that execute the *Accounting Standards for Business Enterprises* shall compile the annual financial statements of 2017 and the later periods according to the requirements in the Notice.

The Company started to execute the foregoing three accounting standards and policies according to the time required by the Ministry of Finance, and changed relevant accounting policies.

## **2. Influence of the changes in accounting policies on the Company**

Such changes in accounting policies were reasonably conducted by the Company according to the requirements of relevant documents issued by the Ministry of Finance, and were in compliance with the *Accounting Standards for Business Enterprises* and related provisions. Such changes only involved the presentation and adjustment of items in the financial statements, had no influence on the Company's total assets, net assets, operating income or net profit, and caused no damage to interests of the Company and shareholders.

## **VII. Explanation for retrospective restatement of major accounting errors during the reporting period**

Applicable  Inapplicable

No such case in the reporting period.

## **VIII. Explanation for changes in scope of the consolidated financial statements as compared to the financial report for the prior year**

Applicable  Inapplicable

During the reporting period, the Company has newly set up eight wholly-owned subsidiaries and eight holding subsidiaries, acquired one company, and cancelled one company, which have caused the change in consolidation scope. For more details, please refer to note (VI) "Changes in consolidation scope" of the financial statement.

## **IX. Engagement and disengagement of the CPA firm**

CPA firm engaged at present

Name of the domestic CPA firm	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Remuneration for the domestic CPA firm (RMB'0000)	275
Consecutive years of the audit service provided by the domestic CPA firm	2
Name of the certified public accountants from the domestic CPA firm	Mou Zhengfei has provided audit service for 2 consecutive years; Zhang Shushu has provided audit service for 1 consecutive year.

Whether the CPA firm was changed in the current period

Yes  No

Engagement of internal control audit CPA firm, financial advisor or sponsor

Applicable  Not applicable

During the reporting period, the Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as internal control audit CPA firm, with remuneration of RMB 600,000.

**X. Listing suspension and termination after disclosure of this annual report**

Applicable  Inapplicable

**XI. Bankruptcy and restructuring**

Applicable  Inapplicable

No such case in the reporting period.

**XII. Material litigation and arbitration**

Material litigation and arbitration

Applicable  Inapplicable

No such case in the reporting period.

**XIII. Punishments and rectifications**

Applicable  Inapplicable

No such case in the reporting period.

**XIV. Integrity of the Company and its controlling shareholders and actual controllers**

Applicable  Inapplicable

## **XV. The implementation of an Equity Incentive Plan, Employee Stock Incentive Plan, or other incentive plans**

√Applicable □Inapplicable

### **1) During the reporting period, the Company completed the first time unlocking, repurchasing and cancelling shares for 2014 Restricted Share Incentive Scheme.**

On December 6<sup>th</sup> 2016, *Resolution for the fulfillment of the unlocking conditions of the first unlock period for the 2014 Restricted Share Incentive Schemes* and the *Resolution for the first repurchase and cancelation of the locked shares that already granted for 2014 Restricted Share Incentive Schemes* were approved by the 19<sup>th</sup> meeting of the third Board. Authorized by the first extraordinary general meeting for 2014, a total of 30,687,650 restricted shares of 1087 grantees were vested and circulated on January 9<sup>th</sup> 2017. Meanwhile, 2,457,000 restricted shares held by a portion of grantees not fulfilling the incentive conditions were repurchased and cancelled. On April 27<sup>th</sup> 2017, repurchase and cancelation process of the restricted shares was complete. Thereafter, there are 1094 grantees left for 2014 Restricted Share Incentive Schemes, granted and locked shares leftover are 46,220,473 shares

For details, please refer to in the “*Indicative notice of the unlocking conditions of the third unlock period for the first batch of 2014 Restricted Share Incentive Schemes*” (No. 2017-001) and the “*Notice of the completion of repurchase and cancelation of a portion of locked shares that already granted to personnel not fulfilling the incentive conditions for 2014 Restricted Share Incentive Schemes*” (No. 2017-021) issued on January 5<sup>th</sup> 2017 and April 28<sup>th</sup> 2017 respectively.

### **2) During the reporting period, the Company has completed the proposed grants of 2016 Restricted Share Incentive Scheme**

On December 23<sup>rd</sup> 2016, *Resolution for granting restricted shares to planned grantees for 2016 Restricted Shares Incentive Scheme* was approved by the 20<sup>th</sup> Meeting of the third board. According to the *Listed Company Equity Incentive Measures* and other administration or relevant laws, regulations and departmental rules and regulated documents, as well as *2016 Restricted Shares Incentive Scheme (edited draft)* and authorizations approved by the 2016 2<sup>nd</sup> extraordinary general meeting, the Company has completed granting and registration of 2016 Restricted Shares Incentive Scheme, with 2936 granted personnel, and 52,326,858 granted shares which were listed on January 20<sup>th</sup> 2017.

For details, please refer to in the “*Indicative notice of completion of granting of 2016 Restricted Share*

*Incentive Schemes*” (No. 2017-005) issued on January 19<sup>th</sup> 2017.

**3) During the reporting period, unlocked restricted shares amount were adjusted according to the implementation of 2016 Equity Distribution.**

On May 16<sup>th</sup> 2017, the Company implemented the profit distribution proposal of s bonus issue of 5 shares for each 10 ordinary shares and distribute cash dividend of RMB 6 per each 10 shares. Therefore, the granted and locked shares of 2014 Restricted Shares Incentive Scheme were adjusted to 69,330,709 shares accordingly, and 2016 Restricted Shares Incentive Scheme were adjusted to 78,490,287 shares accordingly

By the end of the reporting period, the Company has 147,820,996 granted and locked shares in total, accounts for 1.60% of the Company’s total capital shares.

**4) The accounting treatment in relation to the Restricted Share Incentive Schemes and impact on the Company’s operating results due to share incentive expenses**

The Company followed the *Accounting Standard for Business Enterprises No. 11 – Share-based Payment* and other accounting standards in relation to accounting treatment for Restricted Share Incentive Schemes. Costs in relation to the shares granted under 2014 and 2016 Restricted Share Incentive Schemes are amortized over the waiting period for vesting.

During the reporting period, costs amortized in relation to the 2014 and 2016 Restricted Share Incentive Schemes of the Company have no material impact on the financial position and operating results of the Company. For details, please refer to Note (XI) - Share-based Payments.

## XVI. Significant related-party transaction

### 1. Related-party transactions arising from routine operation

√ Applicable □ Inapplicable

Related party	Relationship	Type of related transaction	Content of related transaction	Valuation	Trading price	Amount (0'000 RMB)	Proportion to the amount of similar transactions.	Approved trading quota (0'000 RMB)	Whether above approved quota	Settlement	Market price of similar transaction	Disclosure date	Disclosure reference
Research institutes or subsidiaries of CETC	Under the common control of the Company's actual controller.	Procurement	Purchase materials, receiving services	Agreed on price, reference market price	--	21,505.09	0.88%	40,000	No	Payment on delivery	--	April 14 <sup>th</sup> 2017	Announcement on projections on 2017 related transactions (No: 2017-012)
Shanghai Fullhan Microelectronics Co., Ltd.	The Company's director or his/her relative is the director of the related party	Procurement	Purchase materials, receiving services	Agreed on price, reference market price	--	21,930.69	0.90%	30,000	No	Payment on delivery	--		
Research institutes or subsidiaries of CETC	Under the common control of the Company's actual controller.	Sales	Selling goods and providing services	Agreed on price, reference market price	--	79,642.40	1.90%	80,000	No	Payment on delivery	--		
Total				--	--	123,078.18	--	150,000	--	--	--	--	--
Details on significant sales return				None									
Total amount of related transactions projected based on different categories, actual performance during the current reporting period (if any)				Routine related transaction amount between the Company and the related parties did not exceed the total approved amount of related transactions projected based on different categories.									
Reasons on significant difference between trading price and market referencing price				Not applicable									

**2. Related-party transactions regarding purchase and disposal of assets or equity**

Applicable Inapplicable

No such case in the reporting period.

**3. Significant related-party transactions arising from joint investments on external parties**

Applicable Inapplicable

No such case in the reporting period.

**4. Related-parties' creditor's rights and debts**

Applicable Inapplicable

No non-operational related-parties' creditor's rights or debts during the reporting period.

**5. Other significant related party transactions**

Applicable Inapplicable

Pursuant to the *Proposal about the Company's subsidiary Hangzhou Hikvision Automotive Technology Co., Ltd.'s acquisition of assets and equity and related transactions with CETC* approved by the 21<sup>st</sup> meeting of the 3<sup>rd</sup> session of the Board of Directors held on January 8<sup>th</sup> 2017, the Company's subsidiary Hangzhou Hikvision Automotive Technology Co., Ltd. is approved to acquire and integrate the Company's controlling shareholder CETHIK's automotive electronic related business subsidiaries: 1) the Company's subsidiary Hangzhou Hikvision Automotive Technology Co., Ltd. acquired the asset group of CETHIK's Intelligent Automotive Department with acquisition target price of RMB 68.02 million. During the transitional period, the acquisition price was audited and adjusted up with RMB 11.39 million, and the final settlement price was RMB 79.41 million; 2) Hangzhou Haikang Ximu Intelligent Technology Co., Ltd.(hereinafter refer to "Haikang Ximu"), CETHIK's holding subsidiary, was acquired with RMB 16.30 million, 100% equity; of which RMB 9.78 million was for acquiring 60% shares of Haikang Ximu held by CETHIK, and RMB 6.52 million was for acquiring 40% shares of Haikang Ximu held by 7 individual shareholders including Yang Feng. As of the end of the reporting period, Hikvision Automotive Technology has completed the acquisition and integration of the asset group of CETHIK's Intelligent Automotive Department, and the changes in registration related to acquisition of Haikang Ximu. For details, please refer to Note (VI) 2-Business merger involving enterprises under common control.

Pursuant to the *Proposal of Investment and Establishment of Wuhan Hik Storage Technology Co., Ltd. (temporary name)* approved by the 22<sup>nd</sup> meeting of the 3<sup>rd</sup> session of the Board of Directors held on April 12<sup>th</sup>

2017, Hikvision and Co-investment Partnership enterprise jointly invested RMB 100 million to establish Wuhan Hik Storage Technology Co., Ltd.; Hikvision will contribute cash capital of RMB 60 million, holding 60% of the equity of Hik Storage; Co-investment Partnership enterprise will contribute cash capital of RMB 40 million, holding 40% of the equity of Hik Storage. On April 17<sup>th</sup> 2017, Hik Storage’s industrial and commercial establishment registration was completed.

**Disclosure website for provisional reports on significant related transactions:**

Title of provisional reports	Disclosure date	Disclosure website
<i>Proposal about Acquisition of assets and equity, and related transactions</i>	January 19 <sup>th</sup> 2017	<a href="http://www.cninfo.com.cn">www.cninfo.com.cn</a>
<i>Proposal about investment and establishment of innovative business subsidiary and related transactions</i>	April 14 <sup>th</sup> 2017	<a href="http://www.cninfo.com.cn">www.cninfo.com.cn</a>

**XVII. Significant contracts and their execution**

**1. Trusteeship, contracting and leasing**

**(1) Trusteeship**

Applicable  Inapplicable

No such case in the reporting period.

**(2) Contracting**

Applicable  Inapplicable

No such case in the reporting period.

**(3) Leasing**

Applicable  Inapplicable

No significant leasing during the reporting period.

**2. Significant guarantees**

Applicable  Inapplicable

## (1) Details of guarantees

Unit: RMB'0000

Guarantees provided by the Company for subsidiaries								
Guaranteed party	Disclosure date of announcement of the guarantee cap	Guarantee Cap	Actual occurrence date (date of signing agreement)	Actual guaranteed amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Hangzhou Hikvision Science and Technology Co. Ltd.	April 14 <sup>th</sup> 2017	750,000	May 16 <sup>th</sup> 2016	275,849.38	Joint guarantee	2016.05.16-2020.12.31	No	Yes
Hangzhou Hikvision System Technology Co., Ltd	April 14 <sup>th</sup> 2017	80,000	October 10 <sup>th</sup> 2017	1,203.63	Joint guarantee	2017.10.10-2018.06.29	No	Yes
HIKVISION INTERNATIONAL CO., LTD.	April 14 <sup>th</sup> 2017	300,000	December 7 <sup>th</sup> 2016	25,748.67	Joint guarantee	2016.12.07-2019.01.24	No	Yes
Hangzhou Haikang Zhicheng Investment and Development Co. Ltd.	April 14 <sup>th</sup> 2017	10,000	June 13 <sup>th</sup> 2017	1,200.00	Joint guarantee	2017.06.13-2018.06.13	No	Yes
Chongqing Hikvision Science and Technologies Co., Ltd.	April 14 <sup>th</sup> 2017	70,000	Not happened during the reporting period					
Hangzhou Hikvision Electronics Co., Ltd.	April 14 <sup>th</sup> 2017	100,000	Not happened during the reporting period					
Chongqing Hikvision System Technology Co., Ltd.	April 14 <sup>th</sup> 2017	30,000	Not happened during the reporting period					
Hangzhou Hikvision Communication Technology Co., Ltd.	April 14 <sup>th</sup> 2017	10,000	Not happened during the reporting period					
Urumchi Hai Shi Xin An Electronics Technology Co., Ltd.	April 14 <sup>th</sup> 2017	55,000	Not happened during the reporting period					
Total guarantee cap for subsidiaries approved during the reporting period(B1)		1,405,000	Total actual guarantee amount for subsidiaries during the reporting period(B2)				415,941.18	
Total approved guarantee cap for subsidiaries at the end of the reporting period(B3)		1,405,000	Total actual guarantee balance for subsidiaries at the end of the reporting period(B4)				304,001.69	

Guarantees provided by the Company for subsidiaries									
Guaranteed party	Disclosure date of announcement of the guarantee cap	Guarantee Cap	Actual occurrence date (date of signing agreement)	Actual guaranteed amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not	
Total guarantee amount provided by the Company (total of the above-mentioned kinds of guarantees) (During the reporting period, there was no such case as guarantee provided for external parties, or guarantees between subsidiaries, therefore, there is only item B, item A or C is nil)									
Total guarantee cap approved during the reporting period (A1+B1+C1)		1,405,000	Total actual guarantee amount during the reporting period (A2+B2+C2)					415,941.18	
Total approved guarantee cap at the end of reporting period (A3+B3+C3)		1,405,000	Total actual guarantee balance at the end of the reporting period (A4+B4+C4)					304,001.69	
Portion of the total actual guarantee amount (A4+B4+C4) in net assets of the Company									10.01%
Of which									
The balance of guarantee for shareholders, actual controllers and their affiliates. (D)									0
Amount of debt guarantees provided directly or indirectly for entities with a liability-to-asset ratio over 70% (E)									301,598.05
Total amount of guarantee exceeding 50% of net assets (F)									0
Total guarantee amount of the above-mentioned 3 kinds of guarantees (D+E+F)									301,598.05

### Illustration of compound method guarantee

As required by the project owner, China Electronics Technology Group Co., Ltd. (CETC) has provided a joint guarantee to responsibility and duties of projects of “Safe Chongqing, Emergency Control System Digital Construction Project”, including 41 districts/counties construction projects, signed by Chongqing Hikvision System Technology Co., Ltd. Meanwhile, the Company provides a counter guarantee to CETC’s joint responsibilities above.

**(2) Illegal provision of guarantees for external parties**

Applicable  Inapplicable

No such case in the reporting period.

**3. Entrusting others to execute any cash asset management**

**(1) Entrusted finances**

Applicable  Inapplicable

Entrusted finance during the reporting period

Unit: 0,000 RMB

Type	Capital Source	Actual Amount	Undue Balance	Amount overdue
Bank Financial Products	Self-fund	382,000	339,000	0
Total		382,000	339,000	0

Details about entrusted finances that are individually significant or low security level, with low liquidity, and high risk without principal guaranteed.

Applicable  Inapplicable

Entrusted finances that projected to be impossible to recover principal, or involving in situations that could possibly lead to decline in value

Applicable  Inapplicable

**(2) Entrusted loans**

Applicable  Inapplicable

No such case in the reporting period.

**4. Other significant contracts**

Applicable  Inapplicable

No such case in the reporting period.

**XVIII. Social responsibility**

**1. Fulfillment of other social responsibilities**

While seeking for economic benefits and protecting shareholders' interests, Hikvision proactively fulfilled corporate social responsibilities by treating suppliers, customers and consumers in good faith, caring employees' remuneration benefits, professional development and other legal rights, and actively engaging in environment

protection and affairs for public welfare, in order to make contribution to the sustainable development of society, economy and environment.

For details, please refer to the Company's *2017 Annual Social Responsibility Report* disclosed on CNINFO ([www.cninfo.com.cn](http://www.cninfo.com.cn))

## **2. Fulfillment of the social responsibility of targeted poverty alleviation**

The Company did not conduct any targeted poverty alleviation during the reporting period and had no future arrangement for targeted poverty alleviation.

## **3. Environmental protection**

The Company is not a critical pollutant enterprises disclosed by national environmental protection department

## **XIX. Other significant events**

Applicable  Inapplicable

No such case in the reporting period.

## **XX. Significant events of the Company's subsidiaries**

Applicable  Inapplicable

## Section VI Changes in Shares and Information about Shareholders

### I. Changes in Share Capital

#### 1. Table of changes in share capital

Unit: Share

	Before the change		Changes in the period (+, -)					After the change	
	Shares	Ratio	New Shares Issued	Bonus share	Share transferred from capital reserve	Others	Sub-total	Shares	Ratio
1. Shares subject to conditional restriction(s)	1,417,926,033	23.23%	52,326,858	657,071,365		-156,106,406	553,291,817	1,971,217,850	21.36%
3) Other domestic shares	580,944,783	9.52%	52,281,658	284,111,265		-65,000,156	271,392,767	852,337,550	9.24%
Including: held by domestic enterprises	420,578,437	6.89%		194,164,218		-32,250,000	161,914,218	582,492,655	6.31%
Including: held by domestic natural person	160,366,346	2.63%	52,281,658	89,947,047		-32,750,156	109,478,549	269,844,895	2.92%
4) Foreign shares	836,981,250	13.71%	45,200	372,960,100		-91,106,250	281,899,050	1,118,880,300	12.12%
Including: held by overseas natural person	836,981,250	13.71%	45,200	372,960,100		-91,106,250	281,899,050	1,118,880,300	12.12%
2. Shares without restriction	4,684,780,852	76.77%		2,419,217,006		153,649,406	2,572,866,412	7,257,647,264	78.64%
1) RMB ordinary shares	4,684,780,852	76.77%		2,419,217,006		153,649,406	2,572,866,412	7,257,647,264	78.64%
3. Total	6,102,706,885	100.00%	52,326,858	3,076,288,371		-2,457,000	3,126,158,229	9,228,865,114	100.00%

#### Reason for the changes in share capital

Applicable  Inapplicable

##### (1) Grants of 2016 Restricted Share Incentive Scheme

On December 23<sup>rd</sup> 2016, Resolution for granting restricted shares to planned grantees for 2016 Restricted Shares Incentive Scheme was approved by the 20<sup>th</sup> Meeting of the third board. According to the Listed Company Equity Incentive Measures and other administration or relevant laws, regulations and departmental rules and regulated documents, as well as 2016 Restricted Shares Incentive Scheme (edited draft) and authorizations approved by the

2016 2<sup>nd</sup> extraordinary general meeting, the Company has completed granting and registration of 2016 Restricted Shares Incentive Scheme, with 2936 granted personnel, and 52,326,858 granted shares which were listed on January 20<sup>th</sup> 2017. The Company's total capital shares were increased by 52,326,858 shares to 6,155,033,743 shares from 6,102,706,885 shares.

**(2) First share repurchase and cancellation for 2014 Restricted Share Incentive Scheme.**

On December 6<sup>th</sup> 2016, *Resolution for the first repurchase and cancellation of a portion of locked shares that already granted for 2014 Restricted Share Incentive Schemes* were approved by the 19<sup>th</sup> meeting of the third session Board. Authorized by the first extraordinary general meeting for 2014, the Board agreed to repurchase and cancel 2,457,000 restricted shares held by a portion of grantees not fulfilling the incentive conditions. On April 27<sup>th</sup> 2017, the Company completed the above-mentioned repurchase and cancellation procedures, the Company's total capital shares were decreased by 2,457,000 shares from 6,155,033,743 shares to 6,152,576,743 shares.

**(3) Implementation of 2016 Equity Distribution**

According to the *2016 Profit Distribution Scheme* approved on 2016 Annual General Meeting, based on total capital shares of 6,152,576,743 shares, the Company distributed to all shareholders cash dividend of RMB 6 (tax inclusive) and bonus issue of 5 shares (tax inclusive) per each 10 shares; share distribution from capital reserve is nil. The ex-dividend date of this equity distribution is May 16<sup>th</sup> 2017; the total Company's capital shares were increased by 3,076,288,371 shares from 6,152,576,743 shares to 9,228,865,114 shares.

**Approval for changes in share capital**

Applicable  Inapplicable

**(1) Grants of 2016 Restricted Share Incentive Scheme**

On December 23<sup>rd</sup> 2016, *Resolution for granting restricted shares to planned grantees for 2016 Restricted Shares Incentive Scheme* was approved by the 20<sup>th</sup> Meeting of the third session of the Board. According to the authorizations approved by the 2016 2<sup>nd</sup> extraordinary general meeting, the board agreed to grant 2989 personnel with 53,557,028 shares. The granting day was December 23<sup>rd</sup> 2016. In the payment process of capital, part of the grantees partially or completely renounce the subscription of the incentive shares, resulted in an actual granted 2936 personnel, with 52,326,858 granted shares.

**(2) First Repurchasing and Cancelling shares for 2014 Restricted Share Incentive Scheme.**

On December 6<sup>th</sup> 2016, *Resolution for the first repurchase and cancellation of a portion of locked shares that already granted to personnel for 2014 Restricted Share Incentive Schemes* were approved by the 19<sup>th</sup> meeting of the third session of the Board. Authorized by the first extraordinary general meeting for 2014, the Board agreed to repurchase and cancel 2,457,000 restricted shares held by a portion of grantees not fulfilling the incentive conditions.

**(3) Implementation of 2016 Equity Distribution**

On April 12<sup>th</sup> 2017, *2016 Profit Distribution Scheme* was approved by the 22<sup>nd</sup> meeting of the 3<sup>rd</sup> board; on May 4<sup>th</sup> 2017, *2016 Profit Distribution Scheme* was approved by 2016 Annual General Meeting.

**Transfer for changes in share capital**

Applicable  Inapplicable

**(1) Grants of 2016 Restricted Share Incentive Scheme**

2016 granted restricted incentive shares were listed on January 20<sup>th</sup> 2017. The Company's total capital shares were increased by 52,326,858 shares to 6,155,033,743 shares from 6,102,706,885 shares.

**(2) First Repurchasing and Cancelling shares for 2014 Restricted Share Incentive Scheme.**

On April 27<sup>th</sup> 2017, the Company completed the procedures of first Repurchasing and Cancelling shares for 2014 Restricted Share Incentive Scheme, the Company's total capital shares were decreased by 2,457,000 shares from 6,155,033,743 shares to 6,152,576,743 shares.

**(3) Implementation of 2016 Equity Distribution**

The ex-dividend date of 2016 annual equity distribution is May 16<sup>th</sup> 2017; the total Company's capital shares were increased by 3,076,288,371 shares from 6,152,576,743 shares to 9,228,865,114 shares.

Effects of changes in share capital on the basic earnings per share ("EPS"), diluted EPS, net assets per share attributable to common shareholders of the Company, and other financial indexes over the last year and last period

Applicable  Inapplicable

Item	2017		2017 Quarter 4		2016	
	Before changes in share capital	After changes in share capital	Before changes in share capital	After changes in share capital	Before changes in share capital	After changes in share capital
Basic Earnings per Share(RMB/share)	1.545	1.030	0.544	0.363	1.227	0.818
Diluted Earnings per Share (RMB/share)	1.536	1.024	0.541	0.361	1.221	0.817
Item	2017		September 30 <sup>th</sup> 2017		December 31 <sup>st</sup> 2016	
	Before changes in share capital	After changes in share capital	Before changes in share capital	After changes in share capital	Before changes in share capital	After changes in share capital
Net assets per share attributable to shareholders of the Company (RMB/Share)	4.934	3.289	4.376	2.917	3.979	2.653

Other contents that the Company considers necessary or required by the securities regulatory authorities to disclose

Applicable  Inapplicable

**2. Changes in restricted shares**

√ Applicable □ Inapplicable

Unit: Share

Name of shareholder	Opening restricted shares	Vested in current period	Increased in current period	Closing restricted shares	Note for restricted shares	Date of unlocking
Gong Hongjia	1,255,246,875	136,434,375	0	1,118,812,500	Executives locked shares	According to the relevant provisions of executives shares management
Xinjiang Weixun Investment Management Limited Partnership	486,607,500	48,375,000	0	438,232,500	Institution restricted share before IPO	February 13 <sup>th</sup> 2017
Xinjiang Pukang Investment Limited Partnership	144,260,155	0	0	144,260,155	Institution restricted share before IPO	Not applicable
Grantees of restricted share incentive plan (summary statistic)	119,047,684	46,031,475	78,490,287	147,820,996	Restricted incentive shares + 2016 proposed granting of restricted shares that were listed and became restricted incentive equity shares	January 9 <sup>th</sup> 2017
Hu Yangzhong	91,750,112	73,130	117,000	91,793,982	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	According to the relevant provisions of executives shares management
Wu Weiqi	8,221,418	65,252	104,400	8,260,566	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Jiang Haiqing	8,222,163	56,252	90,000	8,255,911	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Zhou Zhiping	5,326,407	48,375	77,400	5,355,432	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Jia Yonghua	4,118,809	2	0	4,118,807	Executives locked shares	
Li Pan	4,042,926	0	0	4,042,926	Executives locked shares	
Huang Fanghong	45,000	45,000	70,875	70,875	partial of the unlocked restricted shares turning into executives locked shares	
Zheng Yibo	0	0	30,375	30,375	Partial of the unlocked restricted shares turning into executives locked shares	
Jiang Yufeng	0	0	30,375	30,375	Partial of the unlocked restricted shares turning into executives locked shares	

Name of shareholder	Opening restricted shares	Vested in current period	Increased in current period	Closing restricted shares	Note for restricted shares	Date of unlocking
Cai Dingguo	0	0	30,375	30,375	Partial of the unlocked restricted shares turning into executives locked shares	
Fu Baijun	0	0	29,025	29,025	Partial of the unlocked restricted shares turning into executives locked shares	
He Hongli	0	0	29,025	29,025	Partial of the unlocked restricted shares turning into executives locked shares	
Xu Lirong	0	0	29,025	29,025	Partial of the unlocked restricted shares turning into executives locked shares	
Wang Qiuchao	0	0	15,000	15,000	Increased shareholdings turning into executive locked shares	
<b>Total</b>	2,126,889,049	231,128,861	79,143,162	1,971,217,850	--	--

Note:

- In respect of changes in shares due to the implementation of equity distribution for 2016, the number of shares at beginning balance, number of shares unlocked during the current period, and number of restricted shares increased during the current period have been adjusted accordingly.
- Executives who are grantees under incentive restricted shares scheme, his/her holding incentive restricted shares are counted within the total incentive restricted shares (consolidated statistics) on the fourth row.
- The difference of 3,685,500 shares between total incentive restricted shares (consolidated statistics) for grantees under incentive restricted shares scheme and the calculated balance (opening balance - unlocked shares + increased restricted shares) was due to repurchasing and cancelling of 2,457,000 shares (adjusted to 3,685,500 shares in consideration of dividend distribution) on April 27<sup>th</sup> 2017.

## II. Issuance and listing of securities

### 1. Securities (exclude preferred share) issued during the reporting period

Applicable  Inapplicable

Shares and its derivative securities	Issuance date	Issue price (or interest rate)	issuance amount	Listing date	Amount approved for listing	Date of transaction termination
Restricted shares	January 20 <sup>th</sup> 2017	12.63	52,326,858	January 20 <sup>th</sup> 2017	52,326,858	

#### Explanation for Securities (exclude preferred share) issued during the reporting period

On December 23<sup>rd</sup> 2016, *Resolution for granting restricted shares to planned grantees for 2016 Restricted*

*Shares Incentive Scheme* was approved by the 20<sup>th</sup> Meeting of the third board. According to the *Listed Company Equity Incentive Measures* and other administration or relevant laws, regulations and departmental rules and regulated documents, as well as *2016 Restricted Shares Incentive Scheme (edited draft)* and authorizations approved by the 2016 2<sup>nd</sup> extraordinary general meeting, the Company has completed granting and registration of 2016 Restricted Shares Incentive Scheme, with 2936 granted personnel, and 52,326,858 granted shares which were listed on January 20<sup>th</sup> 2017.

For details, please refer to in the *Indicative notice of completion of granting of 2016 Restricted Share Incentive Schemes* (No. 2017-005) issued on January 19<sup>th</sup> 2017.

## **2. Explanation on changes in share capital & the structure of shareholders, the structure of assets and liabilities**

Applicable  Inapplicable

During the reporting period, the Company completed the grants of 2016 Restricted Share Incentive Scheme, the total capital shares increased by 52,326,858 shares from 6,102,706,885 shares to 6,155,033,743 shares. Total; the Company completed the first repurchasing and cancelling shares for 2014 Restricted Share Incentive Scheme, the total capital shares were decreased by 2,457,000 shares from 6,155,033,743 shares to 6,152,576,743 shares; the Company completed the implementation of 2016 Equity Distribution, the total capital shares were increased by 3,076,288,371 shares from 6,152,576,743 shares to 9,228,865,114 shares. The structure of shareholder structure, assets and liabilities of the Company did not change significantly after the above mentioned items.

## **3. Existent shares held by internal staff of the Company**

Applicable  Inapplicable

### III. Particulars about the shareholders and actual controller

#### 1. Total number of shareholders and their shareholdings

Unit: Share

Total number of common shareholders at the end of the reporting period		167,039		Total number of common shareholders at the end of the previous month before the disclosure date of the annual report		137,437		
Particulars about shares held by shareholders with a shareholding percentage over 5% or the Top 10 of them								
Name of shareholder	Nature of shareholder	Share-holding percentage (%)	Total shares held at the period-end	Increase/decrease during the reporting period	Number of non-tradable shares held	Number of tradable shares held	Pledged or frozen	
							Share Status	Amount
China Electronics Technology HIK Group Co., Ltd.	State-owned corporation	39.59%	3,653,674,956	-	-	3,653,674,956	Pledged	50,000,000
Gong Hongjia	Overseas individual	15.01%	1,385,056,700	-106,693,300	1,118,812,500	266,244,200		
Hong Kong Securities Clearing Company Ltd.(HKSCC)	Overseas corporation	9.77%	901,210,447	+861,634,924	-	901,210,447		
Xinjiang Weixun Investment Management Limited Partnership	Domestic non-state-owned corporation	5.74%	529,720,876	-54,589,124	438,232,500	91,488,376	Pledged	130,435,000
Xinjiang Pukang Investment Limited Partnership	Domestic non-state-owned corporation	2.08%	192,346,874	-	144,260,155	48,086,719	Pledged	177,760,000
The 52nd Research Institute at China Electronics Technology Group Corporation	State-owned corporation	1.96%	180,775,044	-	-	180,775,044		
CITIC Securities Company	Domestic	1.69%	155,982,629	+88,044,501	-	155,982,629		

Limited	non-state-owned corporation							
Hu Yangzhong	Domestic Individual	1.33%	122,786,477	+160,500	30,656,495	92,129,982	Pledged	60,080,000
UBS AG	Overseas corporation	1.18%	108,923,450	-76,050,056	-	108,923,450		
Central Huijin Investment Ltd.	State-owned corporation	0.71%	65,818,800	-	-	65,818,800		

Explanation on associated relationship or concerted actions among the above-mentioned shareholders:	<p>China Electronics Technology HIK Group Co., Ltd. and The 52nd Research Institute at China Electronics Technology Group Co., Ltd. are all subject to control of China Electronics Technology Group Corporation. Ms. Chen Chunmei, limited partner of Xinjiang Pukang Investment Limited Partnership, is the spouse of Mr. Gong Hongjia, foreign individual shareholder of the Company. Hu Yangzhong, domestic individual, is holding shares in both Xinjiang Weixun Investment Management Limited Partnership and Xinjiang Pukang Investment Limited Partnership.</p> <p>Except for these, the Company does not know whether the other shareholders are related parties or whether they are acting-in-concert parties in accordance with the <i>Measures for Management of the Disclosure of the Shareholding Changes of Shareholders of the Listed Company</i>.</p>
---	--

Particulars about shares held by the Top 10 shareholders holding shares that are not subject to trading restriction(s)

Name of shareholder	Number of tradable shares held at the period-end	Type of shares	
		Type	Number
China Electronics Technology HIK Group Co., Ltd.	3,653,674,956	RMB ordinary shares	3,653,674,956
Hong Kong Securities Clearing Company Ltd.(HKSCC)	901,210,447	RMB ordinary shares	901,210,447
Gong Hongjia	266,244,200	RMB ordinary shares	266,244,200
The 52nd Research Institute at China Electronics Technology Group Corporation	180,775,044	RMB ordinary shares	180,775,044
CITIC Securities Company Limited	155,982,629	RMB ordinary shares	155,982,629

Particulars about shares held by the Top 10 shareholders holding shares that are not subject to trading restriction(s)			
Name of shareholder	Number of tradable shares held at the period-end	Type of shares	
		Type	Number
UBS AG	108,923,450	RMB ordinary shares	108,923,450
Xinjiang Weixun Investment Management Limited Partnership	91,488,376	RMB ordinary shares	91,488,376
Central Huijin Investment Ltd.	65,818,800	RMB ordinary shares	65,818,800
Zhejiang Orient Holdings Co., Ltd.	48,161,900	RMB ordinary shares	48,161,900
Xinjiang Pukang Investment Limited Partnership	48,086,719	RMB ordinary shares	48,086,719
Explanation on associated relationship and concerted actions among top ten shareholders without trading restrictions, and among top ten shareholders and top ten shareholders without trading restrictions	<p>China Electronics Technology HIK Group Co., Ltd. and The 52nd Research Institute at China Electronics Technology Group Co., Ltd. are all subject to control of China Electronics Technology Group Corporation. Ms. Chen Chunmei, limited partner of Xinjiang Pukang Investment Limited Partnership, is the spouse of Mr. Gong Hongjia, foreign individual shareholder of the Company. Hu Yangzhong, domestic individual, is holding shares in both Xinjiang Weixun Investment Management Limited Partnership and Xinjiang Pukang Investment Limited Partnership.</p> <p>Except for these, the Company does not know whether the other shareholders are related parties or whether they are acting-in-concert parties in accordance with the <i>Measures for Management of the Disclosure of the Shareholding Changes of Shareholders of the Listed Company</i>.</p>		

Any of the Company's top 10 common shareholders or top 10 non-restricted common shareholders conducted any agreed buy-back in the reporting period?

Applicable  Inapplicable

**2. Particulars about change in controlling shareholder or actual controller**

Nature of the controlling shareholder: Central State-owned

Type of the actual controller: Corporation

Name of controlling shareholder	Legal Representative	Date of establishment	Organization code	Business scope
China Electronics Technology HIK Group Co., Ltd.	Chen Zongnian	November 29 <sup>th</sup> , 2002	9133000014306073XD	Industrial investment; R&D of environmental protection products, network products, intelligent products and electronic products; technology transfer, technical services, manufacturing and sales; business consulting services, rental services of self-owned real estate; import and export businesses.
Shares held by the controlling shareholder in other listed companies through controlling or holding during the reporting period				Indirect control of domestic listed company Phoenix Optical Co. LTD.,

Change of the controlling shareholder during the reporting period

Applicable  Inapplicable

**3. Particulars about the actual controller**

Nature of the actual controller: Central State-owned assets management agency

Type of the actual controller: Corporation

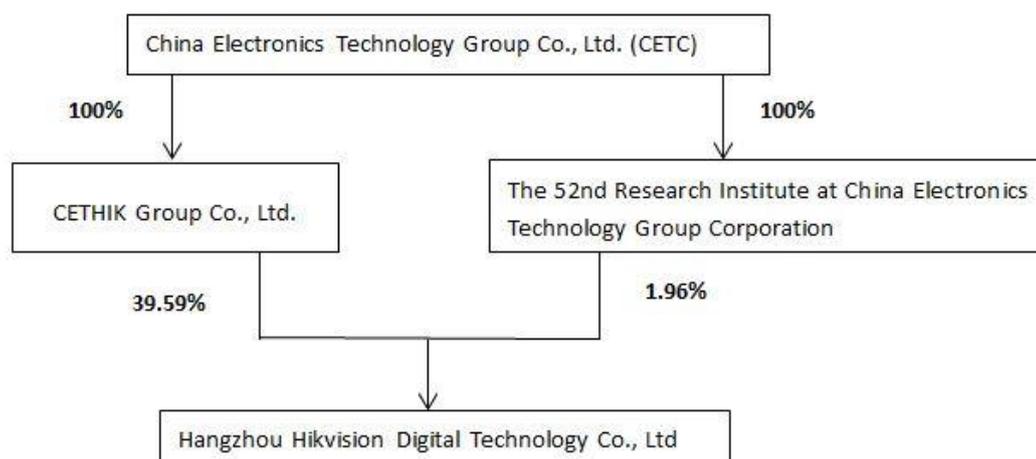
Name of the actual controller	Legal Representative	Date of establishment	Organization code	Business scope
China Electronics Technology Group Corporation	Xiong Qunli	February 25 <sup>th</sup> 2002	91110000710929498G	The Company is responsible for the military electronic equipment and systems integration, the development and manufacturing weapons platform electronic equipment, military software and electronic basic products, and the construction of national defense electronic information infrastructure and safeguard conditions; construction of national major electronic information system; the research, development, production and sales of civil electronic information software, materials, components, machine and system integration and related common technology; the self-management and agency of import and export business of all types of goods and technology; the operation of feed processing and "processing and compensation trades"; the operation of counterpart trade and re-export trade; industrial investment; asset management; engages in e-commerce information services; and organizes enterprises in the

Name of the actual controller	Legal Representative	Date of establishment	Organization code	Business scope
				industry to participate in and hold overseas exhibitions.
Shares held by the actual controlling shareholder in other listed companies through controlling or holding during the reporting period		China Electronics Technology Group Co., Ltd is the actual controller of eight domestic listed companies including An’hui Sun Create Electronic Co., Ltd, Shanghai East China Computer Co., Ltd, Chengdu Westone Information Industry Co., Ltd., GCI Science & Technology Co., Ltd., Tai’ji Computer Corporation Limited, GLARUN Technology Co., Ltd. , Phenix Optics Co., Ltd., and CETC Microwave Communication (Shanghai) Co., Ltd.		

**Change of the actual controller during the reporting period**

Applicable  Inapplicable

The ownership and controlling relationship between the actual controller of the Company and the Company is detailed as follows:



The actual controller controls the Company via trust or other ways of asset management

Applicable  Inapplicable

**4. Particulars about other corporate shareholders with shareholding proportion over 10%**

Applicable  Inapplicable

**5. Particulars on shareholding decrease restrictions for the controlling shareholders, actual controller, restructurer or other committing parties**

Applicable  Inapplicable

## Section VII Information of Preferred Shares

Applicable  Inapplicable

No existed preferred shares for the Company during the reporting period.

## Section VIII Information about Directors, Supervisors, Senior Management and Staffs

### I. Shareholding changes of directors, supervisors, senior management personnel

√Applicable □ Inapplicable

Name	Title	Tenure status	Gender	Age	Commencement of term of office	Termination of term of office	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)
Chen Zongnian	Chairman	Incumbent	M	53	June 19 <sup>th</sup> , 2008		0	0	0	0
Gong Hongjia	Vice Chairman	Incumbent	M	53	June 19 <sup>th</sup> , 2008		1,491,750,000	0	106,693,300	1,385,056,700
Liu Xiang	Director	Incumbent	M	46	May 24 <sup>th</sup> , 2014	March 7 <sup>th</sup> 2018	0	0	0	0
Hu Yangzhong	Director, General Manager	Incumbent	M	53	December 28 <sup>th</sup> , 2001		122,625,977	160,500	0	122,786,477
Wu Weiqi	Director, Standing Deputy General Manager	Incumbent	M	54	March 1 <sup>st</sup> , 2003		11,222,889	148,500	0	11,371,389
Cheng Tianzong	Independent Director	Incumbent	M	66	March 6 <sup>th</sup> , 2015		0	0	0	0
Lu Jianzhong	Independent Director	Incumbent	M	64	March 6 <sup>th</sup> , 2015		0	0	0	0
Wang Zhidong	Independent Director	Incumbent	M	51	March 6 <sup>th</sup> , 2015		0	0	0	0

Name	Title	Tenure status	Gender	Age	Commencement of term of office	Termination of term of office	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)
Hong Tianfeng	Independent Director	Incumbent	M	52	December 22 <sup>nd</sup> , 2016		0	0	0	0
Cheng Huifang	Supervisor Chairman	Incumbent	F	65	March 6 <sup>th</sup> , 2015		0	0	0	0
Wang Qiuchao	Supervisor	Incumbent	M	67	March 6 <sup>th</sup> , 2015		0	20,000	0	20,000
Chen Junke	Supervisor	Incumbent	M	47	June 19 <sup>th</sup> , 2008	March 21 <sup>st</sup> 2018	0	0	0	0
Jiang Haiqing	Deputy General Manager	Incumbent	M	49	March 1 <sup>st</sup> , 2003		11,187,882	123,000	0	11,310,882
Zheng Yibo	Deputy General Manager	Incumbent	M	56	June 30 <sup>th</sup> , 2004	March 21 <sup>st</sup> 2018	202,500	0	33,600	168,900
Cai Dingguo	Deputy General Manager	Incumbent	M	51	December 18 <sup>th</sup> , 2005	March 21 <sup>st</sup> 2018	202,500	109,500	0	312,000
He Hongli	Deputy General Manager	Incumbent	F	45	December 18 <sup>th</sup> , 2005		193,500	138,000	0	331,500
Fu Baijun	Deputy General Manager	Incumbent	M	46	January 20 <sup>th</sup> , 2009		193,500	196,500	0	390,000
Xu Lirong	Deputy General Manager	Incumbent	M	55	March 1 <sup>st</sup> , 2007	March 21 <sup>st</sup> 2018	193,500	109,500	0	303,000
Zhou Zhiping	Deputy General Manager	Incumbent	M	53	December 18 <sup>th</sup> , 2005	March 21 <sup>st</sup> 2018	7,295,376	109,500	0	7,404,876

Name	Title	Tenure status	Gender	Age	Commencement of term of office	Termination of term of office	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)
Jiang Yufeng	Deputy General Manager	Incumbent	M	47	December 18 <sup>th</sup> , 2005		202,500	123,000	0	325,500
Jin Duo	Deputy General Manager	Incumbent	M	53	March 10 <sup>th</sup> , 2015		0	109,500	0	109,500
Jin Yan	Deputy General Manager, Person in charge of finance	Incumbent	F	39	July 22 <sup>th</sup> , 2015		0	174,000	0	174,000
Jia Yonghua	Deputy General Manager	Incumbent	M	41	July 22 <sup>th</sup> , 2015		5,491,744	109,500	0	5,601,244
Li Pan	Deputy General Manager	Incumbent	M	40	July 22 <sup>th</sup> , 2015		5,390,568	109,500	0	5,500,068
Cai Changyang	Deputy General Manager	Incumbent	M	47	April 8 <sup>th</sup> , 2016		0	109,500	0	109,500
Huang Fanghong	Deputy General Manager, Board Secretary, person in charge of internal audit	Incumbent	F	36	April 8 <sup>th</sup> , 2016		292,500	0	0	292,500
Xu Ximing	Deputy General Manager	Incumbent	M	45	October 11 <sup>th</sup> , 2016		0	0	0	0
Bi Huijuan	Deputy General Manager	Incumbent	F	47	October 11 <sup>th</sup> , 2016		0	150,000	0	150,000
Total	--	--	--	--	--	--	1,656,444,936	2,000,000	106,726,900	1,551,718,036

Note:

- (1) Number shares held at the beginning of the period, shares increased during the period, shares decreased during the period for directors, supervisors, and senior management personnel above are all shares directly held by them accordingly, including restricted shares.
- (2) During the reporting period, in respect of changes in the number of shares due to the implementation of equity distribution for 2016, the number of shares at the beginning, increased, and reduced has been adjusted accordingly.

## II. Changes of directors, supervisors and senior management personnel

√Applicable □Inapplicable

Name	Position	Type	Date	Reasons
Qu Liyang	Director	Appointment and dismissal	March 7 <sup>th</sup> 2018	The general election of the board of directors
Liu Xiang	Director	Leave the post when terms were up	March 7 <sup>th</sup> 2018	Termination on term of office
Xu Lirong	Employee Supervisor	Appointment and dismissal	March 21 <sup>st</sup> 2018	The general election of the workers and staff congress
Chen Junke	Employee Supervisor	Leave the post when terms were up	March 21 <sup>st</sup> 2018	Termination on term of office
Pu Shiliang	Senior management personnel	Appointment and dismissal	March 21 <sup>st</sup> 2018	Appointment
Chen Junke	Senior management personnel	Appointment and dismissal	March 21 <sup>st</sup> 2018	Appointment
Zheng Yibo	Senior management personnel	Leave the post when terms were up	March 21 <sup>st</sup> 2018	Termination on term of office
Cai Dingguo	Senior management personnel	Leave the post when terms were up	March 21 <sup>st</sup> 2018	Termination on term of office
Zhou Zhiping	Senior management personnel	Leave the post when terms were up	March 21 <sup>st</sup> 2018	Termination on term of office
Xu Lirong	Senior management personnel	Leave the post when terms were up	March 21 <sup>st</sup> 2018	Termination on term of office

## III. Positions and Incumbency

The professional background of the Company's current directors, supervisors, senior management, and their major work experience and current responsibilities in the Company

## 1. Directors

**Mr. Chen Zongnian (陈宗年):** Born in 1965, Chen holds a PhD of business administration and has served as deputy general manager Shenzhen Gao Ke Run Electronics, director and general manager of Zhejiang Haikang Information Technology Co., Ltd. and Zhejiang Haikang Group Co., Ltd. He also served as an assistant of the head, deputy head, and the head of 52<sup>nd</sup> Research Institute at China Electronics Technology Group Corporation (52<sup>nd</sup> Research Institute). Chen currently serves as the chairman of China Electronics Technology HIK Group Co., Ltd. (CETHIK) and chairman of the Company.

**Mr. Gong Hongjia (龚虹嘉):** Born in 1965, Hong Kong permanent resident. Gong holds a bachelor degree of engineering, technology entrepreneur, and angel investor. He has established and invested over 10 enterprises including TECSUN Co. Ltd., AsiaInfo Dekang, Funian Technology, and Woqi Data, and etc. He took part in the establishment of the Company in November 2001 and served as a director and vice chairman of the Company. Gong currently serves as a vice chairman of the Company.

**Mr. Liu Xiang (刘翔):** Born in 1972, master degree of business administration and economist. Liu served as a deputy general manager, secretary of the board and chief financial officer of Hikvision since June 2007. Liu has been appointed as a director of the Company since May 2015 (he left the post on March 7<sup>th</sup> 2018 when terms up), and currently serves as a deputy general manager of CETHIK, and Chairman of Phenix Optical Co. Ltd.

**Mr. Hu Yangzhong (胡扬忠):** Born in 1965, master degree of engineering, senior research engineer. He served as an engineer of the 52<sup>nd</sup> Research Institute from June 1989 to December 2001. He has been appointed as a director of the Company and general manager of the company since January 2002. Hu currently serves as a director and the general manager of the Company.

**Mr. Wu Weiqi (邬伟琪):** Born in 1964, bachelor degree of engineering, senior engineer. Wu held various positions at the 52<sup>nd</sup> Research Institute, including technician, engineer associate, engineer and senior engineer, from July 1986 to December 2001. Since December 2001, He has been appointed as a deputy general manager, a standing deputy general manager, and a director of Hikvision. Wu currently serves as a director and standing deputy general manager of the Company.

**Mr. Cheng Tianzong (程天纵):** Born in 1952, Taiwanese, master degree in business administration. Cheng served as president and a director of Hewlett-Packard Development Company, L.P. (China) from 1992 to 1997; served as the president of the Asia Pacific of Texas Instruments Incorporated (德州仪器) from 1997 to 2007; served as a vice-president of Hon Hai Corporation (鸿海集团) from July 2007 to 2012, and the chief executive officer of FIH Mobile Limited, a subsidiary of Hon Hai Corporation (鸿海集团), a company listed on the Hong Kong Stock Exchange in 2011. He retired in June 2012 and devoted himself to China Maker Campaign (中国创客运动) to help and guide those start-up companies in September 2013. Cheng currently serves as an independent director of the Company.

**Mr. Lu Jianzhong (陆建忠):** Born in 1954, holds bachelor degree in economics and CPA certificate. Lu served as a lecturer and an associate professor of finance and accounting department at Shanghai Maritime University (上海海事大学) from September 1986 to September 1997; he was a CPA and a partner of the auditing department of PricewaterhouseCoopers, from October 1997 to June 2012; he was a chartered accountant of Shanghai De'an Certified Public Accountants LLP (上海德安会计师事务所) from July 2012 to July 2013; he was a chartered accountant of the Shanghai branch of PKF Daxin Certified Public Accountants LLP (大信会计师事务所上海分所), from August 2013 to July 2014; He was a partner and a chartered accountant and a partner of Zhongxinghua Certificated Public Accountants LLP (中兴华会计师事务所) from August 2014 to January 2016. Lu currently serves as a chartered accountant of Dahua Certificated Public Accountants LLP (大华会计师事务所), MPAcc/Maud Enterprise Mentor of Antai College of Economics & Management, Shanghai Jiao Tong University (上海交通大学安泰管理学院), and an independent director of Hikvision.

**Mr. Wang Zhidong (王志东):** Born in 1967, Hong Kong permanent resident, bachelor degree in engineering. He served as a deputy general manager and chief engineer of Beijing Suntendy Electronic Technology Research Institute (北京新天地电子信息技术研究) from April 1992 to August 1993; He served as a general manager of Richwin Information Technology Co., Ltd. (四通利方信息技术有限公司), and served as chief executive officer and a director of SINA Corporation (新浪网) from December 1993 to June 2001; He served as chairman and chief executive officer of Beijing Dianji Technology, Ltd. (北京点击科技有限公司) from December 2001 to July 2013. Mr. Wang currently serves as chairman and chief executive officer of Beijing Yilianyisheng Technology Co. Ltd.(北京易连忆生科技有限公司), and an independent director of the Company.

**Mr. Hong Tianfeng (洪天峰):** Born in 1966, master degree in engineering. Hong was an engineer in Nanjing University of Posts and Telecommunication (南京邮电大学) from July 1990 to June 1993; He served as an executive deputy general manager, chief executive of Operation and Delivery, chairman of investment decision committee, and vice chairman of Huawei Technologies Co., Ltd. (华为技术有限公司) from July 1993 to September 2011; Hong currently serves as a managing partner of Suzhou Fangguang Venture Investment Management (Limited Partnership)(苏州方广创业投资管理合伙企业(有限合伙)), an executive director of Shanghai Fangguang Venture Investment Management Co., Ltd. (上海方广创业投资管理有限公司), and an independent director of the Company.

## 2. Supervisors

**Ms. Cheng Huifang (程惠芳):** Born in 1953, PhD in international finance. She was a member of the 8<sup>th</sup> and 9<sup>th</sup> Zhejiang CPPCC (浙江省政协). Cheng currently serve as dean of the Global Development Research Institute of Zhejiang Businesses under Zhejiang University of Technology (浙江工业大学全球浙商发展研究院), president of Zhejiang Yangtze River Delta of the Institute of Innovation Management (浙江长三角创新管理研究院), president of the Zhejiang Financial Engineering Society (浙江省金融工程学会), and a supervisor of the Company.

**Mr. Wang Qiuchao (王秋潮):** Born in 1951, a professional lawyer with bachelor degree in history and master degree in law. Wang served as chairman of the Zhejiang Lawyers Association (浙江省律师协会) and vice-president of the Zhejiang Law Society (浙江省法学会). Wang currently serves as arbitrator of the China International Economic and Trade Arbitration Commission (中国国际经济贸易仲裁委员会, "CIETAC"), an

arbitrator of Shanghai International Arbitration Center (上海国际仲裁中心) and South China International Economic and Trade Arbitration Commission (华南国际仲裁中心), and a supervisor of the Company.

**Mr. Chen Junke (陈军科):** Born in 1971, bachelor degree in engineering, senior engineer. Chen began to work since 1994 and held various positions in the 52nd Research Institute, including assistant engineer, engineer and senior engineer. He joined the Company in 2001 and has been appointed as the technology director of the Digital Video Recorder (DVR) Division of the Technology Management Center, general manager of supply chain management center, employee representative supervisor (left the post on March 21<sup>st</sup> 2018 when terms up). Chen currently serves as senior deputy general manager of Hikvision (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

### 3. Senior management personnel

**Mr. Hu Yangzhong (胡扬忠):** Please refer to his profile in preceding part of the report.

**Mr Wu Weiqi (邬伟琪):** Please refer to his profile in preceding part of the report.

**Mr. Jiang Haiqing (蒋海清):** Born in 1969, bachelor degree in engineering, a senior engineer. He joined the Company in November 2001 and served as an assistant of the general manager and a deputy general manager. Mr. Jiang currently serves as a senior deputy general manager of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Mr. Zheng Yibo (郑一波):** Born in 1962, bachelor degree in engineering, a senior engineer. He joined Hikvision in June 2004 and served as board secretary and the person in charge of finance and accounting department, and a deputy general manager of the Company (left the post when terms up on March 21<sup>st</sup> 2018).

**Mr. Cai Dingguo (蔡定国):** Born in 1967, master degree in business administration. He joined Hikvision in May 2002 and served as a manager of the Marketing Division, an assistant to the general manager, and a deputy general manager of the Company (left the post when terms up on March 21<sup>st</sup> 2018).

**Ms. He Hongli (何虹丽):** Born in 1973, master degree in business administration. She joined Hikvision in December 2001 and served as an assistant to the general manager and a deputy general manager. Ms. He currently serves as a senior deputy general manager of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Mr. Fu Baijun (傅柏军):** Born in 1972, bachelor degree in economics, Chinese Certificated Public Accountant, professor-level senior accountant. He served as an accountant of the accounting division of the 52<sup>nd</sup> Research Institute and a deputy general manager of Zhejiang Haikang Information Co. Ltd. (浙江海康信息技术股份有限公司) from July 1996 to December 2008. He joined Hikvision in January 2009, and served as a deputy general manager and the person in charge of finance and accounting department, and a deputy general manager. Mr. Fu currently serves as a senior deputy general manager of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Mr. Xu Lirong (徐礼荣):** Born in 1963, master degree in engineering, a senior engineer. He joined Hikvision in January 2002 and served as a manager of the department of development under R&D Center, board secretary and a deputy general manager (left the post due to terms up on March 21<sup>st</sup> 2018). Mr. Xu currently serves as the employee supervisor (elected by the 2018 2<sup>nd</sup> employee representative meeting on March 21<sup>st</sup> 2018), the person in charge of internal audit (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Mr. Zhou Zhiping (周治平):** Born in 1965, master degree in engineering, a senior engineer. He joined Hikvision in January 2002 and served as the chief technology officer and a deputy general manager (left the post when terms up on March 21<sup>st</sup> 2018).

**Mr. Jiang Yufeng (蒋玉峰):** born in 1971, bachelor degree in engineering, an engineer. He joined Hikvision in January 2005 and held various positions in the Company, including general manager of Beijing branch, director of marketing, assistant to the general manager, a deputy general manager and marketing director, and a deputy general manager. Mr. Jiang currently serves as a senior deputy general manager of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Mr. Jin Duo (金铎):** born in 1965, bachelor degree in engineering, a senior engineer. He served as a technician, assistant to engineers, an engineer and a senior engineer of the 52<sup>nd</sup> Research Institute from July 1986 to June 2004. He joined Hikvision in July 2004 and served as general manager of Hangzhou Branch, and a deputy general manager of the Company. Mr. Jin currently serves as a senior deputy general manager of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Ms. Jin Yan (金艳):** born in 1979, master degree in management, an accountant. She joined Hikvision in 2004 and held various positions at the Company, including financial manager, the general manager of the Financial Management Center, and a deputy general manager and the person in charge of finance and accounting. Ms. Jin currently serves as a senior deputy general manager and the person in charge of finance and accounting of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Mr. Jia Yonghua (贾永华):** born in 1977, bachelor degree in engineering, a senior engineer. He joined Hikvision in January 2002 and held various positions at the Company, including director of Image Process and Analysis Division under the R&D Center, director of Strategy and Marketing Division, a deputy general manager of the Supply Chain Management Center, and a deputy general manager of the Company. Mr. Jia currently serves as a senior deputy general manager of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Mr. Li Pan (礼攀):** born in 1978, master degree in engineering, and is a senior engineer. He served as an engineer of the 52<sup>nd</sup> Research Institute from August 2000 to December 2001. He joined Hikvision in December 2001 and held various positions at the Company, including engineer, product manager, R&D manager, the general manager of the Transportation Division, the general manager of Hangzhou Branch, a deputy general manager of the Company. Mr. Li currently serves as a senior deputy general manager of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Ms. Huang Fanghong (黄方红):** born in 1982, master degree in law. She joined Hikvision in June 2009 and held various positions at the Company including legal department manager, internal audit manager, internal control director, and a deputy general manager and the board secretary. Ms. Huang currently serves as a senior deputy general manager, and board secretary of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Mr. Cai Changyang (蔡昶阳):** born in 1971, bachelor degree in engineering. He joined Hikvision in 2004, and held various positions of the Company, including general manager of Beijing branch, director for government and enterprise corporation department, director of investment department, director of strategy and marketing department, and a deputy general manager of the Company. Mr. Cai currently serves as senior deputy general manager of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Mr. Xu Ximing (徐习明):** born in 1973, bachelor degree in engineering. From July 1996 to September 2016, he held various positions in IBM, including engineer, department manager, director, partner of consulting service, senior partner of consulting service, and a deputy general manager. He joined Hikvision in September 2016, and served as a deputy general manager of the Company. Mr. Xu currently serves as a senior deputy general manager of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

**Ms. Bi Huijuan (毕会娟):** born in 1971, PhD in engineering, senior research engineer. From April 1999 to August 2016, she held various positions in the 15<sup>th</sup> Research Institute at China Electronics Technology Group Corporation (CETC), including engineer, senior engineer, senior research engineer, head of R&D department, vice chief engineer, and deputy director. She joined Hikvision in August 2016, and served as a deputy general manager of the Company. Ms. Bi currently serves as a senior deputy general manager of the Company (appointed by the first general meeting of the 4<sup>th</sup> session of the board on March 21<sup>st</sup> 2018).

### Position held in shareholders' entities

√Applicable □ Inapplicable

Name	Shareholder's entity	Position in shareholders' entities	Commencement of the term	Compensation and allowance from the shareholders' entity
Chen Zongnian	China Electronics Technology HIK Group Co., Ltd.	Chairman, Secretary of party committee	November 2013	Y
Liu Xiang	China Electronics Technology HIK Group Co., Ltd.	Deputy General Manager	December 2013	Y
Hu Yangzhong	China Electronics Technology HIK Group Co., Ltd.	Director	December 2013	N
Xu Lirong	China Electronics Technology HIK Group Co., Ltd.	Supervisor, Member of Commission for Discipline Inspection	December 2013	N
Zheng Yibo	China Electronics Technology HIK Group Co., Ltd.	Member of the party committee	December 2015	N

## Positions held in other entities

√Applicable □ Inapplicable

Name	Name of other Entity	Position in other entity	Commencement of the term	Termination of the term	Compensation and allowance from the other entities
Cheng Zongnian	Zhejiang New Computer Magazine	Legal Representative	February 1 <sup>st</sup> 2004		N
Cheng Zongnian	CETC Finance Co., Ltd.	Director	December 2012		N
Cheng Zongnian	Zhejiang Wuzhen Street Technology Co. Ltd.	Chairman	May 2016		N
Gong Hongjia	Furong Technology Co., Ltd.	Director	October 1999		N
Gong Hongjia	Hangzhou FunVio Co., Ltd.	Chairman	February 2004		N
Gong Hongjia	Funian Technology Co., Ltd.	Chairman of the Board	October 2007		N
Gong Hongjia	Beijing Funian Technology Co., Ltd.	Chairman	November 2011		N
Gong Hongjia	Shanghai Fullhan Microelectronics Co., Ltd.	Director	April 2013		N
Gong Hongjia	Shenzhen Innovation Valley Investment Management Co., Ltd.	Director	July 2014		N
Gong Hongjia	Shanghai Pukun Information Technology Co., Ltd.	Director	September 2014		N
Gong Hongjia	FuCe Holdings Co., Ltd.	Director	October 2014		N
Gong Hongjia	Chuangjia Venture Capital Investment Co., Ltd	Director	October 2014		N
Gong Hongjia	Shenzhen Jiadao Valley Investment Management Co., Ltd.	General Manager	October 2014		Y
Gong Hongjia	Shenzhen Jiadao Gongcheng Equity Investment Fund (Limited Partnership)	Executive Partner & delegate	November 2014		N
Gong Hongjia	JiuBaYao Health Technology Co., Ltd.	Director	November 2014		N
Gong Hongjia	Beijing JiaBoWen Biotechnology Co., Ltd.	Director	March 2015		N
Gong Hongjia	Wuhan YouXinGuang communication equipment co., LTD	Director	January 2016		N
Gong Hongjia	Shenzhen JiadaoFangzhi Education Industry Investment Enterprise (Limited Partnership)	Executive Partner & delegate	June 2017		N
Gong Hongjia	Shenzhen Jiadao Successful	Executive Partner &	August 2017		N

Name	Name of other Entity	Position in other entity	Commencement of the term	Termination of the term	Compensation and allowance from the other entities
	Investment Enterprise (Limited Partnership)	delegate			
Gong Hongjia	Shanghai AoYuan Medical Supplies Co., Ltd.	Chairman	September 2017		N
Liu Xiang	Xinjiang Weixun Investment Management Limited Partnership	Executive Partner	May 2011		N
Liu Xiang	Phoenix Optical Co. LTD	Chairman	July 2015		N
Liu Xiang	Phoenix Optical Holding Co. LTD	Chairman	July 2015		N
Liu Xiang	Beijing LeiShengQiangShi Technology Co. Ltd.	Director	January 2017		N
Liu Xiang	CETHIK Wuxi Technology Co., Ltd.	Chairman	January 2018		N
Wu Weiqi	Xinjiang Pukang Investment Management Limited Partnership	Executive Partner	May 2011		N
Wu Weiqi	Wuhu Sensor Tech Intelligent Technology Co., Ltd.	Director	January 2017		N
Wu Weiqi	Maxio Technology (Hangzhou) Co., Ltd.	Director	May 2017		N
Wang Zhidong	Beijing Yilian Yisheng Technology Co., Ltd.	Chairman, CEO	July 2013		Y
Cheng Tianzong	Hechun Technology Co., Ltd.	Director	June 2014		Y
Cheng Tianzong	Zuozhen Co., Ltd.	Director	January 2015		Y
Cheng Tianzong	Wenhui Technology Co., Ltd.	Independent Director	June 2016		Y
Lu Jianzhong	Shanghai Jiao Tong University- Antai College of Management,	Mentor for enterprises	December 2013		N
Lu Jianzhong	Dahua Certificated Public Accountants LLP	Chartered Accountant	January 2016		N
Lu Jianzhong	ChangShu FengFan Electric Power Equipment Co., Ltd.	Independent Director	September 2015		Y
Lu Jianzhong	Ningbo Lehui International Construction Equipment Co., Ltd.	Independent Director	March 2016		Y
Lu Jianzhong	Shanghai Mingzhi Electric Co., Ltd.	Independent Director	October 2017		Y
Lu Jianzhong	COSCO Maritime Transport Development Co., Ltd.	Independent Director	January 2018		Y
Hong Tianfeng	Shanghai Fangguang Investment	Executive Director	February 2012		Y

Name	Name of other Entity	Position in other entity	Commencement of the term	Termination of the term	Compensation and allowance from the other entities
	Management Co., Ltd.				
Hong Tianfeng	Shanghai Fangguang Venture Investment Management Partnership Enterprise (Limited Partnership)	Managing Partner	February 2012		N
Hong Tianfeng	Shanghai Fangguang Venture Investment Partnership Enterprise (Limited Partnership)	Managing Partner	August 2012		N
Hong Tianfeng	Shanghai Fangguang Erqi Venture Investment Partnership Enterprise (Limited Partnership)	Managing Partner	September 2016		N
Hong Tianfeng	Suzhou Fangguang Venture Investment Management Partnership Enterprise (Limited Partnership)	Managing Partner	September 2012		N
Hong Tianfeng	Suzhou Fangguang Venture Investment Partnership Enterprise (Limited Partnership)	Managing Partner	September 2012		N
Hong Tianfeng	Suzhou Fangguang Venture Investment Phase 2 Partnership Enterprise (Limited Partnership)	Managing Partner	July 2016		N
Hong Tianfeng	Shenzhen Pengfenghui Venture Investment Co., Ltd.	Executive Director & General Manager	June 2014		N
Hong Tianfeng	Shenzhen Fangguang Enterprise Management Consulting Co., Ltd.	Executive Director & General Manager	May 2016		N
Hong Tianfeng	Sannuo Biology Sensor Co., Ltd.	Director	September 2013		Y
Hong Tianfeng	Shenzhen YunZhiXun Network Technology Co., Ltd.	Director	May 2014		N
Hong Tianfeng	Shanghai Chuangyuan Equipment Technology Co., Ltd.	Director	August 2014		N
Hong Tianfeng	Jiangsu JiTaiKe Electrics Co., Ltd.	Director	July 2015		N
Hong Tianfeng	Shanghai Baishitong Information Technology Co., Ltd.	Director	September 2016		N
Hong Tianfeng	Zhongwei Dahe Cloud Connection Network Technology Co., Ltd.	Director	November 2016		N
Hong Tianfeng	Shenzhen DongFengMingTu Enterprise Management Co., Ltd.	Supervisor	August 2016		N

Name	Name of other Entity	Position in other entity	Commencement of the term	Termination of the term	Compensation and allowance from the other entities
Hong Tianfeng	Changjiang Shidai Mobile Resale Communication Co., Ltd.	Director	June 2014	September 2017	N
Hong Tianfeng	Shanghai HuaCe Navigation Technology Co., Ltd.	Director	February 2015	January 2018	N
Hong Tianfeng	Shenzhen Fuzhi Software Technology Co., Ltd.	Director	November 2016	May 2017	N
Cheng Huifang	Kings Resources Group Co., Ltd	Independent Director	March 2014		Y
Cheng Huifang	Zhejiang FuRun Co., Ltd	Independent Director	April 2014		Y
Cheng Huifang	Hangzhou HangYang Co., Ltd.	Independent Director	January 2016		Y
Cheng Huifang	Zhejiang HuaCe Media Co., Ltd.	Independent Director	February 2016		Y
Cheng Huifang	Zhejiang Commercial Bank Co., Ltd.	External Supervisor	June 2016		Y
Cheng Huifang	Quzhou NanGaoFeng Chemical Co., Ltd.	Independent Director	March 2017		Y
Wang Qiuchao	Zhejiang T&C Law Firm	Partner	-		Y
Wang Qiuchao	SanBian Sci-Tech Co., Ltd.	External Supervisor	August 2014		Y
Wang Qiuchao	Zhejiang JingSheng Mechanical & Electrical Co.,Ltd	Independent Director	April 2015		Y
Wang Qiuchao	Zhejiang KaiShan Compressor Co., Ltd.	Independent Director	May 2015		Y
Wang Qiuchao	Hanjia Design Group Co., Ltd.	Independent Director	July 2015		Y
Jia Yonghua	Hangzhou Confirmwaref Technology Co., Ltd.	Director	November 2016		N
Zheng Yibo	Zhejiang TuXun Technology Co., Ltd.	Director	December 2016		N

Incumbent and off-office directors, supervisors and senior management personnel during the reporting period that have been imposed administrative penalties by the CSRC during the last three years.

Applicable  Inapplicable

#### **IV. Remuneration of directors, supervisors and senior management personnel**

The decision-making program, determination basis and actual remuneration payment of directors, supervisors and senior management personnel:

The remuneration of directors, supervisors and senior management personnel will be received preliminarily by the Remuneration and Appraisal Committee of the Board, among them, remuneration of independent directors and external supervisors would be further reviewed and approved by general meeting of shareholders. As for

those directors (exclude independent directors), supervisors (exclude external supervisors) and senior management personnel who receive remuneration from the Company directly, they will receive remuneration according to the Company's current Salary System and Performance Appraisal Schemes.

## Remuneration of directors, supervisors and senior management personnel

Unit: RMB 0,000

Name	Title	Gender	Age	Tenure status	Total remuneration from the Company (RMB'0,000)	Remuneration from related parties (Y/N)
Chen Zongnian	Chairman	M	53	Incumbent	0	Y
Gong Hongjia	Vice Chairman	M	53	Incumbent	0	Y
Liu Xiang	Director	M	46	Incumbent	0	Y
Hu Yangzhong	Director, General Manager	M	53	Incumbent	300.00	N
Wu Weiqi	Director, Standing Deputy General Manager	M	54	Incumbent	283.75	N
Cheng Taizong	Independent Director	M	66	Incumbent	15.00	N
Lu Jianzhong	Independent Director	M	64	Incumbent	15.00	N
Wang Zhidong	Independent Director	M	51	Incumbent	15.00	N
Hong Tianfeng	Independent Director	M	52	Incumbent	15.00	N
Cheng Huifang	Supervisor Chairman	F	65	Incumbent	10.00	N
Wang Qiuchao	External Supervisor	M	67	Incumbent	10.00	N
Chen Junke	Employee Supervisor	M	47	Incumbent	180.52	N
Jiang Haiqing	Deputy General Manager	M	49	Incumbent	240.00	N
Zheng Yibo	Deputy General Manager	M	56	Incumbent	165.00	N
Cai Dingguo	Deputy General Manager	M	51	Incumbent	201.00	N
He Hongli	Deputy General Manager	F	45	Incumbent	205.50	N
Fu Baijun	Deputy General Manager	M	46	Incumbent	208.33	N
Xu Lirong	Deputy General Manager	M	55	Incumbent	171.00	N
Zhou Zhiping	Deputy General Manager	M	53	Incumbent	171.00	N
Jiang Yufeng	Deputy General Manager	M	47	Incumbent	232.92	N
Jin Duo	Deputy General Manager	M	53	Incumbent	208.33	N
Jin Yan	Deputy General Manager, person in charge of finance and accounting	F	39	Incumbent	219.33	N
Jia Yonghua	Deputy General Manager	M	41	Incumbent	205.17	N

Name	Title	Gender	Age	Tenure status	Total remuneration from the Company (RMB'0,000)	Remuneration from related parties (Y/N)
Li Pan	Deputy General Manager	M	40	Incumbent	205.17	N
Cai Changyang	Deputy General Manager	M	47	Incumbent	219.33	N
Huang Fanghong	Deputy General Manager Board Secretary Internal audit director	F	36	Incumbent	219.33	N
Xu Ximing	Deputy General Manager	M	45	Incumbent	391.20	N
Bi Huijuan	Deputy General Manager	F	47	Incumbent	245.00	N

## Share incentives for directors, supervisors and senior executives in the Reporting Period

√ Applicable □ Inapplicable

Unit: share

Name	Title	Restricted Shares held at the beginning of the period	Shares vested in the current period	Shares newly granted in the current period	Price for restricted shares granted (RMB per share)	Restricted Shares held at period-end
Hu Yangzhong	Director, General Manager	292,500	117,000	160,500	12.63	336,000
Wu Weiqi	Director, Standing Deputy General Manager	261,000	104,400	148,500	12.63	305,100
Jiang Haiqing	Deputy General Manager	225,000	90,000	123,000	12.63	258,000
Zheng Yibo	Deputy General Manager	202,500	81,000	0	12.63	121,500
Cai Dingguo	Deputy General Manager	202,500	81,000	109,500	12.63	231,000
He Hongli	Deputy General Manager	193,500	77,400	138,000	12.63	254,100
Fu Baijun	Deputy General Manager	193,500	77,400	196,500	12.63	312,600
Xu Lirong	Deputy General Manager	193,500	77,400	109,500	12.63	225,600
Zhou Zhiping	Deputy General Manager	193,500	77,400	109,500	12.63	225,600
Jiang Yufen	Deputy General Manager	202,500	81,000	123,000	12.63	244,500
Jin Duo	Deputy General Manager	0	0	109,500	12.63	109,500
Jin Yan	Deputy General Manager	0	0	174,000	12.63	174,000
Jia Yonghua	Deputy General Manager	0	0	109,500	12.63	109,500
Li Pan	Deputy General Manager	0	0	109,500	12.63	109,500
Cai Changyang	Deputy General Manager	0	0	109,500	12.63	109,500
Bi Huijuan	Deputy General Manager	0	0	150,000	12.63	150,000
Total	--	2,160,000	864,000	1,980,000	--	3,276,000

**Note:**

(1) This personnel listed above are executives who were included in 2014 restricted shares incentive plan and 2016 restricted shares incentive plan.

(2) The 2016 restricted incentive shares proposal was completed during the reporting period. The granted date of 2016 restricted incentive shares scheme was December 23<sup>rd</sup>, 2016, and the listing date of the granted restricted shares was January 20<sup>th</sup> 2017.

(3) During the reporting period, in respect of changes in the number of shares due to the implementation of equity distribution for 2016, the number of shares at the beginning of the period, number of shares vested during the current period, and shares granted during the current period in the above chart have been adjusted accordingly.

**V. Staff in the Company**

**1. Statistics of employees, professional structure of the staff, and educational background**

Number of incumbent employees in the parent Company	12,758
Number of incumbent employees in major subsidiaries	13,572
Number of incumbent employees	26,330
Number of employees receiving salaries in current period	26,330
Number of retired employees requiring the parent Company and its subsidiaries to bear costs	0
<b>Professional structure</b>	
Tier	Number of employees (ppl)
Administrative staff	376
Engineers	13,085
Sales staff	4,999
Functional staff	925
Production staff	6,945
Total	26,330
<b>Educational background</b>	
Education background	Number of employees (ppl)
Master and/or doctor/or above	3,818
Bachelor	13,838
Junior College (professional training)	2,067
Other	6,607
Total	26,330

**2. Staff remuneration policy**

Hikvision applies scientific talent cultivation methods, effective talent incentive mechanisms and fair competition platforms to recruit talents, and continuously optimizes the talent structure. The Company provides

employees with remuneration packages which are competitive in the industry. In addition to endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing provident funds, the Company provides employees with the supplementary commercial insurance, medical subsidies, travel and communication allowances and other special allowances, and offers interest-free housing loans to qualified employees. It creates a fairer and more humanized working environment for each employee so that each employee is able to demonstrate his/her value, and creates value to satisfy increasing demands for a good life.

### **3. Staff training plans**

The Company is committed to create a viable training system, focus on key personnel training and cultural transmission, and establish learning organizations. In terms of key items such as systematic training of new employees, leader fostering and reserve, the Company has carried out continuous key construction and investment. In 2017, the Company continuously optimized and upgraded new employee training and gradually improved the three-tier management and control model, with the new employee training coverage rate exceeding 95%. In terms of manager training, the Company has established a sound hierarchical management project training system, comprehensively changed the grass-roots manager projects, promoted improvement in the ability of managers at different levels, with the accumulated coverage rate of management training projects reaching 80%; in addition, in terms of improvement and development of internal learning resources, the Company has developed specific characteristic courses and cases of Hikvision according to the competency model, connected business modules and realized uniformization of competency training; in terms of improvement in lecturer team building, the Company has used standardized selection, education, employment and retention processes to establish a lecturer team. Through scientific selection, systematic training and rigorous certification, the lecturer team begins to take shape and carries forward the excellent management heritage of Hikvision.

In the future, the Company will still insist on the target of building of a viable training system, construct a competency training system covering personnel ranging from new employees to grass-roots managers and then to senior and middle-level managers. It will take professionalism as the primary requirement for teams and provide Hikvision employees with more support in learning and development.

### **4. Labor outsourcing**

Applicable  Inapplicable

## Section IX Corporate Governance

### I. Basic situation of corporate governance

During the reporting period, in accordance relevant laws and regulations, and regulatory and regulatory documents from supervision department, i.e. *Company Law* (公司法), *Securities Law* (证券法), *Code of Corporate Governance for Listed Companies in China* (上市公司治理规则), *Listing Rules of Shenzhen Stock Exchange Stock* (深圳证券交易所股票上市规则), *Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Listed Companies on the Small and Medium-sized Enterprise Board* (深圳证券交易所中小板上市公司规范运作指引), the Company constantly improved its corporate governance, optimized the internal management, improved the standardized operation level, fulfilled the obligation of information disclosure, and strengthened and protected the legal rights and interests of investors.

During the reporting period, the improvement of corporate governance is mainly reflected in the following aspects:

1. The Company continuously optimizes internal management systems to take into consideration its business development and market environment change. It has successively optimized internal management systems, amended, improved and enhanced Standardization of the Employee Code of Business Conduct. It has created a healthy, orderly external and internal operating environment and sufficiently maintained its excellent brand image and reputation. It has comprehensively amended the *Fund Payment and Settlement System*, so as to enhance capital efficiency and internal control, define approval authority procedures and effectively control costs, expenses and risks. It has optimized and adjusted the *Performance Management System*, in order to effectively support decomposition and achievement of the strategic target of the Company, continuously enhance the performance of employees and organizations and maintain the sustainable competitiveness of the company.
2. Continuous enhancement of internal control and process management. External audit and the Company's internal audit team jointly and comprehensively reviewed internal control and management systems, and identified imperfections in management and system implementation in a timely manner. They continuously followed up treatment and promoted improvement in internal control of the Company. Strategy oriented, the Company adopted procedure revolution management based on business and business support, defined the process architecture, organization fit and management mechanisms, continuously optimized processes and realized

structure management of business processes.

3. Continuous improvement on good interactions for investor relations. After each periodic financial report disclosure, the Company took the initiative to hold a public performance briefing (including conference call, Web-meeting), hosted periodic investor receptions; actively listened to investors' opinions and suggestions to form good interactions between the Company and investors, forming a positive interaction. After the above events, the Company also timely released *Investor Relations Activity Record Form* to ensure that all investors have fair access to the Company's information. In routine duties, the company also communicates with investors through various channels such as telephone, email and interactive platform in order to maintain long-term trust relationship between investors and Company.

During the reporting period, the Company's information disclosure was approved by the regulatory authorities: the Company has been awarded A-level appraisal by Shenzhen Stock Exchange information disclosure evaluation for small-medium enterprises for 7 consecutive years. The company has also received some honors in the capital market: "Chinese Listed Companies Investor Relations Tianma Award - Best Board of Directors in China Small and Medium Board Listed Company Investor Relations" by *Securities Times* and *China Fund*; "Golden Bull 2016 Listed Companies-Valuable Investment", "Golden Bull Best Management for Investor Relations" in the 19<sup>th</sup> Golden Bull Award for listed companies by *China Securities News*; "Top 10 of the Top 50 Chinese Small and Medium Board Listed Companies in Value", "Top 10 Management Team of Chinese Small and Medium Board Listed Companies (Top 3)" in the 11<sup>th</sup> Chinese Listed Companies Value Award by *Securities Times* and *China Fund*; "A-share Listed Company Industry Champion" and "Best A-share Listed Companies" by "Future Value Ranking of A-share Listed Companies in 2017" sponsored by *Value Line Magazine* and *China Economic Net*.

"Best Board of Directors" in the 7<sup>th</sup> reputation ranking of Chinese listed companies sponsored by *National Business Daily*; and "CCTV China's Top Ten Listed Companies in 2017" by *China Central Television*.

Any significant incompliance for the relevant regulatory documents issued by China Securities Regulatory Commission in respect of corporate governance:

Yes  No

## **II. Company's Independence in Businesses, Management, Assets, Institutions and Finance from Controlling Shareholders**

The Company is completely independent in business, management, assets, organization, and finance from its

shareholders. The Company has established a sound internal control system, being capable of operating independently with its complete and independent business.

- (1) **Business independence:** The Company has its own production, purchases and sales systems, which are completely independent from controlling shareholders. Therefore, there is no competition among the Company, controlling shareholders, and related parties.
- (2) **Personnel independence:** The Company has independent personnel. The management has set up various independent departments, including R&D, production, administration, finance and operation management divisions, etc., and established complete management methods for labor, personnel, and salary management. Personnel of the Company are independent from controlling shareholders, e.g. the Chairman is elected through the general meetings of the Board. In addition, the General Manager, Deputy General Managers, the Secretary of the Board, CFO, and other senior management personnel of the Company are only employed and remunerated by the Company, and do not hold any position in controlling shareholders and is not remunerated by controlling shareholders. Directors, Supervisors and Senior Management Personnel are appointed through legal procedures strictly in accordance with relevant regulations stipulated in *Company Law* and *Articles of Association*. There is no controlling shareholder intervention in the Company's personnel decisions in general meetings of the Board or shareholders.
- (3) **Asset Completeness:** The property rights of assets are explicitly between the Company and the controlling shareholders, and no assets, funds, or other resources owned by the Company are illegally and irregularly occupied or controlled by the controlling shareholders. Assets of the Company are integrated, including complete property rights of fixed assets for production, supporting assets for production, and intangible assets of patents, etc. The Company has the full control and ownership of all assets.
- (4) **Independence in organizations:** The Company's Board, Supervisor Committee, Management and other internal organizations operates independently, and each functional department is independent from controlling shareholders in duty and personnel. There is no superior-subordinate relation between functional departments of controlling shareholders and those of the Company, which would have an impact on the Company's independent operations.
- (5) **Financial Independence:** The Company has established an independent financial department, as well as a sound and independent financial and accounting system. The Company makes financial decisions independently. There is no controlling shareholder intervention in the Company's financial and accounting activities. The Company has maintained accounts with banks independently of and do not share any bank account with our Controlling Shareholders. The Company has undertaken independent tax registration in accordance with applicable laws, and paid tax independently.

**III. Horizontal competition**

Applicable  Inapplicable

**IV. Annual General Meeting and Extraordinary General Meetings convened during the Reporting Period**

**1. Annual General Meeting convened during the reporting period**

Meeting	Nature	Proportion of participating investors	Convened Date	Disclosure Date	Disclosure Index
2016 Annual General Meeting	Annual General Meeting	70.01%	May 4 <sup>th</sup> 2017	May 5 <sup>th</sup> 2017	Public Announcement: No. 2017-022

**2. Extraordinary general meetings convened at the request of preferred shareholders with resumed voting rights:**

Applicable  Inapplicable

**V. Performance of duties by independent directors during the reporting period**

**1. Attendance of independent directors in board meetings and general meetings**

Attendance of independent directors in board meetings and general meetings							
Name of Independent Director	Board meeting presence required in the reporting period (times)	Board meeting presence on site (times)	Board meeting presence by telecommunication (times)	Board meeting presence through a proxy (times)	Board meeting absence (times)	Board meeting not attend in person for two consecutive times	Presence of independent directors in general meetings (times)
Cheng Tianzong	6	1	5	0	0	N	0
Lu Jianzhong	6	1	5	0	0	N	1
Wang Zhidong	6	1	5	0	0	N	0
Hong Tianfeng	6	1	5	0	0	N	0

**2. Objections from independent directors on related issues of the Company**

Were there any objections on related issues of the Company from independent directors?

Yes  No

### 3. Other details about the performance of duties by independent directors

Were there any suggestions from independent directors accepted by the Company?

Yes  No

Details: During the Reporting Period, independent directors strictly followed related rules, regulations, including *Company Act* (《公司法》), *Guidance of Board of Directors for Listed Companies* (《关于在上市公司建立独立董事的指导意见》), *Shenzhen Stock Exchange Place Standardized Operational Guidance on Small-and-Medium Size Listed companies* (《深圳证券交易所中小企业板上市公司规范运作指引》), *the Articles Association* (《公司章程》), and *Regulations on Independent Directors* (《独立董事工作条例》). They focused on the Company operation, carried out their duties independently and imparted considerable professional advice on improving the Company's systems, daily operations and decision making. They provided fair advice during the Reporting Period and played an effective role in improving the Company supervisory systems and protecting the legal rights of the Company and the shareholders as a whole. For details, please refer to *Independent Directors' 2017 Debriefings* disclosed on [www.cninfo.com.cn](http://www.cninfo.com.cn).

## VI. Performance of duties by special committees under the Board during the Reporting Period

### 1. Strategy Committee

During the reporting period, the Strategy Committee has studied and put forward a proposal regarding to significant investment decisions, and carried out inspection and evaluation on the implementation situation of the above matters. Meanwhile, the Strategy Committee listened carefully to the senior management's report on the operation and development of each module of the Company, actively discussed long-term strategic development plans of the Company in the future in accordance with industrial characteristics and developmental stage combining with production and operation situation of the Company, and provided valuable and constructive suggestions for steady development of the Company.

### 2. Audit Committee

During the reporting period, the Audit Committee carefully audited financial information of the Company and disclosure of such information, proposed selection and appointment of external audit organizations, took charge of communication between internal and external auditors and supervised construction and implementation of internal audit systems of the Company. During the reporting period, the Audit Committee carefully considered

the annual audit summary report of the external audit organization, carefully listened to relevant reports of the internal audit department, audited the scientificity, rationality, effectiveness and implementation of internal control systems of the Company, branches and subsidiaries, and put forward guiding opinions for diligence and performance assessment of internal auditors.

### 3. Nomination Committee

During the reporting period, the Nomination Committee carefully reviewed the selection standard and procedure of directors and senior management members. Upon expiry of the term of office of the third session of the Board of Directors, it communicated with relevant departments of the Company, investigated requirements of new directors and senior management members, and actively reviewed resumes and qualifications of candidates for directors and senior management members, and practically performed responsibilities as nomination committee.

### 4. Remuneration and Appraisal Committee

During the reporting period, the Remuneration and Appraisal Committee carefully reviewed remuneration policies of directors and senior management members and put forward professional opinions on appraisal standards for the aforesaid personnel; reviewed and considered the remuneration and performance assessment scheme for 2017, followed up and supervised implementation of the scheme; considered matters relating to second unlocking of restricted shares for 2014 and put forward guiding opinions.

## VII. Performance of duties by the Supervisory Committee

Were there any risks to the Company identified by Supervisory Committee when performing its duties during the Reporting Period?

Yes  No

The Supervisory Committee of the Company will strictly abide by provisions of the *Company Law*, *Standard Operation Guidelines on Enterprises Listed on SMEs Board at Shenzhen Stock Exchange*, *Articles of Association*, *Rules of Procedures of Supervisory Committee*, and relevant laws, regulations and rules, diligently perform its duties, supervise the legalization and standardization of the corporate finance and directors and senior management personnel when executing their positions, and practically safeguard the legitimate rights and interests of the Company, staff and shareholders.

In 2017, the Company's Board of Supervisors convoked a total of 4 meetings, and reviewed a total of 14 proposals which mainly involved in aspects of the Company's daily operation, financial information and its

disclosure, and vesting of restricted incentive share plan, and etc., for details or Supervisory Committee resolutions, please refer to [www.cninfo.com.cn](http://www.cninfo.com.cn). Meanwhile, the Company's Supervisory Committee also organized one special meeting, performed on-site research on Tonglu manufacture base, listened to the senior management's report on the operation and development of each module of the Company, deeply understood the measures of Company's operational and financial situation, the establishment and implementation of internal control system, and protection of employees' rights and interests, etc.

### **Supervisory Committee's opinions on relevant matters in 2017:**

#### **1. Normative Operation Conditions of the Company**

During the reporting period, the Supervisory Committee members have supervised the Company's daily operation situation by means of attending the board meeting and the shareholders' meeting, listening to and review special report, interview and other forms. The Board of Supervisors believes that the Company has established a fairly sophisticated internal control system, all significant decisions are scientific and reasonable, and decision-making processes are legal. Directors and senior management personnel of the Company are diligent and responsible when executing duties; and behaviors of violating laws and regulations, damaging interests of the Company and legitimate rights and interests of shareholders were not found.

#### **2. Checking the financial situation of the Company**

During the reporting period, the Supervisory Committee carefully listened to reports of annual financial works by person in charge of finance and accounting, understood audit work arrangement of external auditors, and the Supervisory Committee believes that preparation and deliberation procedure of the Company's periodic report conforms to provisions of laws, administrative regulations and CSRC (China Securities Regulatory Commission) regulations, the report contents truly, correctly and completely reflects actual conditions of the Company, and is free of any false record, misleading statement or significant omission. There is no behavior violating confidentiality provisions founded for personnel who participated in preparation and deliberation procedure of periodic reports.

#### **3. Self-evaluation report about internal control of year 2017**

During the reporting period, the Supervisory Committee has listened to reports regarding construction and implementation situations for the internal control system of the Company and its branches and subsidiaries by Internal Audit Department, Process Management Department and other relevant departments. After a careful study and discussion, the Supervisory Committee believes that the Company has established a fairly sophisticated

internal control system which conforms to relevant national laws and regulations and fulfills the actual demand of the Company's production and operation management, obtained effective implementation, and has played a role in risk prevention and control effect on each section of the Company's production and operation management. The Board of Directors' self-evaluation report about internal control can truthfully and objectively reflect the internal control system construction and operation conditions of the Company.

#### **4. External Guarantee Situation of the Company**

During the reporting period, the Supervisory Committee has carefully listened to the reports by the person in charge of finance and accounting, understood about demand of guarantees items and relevant implementation situations of the Company and its subsidiaries, and researched and reviewed relevant proposals regarding guarantees provided for subsidiaries by the Company. The Supervisory Committee believes that: The Company provides guarantees for subsidiaries, which fully meets fund demand for its production and management, and is beneficial to further improve its production and operation abilities. The financial risk of the guarantee provided by the Company is in the controllable scope of the Company, and has no significant impact on normal operation of the Company. For guarantees provided to subsidiaries not wholly-owned by the Company, the minority shareholders will not provide proportional guarantees, however, those subsidiaries all have good business prospects and the Company has control power on the subsidiaries' operation and finance, So there's basically no risk in providing a guarantee. There is no contravention between relevant provisions of CSRC and *Articles of Association*. The guarantee conforms to interests of the Company and general shareholders, and won't have any adverse effect on the Company.

#### **5. Related-party transactions of the Company**

During the reporting period, the Supervisory Committee has supervised decision-making process and follow-up performance of daily related-party transactions of the Company by means of attending board meetings and interviewing the senior management personnel. The Supervisory Committee believes that related-party transactions happened to the Company are subject to the principles of voluntariness, fairness and reasonableness, and consensus of the transaction parties, and conform to relevant laws and regulations and provisions of *Articles of Association*. The Board of Directors reviewed related-party transactions according to legal procedures, related directors avoid votes; and the decision-making processes of related-party transactions are legal and compliant. There is no situation damaging interests of the Company and medium and small shareholders.

#### **6. Implementation of resolutions of shareholders' meeting**

During the reporting period, the Supervisory Committee has carefully reviewed each proposal of the shareholders' meeting submitted by the Board of Directors, and further inspected practical implementation of each proposal. The Supervisory Committee believes that the Company's Board of Directors can diligently perform relevant resolutions of the Shareholders' Meeting.

#### **7. Restricted share plan of the Company**

During the reporting period, the Supervisory Committee has researched and reviewed relevant proposals of the 2<sup>nd</sup> vesting of 2014 restricted share plan. The Supervisory Committee believes that pursuant to the relevant provisions in the Company's *2014 Restricted Share Proposal*, vesting conditions for the 2<sup>nd</sup> vesting period of 2014 Restricted Share Proposal were fulfilled; and it agrees to conduct 2<sup>nd</sup> vesting of 2014 Restricted Share in accordance with relevant provisions in 2014 Restricted Share Proposal.

The Supervisory Committee inspected and verified the reasons, quantity, and price of the Company's repurchase and cancellation of restricted shares, and believes that: pursuant to the relevant provisions in the Company's *2014 Restricted Share Proposal*, due to various reasons i.e. demission of partial grantees and fail to qualify for 2016 personal performance appraisal results, the Company decided to repurchase and cancel entire or partial of the granted and unvested restricted shares, totaled in 1,594,641 shares. The above repurchase and cancellation of restricted shares is legal and effective, complying with the Company's *2014 Restricted Share Proposal* and relevant laws, regulations and provisions.

At the same time, the Supervisory Committee conducted special review on the *List of Grantees Qualified for the 2<sup>nd</sup> Unlocking Period of 2014 Restricted Share proposal*, and believes: the Company's 1068 grantees are qualified for the 2<sup>nd</sup> Unlocking Period of 2014 Restricted Share proposal; and the Supervision Committee agreed that the Company could process unlocking procedures for the above grantees.

During the Reporting Period, the Company strictly followed relevant rules and regulations, strengthened registration management of information insiders and inside information confidentiality management in preparation of periodic reports, resolution and disclosure, and planning, implementation and announcement of significant affairs, and other matters related to the Company's inside information. The Company truthfully filled in and submitted the *Registration Form for Information Insiders*, and reported to Shenzhen Stock Exchange Place in a timely manner.

**VIII. Assessment and incentive mechanism for the senior management**

The Company has established a fairly sophisticated mechanism on employees' evaluation and incentive restraint, and has established a fair and transparent appraisal and incentive mechanism on senior management personnel and other various level management personnel and employees. The Company's board of directors has carried out annual appraisals of senior management members mainly based on annual target achievement index. The Board is responsible for appraisals of the general manager on the general manager's duty, capacity and performance of operation; and the general manager carried out appraisals of other senior management members on their operational management and implementation of relevant assignments.

In the year 2017, senior management personnel carried out their duties diligently with good performance, and fairly completed their objectives and missions set out at the beginning of the year.

**IX. Evaluation report on internal control**

**1. Any significant internal control deficiencies during the reporting period**

Yes  No

**2. Self-evaluation report on internal control**

Disclosure date of full text of self-evaluation report on internal control		April 21 <sup>st</sup> 2018
Disclosure index of full text of self-evaluation report on internal control		www.cninfo.com.cn
Proportion of assets evaluated in total assets		100.00%
Proportion of revenue evaluated in total revenue per consolidated financial statement		100.00%
Recognition standard of deficiencies		
Nature	Financial report level	Non-financial report level
Qualitative criteria	<p>Significant deficiency: A deficiency or a combination of deficiencies in internal control may prevent significant errors in financial reports from being identified or prevented, e.g.:</p> <p>A. Invalid internal control environment; B. Fraud of directors, supervisors and senior management personnel on the financial report ; C. Significant errors identified by external auditors but not identified during the Company is operating; D. Invalid supervision of audit committee and internal audit system; E. Other deficiencies that may lead to the wrong judgement of financial statement reporter.</p> <p>Important deficiency: A deficiency or a combination of deficiencies in internal control may prevent errors in financial report from being identified or prevented, although such deficiency is not significant, but require attention of the Board and Management, e.g.:</p> <p>A. Application of accounting policies does not follow the enterprise accounting standard; B. No internal control systems for fraud; C. No control systems or system not effective for unusual or special transactions or no compensatory relevant control;</p>	<p>Internal control deficiencies at non-financial report level are mainly identified by the likelihood of occurrence and the extent of impacts on operating effective in business.</p> <p>Significant deficiency: the high likelihood leading to significant reduction of working efficiency, or significant increase of uncertainty, or significant deviation from the expected target;</p> <p>Important deficiency: a higher likelihood leading to remarkable reduction of working efficiency, or remarkable increase of uncertainty, or remarkable deviation from the expected target;</p> <p>Normal deficiency: a low likelihood leading to reduction of working efficiency, or increase of uncertainty, or deviation from the expected target;</p>

	D. One or more deficiencies which prevent the preparation of true and fair financial statements. Normal deficiency: Not significant and not important deficiency.		
Quantitative criteria	Significant deficiency	potential errors 5% or more of total profits	direct losses of assets is 5% or more of total profits
	Important deficiency:	potential errors 2% or more but below 5% of total profits	direct losses of assets is over 2% but below 5% of total profits
	Normal deficiency:	potential errors is 2% or less of total profits	direct losses of assets is below 2% of total profits
Number of significant deficiencies in financial report level			0
Number of significant deficiencies in non-financial report level			0
Number of important deficiencies in financial report level			0
Number of important deficiencies in non-financial report level			0

**X. Audit report or assurance report on internal control**

Applicable  Inapplicable

**Audit Report on Internal Control**

Audit Opinion paragraph in Audit Report on Internal Control	
We believe that, as of December 31 <sup>st</sup> 2017, Hangzhou Hikvision Digital Technology Co., Ltd. has maintained effective internal control on financial reports in accordance with <i>Basic Norms for Enterprise Internal Control</i> and relevant regulations.	
Disclosure of Audit Report on Internal Control	Disclosed
Date of disclosure for full text Audit Report on Internal Control	April 21 <sup>st</sup> 2018
Disclosure index of full text of Audit Report on Internal Control	2017 Internal Audit Report on <a href="http://www.cninfo.com.cn">www.cninfo.com.cn</a>
Opinion on Internal Control Audit Report	standard and unqualified opinion
Whether there is significant deficiencies regarding non-financial reports	NO

Whether the CPA Firm issued modified audit opinions on Internal Control Audit Report.

Yes  No

Whether the opinions in Internal Control Audit Report issued by CPA firm is consistent with the opinions in the self-evaluation report on internal control issued by board of directors

Yes  No

## **Section X Corporate Bonds**

Whether the Company has publicly issued corporate bonds on stock exchange place, which has not terminated or terminated but fail to collect the full payment before the annual report authorized disclosure date.

No

## Section XI Financial Report

### I. Audit report

Audit Opinion	Unmodified unqualified audit opinion
Audit Report sign-off Date	April 19 <sup>th</sup> 2018
Audit Institution Name	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Audit Report Number	Deloitte Auditors' Report (Audit) No. 18-P02957
Certified Public Accounts Name	Mou Zhengfei, Huang Yan

To all shareholders of Hangzhou Hikvision Digital Technology Co., Ltd.:

### I. Audit Opinion

We have audited the accompanying financial statements of Hangzhou Hikvision Digital Technology Co., Ltd. (hereinafter referred to as "Hikvision"), including consolidated and parent company's balance sheet as of December 31<sup>st</sup> 2017, consolidated and parent company's income statement, cash flow statement and statement of changes in owners' equity of 2017 as well as relevant financial notes to financial statements.

In our opinion, the financial statements annexed have been prepared in accordance with Accounting Standards for Business Enterprises in all material respects and they present fairly the consolidated and parent company's financial position of Hikvision as of December 31<sup>st</sup> 2017 and consolidated and parent company's financial performance and cash flows of 2017.

### II. Basis of Opinion

We have conducted our audit in accordance with the Auditing Standards for Chinese Certified Public Accountants. "Responsibilities of Certified Public Accountants for Financial Statements Audit" in the Audit Report further states our responsibilities under the standards. As per the code of ethics of Chinese certified public accountants, we are independent from Hikvision and have implemented other responsibilities as required by the code of ethics. We believe that the audit evidence we have acquired is sufficient and appropriate to provide a basis for our audit opinion.

### III. Key Matters

Key matters are matters we deem the most significant to the financial statements audit for the current period based on our professional judgment. These matters are handled based on the financial statements audit as a whole and the audit opinion formed accordingly. We don't present opinions separately on these matters. We confirm that the following matters are key matters to be communicated through in the audit report.

#### (I) Recognition of Sales Revenues

Description:

As shown in Note (V) (40) and Note (XIV) (1), the operating revenue in 2017 in the consolidated financial statements of the Group for the year ended December 31<sup>st</sup> 2017 is RMB 41,905.48 million. The product sales revenue, a key performance indicator, reaches RMB 39,364.68 million, which is a significant amount, accounting for 93.94% of the operating revenue, and has a significant influence on results of operations. The product sales revenue models include internal and external sales of products, etc. There may be relevant risks of revenue recognition, as the point in time at which risks and rewards are transferred is different under different revenue models. Therefore, we treat sales revenue occurrence and cutoff as key audit matters.

Audit Measures:

Main audit procedures that we perform for the aforesaid key audit matters include:

- (1) Understanding and evaluating design and implementation of key internal control in relation to revenue recognition, and testing the effectiveness of its operation;
- (2) For revenues under different sales models, selecting a sample to check a sales contract, reviewing its main transaction terms, evaluating whether revenue recognition complies with requirements of accounting policies of the Group and the Accounting Standards for Business Enterprises; conducting a background investigation of important customers to check whether there is any indication of existence of abnormal customers or transactions;
- (3) Analyzing revenues and gross profits, based on product types, to understand whether there are abnormal fluctuations in the revenues and gross profits for the year, and conducting a test of details for identified specific transactions, through systematic analysis of revenue data, and reviewing relevant supporting documents;
- (4) Selecting sample(s) from product sales revenues recorded for the year, checking invoices, sales contracts or orders, shipping orders, signature forms or customs declarations and other supporting documents; carrying out an additional check of sample(s) under the selected external sales model for customs declaration records; critically focusing on occurrence of sales revenue recognition and whether they are recorded in the correct accounting period.

**(II) Provision for Decline in Value of Inventories**Description:

As shown in Note (V) (7), as of December 31<sup>st</sup> 2017, the carrying amount of inventories in the consolidated financial statements of the Group was RMB 5,134.64 million, and the provision for diminution in value of inventories was RMB 194.30 million. The carrying value of the Group's inventories is relatively high, so the provision for diminution in value of inventories has a relatively significant influence on the financial statements. As shown in Note (III) 11.3 and Note (III) 26 to the financial statements, inventories are measured at the lower of cost and net realizable value, on the balance sheet date. The provision for impairment of inventories is made when the net realizable value is lower than the cost. Net realizable value is the estimated selling price for inventories less estimated costs of completion to be incurred, estimated costs to make the sale and relevant taxes. As the

management needs to use critical accounting estimates in determining the net realizable value of inventories and the amount is significant, we treat the provision for diminution in value of inventories as a key audit matter.

### Audit Measures

Main audit procedures that we perform for the aforesaid key audit matters include:

- (1) Understanding and evaluating design and implementation of key internal control in relation to provision for diminution in value of inventories by the Company's management, and testing the effectiveness of its operation;
- (2) Understanding the Group's accounting policies for the provision for diminution in value of inventories, evaluating whether identification of inventories by the management for which the provision for diminution in value of inventories should be made is appropriate, and evaluating the reasonableness of estimation of the net realizable value by the management;
- (3) Testing the completeness and accuracy of data in the list of inventories for which the provision for diminution in value of inventories should be made, based on which the Company's management estimates the provision for diminution in value of inventories, and recalculating the provision for diminution in value of inventories;
- (4) Selecting sample(s) from inventories to test the net realizable value. For the finished product selected as a sample, comparing the book cost of the finished product with recent or subsequent actual selling price; for raw materials and unfinished products selected as samples, comparing costs of completion for the same type of raw materials and unfinished products and costs to make the sale for the period, and evaluating the reasonableness of estimated cost of completion to be incurred, costs to make the sale and relevant taxes;
- (5) Performing the supervision procedure for inventory-taking of the Group, with focus on defective, obsolete or slow-moving inventories, and checking whether there are inventories with an indication of impairment which are not recorded.

### **IV. Other Information**

Management of Hikvision shall be responsible for other information. Other information includes the information covered in the annual report, excluding the financial statements and our audit report.

Our audit opinion on the financial statements does not cover other information and we do not express any form of authentication conclusion on other information.

In connection with our audit of the financial statements, our responsibility is to read other information and to consider whether other information is significantly misstated or materially inconsistent with the financial statements or the information we learned during the audit.

Based on the works we have performed, if we determine that there is a material misstatement in other information, we should report the fact. In this respect, we have nothing to report.

## V. Responsibility of the Management and Governance for the Financial Statements

The management of Hikvision is responsible for the preparation of financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation, and design, implementation and maintenance of necessary internal control to enable the financial statements are free from material misstatement, whether due to fraud or error.

When preparing the financial statements, the management is responsible for assessing the going-concern ability of Hikvision, disclosing issues related to going-concern as applicable, and applying going-concern assumptions, unless the management plans to liquidate Hikvision, terminate operation or has no other realistic choice.

The governance is responsible for supervising financial reporting processes of Hikvision.

## VI. Responsibility of Certified Public Accountants on Audit of the Financial Statements

Our objective is to obtain reasonable assurance as to whether the overall financial statements are free from material misstatement, whether due to fraud or error, and to issue audit report that contain audit opinions. Reasonable assurance is a high level of assurance, but could not guarantee that an audit performed in accordance with the Auditing Standards can always figure out any existing material misstatements. Misstatements may be caused by fraud or error. Misstatement is generally considered to be material if it is reasonably expected that the misstatement, alone or aggregated, may affect the users' financial decisions based on the financial statements.

In performing the audit in accordance with the Auditing Standards, we applied professional judgment and maintained professional skepticism. Meanwhile, we also perform the following duties:

- (1) Identify and evaluate the risk of material misstatement of financial statements due to fraud or error; design and implement audit procedures to cope with these risks, and obtain adequate and appropriate audit evidence as the basis for expressing audit opinions. As fraud may involve collusion, forgery, willful omission, misrepresentation or override of internal control, the risk of not discovering a material misstatement due to fraud is higher than the risk of not discovering a material misstatement due to error.
- (2) Understand the internal control related to auditing as a way to design appropriate audit procedures.
- (3) Evaluate the properness of accounting policy selected by the management and the rationality of accounting estimate and related disclosure.
- (4) Reach a conclusion on whether the going concern assumption adopted by the management is appropriate. Meanwhile, based on the audit evidence obtained, reach a conclusion on whether there are material uncertainties in the events or conditions that may cast significant doubts on Hikvision's ability to continue as a going concern. If we reach a conclusion that there is a material uncertainty, the Auditing Standards require us to call the attention of the users of the report to the relevant disclosures in the financial statements in the audit report. If the disclosure is insufficient, we should issue modified audit opinions. Our conclusion is based on the information available up to the date of the audit report. However, future events or conditions may result in the failure of Hikvision to continue as a going concern.

- (5) Evaluate the overall presentation, structure and content (including the disclosure) of the financial statements and evaluate whether the financial statements fairly reflect the related transactions and events.
- (6) Obtain adequate and appropriate audit evidence on the financial information of entity or business activities of Hikvision so as to express audit opinions on the financial statements. We are responsible for directing, supervising and executing the audit on the Group, and assume full responsibility for the audit opinions.

We communicated with the governance about the scope of the audit, the schedule and major audit findings, including the notable shortcomings of internal control identified during the auditing.

We also provide statement to the governance on the independence-related work ethics we follow, and communicate with the governance on all relations and other matters that might be reasonably deemed to influence our independence as well as relevant precautionary measures (as applicable).

We determine which of the matters we communicated with the governance are of the greatest importance to the audit of financial statements of the current period so as to make them key matters. We describe the matters in the audit report. We decide not to communicate on such matters in the audit report unless the laws and regulations forbid the public disclosure of such matters, or, in rare circumstances, if the negative consequence of communication of matters in the audit report is reasonably expected to exceed the benefit of the public interest.

At December 31<sup>st</sup> 2017

**Consolidated Balance Sheet**

Unit: RMB

Item	Notes	Closing balance	Opening balance (Restated)
<b>Current Assets:</b>			
Cash and bank balances	(V)1	16,468,430,702.64	13,638,078,139.56
Financial assets at fair value through profit or loss	(V)2	4,100,657.54	15,547,537.34
Notes receivable	(V)3	3,636,961,616.03	2,843,404,415.52
Accounts receivable	(V)4	14,705,210,072.81	11,243,843,324.90
Prepayments	(V)5	527,576,857.11	279,023,207.91
Other receivables	(V)6	583,681,240.81	528,639,081.79
Inventories	(V)7	4,940,332,311.65	3,829,947,876.75
Non-current assets due within one year	(V)8	66,566,230.12	-
Other current assets	(V)9	3,720,449,532.88	4,153,992,276.78
<b>Total Current Assets</b>		<b>44,653,309,221.59</b>	<b>36,532,475,860.55</b>
<b>Non-current Assets:</b>			
Available-for-sale financial assets	(V)10	287,466,813.00	283,836,013.00
Long-term receivables	(V)11	23,375,680.61	251,588,919.15
Long-term equity investment	(V)12	130,474,733.58	35,000,000.00
Fixed assets	(V)13	3,024,025,496.31	2,853,913,621.12
Construction in progress	(V)14	1,436,319,118.30	316,482,522.36
Intangible assets	(V)15	429,160,982.63	410,456,789.63
Goodwill	(V)16	248,964,102.97	248,364,401.47
Deferred tax assets	(V)17	479,070,649.49	375,310,938.70
Other non-current assets	(V)18	858,796,668.13	40,999,684.42
<b>Total Non-current Assets</b>		<b>6,917,654,245.02</b>	<b>4,815,952,889.85</b>
<b>Total Assets</b>		<b>51,570,963,466.61</b>	<b>41,348,428,750.40</b>

At December 31<sup>st</sup>, 2017

**Consolidated Balance Sheet - continued**

Unit: RMB

Item	Notes	Closing balance	Opening balance (Restated)
<b>Current Liabilities:</b>			
Short-term borrowings	(V)19	97,114,655.91	32,291,324.85
Financial liabilities at fair value through profit or loss	(V)20	15,946,836.46	69,789,502.97
Notes payable	(V)21	845,397,427.92	876,804,536.72
Accounts payable	(V)22	10,039,943,012.26	7,009,322,028.13
Receipts in advance	(V)23	570,573,208.60	469,804,837.45
Payroll payable	(V)24	1,391,291,256.90	1,084,951,139.10
Taxes payable	(V)25	1,453,515,065.77	1,205,710,722.22
Dividends payable	(V)26	94,857,139.16	20,105,831.16
Other payables	(V)27	401,861,078.67	1,049,164,707.44
Non-current liabilities due within one year	(V)28	1,546,407,270.89	15,340,813.03
Other current liabilities	(V)29	744,583,627.22	300,177,750.17
<b>Total Current Liabilities</b>		<b>17,201,490,579.76</b>	<b>12,133,463,193.24</b>
<b>Non-current Liabilities:</b>			
Long-term borrowings	(V)30	490,000,000.00	1,722,207,584.33
Bonds payable	(V)31	3,120,920,000.00	2,954,449,528.77
Long-term payables		2,437,038.62	7,000,000.00
Provisions	(V)32	63,068,638.49	41,933,212.54
Deferred income	(V)33	88,925,771.65	10,833,745.99
<b>Total non-current liabilities</b>		<b>3,765,351,448.76</b>	<b>4,736,424,071.63</b>
<b>Total liabilities</b>		<b>20,966,842,028.52</b>	<b>16,869,887,264.87</b>
<b>Owners' Equity</b>			
Share capital	(V)34	9,228,865,114.00	6,102,706,885.00
Capital reserve	(V)35	1,819,397,715.63	1,048,320,853.66
Less: Treasury stock	(V)36	744,583,627.22	300,177,750.17
Other comprehensive income	(V)37	(27,677,939.35)	(41,230,777.21)
Surplus reserve	(V)38	3,483,742,918.53	2,615,437,822.15
Retained profits	(V)39	16,598,328,692.63	14,860,650,178.39
<b>Total owners' equity attributable to owner of the Company</b>		<b>30,358,072,874.22</b>	<b>24,285,707,211.82</b>
Minority equity		246,048,563.87	192,834,273.71
<b>Total owners' equity</b>		<b>30,604,121,438.09</b>	<b>24,478,541,485.53</b>
<b>Total liabilities and owners' equity</b>		<b>51,570,963,466.61</b>	<b>41,348,428,750.40</b>

The accompanying notes form part of the financial statements.

The financial statements were signed by the following:

Legal Representative: Chen Zongnian; Chief Accountant: Jin Yan;

Person in Charge of the Accounting Organization: Jin Yan

At December 31<sup>st</sup>, 2017

**Balance sheet of the company**

Unit: RMB

Item	Notes	Closing balance	Opening balance
<b>Current Assets:</b>			
Cash and bank balances		12,304,090,713.99	10,249,118,159.19
Financial assets at fair value through profit or loss		-	5,284,890.86
Notes receivable		345,651,612.11	221,542,747.41
Accounts receivable	(XV)1	12,505,683,317.78	10,128,753,520.42
Prepayments		94,545,948.67	8,256,040.04
Dividend receivables		2,550,000.00	-
Other receivables	(XV)2	709,592,493.72	417,963,245.46
Inventories		376,776,045.69	566,168,466.17
Other current assets		3,296,055,941.42	3,889,519,711.57
<b>Total Current Assets</b>		<b>29,634,946,073.38</b>	<b>25,486,606,781.12</b>
<b>Non-current Assets:</b>			
Available-for-sale financial assets		287,456,813.00	283,221,700.00
Long-term receivables		-	72,153,363.60
Long-term equity investment	(XV)3	3,367,076,734.95	1,714,688,703.42
Fixed assets		1,757,777,870.77	1,720,579,461.05
Construction in progress		914,859,063.00	248,447,641.34
Intangible assets		154,604,755.69	131,566,733.76
Deferred tax assets		200,147,031.89	177,568,964.27
Other non-current assets		16,925,712.83	10,782,858.00
<b>Total Non-current Assets</b>		<b>6,698,847,982.13</b>	<b>4,359,009,425.44</b>
<b>Total Assets</b>		<b>36,333,794,055.51</b>	<b>29,845,616,206.56</b>

At December 31<sup>st</sup>, 2017

**Balance sheet of the company - continued**

Unit: RMB

Item	Notes	Closing balance	Opening balance
<b>Current Liabilities:</b>			
Financial liabilities at fair value through profit or loss		-	58,858,697.43
Accounts payable		286,629,255.35	138,851,152.86
Receipts in advance		216,747,866.68	233,831,105.17
Payroll payable		946,587,240.01	811,701,475.85
Taxes payable		1,219,102,007.88	998,754,860.91
Dividends payable		92,407,139.16	20,105,831.16
Other payables		708,051,044.04	787,861,780.95
Non-current liabilities due within one year		33,614,018.51	-
Other current liabilities		744,583,627.22	300,177,750.17
<b>Total Current Liabilities</b>		<b>4,247,722,198.85</b>	<b>3,350,142,654.50</b>
<b>Non-current Liabilities:</b>			
Bonds payable		3,120,920,000.00	2,954,449,528.77
Provisions		43,024,784.70	28,799,848.84
Deferred Income		62,903,600.00	-
<b>Total non-current liabilities</b>		<b>3,226,848,384.70</b>	<b>2,983,249,377.61</b>
<b>Total liabilities</b>		<b>7,474,570,583.55</b>	<b>6,333,392,032.11</b>
<b>Owners' Equity</b>			
Share capital		9,228,865,114.00	6,102,706,885.00
Capital reserve		1,742,755,331.51	955,687,875.52
Less: Treasury stock		744,583,627.22	300,177,750.17
Surplus reserve		3,483,742,918.53	2,615,437,822.15
Retained profits		15,148,443,735.14	14,138,569,341.95
<b>Total owners' equity</b>		<b>28,859,223,471.96</b>	<b>23,512,224,174.45</b>
<b>Total liabilities and owners' equity</b>		<b>36,333,794,055.51</b>	<b>29,845,616,206.56</b>

For the year ended on December 31<sup>st</sup> 2017

**Consolidated Income Statement**

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Total operating income</b>	(V)40	<b>41,905,476,572.07</b>	<b>31,934,544,088.82</b>
Less: Total operating costs	(V)40	23,467,310,590.76	18,652,707,155.56
Business taxes and levies	(V)41	370,993,824.45	255,279,115.16
Selling expenses	(V)42	4,430,220,065.13	2,991,273,819.81
Administrative expenses	(V)43	4,205,437,565.45	3,109,309,837.05
Financial expense	(V)44	265,411,287.66	(225,305,567.12)
Impairment losses of assets	(V)45	484,568,899.16	317,564,256.35
Add: Gains (losses) from changes in fair values	(V)46	42,090,091.11	(40,171,578.80)
Investment income	(V)47	44,650,105.12	40,493,287.66
Including: Investment gains (losses) in associated enterprise and joint-venture enterprise		(2,525,266.42)	-
Asset disposal income (loss)		1,585,222.50	(736,149.02)
Other Income	(V)48	1,673,251,852.26	-
<b>II. Operating profit</b>		<b>10,443,111,610.45</b>	<b>6,833,301,031.85</b>
Add: Non-operating income	(V)49	46,729,250.63	1,510,721,773.05
Less: Non-operating expenses	(V)50	3,020,378.72	29,911,242.56
<b>III. Total profit</b>		<b>10,486,820,482.36</b>	<b>8,314,111,562.34</b>
Less: Income tax expenses	(V)51	1,109,318,842.54	889,888,483.70
<b>IV. Net profit</b>		<b>9,377,501,639.82</b>	<b>7,424,223,078.64</b>
4.1 Classification by continuous operation			
(a) Net profit on continuous operation		9,377,501,639.82	7,424,223,078.64
(b) Net loss on terminated operation		-	-
4.2 Classification by attribution of ownership			
(a) Profit or loss attributable to minority shareholders		(33,353,445.00)	539,117.73
(b) Net profit attributable to owners of parent company		9,410,855,084.82	7,423,683,960.91
<b>V. Other comprehensive income, net of income tax</b>		<b>13,852,652.33</b>	<b>(12,687,807.98)</b>
Other comprehensive income attributable to owners of the Company, net of tax		13,552,837.86	(13,570,759.51)
(I) Items that will not be reclassified subsequently to profit or loss		-	-
(II) Other comprehensive income to be reclassified to profit or loss in subsequent periods		13,552,837.86	(13,570,759.51)
1. Exchange differences arising on conversion of financial statements denominated in foreign currencies		13,552,837.86	(13,570,759.51)
Other comprehensive income attributable to minority interests, net of tax		299,814.47	882,951.53
<b>VI. Total comprehensive income</b>		<b>9,391,354,292.15</b>	<b>7,411,535,270.66</b>
Total comprehensive income attributable to owners of the parent company		9,424,407,922.68	7,410,113,201.40
Total comprehensive income attributable to minority shareholders		(33,053,630.53)	1,422,069.26

Item	Notes	Amount for the current period	Amount for the prior period
<b>VII. Earnings per share</b>			
(I) Basic earnings per share	(XVI)2	1.030	0.818
(II) Diluted earnings per share	(XVI)2	1.024	0.817

There is business merger under the common control during the current reporting period; the merged party realized net loss of 42,070.90 RMB before the merge, and 3,949,939.20 RMB net profits for the previous reporting period.

For the year ended on December 31<sup>st</sup> 2017

**Income statement of the Company**

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Total operating income</b>	(XV)4	<b>19,167,979,291.38</b>	<b>17,165,449,311.27</b>
Less: Operating Cost	(XV)4	6,100,951,920.79	5,967,138,876.83
Business taxes and levies		258,550,741.27	222,640,567.03
Selling expenses		1,987,923,082.04	1,923,037,271.14
Administrative expenses		2,907,178,112.56	2,331,920,426.33
Financial expense		(187,143,169.54)	(67,337,491.29)
Impairment losses of assets		107,602,826.75	151,838,196.39
Add: Gains (losses) from changes in fair values		53,573,806.57	(53,573,806.57)
Investment income	(XV)5	34,502,356.33	57,191,401.59
Including: Investment gain (loss) in associated enterprise and joint-venture enterprise		(2,525,266.42)	-
Asset disposal income (loss)		2,755,085.52	(215,830.09)
Other income		1,435,381,243.67	-
<b>II. Operating profit</b>		<b>9,519,128,269.60</b>	<b>6,639,613,229.77</b>
Add: Non-operating income		50,858,016.62	1,372,068,887.62
Less: Non-operating expenses		1,489,124.20	7,603,290.76
<b>III. Total profit</b>		<b>9,568,497,162.02</b>	<b>8,004,078,826.63</b>
Less: Income tax expenses		885,446,198.25	800,310,646.06
<b>IV. Net profit</b>		<b>8,683,050,963.77</b>	<b>7,203,768,180.57</b>
<b>V. Other comprehensive income, net of income tax</b>		-	-
<b>VI. Total comprehensive income</b>		<b>8,683,050,963.77</b>	<b>7,203,768,180.57</b>

For the year ended on December 31<sup>st</sup> 2017

**Consolidated Cash Flow Statement**

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods or rendering of services		42,136,145,087.13	32,675,031,364.22
Receipts of tax refunds		2,733,759,603.00	2,592,008,277.39
Other cash receipts relating to operating activities	(V)52(1)	533,929,235.33	489,624,016.45
<b>Sub-total of cash inflows from operating activities</b>		<b>45,403,833,925.46</b>	<b>35,756,663,658.06</b>
Cash payments for goods purchased and services received		25,634,553,120.83	20,894,272,079.39
Cash paid to and on behalf of employees		5,036,917,567.98	3,409,777,616.92
Payments of various types of taxes		3,557,905,236.73	2,915,732,989.62
Other cash payments relating to operating activities	(V)52(2)	3,801,297,749.24	2,320,516,330.08
<b>Sub-total of cash outflows from operating activities</b>		<b>38,030,673,674.78</b>	<b>29,540,299,016.01</b>
<b>Net Cash Flow from Operating Activities</b>	(V)53(1)	<b>7,373,160,250.68</b>	<b>6,216,364,642.05</b>
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from recovery of investments		10,300,303,620.25	4,989,550,266.43
Cash receipts from investment income		31,290,097.01	48,773,447.48
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		23,086,294.46	19,404,765.15
Other cash receipts relating to investing activities	(V)52(3)	63,364,669.30	13,398,940.46
<b>Sub-total of cash inflows from investing activities</b>		<b>10,418,044,681.02</b>	<b>5,071,127,419.52</b>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		1,692,193,203.99	911,399,245.87
Cash paid to acquire investments		9,921,049,145.72	7,335,420,926.25
Net cash payments for acquisitions of subsidiaries and other business units	(V)53(2)	-	172,473,788.49
Other cash payments relating to investing activities		13,500,000.00	35,000,000.00
<b>Sub-total of cash outflows from investing activities</b>		<b>11,626,742,349.71</b>	<b>8,454,293,960.61</b>
<b>Net Cash Flow from Investment Activities</b>		<b>(1,208,697,668.69)</b>	<b>(3,383,166,541.09)</b>
<b>III. Cash flows from financing activities:</b>			
Cash receipts from capital contributions		92,089,826.67	247,269,466.66
Including: cash receipts from capital contributions from minority owners of subsidiaries		92,089,826.67	247,269,466.66
Cash receipts from borrowings		3,550,599,109.39	4,668,904,940.17
Cash receipts from issuing of bonds		-	2,903,120,000.00
Other cash receipts relating to financing activities	(V)52(4)	-	660,888,216.54
<b>Sub-total of cash inflows from financing activities</b>		<b>3,642,688,936.06</b>	<b>8,480,182,623.37</b>
Cash repayments of borrowings		3,205,532,364.13	5,104,870,545.06
Cash payments for distribution of dividends or profits or settlement of interest expenses		3,800,451,724.80	2,930,913,722.75
Including: payments for distribution of dividends or profits to minority owners of subsidiaries		3,062,500.00	-
Other cash payments relating to financing activities	(V)52(5)	38,451,500.00	1,602,804.35
<b>Sub-total of cash outflows from financing activities</b>		<b>7,044,435,588.93</b>	<b>8,037,387,072.16</b>
<b>Net Cash Flow from Financing Activities</b>		<b>(3,401,746,652.87)</b>	<b>442,795,551.21</b>
<b>IV. Effect of foreign exchange rate changes on Cash and Cash Equivalents</b>		<b>(255,868,357.23)</b>	<b>212,875,294.92</b>
<b>V. Net Increase in Cash and Cash Equivalents</b>	(V)53(1)	<b>2,506,847,571.89</b>	<b>3,488,868,947.09</b>
Add: Opening balance of Cash and Cash Equivalents	(V)53(1)	13,522,337,697.28	10,033,468,750.19
<b>VI. Closing Balance of Cash and Cash Equivalents</b>	(V)53(3)	<b>16,029,185,269.17</b>	<b>13,522,337,697.28</b>

For the year ended on December 31<sup>st</sup> 2017

**Cash Flow Statements of the Company**

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Cash Flows from Operating Activities::</b>			
Cash receipts from the sale of goods and the rendering of services		19,722,915,694.68	18,882,254,702.72
Receipts of tax refunds		1,439,270,404.56	1,284,036,478.69
Other cash receipts relating to operating activities		339,663,486.81	322,630,474.75
<b>Sub-total of cash inflows from operating activities</b>		<b>21,501,849,586.05</b>	<b>20,488,921,656.16</b>
Cash payments for goods acquired and services received		7,025,548,254.61	7,375,020,750.77
Cash payments to and on behalf of employees		2,598,154,101.03	1,998,015,491.73
Payments of all types of taxes		2,868,678,724.73	2,349,110,778.76
Other cash payments relating to operating activities		1,742,871,959.31	2,003,975,502.85
<b>Sub-total of cash outflows from operating activities</b>		<b>14,235,253,039.68</b>	<b>13,726,122,524.11</b>
<b>Net Cash Flow from Operating Activities</b>	(XV)8(1)	<b>7,266,596,546.37</b>	<b>6,762,799,132.05</b>
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from disposals and recovery of investments		5,279,892,396.70	3,871,026,616.63
Cash receipts from investment income		34,474,342.25	49,164,784.96
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		18,569,173.19	3,129,852.68
Other cash receipts relating to investing activities		8,014,628,629.24	3,389,327,585.78
<b>Sub-total of cash inflows from investing activities</b>		<b>13,347,564,541.38</b>	<b>7,312,648,840.05</b>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		612,742,341.37	255,328,076.51
Cash payments to acquire investments		6,280,754,974.91	6,996,128,459.52
Other cash payments relating to investing activities		8,280,364,802.77	3,403,968,158.86
<b>Sub-total of cash outflows from investing activities</b>		<b>15,173,862,119.05</b>	<b>10,655,424,694.89</b>
<b>Net Cash Flow from Investment Activities</b>		<b>(1,826,297,577.67)</b>	<b>(3,342,775,854.84)</b>
<b>III. Cash Flows from Financing Activities</b>			
Cash receipts from borrowings		300,000,000.00	-
Cash receipts from issuing of bonds		-	2,903,120,000.00
Other cash receipts relating to financing activities		2,415,734,336.55	1,334,260,247.19
<b>Sub-total of cash inflows from financing activities</b>		<b>2,715,734,336.55</b>	<b>4,237,380,247.19</b>
Cash repayments of borrowings		300,000,000.00	597,065,694.74
Cash payments for distribution of dividends or profits or settlement of interest expenses		3,734,122,697.15	2,898,933,448.56
Other cash payments relating to financing activities		1,855,669,510.90	654,145,840.87
<b>Sub-total of cash outflows from financing activities</b>		<b>5,889,792,208.05</b>	<b>4,150,144,984.17</b>
<b>Net Cash Flow from Financing Activities</b>		<b>(3,174,057,871.50)</b>	<b>87,235,263.02</b>
<b>IV. Effect of foreign exchange rate changes on Cash and Cash Equivalents</b>		<b>(208,127,567.22)</b>	<b>190,636,781.99</b>
<b>V. Net increase in cash and cash equivalents</b>	(XV)8(1)	<b>2,058,113,529.98</b>	<b>3,697,895,322.22</b>
Add: Beginning balance of cash and cash equivalents	(XV)8(1)	10,245,969,003.13	6,548,073,680.91
<b>VI. Closing Balance of Cash and Cash Equivalents</b>	(XV)8(2)	<b>12,304,082,533.11</b>	<b>10,245,969,003.13</b>

For the year ended on December 31<sup>st</sup> 2017

**Consolidated Statement of Changes in Owners' Equity**

Unit: RMB

Item	Amount for the current period							
	Owner's Equity Attributable to owners of the Company						Minority interests	Total owners' equity
	Share capital	Capital reserves	Less: Treasury share	Other comprehensive income	Surplus reserve	Retained profits		
<b>I. Closing balance of the preceding period</b>	6,102,706,885.00	1,045,440,853.66	300,177,750.17	(41,230,777.21)	2,615,437,822.15	14,866,457,856.65	198,039,035.07	24,486,673,925.15
Add: Business merger under common control	-	2,880,000.00	-	-	-	(5,807,678.26)	(5,204,761.36)	(8,132,439.62)
<b>II. Opening balance of the current period (restated)</b>	6,102,706,885.00	1,048,320,853.66	300,177,750.17	(41,230,777.21)	2,615,437,822.15	14,860,650,178.39	192,834,273.71	24,478,541,485.53
<b>III. Increase or decrease in the current period</b>	3,126,158,229.00	771,076,861.97	444,405,877.05	13,552,837.86	868,305,096.38	1,737,678,514.24	53,214,290.16	6,125,579,952.56
(I) Total comprehensive income	-	-	-	13,552,837.86	-	9,410,855,084.82	(33,053,630.53)	9,391,354,292.15
(II) Owners' contributions and reduction in capital	49,869,858.00	771,076,861.97	536,813,016.21	-	-	-	91,780,420.69	375,914,124.45
1. Capital contribution from shareholders	52,326,858.00	608,561,358.54	660,888,216.54	-	-	-	92,089,826.67	92,089,826.67
2. Share-based payment recognized in owners' equity	-	186,951,885.95	-	-	-	-	4,248,711.50	191,200,597.45
3. Others	(2,457,000.00)	(24,436,382.52)	(124,075,200.33)	-	-	-	(4,558,117.48)	92,623,700.33
(III) Profit distribution	3,076,288,371.00	-	(92,407,139.16)	-	868,305,096.38	(7,673,176,570.58)	(5,512,500.00)	(3,641,688,464.04)
1. Transfer to surplus reserve	-	-	-	-	868,305,096.38	(868,305,096.38)	-	-
2. Distributions to shareholders	-	-	(92,407,139.16)	-	-	(3,728,583,103.20)	(5,512,500.00)	(3,641,688,464.04)
3. Others	3,076,288,371.00	-	-	-	-	(3,076,288,371.00)	-	-
<b>IV. Closing balance of the current period</b>	<b>9,228,865,114.00</b>	<b>1,819,397,715.63</b>	<b>744,583,627.22</b>	<b>(27,677,939.35)</b>	<b>3,483,742,918.53</b>	<b>16,598,328,692.63</b>	<b>246,048,563.87</b>	<b>30,604,121,438.09</b>

For the year ended December 31<sup>st</sup> 2017

**Consolidated Statement of Changes in Owners' Equity-continued**

Unit: RMB

Item	Amount for the same period of last year (restated)							Minority interests	Total owners' equity
	Owner's Equity Attributable to owners of the Company								
	Share capital	Capital reserves	Less: Treasury share	Other comprehensive income	Surplus reserve	Retained profits			
<b>I. Closing balance of the preceding period</b>	4,068,772,253.00	1,639,607,652.22	518,074,596.90	(27,660,017.70)	1,895,061,004.09	12,196,097,444.07	43,647,140.92	19,297,450,879.70	
Add: Business merger under common control	-	2,880,000.00	-	-	-	(7,229,656.01)	(7,732,721.81)	(12,082,377.82)	
<b>II. Opening balance of the current period (restated)</b>	4,068,772,253.00	1,642,487,652.22	518,074,596.90	(27,660,017.70)	1,895,061,004.09	12,188,867,788.06	35,914,419.11	19,285,368,501.88	
<b>III. Increase or decrease in the current period</b>	2,033,934,632.00	(594,166,798.56)	(217,896,846.73)	(13,570,759.51)	720,376,818.06	2,671,782,390.33	156,919,854.60	5,193,172,983.65	
(I) Total comprehensive income	-	-	-	(13,570,759.51)	-	7,423,683,960.91	1,422,069.26	7,411,535,270.66	
(II) Owners' contributions and reduction in capital	(451,494.00)	219,587,651.44	(217,896,846.73)	-	-	-	155,497,785.34	592,530,789.51	
1. Capital contribution from shareholders	-	97,768,537.96	-	-	-	-	155,497,785.34	253,266,323.30	
2. Share-based payment recognized in owners' equity	-	122,970,423.83	-	-	-	-	-	122,970,423.83	
3. Others	(451,494.00)	(1,151,310.35)	(217,896,846.73)	-	-	-	-	216,294,042.38	
(III) Profit distribution	1,220,631,676.00	-	-	-	720,376,818.06	(4,751,901,570.58)	-	(2,810,893,076.52)	
1. Transfer to surplus reserve	-	-	-	-	720,376,818.06	(720,376,818.06)	-	-	
2. Distributions to shareholders	-	-	-	-	-	(2,810,893,076.52)	-	(2,810,893,076.52)	
3. Others	1,220,631,676.00	-	-	-	-	(1,220,631,676.00)	-	-	
(IV) Transfers within owners' equity	813,754,450.00	(813,754,450.00)	-	-	-	-	-	-	
1. Capitalization of capital reserve	813,754,450.00	(813,754,450.00)	-	-	-	-	-	-	
<b>IV. Closing balance of the current period (restated)</b>	<b>6,102,706,885.00</b>	<b>1,048,320,853.66</b>	<b>300,177,750.17</b>	<b>(41,230,777.21)</b>	<b>2,615,437,822.15</b>	<b>14,860,650,178.39</b>	<b>192,834,273.71</b>	<b>24,478,541,485.53</b>	

For the year ended on December 31<sup>st</sup> 2017

**Statement of Changes in Owners' Equity of the Company**

Unit: RMB

Item	Amount for the current period					
	Share capital	Capital reserves	Less: Treasury share	Surplus reserve	Retained profits	Total owners' equity
<b>I. Opening balance of the current period</b>	6,102,706,885.00	955,687,875.52	300,177,750.17	2,615,437,822.15	14,138,569,341.95	23,512,224,174.45
<b>II. Increase or decrease in the current year</b>	3,126,158,229.00	787,067,455.99	444,405,877.05	868,305,096.38	1,009,874,393.19	5,346,999,297.51
(I) Total comprehensive income	-	-	-	-	8,683,050,963.77	8,683,050,963.77
(II) Owners' contributions and reduction in capital	49,869,858.00	787,067,455.99	536,813,016.21	-	-	300,124,297.78
1. Capital contribution from shareholders	52,326,858.00	608,561,358.54	660,888,216.54	-	-	-
2. Share-based payment recognized in owners' equity	-	191,200,597.45	-	-	-	191,200,597.45
3. Others	(2,457,000.00)	(12,694,500.00)	(124,075,200.33)	-	-	108,923,700.33
(III) Profit distribution	3,076,288,371.00	-	(92,407,139.16)	868,305,096.38	(7,673,176,570.58)	(3,636,175,964.04)
1. Transfer to surplus reserve	-	-	-	868,305,096.38	(868,305,096.38)	-
2. Distributions to shareholders	-	-	(92,407,139.16)	-	(3,728,583,103.20)	(3,636,175,964.04)
3. Others	3,076,288,371.00	-	-	-	(3,076,288,371.00)	-
<b>III. Closing balance of the current year</b>	<b>9,228,865,114.00</b>	<b>1,742,755,331.51</b>	<b>744,583,627.22</b>	<b>3,483,742,918.53</b>	<b>15,148,443,735.14</b>	<b>28,859,223,471.96</b>
Item	Amount for the same period of last year					
	Share capital	Capital reserves	Less: Treasury share	Surplus reserve	Retained profits	Total owners' equity
<b>I. Opening balance of the current period</b>	4,068,772,253.00	1,647,623,212.04	518,074,596.90	1,895,061,004.09	11,686,702,731.96	18,780,084,604.19
<b>II. Increase or decrease in the current year</b>	2,033,934,632.00	(691,935,336.52)	(217,896,846.73)	720,376,818.06	2,451,866,609.99	4,732,139,570.26
(I) Total comprehensive income	-	-	-	-	7,203,768,180.57	7,203,768,180.57
(II) Owners' contributions and reduction in capital	(451,494.00)	121,819,113.48	(217,896,846.73)	-	-	339,264,466.21
1. Share-based payment recognized in owners' equity	-	122,970,423.83	-	-	-	122,970,423.83
2. Others	(451,494.00)	(1,151,310.35)	(217,896,846.73)	-	-	216,294,042.38
(III) Profit distribution	1,220,631,676.00	-	-	720,376,818.06	(4,751,901,570.58)	(2,810,893,076.52)
1. Transfer to surplus reserve	-	-	-	720,376,818.06	(720,376,818.06)	-
2. Distributions to shareholders	-	-	-	-	(2,810,893,076.52)	(2,810,893,076.52)
3. Others	1,220,631,676.00	-	-	-	(1,220,631,676.00)	-
(IV) Transfers within owners' equity	813,754,450.00	(813,754,450.00)	-	-	-	-
1. Capitalization of capital reserve	813,754,450.00	(813,754,450.00)	-	-	-	-
<b>III. Closing balance of the current year</b>	<b>6,102,706,885.00</b>	<b>955,687,875.52</b>	<b>300,177,750.17</b>	<b>2,615,437,822.15</b>	<b>14,138,569,341.95</b>	<b>23,512,224,174.45</b>

**I. Basic Information about the Company**

Hangzhou Hikvision Digital Technology Co., Ltd. (hereinafter referred to as "Company" or "the Company"), is a Sino-foreign equity joint venture company, formerly known as "Hangzhou Hikvision Digital Technology Ltd", established on November 30<sup>th</sup> 2001 in Hangzhou upon the approval letter of Hangzhou High-tech No. 604[2001] issued by Hangzhou High-tech Industrial Development Zone Management Committee. On June 25<sup>th</sup> 2008, with approval of document No. 598[2008] issued by the MOFCOM (The Ministry of Commerce of the People's Republic of China), the company was renamed as "Hangzhou Hikvision Digital Technology Co., Ltd.", headquartered in Hangzhou, and obtained the business license of enterprise No.91330000733796106P. On May 28<sup>th</sup> 2010, the Company was listed on the Shenzhen Stock Exchange.

On December 23<sup>rd</sup> 2016, pursuant to the Articles of Association of the Company revised by the resolution of 20<sup>th</sup> Meeting of the 3<sup>rd</sup> session Board of Directors authorized by the 2<sup>nd</sup> extraordinary general meeting in 2016, the Company granted 52,326,858 restricted incentive shares to the incentive grantees, The Company completed the registration procedure for business changes on January 20<sup>th</sup> 2017, adjusted the Company's total capital share to 6,155,033,743 shares.

As of April 27<sup>th</sup> 2017, authorized by the first Extraordinary General Meeting in 2014, the Company repurchased and cancelled 2,457,000.00 granted but restricted treasury share, and the total share capital of the Company was adjusted to 6,152,576,743 shares. For details of share capital, please refer to Note (V) 34.

On May 4<sup>th</sup> 2017, *2016 Profit Distribution Scheme* was approved on 2016 Annual General Meeting. On May 16<sup>th</sup> 2017, based on total capital shares of 6,152,576,743 shares on the date of interest distribution, the company issued bonus shares for 3,076,288,371 shares, which adjusted the Company's total capital share to 9,228,865,114 shares.

As of December 31<sup>st</sup> 2017, the Company's total registered capital is RMB 9,228,865,114, with total capital shares of 9,228,865,114 shares (face value RMB 1per share), of which restricted A-shares were 1,971,217,850 shares, A-shares without restriction are 7,257,647,264 shares.

The Company is engaged in other electronic equipment manufacturing business under electronics industry. Business scope of the Company includes development and production of electronic products (including explosion-proof electrical products, tele-communication equipment and its ancillary equipment, multimedia equipment), aircraft, robot, intelligent equipment, auto parts and accessories, and electrical signal equipment for vehicle; sales of self-manufactured products, electronic technology consulting service, training service (excluding class training), electronic equipment installation, electronic engineering and design of intelligent systems, construction and maintenance. For details about business scope of the Company and its subsidiaries, please refer to Note (VII) 1.

The Company's and consolidated financial reports were approved for issuance by the 2<sup>nd</sup> meeting of the fourth session Board of Directors of the Company on April 19<sup>th</sup> 2018.

For consolidation scope of the financial statements, please refer to Note (VII) "Interest in other entities". For changes in consolidation scope of the financial statements, please refer to "changes in the consolidation scope" in Note (VI).

## **II. Basis of preparation of financial statements**

### **Basis of preparation of financial statements**

The Company and its subsidiaries (hereinafter referred to as "the Group") have adopted the Accounting Standards for Business Enterprises ("ASBE") and relevant provisions issued by the Ministry of Finance ("MoF"). In addition, the Group has disclosed relevant financial information in accordance with *Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 – General Provisions on Financial Reporting (revised in 2014)*.

### **Bookkeeping base and valuation principles**

The Group measures the accounting elements in accordance with the accrual accounting basis. Except certain financial instruments are measured by fair value, these financial statements are prepared in accordance with the measurements basis of historical costs. If the asset decreases in value, the provision for impairment of assets should be made according to relevant regulations.

According to the historical cost measurement, the assets shall be measured as per the amount of cash or cash equivalent paid at the time of purchase, or the fair value of consideration paid for the purchase of such assets. The liabilities shall be measured in accordance with the amount of funds or assets actually received when undertaking current obligations, or the contract amount when undertaking the current obligations, or the amount of cash or cash equivalents required for paying back the debts in daily activities.

The fair value is a price received by the market participants from selling asset or transferring liability during orderly transaction at the measurement date. No matter the fair value is observable or estimated by using valuation technique, the measured and disclosed fair value in the financial statement shall be determined on this basis.

Based on the observable extent of the input value of the fair value, and the importance of such input value to the fair value measurement, the fair value measurement is divided into three levels:

- Level 1: The input value is the unadjusted offer of the same assets or liabilities on active market acquired on measurement date;
- Level 2: The input value is the input value of relevant assets or liabilities observable directly or indirectly in addition to level 1 input value;
- Level 3: The input value is the non-observable input value of relevant assets or liabilities.

### **Going concern**

The Group has evaluated its going concern for 12 months going forward starting from December 31<sup>st</sup> 2017, and there is no factor that may cast significant doubt on the entity's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

### **III. Significant accounting policies and accounting estimates**

#### **1. Statement for Compliance with Accounting Standards for Business Enterprises (ASBE)**

The financial statements of the Company have been prepared in accordance with ASBE, and present truly and completely, the Company's and consolidated financial position as of December 31<sup>st</sup> 2017, and the Company's and consolidated results of operations and cash flows for the year then ended.

#### **2. Accounting Period**

The Group has adopted the calendar year as its accounting year from January 1<sup>st</sup> to December 31<sup>st</sup> each year.

#### **3. Business Cycle**

The business cycle refers to the period from purchase of assets used for processing to realization of cash or cash equivalents. The Group business cycle is usually 12 months.

#### **4. Functional currency**

Renminbi ("RMB") is the currency in the primary economic environments in which the Company and its domestic subsidiaries are operated. The Company and its domestic subsidiaries take RMB as their functional currency. Overseas subsidiaries of the Company determine their functional currency on the basis of the primary economic environment in which it operates. For functional currency of overseas subsidiaries of the Company, see Note (V) 55. The Group adopts RMB to prepare its financial statements.

#### **5. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control**

Business combinations are classified into business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

##### **5.1 Business combinations involving enterprises under common control**

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Assets and liabilities obtained shall be measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (the aggregate face value of shares issued as consideration) is adjusted to the share premium in capital reserve. If the share premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

## 5.2 Business combinations not involving enterprises under common control and goodwill

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognized in profit or loss when they are incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities, acquired by the acquirer in a business combination, that meet the recognition criteria shall be measured at fair value at the acquisition date.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognized as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognizes the remaining difference immediately into profit or loss for the current period.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements.

## **6. Preparation method of consolidated financial statements**

### 6.1 Preparation method of consolidated financial statements

The scope of consolidated financial statements shall be confirmed based on the control. Control right means that an investor may control an investee; the investor may participate in relevant activities of the investee to obtain variable rewards and also be able to use the control rights for the investee to influence its amount of returns. The Group will re-evaluate, if the change of the relevant facts and circumstances leading to the change of the relevant elements involved in the above definition of control.

The merger of subsidiary starts from the Group obtaining the control power of the subsidiary, and terminates when the Group loses the control power of the subsidiary.

As for subsidiaries disposed by the Group, operating results and cash flow prior to the disposal date (the date of losing control right) have been properly included in the consolidated profit statement and consolidated cash flow statement.

For a subsidiary acquired through a business combination not involving enterprises under common control, the operating results and cash flows from the acquisition date (the date when control is obtained) are included in the consolidated income statement and consolidated statement of cash flows.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company.

All significant intra-group balances and transactions are eliminated on consolidation.

The portion of subsidiaries' equity that is not attributable to the Company is treated as minority interests and presented as "minority equity" in the consolidated balance sheet. The portion of net profits or losses of subsidiaries for the period attributable to minority interests is presented as "minority interests" in the consolidated income statement below the "net profit" line item.

When the amount of loss for the period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount are still allocated against minority interests.

Acquisition of minority interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the total owners' equity attributable to owner of the Company and minority equity are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve under owners' equity. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against retained earnings.

## **7. Recognition criteria of cash and cash equivalents**

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## 8. Conversion of transactions and financial statements denominated in foreign currencies.

### 8.1 Transactions denominated in foreign currencies

A foreign currency transaction is recorded, on initial recognition, by applying an exchange rate that approximates the actual spot exchange rate on the date of transaction; The exchange rate that approximates the actual spot exchange rate on the date of transaction is calculated according to the middle price of market exchange rate at the beginning of the month in which the transaction happened.

At the balance sheet date, foreign currency monetary items are translated into [RMB] using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognized in profit or loss for the period, except for exchange differences related to a specific-purpose borrowing denominated in foreign currency that qualify for capitalization are capitalized as part of the cost of the qualifying asset during the capitalization period.

When the consolidated financial statements include foreign operation(s), if there is foreign currency monetary item constituting a net investment in a foreign operation, exchange difference arising from changes in exchange rates are recognized as "exchange differences arising on conversion of financial statements denominated in foreign currencies " in other comprehensive income, and in profit and loss for the period upon disposal of the foreign operation.

Foreign currency non-monetary items measured at historical cost are converted to the amounts in functional currency at the spot exchange rates on the dates of the transactions. Foreign currency non-monetary items measured at fair value are re-converted at the spot exchange rate on the date the fair value is determined. Difference between the re-converted functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognized in profit and loss or as other comprehensive income.

### 8.2 Conversion of financial statements denominated in foreign currencies

For the purpose of preparing the consolidated financial statements, financial statements of a foreign operation are converted from the foreign currency into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; shareholders' equity items are converted at the spot exchange rates at the dates on which such items arose; all items in the income statement as well as items reflecting the distribution of profits are translated at exchange rates that approximate the actual spot exchange rates on the dates of the transactions; The difference between the converted assets and the aggregate of liabilities and shareholders' equity items is recognized into other comprehensive income and shareholders' equity.

Cash flows arising from a transaction in foreign currency and the cash flows of a foreign subsidiary are converted at an exchange rate which approximates the spot exchange rate on the date of the cash flows. The effect of exchange rate changes on cash and cash equivalents is regarded as a reconciling item and presented separately in the cash flow statement as "effect of exchange rate changes on cash and cash equivalents".

The foreign currency cash flow and cash flow of overseas subsidiaries adopt the exchange rate similar to the spot rate at the date of cash flow for conversion. The affected amount of cash and cash equivalents due to the change of exchange rate, as an adjustment item, shall be separately listed as "the impact of cash and cash equivalents due to the change of exchange rate" in the cash flow statement.

The opening balances and the comparative figures of previous year are presented at the converted amounts in the previous year's financial statements.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on conversion of financial statements of this foreign operation attributable to the owners' equity of the Company and presented under shareholders' equity, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, but only a decrease in proportion of overseas business interests, the proportionate share of accumulated exchange differences arising on conversion of financial statements are re-attributed to minority interests and are not recognized in profit and loss under current period. For partial disposals of equity interests in foreign operations which are associates or joint ventures, the proportionate shares of the accumulated exchange differences arising on conversion of financial statements of foreign operations is reclassified to profit or loss under current period.

## **9. Financial Instruments**

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognized in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognized amounts.

### 9.1 Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability, or a shorter period if appropriate, to the current net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

## 9.2 Classification, Confirmation and Measurement of the Financial Assets

On initial recognition, the Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All purchases or sales of financial assets through regular methods are recognized and derecognized on a trade date basis.

### 9.2.1 Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets at FVTPL include financial assets held for trading and those designated as financial assets at fair value through profit or loss.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative that is not designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

Financial assets at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognized in profit or loss.

### 9.2.2 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortization is recognized in profit or loss.

### 9.2.3 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include notes receivable, accounts receivable, other receivables, other current assets, long-term receivables, and etc.

Loans and receivables are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortization is recognized in profit or loss.

### 9.2.4 Available-for-sale Financial Assets

Available-for-sale financial assets include non-derivative financial assets that are designated on initial recognition as available for sale, and financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognized as other comprehensive income, except that impairment losses and exchange differences related to amortized cost of monetary financial assets denominated in foreign currencies are recognized in profit or loss, until the financial assets are derecognized, at which time the gains or losses are released and recognized in profit or loss.

Interests obtained and the dividends declared by the investee during the period in which the available-for-sale financial assets are held, are recognized in investment gains.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

### 9.3 Impairment of financial assets

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment loss. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

- (1) Significant financial difficulty of the issuer or obligor;
- (2) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- (3) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;
- (4) It becoming probable that the borrower will enter bankruptcy or other financial reorganizations;
- (5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- (6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:
  - Adverse changes in the payment status of borrower in the group of assets;
  - Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;
- (7) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;

(8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;

(9) Other objective evidence indicating there is an impairment of a financial asset.

- Impairment of financial assets measured at amortized cost

If financial assets carried at amortized cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognized as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortized cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognized are not included in a collective assessment of impairment.

- Impairment of available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognized directly in other comprehensive income is reclassified from other comprehensive income to profit or loss. The amount of the cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognized as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognized in profit or loss.

- Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognized as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognized.

#### 9.4 Transfer of Financial Assets

The Group derecognizes a financial asset if one of the following conditions is satisfied: (1) the contractual rights to the cash flows from the financial asset expire; or (2) the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset is transferred to the transferee; or (3) although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the recognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized in other comprehensive income, is recognized in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognized; and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive income, is recognized in profit or loss.

#### 9.5 Classification, recognition and measurement of financial liabilities

Debt and equity instruments issued by the Group are classified into financial liabilities or equity on the basis of the substance of the contractual arrangements with the relevant reflected economic essence (not only in the form of law) and definitions of financial liability and equity instrument.

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

##### 9.5.1 Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at FVTPL consist of financial liabilities held for trading and those designated as at FVTPL.

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) undertake the purpose of financial liability, it has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognizing the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.; or (3) qualified hybrid tool with inclusion of embedded derivatives.

Financial liabilities at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recognized in profit or loss.

### 9.5.2 Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities, except for financial guarantee contracts, are subsequently measured at amortized cost using the effective interest method, with gain or loss arising from derecognition or amortization recognized in profit or loss.

### 9.5.3. Financial Guarantee Contracts

A financial guarantee contract is a contract by which the guarantor and the lender agree that the guarantor would settle the debts or bear obligations in accordance with terms of the contract in case the borrower fails to settle the debts. Financial guarantee contracts that are not designated as financial liabilities at fair value through profit or loss, are initially measured at their fair values less the directly attributable transaction costs. Subsequent to initial recognition, they are measured at the higher of: (i) the amount determined in accordance with *Accounting Standard for Business Enterprises No. 13 – Contingencies*; and (ii) the amount initially recognized less cumulative amortization recognized in accordance with the principles set out in *Accounting Standard for Business Enterprises No. 14 – Revenue*.

### 9.6 Derecognition of Financial Liabilities

The Group derecognizes a financial liability (or part of it) when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability (or part of the financial liability) derecognized and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

**9.7 Derivative Instruments and Embedded Derivative Instruments**

Derivative financial instruments include forward exchange contracts, currency swaps, interest rate swaps and foreign exchange options, etc. Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value. The resulting gain or loss is recognized in profit or loss.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value through profit or loss, and treated as a standalone derivative if 1) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and 2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it designates the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

**9.8 Offsetting financial assets and financial liabilities**

Where the Group has a legal right that is currently enforceable to set off the recognized financial assets and financial liabilities, and intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

**9.9 Equity instrument**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. That the group issues (including refinancing), repurchases, sells or cancels equity instruments is taken as the treatment of changes in equities. The group does not confirm the changes of fair value of equity instruments. Transaction fees relevant to the equity transaction shall be deducted from the equity.

The Group considers the allocation of the equity holder as the allocation of profits; issued share dividends do not influence the total equity of the shareholders.

**10. Receivables**

**10.1 Receivables that are individually significant and for which bad debt provision is individually assessed**

Basis or monetary criteria for determining an individually significant receivable	A receivable that exceeds RMB 4 million (inclusive) and accounting for more than 10% of the receivables book balance is deemed as an individually significant receivable by the Group.
---	--

Method of determining provision for receivables that are individually significant and for which bad debt provision is individually assessed	For receivables that are individually significant, the Group assesses the receivables individually for impairment. For account receivables and other receivables that is not impaired individually, the Group includes the receivables in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Account receivables and other receivables for which an impairment loss is individually recognized are not included in a collective assessment of impairment.
---	--

## 10.2 Receivables for which bad debt provision is collectively assessed on a portfolio basis

Method of recognizing bad debt provisions for receivables based upon collective assessment on a portfolio basis.	
Accounts receivables with insignificant single amount and significant single amount but no single test impairment	Aging analysis

### **Portfolios that aging analysis is used for bad debt provision:**

Aging (over credit period)	Provision as a proportion of accounts receivable (%)	Provision as a proportion of other receivables (%)
Within 1 year (inclusive, the same below)	5	5
1-2 years	10	10
2-3 years	30	30
3-4 years	50	50
4-5 years	80	80
More than 5 years	100	100

## 10.3 Accounts receivable that are not individually significant but for which bad debt provision is individually assessed:

Reasons for making individual bad debt provision	There are significant differences between the present value of future cash flow of the receivables and the present value of future cash flow of the receivables portfolio based on aging analysis as credit risk feature.
Bad debt provision methods	Through individual impairment test, determine the bad debts provisions according to the difference of the amount that the present value of future cash flows lower than carrying value.

## **11. Inventories**

### 11.1 Categories of inventories

The Group's inventories mainly include finished goods or commodities held for sale in the daily activities,

completed outstanding assets formed in the construction contract, products in the production process, materials and supplies used in the production process or in the process of providing labor service. Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the inventories to their present location and condition.

### 11.2 Valuation method of inventories upon delivery

The actual cost of inventories upon delivery is calculated using the mobile weighted average method.

### 11.3 Basis for determining net realizable value of inventories

The inventory is according to cost and net realizable value low metering on the date of balance sheet. When the net realizable value is lower than cost, withdraw inventory falling price reserves. The net realizable value refers to the amount derived by deducting the potential cost, estimated selling expense and relative taxes to the completion date from the estimated sales price of inventory in daily activities. When determining net realizable value of inventories, take the obtained conclusive evidence as basis and consider the purposes of holding inventories and influence of events after the balance sheet date.

Provision for decline in value of inventories is made based on the excess of cost of inventory over its net realizable value on an item-by-item basis.

After provision for inventory depreciation reserves is made, if the factors resulting in the write-down of inventory impairment have disappeared and causing the net realizable value higher than its book value, such inventory impairment provision are recovered and reversed, and the reversed amount recorded in profits and losses of the current period.

### 11.4 Inventory count system

The perpetual inventory system is maintained for stock system.

### 11.5 Amortization method for low cost and short-lived consumable items and packaging materials

Packaging materials and low cost and short-lived consumable items are amortized using the immediate write-off method.

## **12. Long-term Equity Investment**

### 12.1 Basis for determining joint control and significant influence over investee

Control is the power to govern an entity through participating in relevant activities of the investee; the investor is able to obtain variable benefits from its activities, and at same time, to use the control rights on

the investee to influence the amount of returns. Joint control means that joint control for certain arrangement in accordance with relevant agreements; activities relevant to the arrangement cannot be decided until obtaining the unanimous consent of parties sharing control right. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee, such as current convertible debts, current executable warrants, etc., held by the investing enterprises or other parties shall be considered.

## 12.2 Determination of initial investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common control, the shares of merged party's book value of owners' equity in the final controlling party consolidated financial statements obtained on the merger date shall be considered as the initial investment cost of long-term equity investment. The differences between the initial investment cost of long-term equity investment and the paid cash, the transferred non-cash assets and the book value of the assumed debts are adjusted against the capital surplus; if the capital surplus is not sufficient to be offset, the remaining balance is adjusted against retained earnings. In the case of issued equity securities treated as consolidation consideration, share of book value of owner's equity of merged party in the final controlling party consolidated financial statements is regarded as initial investment cost of long-term equity investments on the date of consolidation; capital reserve shall be adjusted in accordance with taking total nominal value of issued share as capital share, the difference between the initial investment cost of long-term equity investments and total book value of issued shares; In case the capital reserve is not enough for writing down, the retained earnings shall be adjusted.

For a long-term equity investment acquired through business combination not involving enterprises under common control, and the merging cost confirmed on the purchased date are regarded as the initial investment cost.

The intermediate expenses made by the combining party or purchaser for audit, legal service, assessment and other management related expenses during the business merger should be included into the current profit and loss as it happens.

Conduct initial measurement according the cost for other equity investment other than the long-term equity investment formed in business merger. In case that the investor may post a significant impact on the investee or execute joint control but not constitute the control right, long-term equity investment cost is the sum of fair value of original-held equity investment plus newly-added investment cost in accordance with *No. 22 Accounting Standards for Business Enterprises---Recognition and Measure of the Financial Instruments*.

## 12.3 Subsequent measurement and recognition of profit or loss

### 12.3.1 Long-term equity investment accounted for using the cost method

Long-term equity investments in subsidiaries are accounted for using the cost method in the Company's financial statements. A subsidiary is an investee that is controlled by the Group.

The long-term equity investment accounted by the cost method shall be measured at its initial investment cost. If there are additional investments or disinvestments, the long-term equity investment cost shall be adjusted. Income from the investment in the current period shall be recognized in accordance with the cash dividends or profits declared and issued by the investee.

### 12.3.2 Long-term equity investment accounted for using the equity method

The Group accounts for investment in associates and joint ventures using the equity method. An associate is an entity over which the Group has significant influence and a joint venture is an entity over which the Group can only exercise joint control along with other investors on the investee's net assets.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is recognized in profit or loss for the period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognizes its share of the net profit or loss and other comprehensive income of the investee for the period as investment income or loss and comprehensive income for the period, meanwhile, the book value of the long-term equity investment shall be adjusted; The Company shall accordingly reduce the book value of the long-term equity investment in terms of the part that shall be enjoyed according to the profit or cash dividends declared by the invested unit to be distributed; For other changes in the owners' equity of the invested unit other than net profits and losses, other comprehensive incomes and the profit distribution, the book value of long-term equity investment shall be adjusted and be included into the capital reserves. The Company shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, recognize the attributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity. If the accounting policies and accounting periods adopted by the invested unit are different from those adopted by the Company, the adjustment shall be made for the financial statements of the invested unit in accordance with the accounting policies and accounting periods of the Company to recognize the investment income and other comprehensive incomes. For the transaction incurred between the group and associated enterprises and joint ventures, invested or sold assets don't constitute a business, the part that doesn't achieve internal transaction profit or loss or belongs to the group calculated according to the enjoyed ratio will be offset, and the profit or loss on investment will be confirmed on this basis. But for the unrealized loss arising from the internal transaction between the group and the invested unit, if such transaction loss is defined as the impairment loss of the transferred asset, they cannot be offset.

When the Company determines the net loss of the invested unit which shall be shared, it is necessary to write-down the book value of the long-term equity investment and other long-term equities substantially constituting the net investment of the invested unit to zero as a limit. Besides, if the group is obliged to bear extra loss for the invested unit, it shall be necessary to determine provisions and record them to current investment loss in compliance with obligations expected to be assumed. If the invested unit realizes any net profits later, the group shall, after the amount of its attributable share of profits offsets its attributable share of the un-confirmed losses, resume recognizing its attributable share of profits.

### 12.4 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and the carrying amount is recognized in profit or loss for the period.

**13. Fixed Assets**

13.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognized. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

13.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Class	Depreciation period (years)	Residual value rate (%)	Annual depreciation rate (%)
Buildings and Constructions	20 years	10	4.5
General-purpose equipment	3-5 years	10	18.0-30.0
Special-purpose equipment	3-5 years	10	18.0-30.0
Transportation vehicles	5 years	10	18.0

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

13.3 Identification basis and valuation methods for fixed assets acquired under finance leases

On the commencement date of the lease term, record the lower of the fair value of the leasing asset or the present value of the minimum lease payments on the lease commencement date as the entry book value of the leased asset, and book the amount of the minimum lease payments as the entry book value of long-term account payable, and recognize the difference between the entry value of the leased asset and

that of the long-term account payables as unrecognized financing expenses. In addition, the initial direct costs directly attributable to the leased item incurred during the process of negotiating the lease and signing the leasing agreement shall be included into the value of the leased assets.

The Group adopts a depreciation policy for a fixed asset held under a finance lease which is consistent with that for its owned fixed asset. If there is reasonable certainty that the Group will obtain ownership of the leased asset at the end of the lease term, the leased asset is depreciated over its useful life. If there is no reasonable certainty that the Group will obtain ownership of the leased asset at the end of the lease term, the leased asset is depreciated over the shorter of the lease term and its useful life.

#### 13.4 Other explanations

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognized. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognized in profit or loss for the period.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year-end, and account for any change as a change in an accounting estimate.

### **14. Construction in Process**

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalized before it is ready for intended use and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use. For those that could reach to the expected serviceable condition, but haven't gone through final settlement of the accounts for the completed projects, they will be converted to fixed assets according to the estimated value first, and the provisional estimate value of the original fixed assets will be adjusted according to the actual costs after final settlement of the construction accounts.

### **15. Borrowing Costs**

Borrowing costs directly attributable to the acquisition & construction or production of assets eligible for capitalization shall be capitalized when assets expenditure, borrowing costs and necessary construction or production for bringing assets to expected conditions for use or marketing have taken place; when construction or production of assets ready for capitalization reach to expected conditions for use or marketing, capitalization shall be ceased. Other borrowing expenses are recognized as expenses in the current period.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary

investment of those funds. Where funds are borrowed under general-purpose borrowings, the Group determines the amount of interest to be capitalized on such borrowings by applying a capitalization rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings. During the capitalization period, exchange differences related to a specific-purpose borrowing denominated in foreign currency are all capitalized. Exchange differences in connection with general-purpose borrowings are recognized in profit or loss in the period in which they are incurred.

**16. Intangible Assets**

16.1 Intangible Assets

Intangible assets include land use right, intellectual property (IP) and application software, etc.

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortized over its estimated useful life using the straight-line method. The useful life and predicted net residual value of various intangible assets are shown as follows:

Class	Service life (year)	Salvage value rate (%)
Land use right	50 years	-
IP Right	10 Years	-
Application Software	5-10 years	-

For an intangible asset with a finite useful life, the Group reviews the useful life and amortization method at the end of the period, and makes adjustments when necessary.

16.2 Internal Research and Development Expenditure

Expenditure during the research phase is recognized as an expense in the period in which it is incurred.

Expenditure during the development phase that meets all of the following conditions at the same time is recognized as intangible asset. Expenditure during development phase that does not meet the following conditions is recognized in profit or loss for the period.

- (1) It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (2) The Group has the intention to complete the intangible asset and use or sell it;
- (3) The Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(4) The availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and

(5) The expenditure attributable to the intangible asset during its development phase can be reliably measured.

If the expenditures cannot be distinguished between the research phase and development phase, the Group recognizes all of them in profit or loss for the period.

## **17. Long-term Assets Impairment**

The Group assesses at each balance sheet date whether there is any indication that the long-term equity investment, fixed assets, construction in process and intangible assets with a finite useful life may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. The recoverable amount is determined by the higher of 1) net amount of fair value of the asset or asset group deducted by the disposal expenses; or 2) the present value of the expected future cash flow of the asset or asset group.

If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognized in profit or loss for the period.

Goodwill impairment test shall be conducted at the end of each year at least. Goodwill impairment test shall be conducted in accordance with the concerned asset group or asset portfolio. That is to allocate the book value of goodwill to the asset group or asset portfolio that is expected to benefit from the synergies of the combination in a reasonable way from the date of purchasing. When recoverable amount of apportioned asset group or asset portfolio of goodwill is less than book value of goodwill, impairment loss shall be recognized. Firstly, amount of impairment loss shall be apportioned to the book value of goodwill of the said asset group or asset portfolio, and then book value of other assets, except for goodwill, in asset group or asset portfolio shall be abated in proportion.

Once the impairment loss of such assets is recognized, it is not be reversed in any subsequent period.

## **18. Employee compensation**

### **18.1 Accountant Arrangement Method of Short-term Remuneration**

During accounting period when the Group's employees provide services, actual short-term remuneration shall be recognized as the liabilities and current profit and loss or relevant asset cost. The Group's employee benefits and welfare are included into current profit and loss or relevant asset cost according to actual amount occurred during the period. If the employee benefits and welfare is non-monetary, it shall be measured according to its fair value.

During the accounting period that the employees service the Group, the Group pays social insurance premiums such as medical insurance premium, industrial injury insurance premium, maternity insurance premium and housing accumulation fund for its employees, as well as labor union expenditure and employee education expenses calculated and withdrawn according to the regulations, corresponding employee remuneration amount shall be calculated and determined in accordance with specified calculation and withdrawal basis and proportion to recognize corresponding liabilities and included into the current profit and loss or relevant asset cost.

### 18.2 Accountant Arrangement Method of Post-employment Benefits

All post-employment benefits shall be considered as the defined contribution plan.

In the accounting period when the employee serves for the Group, the deposited amount calculated based on defined contribution plan shall be recognized as liabilities and included in the current profit and loss or relevant asset cost.

### 18.3 Accountant Arrangement Method of the Termination Benefits

Where the Group provides termination benefits, the employee remuneration liabilities caused by such termination benefits will be determined as the following date, whichever is earlier, and will be included in the current profit and loss: 1) When the Group cannot unilaterally withdraw the termination benefits provided due to labor relation cancellation plan or employee lay-off suggestion; or 2) when the Group determines costs or expenses in relation with the restructuring of the paid termination benefits.

## **19. Provisions**

Provisions are recognized when the Group has a present obligation related to a contingency such as products quality assurance, etc. And it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

## **20. Share-based Payment**

Share-based payment refers to a transaction in which the Group grants the equity instruments or undertakes the equity-instrument-based liabilities in return for services from employees. The Group's share-based payment is an equity-settled share-based payment.

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments are equity-settled share-based payments.

### 20.1 Equity-settled share-based payments

Grants to employees are equity-settled share-based payments.

Equity-settled share-based payments in exchange for services rendered by employees are measured at the fair value of the equity instruments granted to employees at the grant date. Such amount is recognized as related costs or expenses on a straight-line basis over the vesting period/if the equity instruments could be vested immediately, based on the best estimate of the number of equity instruments expected to vest, with a corresponding increase in capital reserve.

At each balance sheet date during the vesting period, the Group makes the best estimate according to the subsequent latest information of change in the number of employees who are granted with options that may vest, etc. and revises the number of equity instruments expected to vest. The effect of the above estimate is recognized as related costs or expenses, with a corresponding adjustment to capital reserve.]

When receiving the restricted share subscription fund paid by grantees of the equity incentive plan, then the Group shall confirm the share capital and capital reserve (capital share premium) according to the obtained subscription fund, meanwhile, fully confirm the liability and treasury stock in terms of repurchase obligations incurred because the Company's incentive grantees fail to meet vesting condition specified in relevant equity incentive plan.

### 20.2. Accounting treatment related to implementation, modification and termination of share-based payment arrangement

In case the Group modifies a share-based payment arrangement, if the modification increases the fair value of the equity instruments granted, the Group will include the incremental fair value of the equity instruments granted in the measurement of the amount recognized for services received. If the modification increases the number of the equity instruments granted, the Group will include the fair value of additional equity instruments granted in the measurement of the amount recognized for services received. The increase in the fair value of the equity instruments granted is the difference between fair value of the equity instruments before and after the modification on the date of the modification. If the Group modifies the terms or conditions of the share-based payment arrangement in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the Group will continue to account for the services received as if that modification had not occurred, other than a cancellation of some or all the equity instruments granted.

If cancellation of the equity instruments granted occurs during the vesting period, the Group will account for the cancellation of the equity instruments granted as an acceleration of vesting, and recognize immediately the amount that otherwise would have been recognized over the remainder of the vesting period in profit or loss for the period, with a corresponding recognition in capital reserve. When the employee or counterparty can choose whether to meet the non-vesting condition but the condition is not met during the vesting period, the Group treats it as a cancellation of the equity instruments granted.

## **21. Revenue**

### 21.1 Revenue from sale of goods

Revenue from sale of goods is recognized when (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow to the Group; and (5) the associated costs incurred or to be incurred can be measured reliably.

### 21.2 Revenue from rendering of services

Revenue from rendering of services is recognized when (1) the amount of revenue can be measured reliably; (2) it is probable that the associated economic benefits will flow to the enterprise; (3) the stage of completion of the transaction can be determined reliably; and (4) the associated costs incurred or to be incurred can be measured reliably. Revenue from rendering of services is recognized using the percentage of completion method at the balance sheet date. The stage of completion of a transaction for rendering of services is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the costs incurred that will be recoverable, and the costs incurred are recognized as expenses for the period. When it is not probable that the costs incurred will be recovered, revenue is not recognized.

### 21.3 Construction Contract

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognized using the percentage of completion method at the balance sheet date.

The stage of completion of a contract is determined using the proportion that completed contract work bears to the estimated total contract work.

Where the outcome of a construction contract cannot be estimated reliably, (1) if contract costs are expected to be recoverable, contract revenue is recognized to the extent of contract costs that are expected to be recoverable; and contract costs are recognized as expenses in the period in which they are incurred; (2) if contract costs are not expected to be recoverable, they are recognized as expenses immediately when incurred and contract revenue is not recognized. When the uncertainties that prevented the outcome of the construction contract from being estimated reliably no longer exist, revenue and expenses associated with the construction contract are recognized using the percentage of completion method.

If the estimated total contract costs exceed total contract revenue, the expected loss is recognized immediately as an expense for the period.

The cumulative costs incurred and cumulative gross profits (or losses) recognized for contracts in progress and the progress billings are offset and the net amount is presented in the balance sheet. Where the aggregate of cumulative costs incurred and cumulative gross profits (or losses) recognized exceed the progress billings for contracts in progress, the surplus is shown as inventory. Where the progress billings for contracts in progress exceed the aggregate of cumulative costs incurred and cumulative gross profits (or losses) recognized, the surplus is shown as receipts in advance.

For participation in public infrastructure construction using the Build-Operate-Transfer (BOT) model, the Group recognizes revenue and expenses associated with the construction services rendered during the construction period in accordance with *Accounting Standard for Business Enterprises No.15 – Construction Contracts*. When the construction of the public infrastructure is completed, the Group recognizes revenue and expenses associated with subsequent operations and services in accordance with *Accounting Standard for Business Enterprises No. 14 – Revenue*.

## 22. Governmental Subsidy

### 22.1 Judgment basis and Accountant treatment of government subsidy related to assets

The government subsidies for Chongqing manufacture base construction is used for constructions and forms long-term assets in other ways, and therefore are categorized as government subsidy related to assets.

A government grant related to an asset is recognized as deferred income or writing down book value of related assets. For government grants recognized as deferred income, it should be evenly amortized to profit or loss over the useful life of the related asset.

### 22.2 Judgment basis and accountant treatment of government subsidy related to income

The Group receives government subsidies including subsidies for core electronic devices, high-end universal chip and basic software product projects, Value-Added-Tax rebate (VAT rebate), subsidies for special projects, and tax refunds, etc., which are not used for constructions and forms long-term assets in other ways, and therefore are categorized as government subsidy related to income.

For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related costs or losses are recognized. If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period.

For government subsidies related to the Group's daily operations shall be booked into other income or offsetting related expenses; for those not related to the Group's daily operations, shall be booked into non-operating income/expense.

## **23. Deferred Income Tax Assets / Deferred Income Tax Liabilities**

The income tax expenses include current income tax and deferred income tax.

### 23.1. Current Income Tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

### 23.2 Deferred Income Tax Assets and Deferred Income Tax Liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognized as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognized through the balance sheet liability method.

Deferred tax is generally recognized for all temporary differences. Deferred tax assets for deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognized.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Current and deferred tax expenses or income are recognized in profit or loss for the period, except when they arise from transactions or events that are directly recognized in other comprehensive income or in shareholders' equity, in which case they are recognized in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of

deferred tax assets to be utilized. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

### 23.3 Offset of Income Tax

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

## **24. Lease**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### 24.1 Accounting treatment of operating Lease

#### 24.1.1 The Group as lessee under operating leases

Operating lease payments are recognized on a straight-line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

#### 24.1.2 The Group as lessor under operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

### 24.2. Accounting treatment of the finance lease

#### 24.2.1 The Group as lessee under finance leases

For relevant accounting treatment, refer to Note (III) *13.3 Identification basis, valuation and depreciation method of finance lease of fixed assets*.

Unrecognized finance charges are recognized as finance charge for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of minimum lease payments less unrecognized finance charges is separated into long-term liabilities and the portion of long-term liabilities due within one year for presentation.

#### 24.2.2 The Group as lessor under finance leases

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognized as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognized as unearned finance income.

Unearned finance income is recognized as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred.

The net amount of financial lease receivables less unearned finance income is separated into long-term debts receivable and the portion of long-term debts receivable due within one year for presentation.

## **25. Repurchase of Own Equity Instruments**

When repurchasing this Company shares, the treatment of treasury stock shall be implemented according to actually-paid amount, and the future reference shall be registered at the same time. If the repurchased shares are cancelled, then the difference between the total par value of the cancelled shares determined by the cancelled number of shares and face value of the cancelled shares, and the consideration amount paid by the actual repurchase shall offset the capital reserve. If the capital reserve is insufficient, then the retained earnings shall be offset.

The consideration and transaction costs paid to repurchase own equity instruments are deducted from shareholders' equity. No gain or loss is recognized in profit or loss in such repurchase.

## **26. Important judgments while applying accounting policy, and key assumptions and uncertainty factors applied for accounting estimate**

During the process of using accounting policy described in note (III), due to the uncertainty in operation activities, the group should judge, estimate and assume the book value of the report items which may not be metered reliably. These judgments, estimates and assumptions are based on the historical experience of the Group's management and other related factors. Differences may exist between the actual results and the Group's estimate.

The Group regularly reviews the above judgments, assumptions and estimations on the basis of continuous operation. If the changes of accounting estimate only influence current period, the influence amount will be affirmed during the changing period; if it influences the current period and subsequent periods, the influence amount will be recognized in the current period and future period.

### **- Key assumptions and uncertainties used in accounting estimate**

On balance sheet date, key assumptions and uncertainties for performing accounting estimates on book value of assets and liabilities in subsequent future periods are:

#### Impairment of the fixed assets

At the balance sheet date, the Group will review whether fixed assets have signs that impairment is likely to occur. When the signs indicate that the carrying amount cannot be repurchased, then the impairment test shall be implemented. The impairment occurred when the book value of asset or asset group is higher than the recoverable amount, which is the net amount of fair value minus the disposal expenses or the present value of expected future cash flow (whichever is higher). The net amount of fair value minus disposal expenses is determined by deducting the incremental cost which directly belongs to the assets disposal referring to the price of sales agreement of similar assets in fair transaction or the observable market price. When predicting present value of future cash flows, management team must estimate the predicted future cash flows of the said asset or asset portfolio, and shall select proper discount rate to confirm the present value of future cash flows. Based on the above procedure, the Group's management team deems that it is not necessary to withdraw provision of fixed assets impairment.

#### Useful life and predicted net residual value of fixed asset

The Group's estimation of fixed assets useful life is based on the historical experience of actual usable term of fixed assets with similar properties and functions, the estimation of predicted net residual value is the amount obtained currently by the Group from the assets after deducting the anticipated disposal expense based on the anticipated status assuming the conditions that fixed assets' predicted useful life expires and fixed assets are at the end of useful life. The Group shall conduct the review on the predicted service life and predicted net residual value of fixed assets at least annually. For the current year, the Group's management did not see signs either indicating a shortened or extended useful life of the Group's fixed asset or indicating a change in predicted net residual value.

#### Impairment of accounts receivables

When there is a clear evidence to make the accounts receivables collection in doubt, then the Group will calculate and withdraw the impairment provision to the accounts receivables. Because the Group's management needs to judge the historic conditions of receivable collection, aging, debtor's financial condition and overall economic environment when considering the impairment provision, there are uncertainties related to the calculation of impairment provision. Although there is no reason to believe that the estimation applied when calculating the impairment provision of accounts receivables will have

significant changes in the future, the book value and impairment loss of accounts receivables will change when the future actual result is different from the anticipated and original estimations.

#### Accrued liabilities of product quality warranty

Accrued liabilities of product quality assurance are an estimation made by the Group according to the predicted repair and replacement cost of relevant products. The estimation considers the product claim rate trend, historic defect rate, industry practice and other major estimations. The management deems that the current estimation on accrued liabilities of product quality warranty is reasonable, however, the Group will continue to review the conditions of product repairs, and will conduct adjustment if any sign indicating the need to make adjustments on accounting estimates.

#### Impairment provision for inventories

Inventories are measured at the lower of cost and net realizable value. The Group will regularly conduct a comprehensive stocktaking to review the impairment circumstances on outmoded and dull inventory if any; in addition, the Group's management will regularly review the impairment circumstance of inventory with long storage time according to the inventory aging list. The review procedure includes the comparison between carrying value of outmoded, dull inventory and inventory with long storage time and its corresponding net realizable value in order to determine whether to withdraw provisions on the outmoded, dull inventory and inventory with long storage time. Based on the above procedure, the Group's management deems that the full provision amounts have been withdrawn for the outmoded, dull inventory and inventory with long storage time

#### Assets from deferred income tax

The realization of deferred income tax assets mainly depends on the actual future profits and the effective tax rate of temporary difference in the future applicable years. If the actual profit in the future is less than the estimation, or actual tax rate is lower than the estimation, then the confirmed deferred income tax assets will be reversed and confirmed in the income statement during the corresponding period. If the actual profit in the future is more than the estimation, or actual tax rate is higher than the estimation, then the corresponding deferred income tax assets will be adjusted and confirmed in the income statement during the corresponding period.

#### Goodwill impairment

When performing impairment test on goodwill, the predicted present value of future cash flow of relevant asset group or asset group portfolio included the goodwill need to be calculated, the future cash flow of relevant asset group or asset group portfolio need to be estimated, and the proper pretax rate that fairly reflects the current market time value of money and specific asset risk need to be determined. When the future actual result is different from the original estimation, the goodwill impairment loss will alter.

## 27. Significant alternation in accounting policy and accounting estimations

Changes in accounting policies and reasons	Approval Procedures	Notes
<p>On June 12<sup>th</sup> 2017, the Group started to apply the <i>Accounting Standards for Enterprises No.16—Government Subsidies</i> revised by Ministry of Finance in 2017. Moreover, the financial statements are also prepared in accordance with the <i>Notice on Format of Revision and Printing of Financial Statements for General Enterprises (Finance and Accounting (2017) No.30</i>, hereinafter referred to as “FA Document No.30”) issued by the Ministry of Finance on December 25<sup>th</sup> 2017.</p> <p><u>Government Subsidies</u></p> <p>Before adoption of the <i>Accounting Standard for Business Enterprises No. 16-Government Subsidy (Rev.)</i>, asset related government subsidy of the group is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset, and recorded in the profit or loss for the period. The government subsidies related to income shall be recognized as deferred incomes and then included into the current profits and losses when determining the related expenses, if they are used for compensating the subsequent future related expenses or losses; they shall be included into the current profits and losses directly, if they are used for compensating the related expenses or losses that have already incurred.</p> <p>After adoption of the <i>Accounting Standard for Business Enterprises No. 16-Government Subsidy (Rev.)</i>, the Group’s government subsidies related to assets shall offset book value of the relevant assets or be recognized as deferred income. If they are recognized as deferred income, they will be evenly amortized to profit or loss over the useful life of the relevant asset, and recorded in the profit or loss for the period. The governmental subsidies related to income shall be recognized as deferred incomes and included into the current profits and losses or offset relevant costs when determining the relevant costs or losses, if they are used for compensating the subsequent future relevant costs or losses; and they shall be included into the current profits and losses or offset relevant costs, if they are used for compensating the related costs or losses that have already incurred. Government subsidies related to daily activities of the enterprise shall be included into other incomes or offset relevant costs per the nature of economic business. Government subsidies not related to daily activities shall be recorded into non-operating income or expenses.</p> <p>The Group adopts the prospective application for accounting treatment of the changes of accounting policy above. Such changes do not exert impact on comparable prior annual financial statements.</p> <p><u>Presentation of Profit and Loss from Disposal of Assets</u></p> <p>Before issuance of FA Document No.30, the profit or loss of the Group from sales of non-current assets that categorized as held-for-sale (except for financial instrument and long-term equity investment) or from disposal of portfolio, as well as profit or loss from disposal of fixed assets not categorized as held-for-sale, construction in process, and intangible assets is presented in non-operating income or non-operating expenses. After issuance of FA Document No.30, the profit or loss of the Group from sales of non-current assets that categorized as held-for-sale (except for financial instrument and long-term equity investment) or from disposal of portfolio, as well as profit or loss from disposal of fixed assets not categorized as held-for-sale, construction in process, and intangible assets is presented in Income from Disposal of Assets. The Group adopts the retrospective adjustment method for the accounting treatment changes presented above, and adjusts the comparative data in the previous year.</p>	<p>Such alternations in accounting policy were approved by the Group at board of director general meeting.</p>	<p>None</p>

## IV. Taxes

## 1. Major categories of taxes and tax rates

Category of tax	Basis of tax computation	Tax rate
Enterprise income tax	Taxable income	25% (Note 1)
VAT	For the taxable product sales revenue or taxable labor revenue, the Company and its domestic subsidiaries are ordinary Value-added Tax payers; the VAT payable is the balance of input tax after deducting the deductible output tax.	6%, 11%, 17% and simple collection rate of 3% (Note 2)
Business tax	Assessable Income	5%, 3% (Note 3)
City maintenance and construction tax	Actual payable turnover tax	7%
Education surcharges	Actual payable turnover tax	3%
Local education surcharges	Actual payable turnover tax	2%

Note 1: Except that this Company and subsidiaries in China are applicable to the following tax preference, this Company's other subsidiaries in China are applicable to 25% of enterprise income tax rate, the overseas subsidiaries are applicable to corresponding local tax rate.

- (1) In accordance with the *Replies on Publishing the List of First Batch of identified High-tech Enterprises of Zhejiang Province in 2017* (GuoKeHuoZi [2017] No. 201) issued by the leading group office of Zhejiang high-tech enterprise identification management work on December 15<sup>th</sup> 2017, the Company was identified as the high-tech enterprise with a valid term of 3 years, from 2017 to 2019. Therefore, the Company's enterprise income tax rate is 15% for the current year.

Pursuant to the *Notice on Publishing the List of Key Software Enterprises and Integrated Circuit Design Enterprises under the National Planning Layout between 2013 and 2014* (Fa Gai Gao Ji [2013] No. 2458), the Company was identified as a national key software enterprise in December 2013. Pursuant to the *Notice on Relevant Issues Concerning the Preferential Policies for Enterprise Income Tax on Software and Integrated Circuit Industry* (Finance and Taxation [2016] No. 49), the Company was approved by the tax authorities in May 2017 to reduce the enterprise income tax for 2016 to the rate of 10%. As of the approval date of this report, the Company's income tax benefits for 2017 have not yet been approved, and the corporate income tax for the Company in 2017 is still calculated at the rate of 15%.

- (2) In accordance with the *Letter of Reply on Publishing the Registration of First Batch of High-tech Enterprises of Zhejiang Province in 2016* (GuoKeHuoZi [2016] No. 149) issued by leading group office of Zhejiang high-tech enterprise identification management work on December 9<sup>th</sup> 2016, the wholly-owned subsidiary, Hangzhou Hikvision System Technology Co., Ltd. (Hangzhou System Technology) was identified as the high-tech enterprise with a valid term of 3 years, from 2016 to 2018, the enterprise income tax in the current year shall be calculated and paid according to tax rate of 15%.

- (3) According to the *Notice on Publishing the List of Second Batch of proposed identified High-tech Enterprises of Shanghai in 2017* issued by Shanghai high-tech enterprise identification office, the Company's wholly-owned subsidiary, Shanghai Goldway Intelligent Traffic System Co., Ltd. (Shanghai Goldway) was identified as the high-tech enterprise with a valid term of 3 years, from 2017

to 2019, the enterprise income tax in the current year shall be calculated and paid according to tax rate of 15%.

- (4) In accordance with the *Replies on Publishing the List of First Batch of identified High-tech Enterprises of Zhejiang Province in 2017* (GuoKeHuoZi [2017] No. 201) issued by the leading group office of Zhejiang high-tech enterprise identification management work on December 15<sup>th</sup> 2017, the Company's joint-venture subsidiary, Hangzhou HIK Robotic Technology Co., Ltd. (Hangzhou Robotic Technology) and Hangzhou EZVIZ Network Co., Ltd. (Hangzhou EZVIZ) were identified as the high-tech enterprises with a valid term of 3 years, from 2017 to 2019. Therefore, the enterprise income tax in the current year shall be calculated and paid according to tax rate of 15%.
- (5) In accordance with Finance and Taxation [2011] No. 58 Document of Ministry of Finance, State Administration of Taxation (SAT) and General Administration of Customs, the wholly-owned subsidiaries, Chongqing Hikvision Science and Technology Co., Ltd. and Chongqing Hikvision System Technology Co., Ltd., are qualified to enjoy the west development preferential tax policy from 2011 to 2020, therefore, this year the enterprise income rate shall be calculated and paid on the basis of 15%.

Note 2: In accordance with the *Notice on Software Product Value-added Tax Policy* (CS [2011] No. 100) of Ministry of Finance and State Administration of Taxation (SAT), as for the self-developed software product sales of wholly-owned subsidiaries such as Shanghai Goldway, Hangzhou System, Hundure Intelligent System (Shanghai), Beijing Brainaire Storage Technology Co., Ltd., as well as joint-venture subsidiaries such as Hangzhou EZVIZ and Hangzhou Robotic Technology, and Hangzhou HIK Automotive Technology Co., Ltd. (Hangzhou Auto Technology), the VAT shall be calculated and paid with tax rate of 17% at first, then the portion with actual tax bearing excess 3% shall be refunded after SAT reviews.

Note 3: In accordance with the *Notice on Fully Implementing the Change from Business Tax to Value-Added Tax* (Finance and Taxation [2016] No. 36) the Group's business tax has been changed to VAT since May 1<sup>st</sup> 2016, of which the engineering integration income is applicable to the 11% of VAT rate, engineering project management income is applicable to the VAT rate with a simple collection rate of 3%.

## V. Notes to items in the consolidated financial statements

### 1. Cash and bank balances

Item	Closing Balance			Opening Balance		
	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
<b>Cash:</b>						
RMB	-	-	130,403.91	-	-	72,198.75
USD	35,098.97	6.5342	229,343.66	54,518.00	6.9370	378,191.37
EUR	15,918.33	7.8023	124,199.58	9,914.76	7.3665	73,036.78
GBP	7,396.17	8.7792	64,932.46	3,194.57	8.5094	27,183.87
ZAR	19,530.51	0.5277	10,306.25	20,000.00	0.5083	10,165.18
INR	1,222,954.96	0.1019	124,619.11	648,250.61	0.1023	66,308.91
RUB	22,805.81	0.1135	2,588.46	700,327.10	0.1151	80,584.44
AED	35,070.03	1.7790	62,389.59	22,038.00	1.8876	41,599.39
HKD	3,072.66	0.8359	2,568.44	-	-	-
BRL	9,297.27	1.9641	18,260.77	-	-	-
<b>Bank balance:</b>						
RMB	-	-	10,082,944,463.42	-	-	9,012,033,851.31
USD	822,098,082.75	6.5342	5,371,753,292.29	557,895,047.74	6.9370	3,870,112,669.33
EUR	36,681,727.64	7.8023	286,201,843.60	63,105,958.57	7.3086	461,213,364.03
GBP	1,171,110.92	8.7792	10,281,416.98	1,162,906.87	8.5162	9,903,554.55
JPY	408.00	0.0579	23.62	408.00	0.0596	24.31
CHF	-	-	-	4,350.83	6.7989	29,580.86
ZAR	11,105,021.55	0.5277	5,860,119.88	479,939.35	0.5083	243,938.69
INR	1,604,304,664.42	0.1019	163,478,645.31	741,278,806.84	0.1023	75,824,667.94
RUB	431,796,810.54	0.1135	49,008,937.99	376,048,117.90	0.1149	43,219,734.70
HKD	147,865.08	0.8359	123,600.42	113,182.52	0.8945	101,242.90
AUD	1,110,556.92	5.0928	5,655,844.28	358,996.02	5.0157	1,800,616.34
AED	5,099,038.05	1.7790	9,071,188.69	8,811,007.21	1.8876	16,631,825.02
BRL	4,579,468.83	1.9641	8,994,534.73	8,453,226.09	2.1336	18,035,803.19
SGD	35,788.26	4.8831	174,757.65	34,035.93	4.7995	163,355.45
PLN	338,408.19	1.8680	632,146.48	1,403,342.82	1.6569	2,325,147.58
KRW	461,310,471.00	0.0061	2,818,145.67	120,990,676.00	0.0058	696,509.57
CAD	824,149.98	5.2009	4,286,321.63	42,307.32	5.1406	217,485.01
KZT	43,256,830.49	0.0195	843,508.19	27,890,915.57	0.0207	577,341.95
COP	150,707,765.53	0.0022	328,799.13	261,841,960.55	0.0023	604,226.04
TRY	46,834.84	1.7291	80,982.11	21,242.60	1.9702	41,851.47
THB	4,267,411.59	0.1998	852,750.61	-	-	-
HUF	57,206,835.37	0.0250	1,430,205.20	-	-	-
NZD	106,049.60	4.6327	491,295.98	-	-	-
CZK	1,701,256.64	0.3057	520,074.15	-	-	-
KES	23,771,784.15	0.0630	1,497,622.40	-	-	-
UZS	260,975,830.78	0.0008	208,597.98	-	-	-
<b>Other currency funds:</b>						
RMB	-	-	459,284,934.33	-	-	102,586,217.99
USD	7,768.39	6.5342	50,760.21	3,019,477.89	6.6811	20,173,564.54
EUR	100,775.09	7.8023	786,277.48	108,432.98	7.3068	792,298.10

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

Item	Closing Balance			Opening Balance		
	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
<b>Total</b>			16,468,430,702.64			13,638,078,139.56
including: deposited in overseas banks			788,391,050.26			565,682,133.09

**Details of other currency funds:**

Item	Ending Balance			Opening Balance		
	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
<b>Capitals with limitations:</b>						
Bank acceptance bill	-	-	204,607,890.97	-	-	57,015,406.62
Deposits pledged for long-term borrowing,	-	-	35,000,000.00	-	-	30,000,000.00
Deposits for letter of guarantee	-	-	20,379,624.20	-	-	4,659,173.02
Deposits for letter of Credit in EUR	74,056.26	7.8023	577,809.16	108,432.98	7.3068	792,298.10
Other security deposit	-	-	502,664.40	-	-	-
Deposits for letter of Credit in USD	5,133.72	6.5342	33,544.74	3,019,477.89	6.6811	20,173,564.54
Deposits for future foreign exchange settlement	-	-	-	-	-	3,100,000.00
Other capitals with limitations	-	-	178,143,900.00	-	-	-
<b>Subtotal</b>			439,245,433.47			115,740,442.28
<b>Capitals without limitations:</b>						
Deposit in Alipay, Tenpay, etc.	-	-	20,650,854.76	-	-	7,811,638.35
Other currency funds in EUR	26,718.83	7.8023	208,468.32	-	-	-
Other currency funds in USD	2,634.67	6.5342	17,215.47	-	-	-
<b>Subtotal</b>			20,876,538.55			7,811,638.35
<b>Total</b>			460,121,972.02			123,552,080.63

**2. Financial assets valued at fair value through profit and loss**

Unit: RMB

Item	Closing Balance	Opening Balance
Held-for-trading financial assets	4,100,657.54	15,547,537.34
including: derivative financial assets	4,100,657.54	15,547,537.34
<b>Total</b>	4,100,657.54	15,547,537.34

Derivative financial assets includes forwards, foreign exchange option contract and interest rate swap contracts, not designated as a hedging instrument, gains or losses due to changes in fair value is directly included in the current period profits and losses.

**3. Notes receivable**

**(1) Categories of notes receivable**

Unit: RMB

Category	Closing Balance	Opening Balance
Bank acceptance bill	3,513,890,558.68	2,762,741,337.04
Commercial acceptance bill	123,071,057.35	80,663,078.48
Total	3,636,961,616.03	2,843,404,415.52

**(2) Notes receivable pledged by the Group at the closing of the reporting period**

Unit: RMB

Category	Pledged amount by December 31 <sup>st</sup> 2017
Bank acceptance bill	99,091,810.24
Commercial acceptance bill	-
Total	99,091,810.24

**(3) Notes receivable discounted or endorsed by the Group at the closing of the reporting period**

Unit: RMB

Category	Derecognized amount (Note)	Not Derecognized amount
Bank acceptance bill	1,759,090,775.00	-
Commercial acceptance bill	-	-
Total	1,759,090,775.00	-

Note: Because the main risks related to such bank acceptance bill, such as interest rate risk, has been transferred to bank or others, therefore, those discounted and endorsed bank acceptance bills have been derecognized by the Group.

(4) As of December 31<sup>st</sup>, 2017, there is no such case the Group has to transfer the defaulted note receivable into account receivable.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## 4. Accounts Receivable

### (1) Disclosure of accounts receivable by categories

Unit: RMB

Category	Closing Balance					Beginning Balance				
	Carrying amount		Bad debt provision		Carrying Value	Carrying amount		Bad debt provision		Carrying Value
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Amount	Proportion (%)	Amount	Proportion (%)	Amount
Accounts receivable that are individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Accounts receivable with provision accrued collectively on a portfolio basis for credit risk	15,839,958,044.79	100.00	1,134,747,971.98	7.16	14,705,210,072.81	12,105,157,539.88	100.00	861,314,214.98	7.12	11,243,843,324.90
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>15,839,958,044.79</b>	<b>100.00</b>	<b>1,134,747,971.98</b>	<b>7.16</b>	<b>14,705,210,072.81</b>	<b>12,105,157,539.88</b>	<b>100.00</b>	<b>861,314,214.98</b>	<b>7.12</b>	<b>11,243,843,324.90</b>

Note: The Group categorizes a single account receivable in an amount above RMB 4 million and representing more than 10% of the total accounts receivable closing balance as account receivable that is individually significant.

### The aging analysis of bad debt provision of accounts receivable in portfolio basis

Unit: RMB

Aging	Closing Balance		
	Carrying amount	Bad debt provision	Proportion (%)
Within 1 year	14,060,448,868.85	703,022,443.53	5.00
1-2 years	1,031,888,040.66	103,188,804.07	10.00
2-3 years	491,202,923.53	147,360,877.06	30.00
3-4 years	113,752,453.52	56,876,226.77	50.00
4-5 years	91,830,688.40	73,464,550.72	80.00
Over 5 years	50,835,069.83	50,835,069.83	100.00
<b>Subtotal</b>	<b>15,839,958,044.79</b>	<b>1,134,747,971.98</b>	<b>7.16</b>

## (2) Provision, re-collection, or reverse of the bad debt allowance in current reporting period

In the current reporting period, the Company recorded a bad debt allowance of RMB 307,603,500.16; reduced bad debt allowance balance for RMB 11,275,129.68 due to conversion of financial reports prepared in foreign currency; recollected or reversed bad debts in the current reporting period is nil.

## (3) Actual write-off of account receivable during current reporting period

In the current reporting period, the amount of accounts receivable write-off is RMB 22,894,613.48.

## (4) Top five debtors based on corresponding closing balance of account receivables

Unit: RMB

Name of the Party	Relationship with the Company	Book balance of accounts receivable	Closing balance for bed debt provision	Proportion (%)
Related party A	Related Party	548,309,509.95	27,415,475.50	3.46
Company A	Third party	111,087,723.97	5,554,386.20	0.70
Company B	Third party	109,049,205.70	8,910,705.72	0.69
Company C	Third party	107,178,715.88	5,358,935.79	0.68
Company D	Third party	103,705,761.55	5,185,288.08	0.65
Total		979,330,917.05	52,424,791.29	6.18

(5) As of December 31<sup>st</sup>, 2017, there is no termination of accounts receivable booking due to transfer of a financial asset.

(6) As of December 31<sup>st</sup>, 2017, the Group has no assets/liabilities booked due to transferred accounts receivable that the Group still keep recourse or retain part of the corresponding rights or interests.

## 5. Prepayments

### (1) Aging analysis of prepayments is as follows

Unit: RMB

Aging	Closing Balance		Opening Balance	
	Carrying amount	Proportion (%)	Carrying amount	Proportion (%)
Within 1 year	481,603,579.15	91.29	259,870,967.78	93.14
1-2 years	38,258,814.47	7.25	16,963,621.71	6.08
2-3 years	7,480,653.49	1.42	137,873.42	0.05
Over 3 years	233,810.00	0.04	2,050,745.00	0.73
Total	527,576,857.11	100.00	279,023,207.91	100.00

### (2) Closing balances of top five prepayments parties

As of December 31<sup>st</sup> 2017, the Group's top five balances of prepayments amounted to RMB 214,636,093.22, accounting for 41% of total closing balance of prepayments.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## 6. Other receivables

### (1) Disclosure of other receivables by categories

Unit: RMB

Category	Closing Balance					Opening Balance				
	Carrying amount		Bad debt provision		Carrying Value	Carrying amount		Bad debt provision		Carrying Value
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Amount	Proportion (%)	Amount	Proportion (%)	Amount
Other receivables that are individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Other receivables with provision accrued collectively on a portfolio basis for credit risk	641,690,488.45	100.00	58,009,247.64	9.04	583,681,240.81	572,242,065.53	100.00	43,602,983.74	7.62	528,639,081.79
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>641,690,488.45</b>	<b>100.00</b>	<b>58,009,247.64</b>	<b>9.04</b>	<b>583,681,240.81</b>	<b>572,242,065.53</b>	<b>100.00</b>	<b>43,602,983.74</b>	<b>7.62</b>	<b>528,639,081.79</b>

Note: The group categorizes other receivables above RMB 4 million and accounts for more than 10% of the total other receivables closing balance as other receivable that is individually significant.

### The aging analysis of bad debt provision of other receivables in portfolio basis

Unit: RMB

Aging	Closing Balance		
	Carrying amount	Bad debt provision	Proportion (%)
Within 1 year	492,806,656.05	24,640,332.87	5.00
1-2 years	84,475,713.99	8,447,571.40	10.00
2-3 years	43,766,462.07	13,129,938.62	30.00
3-4 years	16,151,161.82	8,075,580.91	50.00
4-5 years	3,873,353.42	3,098,682.74	80.00
Over 5 years	617,141.10	617,141.10	100.00
<b>Total</b>	<b>641,690,488.45</b>	<b>58,009,247.64</b>	<b>9.04</b>

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## (2) Provision, re-collection, or reverse of the bad debt allowance in current reporting period

During the reporting period, the Company recorded a bad debt allowance of RMB 16,616,226.63; reduced bad debt allowance of RMB 1,370,236.33 due to conversion of financial statements prepared in foreign currency; there is no such case as reversed bad debt allowance or recovered bad debts.

## (3) Actual write-off of other receivables during current reporting period

In current reporting period, the actual write-off of other receivables is RMB 839,726.40.

## (4) Nature of other receivables

Unit: RMB		
Nature of other receivables	Closing balance	Beginning balance
Other receivables for interim payments	365,413,004.37	397,092,708.80
Guarantee deposits	199,237,401.53	120,485,983.73
Tax rebates for export	28,195,951.27	17,096,975.74
Acquisition of asset group	19,053,271.93	-
Investment intention fund	13,500,000.00	35,000,000.00
Others	16,290,859.35	2,566,397.26
<b>Total</b>	<b>641,690,488.45</b>	<b>572,242,065.53</b>

## (5) Top five debtors based on corresponding closing balance of other receivables

Unit: RMB					
Entities	Nature	Carrying amount	Aging	Proportion of total (%)	Bad debt Provision
The Government Tax Authorities	Tax refund	22,864,350.14	Within 1 year	3.56	1,143,217.51
The Company E	Guarantee deposits	19,520,000.00	Within 1 year	3.04	976,000.00
Related Party B	Investment intention fund	13,500,000.00	Within 1 year	2.10	675,000.00
The Company F	Acquisition of asset group	11,596,878.80	Within 1 year	1.81	579,843.94
Hangzhou customs of the People's Republic of China.	Guarantee deposits	9,899,900.00	Within 1 year	1.54	494,995.00
<b>Total</b>		<b>77,381,128.94</b>		<b>12.05</b>	<b>3,869,056.45</b>

(6) As of December 31<sup>st</sup> 2017, the Group does not have other receivables related to government subsidies.

(7) As of December 31<sup>st</sup> 2017, there is no termination of other receivables booking due to transfer of a financial asset.

(8) As of December 31<sup>st</sup> 2017, the Group has no assets/liabilities booked due to any transferred other receivable that the Group still keep recourse or retain part of the corresponding rights or interests.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## 7. Inventories

### (1) Categories of inventories

Unit: RMB

Category	Closing Balance			Opening Balance		
	Carrying amount	Provision for decline in value of inventories	Carrying value	Carrying amount	Provision for decline in value of inventories	Carrying value
Raw materials	1,279,086,935.83	4,092,497.08	1,274,994,438.75	874,786,611.19	1,516,317.17	873,270,294.02
Work-in-progress	196,583,804.97	-	196,583,804.97	159,844,928.42	-	159,844,928.42
Finished goods	3,598,361,044.81	190,211,526.56	3,408,149,518.25	2,680,562,932.70	86,718,096.08	2,593,844,836.62
Completed but unsettled assets formed by construction contracts	60,604,549.68	-	60,604,549.68	202,987,817.69	-	202,987,817.69
<b>Total</b>	<b>5,134,636,335.29</b>	<b>194,304,023.64</b>	<b>4,940,332,311.65</b>	<b>3,918,182,290.00</b>	<b>88,234,413.25</b>	<b>3,829,947,876.75</b>

### (2) Provision for decline in value of inventories

Unit: RMB

Category	Opening balance	Increase in the current period	Decrease in the current period		Effect of foreign currency exchange difference	Closing Balance
			Reversals	write-offs		
Raw materials	1,516,317.17	2,981,090.40	-	404,910.49	-	4,092,497.08
Finished goods	86,718,096.08	157,514,074.86	145,992.89	52,417,340.54	(1,457,310.95)	190,211,526.56
<b>Subtotal</b>	<b>88,234,413.25</b>	<b>160,495,165.26</b>	<b>145,992.89</b>	<b>52,822,251.03</b>	<b>(1,457,310.95)</b>	<b>194,304,023.64</b>

Net realizable value of inventory is calculated based on estimated selling price less all estimated cost of completion and costs necessary to make the sale for inventories. The reversals or write-offs of provision for inventories in the current year are due to use or sale of inventories.

### (3) Completed but unsettled assets formed by construction contracts at the end of December 31<sup>st</sup> 2017

Unit: RMB

Item	Amount
Accumulated occurred costs of construction	1,500,402,581.16
Accumulated booked gross profit margin	151,596,836.74
Less: estimated losses	-
Settled amounts	1,103,216,066.23
Completed but unsettled assets formed by construction contracts	548,783,351.67
Including: other non-current assets (Note (V) 18)	488,178,801.99
<b>Inventories</b>	<b>60,604,549.68</b>

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

**8. Non-current assets due within one year**

Unit: RMB

Item	Closing Balance	Opening Balance
Long-term receivables due within one year (Note (V) 11)	66,566,230.12	-
Total	66,566,230.12	-

**9. Other current assets**

Unit: RMB

Item	Closing balance	Opening balance
Principal-guaranteed bank finance products (Note)	3,390,000,000.00	3,820,000,000.00
Deductible VAT input	286,332,435.43	293,158,008.82
Prepaid income tax	42,645,678.02	40,834,267.96
Others	1,471,419.43	-
Total	3,720,449,532.88	4,153,992,276.78

Note: Those are bank entrusted financial products bought by the Group, which are all principal-guaranteed, with a termination period less than one year. Therefore, the management team agreed that there won't be significant differences between the estimated interests and risks of those bank entrusted financial products and the book value of those products.

**10. Available-for-sale financial assets**
**(1) Available-for-sale financial assets**

Unit: RMB

Item	Closing Balance			Opening Balance		
	Carrying amount	Provision for decline in value	Carrying Value	Carrying amount	Provision for decline in value	Carrying Value
Available-for-sale equity instruments	287,466,813.00	-	287,466,813.00	283,836,013.00	-	283,836,013.00
Cost method	287,466,813.00	-	287,466,813.00	283,836,013.00	-	283,836,013.00
Total	287,466,813.00	-	287,466,813.00	283,836,013.00	-	283,836,013.00

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

**(2) Closing balance of available-for-sale financial assets using cost method**

Unit: RMB

The invested entity (Note 1)	Carrying Balance				Provision for decline in value				Proportion of shareholding in the invested entity (%)	Cash dividend in the current reporting period
	Opening balance	Increase	Decrease	Closing balance	Opening balance	Increase	Decrease	Closing balance		
Zhejiang Tuxun Technology Co., Ltd. (浙江图讯科技股份有限公司)	28,800,000.00	3,630,800.00	-	32,430,800.00	-	-	-	-	8.1318	-
Confirmware Technology(Hangzhou) Co., Ltd. (康奋威科技(杭州)有限公司)	26,629,200.00	-	-	26,629,200.00	-	-	-	-	9.5238	-
Nanwang Group Co., Ltd (南望信息产业集团有限公司)	604,313.00	-	-	604,313.00	-	-	-	-	0.2518	-
Hangzhou Hikvision Equity Investment Partnership (Limited Partnership) (杭州海康威视股权投资合伙企业(有限合伙))	10,000.00	-	-	10,000.00	-	-	-	-	0.0017	-
CETC Finance Co., Ltd (Note2) (中国电子科技财务有限公司)	227,792,500.00	-	-	227,792,500.00	-	-	-	-	3.8300	8,505,842.42
<b>Total</b>	<b>283,836,013.00</b>	<b>3,630,800.00</b>	<b>-</b>	<b>287,466,813.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,505,842.42</b>

Note1: The Group's equity investments listed are all non-listed companies; and the Group has no control, joint control or significant influence on the invested entities.

Note2: CETC Finance Co., Ltd is one of the companies held under CETC, which is the Company's ultimate controlling shareholder.

**11. Long-term receivables**
**(1) Details of long-term receivables**

Unit: RMB

Item	Closing balance			Opening balance			Range of discount rate
	Carrying amount	Provision for decline in value	Carrying value	Carrying amount	Provision for decline in value	Carrying value	
Financial leases receivables	89,941,910.73	-	89,941,910.73	74,504,325.33	-	74,504,325.33	0.54% - 6.05%
including: Unrealized income from financing	2,516,655.49	-	2,516,655.49	1,513,690.63	-	1,513,690.63	-
Borrowings for project	-	-	-	18,000,000.00	-	18,000,000.00	-
Installment payment for selling products and providing labor services	-	-	-	159,084,593.82	-	159,084,593.82	-
Less: Financial leases receivables due within one year (Note (V) 8)	66,566,230.12	-	66,566,230.12	-	-	-	-
<b>Total</b>	<b>23,375,680.61</b>	<b>-</b>	<b>23,375,680.61</b>	<b>251,588,919.15</b>	<b>-</b>	<b>251,588,919.15</b>	<b>-</b>

 (2) As of December 31<sup>st</sup> 2017, there is no termination of long-term receivables booking due to transfer of a financial asset.

 (3) As of December 31<sup>st</sup> 2017, the Group has no assets/liabilities booked due to any transferred long-term receivable that the Group still keep recourse or retain part of the corresponding rights or interests.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## 12. Long-term equity investment

Unit: RMB

The invested entity	Opening Balance	Decrease/Increase in the current period								Closing Balance	Closing balance for impairment provision
		Additional Investments	Investment reduction	Investment Profit (Loss) recognized under the equity Method	Adjustment: Other comprehensive income	Other Changes in equity	Declaration of cash dividends or profit distribution	Impairment provision	others		
Associated Companies											
Wuhu Sensor Technology Co, Ltd.	35,000,000.00	-	-	3,207,959.74	-	-	-	-	-	38,207,959.74	-
Maxio Technology (Hangzhou) Ltd.	-	98,000,000.00	-	(5,733,226.16)	-	-	-	-	-	92,266,773.84	-
Subtotal	35,000,000.00	98,000,000.00	-	(2,525,266.42)	-	-	-	-	-	130,474,733.58	-
Total	35,000,000.00	98,000,000.00	-	(2,525,266.42)	-	-	-	-	-	130,474,733.58	-

Note: According to the equity transfer agreement signed between the Group and the independent 3<sup>rd</sup> party, Hangzhou Lingqi Technology Co., Ltd., the Company's subsidiary, Hangzhou Hikvision Science and Technology Co., Ltd acquired 26.68% equity of Maxio Technology (Hangzhou) Ltd. (hereinafter refers to as "Maxio Technology") with RMB 50 million. Payment for equity transfer was paid in January 2017, and relevant industrial and commercial registration was processed. In addition, according to the *Equity Capital Increase Agreements* signed between the Company and Maxio Technology and its shareholders, the Company increased capital investment of RMB 48 million on Maxio Technology, and increased capital has been paid in May 2017. After this capital increment, the Group together is holding 41.63% equity of Maxio Technology. The board of Maxio Technology consists of three directors, one of whom is appointed by the Group to exert a significant influence on the Maxio Technology.

## 13. Fixed Assets

### (1) Details of fixed assets

Unit: RMB

Items	Building and construction	General-purpose equipment	Special-purpose equipment	Transportation vehicles	Total
<b>Total original carrying amount</b>					
1. Opening balance	2,557,263,629.24	153,881,038.05	634,591,114.67	61,860,747.84	3,407,596,529.80
2. Increase in the period	87,036,186.59	89,352,350.94	304,155,334.54	11,820,282.18	492,364,154.25
1) purchase	26,244,391.74	88,945,088.53	254,918,611.41	11,820,282.18	381,928,373.86
2) transferred from construction in progress	60,791,794.85	407,262.41	49,236,723.13	-	110,435,780.39
3. Decrease in the period	6,874,132.63	12,088,485.69	10,074,043.00	10,962,841.68	39,999,503.00
1) disposal or write-off	6,874,132.63	12,088,485.69	10,074,043.00	10,962,841.68	39,999,503.00
4. Effect of foreign currency exchange difference	(1,853,502.58)	961,547.67	(916,583.59)	(340,991.37)	(2,149,529.87)
5. Closing Balance	2,635,572,180.62	232,106,450.97	927,755,822.62	62,377,196.97	3,857,811,651.18
<b>Accumulated depreciation</b>					
1. Opening balance	275,060,799.95	59,217,137.26	173,740,268.29	45,664,703.18	553,682,908.68
2. Increase in the period	114,622,782.23	32,815,269.07	149,147,875.53	5,275,404.03	301,861,330.86
(1) provided	114,622,782.23	32,815,269.07	149,147,875.53	5,275,404.03	301,861,330.86
3. Decrease in the period	1,868,186.51	7,056,034.65	1,956,454.42	9,835,171.73	20,715,847.31
(1) disposal or write-off	1,868,186.51	7,056,034.65	1,956,454.42	9,835,171.73	20,715,847.31
4. Effect of foreign currency exchange difference	284,632.85	(258,754.07)	(898,596.86)	(169,519.28)	(1,042,237.36)
5. Closing balance	388,100,028.52	84,717,617.61	320,033,092.54	40,935,416.20	833,786,154.87
<b>Provision for decline in value</b>					
1. Opening balance	-	-	-	-	-
2. Increase in the period	-	-	-	-	-
3. Decrease in the period	-	-	-	-	-
4. Closing balance	-	-	-	-	-
<b>Total carrying value</b>					
1. Closing balance	2,247,472,152.10	147,388,833.36	607,722,730.08	21,441,780.77	3,024,025,496.31
2. Opening balance	2,282,202,829.29	94,663,900.79	460,850,846.38	16,196,044.66	2,853,913,621.12

(2) As of December 31<sup>st</sup> 2017, the Group did not have any significant idle fixed assets.

(3) As of December 31<sup>st</sup> 2017, the Group had not leased any fixed asset through financial leasing.

(4) As of December 31<sup>st</sup> 2017, the Group had not rent out any fixed asset through operating leasing

(5) Fixed assets of which certificates of title have not been granted as of December 31<sup>st</sup> 2017

Unit: RMB

Item	Carrying amount	Reason for certificates of title not granted
Office building for branches	63,999,727.47	In the process of obtaining the real estate certificates
Tonglu Security Industrial Base-the factory and dormitory	652,807,506.63	In the process of obtaining the real estate certificates after transferred from construction in process to fixed assets
Total	716,807,234.10	

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## 14. Construction in progress

### (1) Details of construction in progress

Unit: RMB

Item	Closing balance			Opening balance		
	Carrying amount	Provision	Carrying value	Carrying amount	Provision	Carrying value
Security industrial (Tonglu) base -Phase 1	-	-	-	18,104,535.49	-	18,104,535.49
Security industrial (Tonglu) base -Phase 2	300,688,913.96	-	300,688,913.96	2,713,228.89	-	2,713,228.89
Internet Security Industry Base	914,014,265.08	-	914,014,265.08	238,269,427.37	-	238,269,427.37
Public Security Monitoring Site Project	105,039,082.92	-	105,039,082.92	42,542,379.61	-	42,542,379.61
Others	116,576,856.34	-	116,576,856.34	14,852,951.00	-	14,852,951.00
<b>Total</b>	<b>1,436,319,118.30</b>	<b>-</b>	<b>1,436,319,118.30</b>	<b>316,482,522.36</b>	<b>-</b>	<b>316,482,522.36</b>

### (2) Changes in significant construction in progress

Unit: RMB

Item	Budget (RMB 0,000)	Opening balance	Increase in the period	Transferred to fixed assets during the current period	Effect of foreign currency exchange difference	Other decrease (Note 1)	Closing balance	Amount invested as a proportion of budget amount (%)	Construction on Progress (%)	Accumulated capitalized interest and profit/loss on exchange (Note 2)	Including: capitalized interest and profit/loss on exchange for the current period	Capitalization rate for interest in the current period (%)	Source of funds
Internet Security Industry Base	100,000.00	238,269,427.37	675,744,837.71	-	-	-	914,014,265.08	71%	71%	206,771,511.91	311,771,511.91	1.25%	Bond
Security industrial (Tonglu) base-Phase 2	94,000.00	2,713,228.89	297,975,685.07	-	-	-	300,688,913.96	32%	32%	-	-	-	Bond
Chongqing Manufacture Base	53,000.00	2,083,018.86	87,310,592.95	-	-	-	89,393,611.81	17%	17%	-	-	-	Self-financing
Others	-	73,416,847.24	200,560,881.59	110,435,780.39	(690,107.35)	30,629,513.64	132,222,327.45	-	-	-	-	-	Self-financing
<b>Total</b>	<b>247,000.00</b>	<b>316,482,522.36</b>	<b>1,261,591,997.32</b>	<b>110,435,780.39</b>	<b>(690,107.35)</b>	<b>30,629,513.64</b>	<b>1,436,319,118.30</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

Note 1: Other decrease of construction in progress in the current period is due to transferring the completely constructed financial leasing assets into long-term receivables.

Note 2: This amount is calculated by interest expense for specific foreign currency borrowings, less interest income for unused borrowing fund and profit/loss on exchange rate difference.

As of December 31<sup>st</sup> 2017, the Group did not have any sign of impairment of projects under construction, therefore, no provision for impairment loss was booked.

## 15. Intangible assets

### (1) Details of Intangible assets

Unit: RMB

Item	Land use right	Intellectual property right	Application Software	Total
<b>Total original carrying amount</b>				
1. Opening balance	323,531,470.36	27,923,432.16	143,092,986.88	494,547,889.40
2. Increased	2,681,390.58	18,335,945.41	38,682,806.69	59,700,142.68
(1) Purchase	2,681,390.58	18,335,945.41	38,682,806.69	59,700,142.68
3. Decreased	1,850,794.50	7,000,000.00	342,596.73	9,193,391.23
(1) Disposal or write-off	1,850,794.50	7,000,000.00	342,596.73	9,193,391.23
4. Effect of foreign currency exchange difference	-	9,664.54	1,206,908.47	1,216,573.01
5. Closing balance	324,362,066.44	39,269,042.11	182,640,105.31	546,271,213.86
<b>Total accumulated amortization</b>				
1. Opening balance	12,088,524.92	9,121,583.99	62,880,990.86	84,091,099.77
2. Increased	6,482,715.47	9,589,675.99	23,339,609.24	39,412,000.70
(1) Provided	6,482,715.47	9,589,675.99	23,339,609.24	39,412,000.70
3. Decreased	-	6,658,572.95	317,402.01	6,975,974.96
(2) Disposal or write-off	-	6,658,572.95	317,402.01	6,975,974.96
4. Effect of foreign currency exchange difference	-	6,124.97	576,980.75	583,105.72
5. Closing balance	18,571,240.39	12,058,812.00	86,480,178.84	117,110,231.23
<b>Provision for decline in value</b>				
1. Opening balance	-	-	-	-
2. Increased	-	-	-	-
3. Decreased	-	-	-	-
4. Closing balance	-	-	-	-
<b>Total carrying value</b>				
Closing balance	305,790,826.05	27,210,230.11	96,159,926.47	429,160,982.63
Opening balance	311,442,945.44	18,801,848.17	80,211,996.02	410,456,789.63

## 16. Goodwill

### (1) Goodwill book value

Unit: RMB

The invested entity	Opening balance	Increased	Decreased	Effect of foreign currency exchange difference	Closing balance
		Business combination not involving enterprises under common control	Disposal		
ZAO Hikvision	67,349.64	-	-	-	67,349.64
Beijing Brainaire Storage Technology Co., Ltd. (北京邦诺存储科技有限公司)	42,695,573.44	-	-	-	42,695,573.44
Henan HuaAn Intelligence Development Co., Ltd. (河南华安保全智能发展有限公司) and its subsidiaries	61,322,871.63	-	-	-	61,322,871.63

The invested entity	Opening	Increased	Decreased	Effect of foreign	Closing balance
Hundure Technology (Shanghai) Co., Ltd. (汉军智能系统(上海)有限公司)	13,774,405.88	-	-	-	13,774,405.88
Hangzhou Haikang Zhicheng Investment and Development Co. Ltd. (杭州海康智城投资发展有限公司)	12,573.42	-	-	-	12,573.42
Secure Holdings Limited (SHL)	130,491,627.46	-	-	599,701.50	131,091,328.96
Total	248,364,401.47	-	-	599,701.50	248,964,102.97

## (2) Provision of impairment in goodwill

The key assumptions used in the Group's annual impairment test performed for goodwill at the end of the reporting period:

The recoverable amounts of the relevant assets have been determined on the discounted present value of the future cash flow projections. The cash flow projections are based on 2018-2022 Financial Budgets approved by management covering a 5-year period, with discount rates of 18% to 20%. The sets of cash flows beyond the 5-year period are projected without growth. This growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rate for the relevant industry. Expected cash inflows/outflows, considering budgeted net sales, cost of revenue and operating expenses, have been determined by management based on past performance and expectations for the future market development.

There was no case recognized that the recoverable amount of the goodwill is less than the carrying value of the goodwill, therefore, no provision for impairment loss was booked during the period.

## 17. Deferred tax assets/deferred tax liabilities

### (1) Deferred tax assets that are not presented at net off basis

Unit: RMB

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for impairment losses of assets	1,162,036,595.26	252,830,021.37	857,050,100.60	183,020,355.82
Payroll payables	253,384,576.51	38,007,686.48	174,795,783.91	26,219,367.59
Share-based compensation	208,856,209.85	32,070,672.55	136,678,690.94	18,118,078.96
Provisions	43,024,784.70	6,453,717.71	28,799,848.84	4,319,977.33
Unrealized profit from inter-group transactions	978,313,377.64	146,747,006.65	918,416,162.13	137,762,424.32
Changes in the fair value of derivative financial instruments	15,946,836.46	3,986,709.12	60,459,998.68	9,229,129.93
Total	2,661,562,380.42	480,095,813.88	2,176,200,585.10	378,669,333.95

### (2) Deferred tax liabilities that are not presented on net off basis

Unit: RMB

Item	Closing balance		Opening balance	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Changes in the fair value of derivative financial instruments	4,100,657.54	1,025,164.39	15,547,537.34	3,358,395.25
Total	4,100,657.54	1,025,164.39	15,547,537.34	3,358,395.25

**(3) Deferred tax assets or deferred tax liabilities that are presented at the net amount after offset**

Unit: RMB

Item	Closing balance		Opening balance	
	Offset amount	Deferred tax assets or liabilities at the net amount after offset	Offset amount	Deferred tax assets or liabilities at the net amount after offset
Deferred tax assets	1,025,164.39	479,070,649.49	3,358,395.25	375,310,938.70
Deferred tax liabilities	1,025,164.39	-	3,358,395.25	-

**(4) Details of unrecognized deferred tax assets**

Unit: RMB

Item	Closing Balance	Opening Balance
Deductible temporary differences	628,129,115.31	389,553,597.09
Deductible losses	520,259,773.50	202,688,409.94
Total	1,148,388,888.81	592,242,007.03

**(5) Deductible losses, for which no deferred tax assets are recognized, will expire in the following years**

Unit: RMB

Year	Closing Balance	Opening Balance
2017	-	14,216,241.71
2018	6,269,195.05	6,269,195.05
2019	5,645,442.54	5,645,442.54
2020	3,636,058.38	3,636,058.38
2021	172,921,472.26	172,921,472.26
2022	331,787,605.27	-
Total	520,259,773.50	202,688,409.94

**18. Other non-current assets**

Unit: RMB

Item	Closing balance	Opening balance
Completed but unsettled assets formed by construction contracts (Note (V) 7)	488,178,801.99	-
Prepayments for acquisition of land	314,410,044.45	-
Prepayments for acquisition of real estate	-	10,782,858.00
Prepayments for purchase of equipment	52,356,860.27	30,216,826.42
Prepayments for infrastructure	3,850,961.42	-
Total	858,796,668.13	40,999,684.42

**19. Short-term borrowings**

**(1) Categories of short-term loans**

Unit: RMB

Item	Closing balance	Opening balance
Fiduciary loan	10,492,107.52	1,448,732.40
Guaranteed loans	74,622,548.39	21,842,592.45
Pledged loans	12,000,000.00	9,000,000.00
Total	97,114,655.91	32,291,324.85

(2) As of December 31<sup>st</sup> 2017, the Group did not have any overdue short-term loans that were failed to repay.

## 20. Financial liabilities booked at fair value, and differences in fair value booked through profit or loss in the current period

Unit: RMB

Item	Closing balance	Opening balance
Held-for-trading financial liabilities	15,946,836.46	69,789,502.97
Including: derivative financial liabilities	15,946,836.46	69,789,502.97
total	15,946,836.46	69,789,502.97

Derivative financial liabilities include forward foreign exchange contract, not designated as a hedging instrument, gains or losses due to changes in fair value is directly included in the current period profits and losses.

## 21. Notes payable

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance Bill	845,397,427.92	876,804,536.72
Total	845,397,427.92	876,804,536.72

As of December 31<sup>st</sup> 2017, the Group did not have any unpaid matured notes payables.

## 22. Accounts payable

### (1) List of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Loans	9,948,393,218.09	6,944,209,175.02
Payables on equipment	91,549,794.17	65,112,853.11
Total	10,039,943,012.26	7,009,322,028.13

As of December 31<sup>st</sup> 2017, the Group did not have any significant account payable with aging above one year.

## 23. Receipts in advance

### (1) List of receipts in advance

Unit: RMB

Item	Closing balance	Opening balance
Advanced receipts from sales of goods	417,208,664.56	357,102,290.89
Advanced receipts from construction contracts	153,364,544.04	112,702,546.56
Total	570,573,208.60	469,804,837.45

(2) As of December 31<sup>st</sup> 2017, the Group did not have any significant receipts in advance with aging above one year

## 24. Payroll payables

### (1) Details of payroll payables

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Short-term remuneration	1,084,423,286.90	5,036,370,197.61	4,733,251,322.32	1,387,542,162.19
Termination benefits – defined contribution scheme	527,852.20	306,887,488.17	303,666,245.66	3,749,094.71
Total	1,084,951,139.10	5,343,257,685.78	5,036,917,567.98	1,391,291,256.90

**(2) List of Short-term remuneration**

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
1.Wages or salaries, bonuses, allowances and subsidies	1,049,466,834.71	4,429,985,802.56	4,162,055,762.26	1,317,396,875.01
2.Staff welfare	2,967,561.72	115,225,718.98	113,102,330.87	5,090,949.83
3.Social insurance contributions	225,829.18	215,841,557.70	213,056,915.98	3,010,470.90
Including: medical insurance	208,370.79	189,155,602.50	186,397,141.86	2,966,831.43
injury insurance	2,635.97	10,718,255.85	10,711,298.88	9,592.94
maternity insurance	14,822.42	15,967,699.35	15,948,475.24	34,046.53
4.Housing funds	812,400.00	193,793,142.83	194,496,087.01	109,455.82
5.Labor union and education fund	30,950,661.29	81,523,975.54	50,540,226.20	61,934,410.63
subtotal	1,084,423,286.90	5,036,370,197.61	4,733,251,322.32	1,387,542,162.19

**(3) Defined contribution scheme (Note)**

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Basic pension insurance	472,261.07	293,546,430.53	290,488,067.64	3,530,623.96
Unemployment insurance	55,591.13	13,341,057.64	13,178,178.02	218,470.75
Subtotal	527,852.20	306,887,488.17	303,666,245.66	3,749,094.71

Note:

During the reporting periods, the employees of the Company are the members of state-managed retirement benefit plan, and unemployment insurance plan, operated by the respective governments of these jurisdictions. The Group is required to contribute specified percentage out of payroll costs to the retirement benefit schemes and unemployment insurance schemes to fund the benefits. The Group has no other material obligation for the payment of pension benefits beyond the contributions described above, and corresponding expenses are booked into profits and losses of related assets during the current period.

In the current period, the Group has contributed RMB 293,546,430.53 to retirement benefit scheme and RMB 13,341,057.64 to unemployment insurance scheme. (2016: RMB 186, 598,595.71 and RMB 13, 874,229.92, respectively) As of December 31<sup>st</sup> 2017, the Group has RMB 3,530,623.96 payables to retirement benefit scheme and RMB 218,470.75 payables to unemployment insurance scheme (as of December 31<sup>st</sup> 2016: RMB 472,261.07 and RMB 55, 591.13 payables, respectively) due in the current reporting period; And those payables have been paid off after the reporting period.

**25. Taxes payable**

Unit: RMB

Item	Closing balance	Opening balance
Enterprise income tax	1,099,786,533.85	898,545,866.96
Value-added tax	281,447,062.92	229,179,164.71
City construction and maintenance tax	19,789,046.85	28,164,970.24
Education surcharges	8,501,502.81	15,154,496.86
Local education surcharges	5,666,165.96	8,216,807.76
Others	38,324,753.38	26,449,415.69
Total	1,453,515,065.77	1,205,710,722.22

**26. Dividends payable**

Unit: RMB

Item	Closing balance	Opening balance
Dividends of restricted shares (Share Incentive Scheme)	92,407,139.16	20,105,831.16
Dividends of ordinary shares	2,450,000.00	-
<b>Total</b>	<b>94,857,139.16</b>	<b>20,105,831.16</b>

**27. Other payables**
**(1) List of other payables according to the nature of the payment**

Unit: RMB

Item	Closing balance	Opening balance
Guarantee and deposit fees	145,730,079.74	110,171,087.75
Collection and payment on behalf	87,921,755.93	85,903,121.17
Accrued expenses	149,359,652.21	127,849,041.50
Others	18,849,590.79	64,353,240.48
Subscription proceeds for restricted shares (Note)	-	660,888,216.54
<b>Total</b>	<b>401,861,078.67</b>	<b>1,049,164,707.44</b>

Note: As of December 31<sup>st</sup> 2016, the Group received RMB 660,888,216.54 contributions for 2016 restricted share incentive scheme (please refer to Note (XI) for details), stock registration was not done as of December 31<sup>st</sup> 2016, and these incentive shares were later registered on January 20<sup>th</sup> 2017.

(2) As of December 31<sup>st</sup> 2017, the Group does not have any significant other payables aging over one year.

**28. Non-current liabilities due within one year**

Unit: RMB

Item	Closing balance	Opening balance
Long-term borrowings due within one year (Note (V) 30)	1,512,793,252.38	15,340,813.03
Bond Payable due within one year (Note (V) 31)	33,614,018.51	-
<b>Total</b>	<b>1,546,407,270.89</b>	<b>15,340,813.03</b>

**29. Other current liabilities**

Unit: RMB

Item	Closing balance	Opening balance
Subscription payment of restricted shares	744,583,627.22	300,177,750.17
<b>Total</b>	<b>744,583,627.22</b>	<b>300,177,750.17</b>

**30. Long-term borrowings**

Unit: RMB

Item	Closing balance	Opening balance
Pledged loan (Note 1)	310,473,667.00	31,421,001.00
Guaranteed loans	1,500,000,000.00	1,500,000,000.00
Fiduciary loan	2,319,585.38	16,127,396.36
Other borrowing (Note 2)	190,000,000.00	190,000,000.00
Less: Long-term loans due within one year (Note (V) 28)	1,512,793,252.38	15,340,813.03
<b>Total</b>	<b>490,000,000.00</b>	<b>1,722,207,584.33</b>

As of December 31<sup>st</sup> 2017, the GBP loans, with carrying value of RMB 2,204,972.03, carry annual interest rate ranging from 2.40% to 2.50% (December 31<sup>st</sup> 2016: 1.20% to 3.50%); the RMB loan, with carrying value RMB 2,000,588,280.35, carry annual interest rate ranging from 2.65% to 5.00% (December 31<sup>st</sup> 2016: range from 2.65% to 5.00%).

Note 1: As of December 31<sup>st</sup> 2017, the Group's RMB 10,473,667.00 pledged loan was pledged by RMB 60,646,697.33 carrying value of account receivables (December 31<sup>st</sup> 2016: the Group's RMB 31,421,001.00 pledged loan was pledged by RMB 95,128,752.51 carrying value of account receivables), maturity date is September 21<sup>st</sup> 2018, annual interest rate is 5.00%.

As of December 31<sup>st</sup> 2017, the Group's RMB 300,000,000.00 pledged loan was pledged by VAT Rebate Account under the Company's wholly-owned subsidiary, Hangzhou HIK Science and Technology Co., Ltd., the balance of VAT Rebate Account is not less than RMB 5,000,000.00 according to the contract, maturity date is February 16<sup>th</sup> 2019, annual interest rate is 2.65%. Besides, the Company bore joint liability guarantee for the loan.

Note 2: During 2016, the Group entered into an agreement with CDB Development Fund(国开发展基金, as "CDBDF") to jointly inject capital into Hikvision Electronics Co., Ltd. ("Hangzhou Electronics"), a subsidiary of the Group. Pursuant to the capital injection agreement, CDBDF would not participate in senior management personnel such as directors, and it would either take part in decision-making or make significant influence on Hangzhou Electronics. The Group shall pay a 1.2% annualized return to CDBDF through dividends or interest payments, and the Group is required to redeem the CDBDF's equity investment by installments each year from 2021 to 2024. Therefore, the capital injection by CDBDF is treated as a long-term loan. As of December 31<sup>st</sup> 2017, CDBDF has aggregately invested RMB 190 million (December 31<sup>st</sup> 2016: RMB 190 million).

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## 31. Bonds payable

### (1) Bonds payable

Unit: RMB

Item	Closing balance	Opening balance
Euro Bond (Note)	3,120,920,000.00	2,954,449,528.77
<b>Total</b>	<b>3,120,920,000.00</b>	<b>2,954,449,528.77</b>

### (2) Change in bond payable balance

Unit: RMB

Item	Face value	Issue Date	Maturity	Issuance	Opening balance	Issuance in current period	Effects of changes in Foreign exchange	Interests expenses accrued based on the principal amount	Repayments in the current reporting period	Less: Amount due within one year (Note (V) 28)	Closing balance
Irish Euro Bond (Note)	Euro 400,000,000.00	February 18 <sup>th</sup> 2016	3 years	2,903,120,000.00	2,954,449,528.77	-	198,420,571.92	45,051,995.30	43,388,077.48	33,614,018.51	3,120,920,000.00
<b>Total</b>	<b>Euro 400,000,000.00</b>			<b>2,903,120,000.00</b>	<b>2,954,449,528.77</b>	<b>-</b>	<b>198,420,571.92</b>	<b>45,051,995.30</b>	<b>43,388,077.48</b>	<b>33,614,018.51</b>	<b>3,120,920,000.00</b>

Note: On February 3<sup>rd</sup>, 2016, the Company publically issued the bond with nominal value amounting to Euro 400 million ("Euro Bond"); and the bond was settled, listed and traded on the Irish Stock Exchange on February 18<sup>th</sup>, 2016. The Euro Bond has a maturity term for 3 years, maturity date is February 18<sup>th</sup>, 2019, the issuance price of the bond is 99.959% of the principal value, and coupon rate is 1.25%, with interest payment date of February 18<sup>th</sup> per annum, and one-time principal repayment on maturity date. The Euro Bond is mainly used for the Company's Security Industry Base (Tonglu) project construction and the Internet Security Industry Base construction.

## 32. Provisions

Unit: RMB

Item	Closing balance	Opening balance
Product warranty	63,068,638.49	41,933,212.54
Total	63,068,638.49	41,933,212.54

## 33. Deferred income

Unit: RMB

Item	Opening balance	Increase in current Period	Decrease in current period	Closing balance	Details
Cloud storage service income	10,833,745.99	53,391,470.30	38,203,044.64	26,022,171.65	Note 1
Government Subsidies	-	78,989,300.00	16,085,700.00	62,903,600.00	Note 2
Total	10,833,745.99	132,380,770.30	54,288,744.64	88,925,771.65	

 As of December 31<sup>st</sup> 2017, the deferred income related to government subsidies:

Unit: RMB

Liability Items	Opening Balance	Increase in current Period	Amounts booked into non-operating Income	Other changes	Closing Balance	Related to assets/related to incomes
Projects of core electronic devices, high-end universal chips and basic software products	-	54,800,000.00	16,085,700.00	-	38,714,300.00	Related to incomes
Chongqing Manufacturing Base construction	-	24,189,300.00	-	-	24,189,300.00	Related to assets
Subtotal	-	78,989,300.00	16,085,700.00	-	62,903,600.00	

Note 1: This is revenue related to cloud storage service, video service, and telephone service that the Group provides to its customers; and the Group recognized the revenue accordingly during the period the service is actually provided.

Note 2: Refer to government subsidies received by the Group for projects of core electronic devices, high-end universal chip and basic software products, and for Chongqing Manufacturing Base construction; Actual expenses occurred in the current year for projects of core electronic devices, high-end universal chips and basic software products were recognized in non-operating income; and relevant assets for Chongqing Manufacturing Base construction were amortized averagely into current profits or losses within the assets' useful lives.

## 34. Share capital

Unit: RMB

	Opening balance	Changes for the period					Closing balance
		New issue of shares (Note 1)	Bonus issue (Note 2)	Transfer from Capital Reserve (Note 2)	Others (Note 3)	Subtotal	
2017							
Total shares	6,102,706,885.00	52,326,858.00	3,076,288,371.00	-	(2,457,000.00)	3,126,158,229.00	9,228,865,114.00
2016							
Total shares	4,068,772,253.00	-	1,220,631,676.00	813,754,450.00	(451,494.00)	2,033,934,632.00	6,102,706,885.00

Note 1: On December 23<sup>rd</sup> 2016, pursuant to the *Articles of Association* of the Company revised by the resolution of 20<sup>th</sup> Meeting of the 3<sup>rd</sup> session Board of Directors authorized by the 2<sup>nd</sup> extraordinary general meeting in 2016, the company was approved to grant 52,326,858 shares RMB common shares to 2,936 grantees, with face value of RMB 1.00 per share and issuing price of RMB 12.63 per share. Equity registration for those granted shares were completed

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

on January 20<sup>th</sup> 2017, which increased the paid-in capital of RMB 52,326,858.00 in the current year and resulted in capital reserve of RMB 608,561,358.54.

Note 2: Pursuant to shareholder's resolution of 2016 annual General Meeting dated on May 4<sup>th</sup> 2017, based upon the total capital share of 6,152,576,743.00 shares on equity distribution date, the company distributed 5 bonus shares for each 10 common shares (tax inclusive), resulted in 3,076,288,371 shares increase in total shares, with face value of RMB 1.00 per share, and a total increase in capital share of RMB 3,076,288,371.00.

Pursuant to shareholder's resolution of 2015 annual General Meeting dated on May 5<sup>th</sup> 2016, based upon the total capital share of 4,068,772,253 shares on December 31<sup>st</sup> 2015, the company distributed 3 bonus shares for each 10 common shares (tax inclusive), and 2 bonus shares per each 10 shares from capital reserves, resulted in 2,034,386,126 shares increase in total shares, with face value of RMB 1.00 per share, and a total increase in capital share of RMB 2,034,386,126.00.

Note 3: On December 6<sup>th</sup> 2016, pursuant to the *Articles of Association* of the Company revised by the resolution of 19<sup>th</sup> General Meeting of 3<sup>rd</sup> session Board of Directors authorized by the first Extraordinary General Meeting in 2014, the Company repurchased and cancelled 2,457,000 granted but restricted treasury shares by cash, and the total share capital of the Company decreased by RMB 2,457,000.00, capital reserve decreased by RMB 12,694,500.00. The registration procedures were completed on April 27<sup>th</sup> 2017.

On August 29<sup>th</sup> 2016, pursuant to the *Articles of Association* of the Company revised by the resolution of 15<sup>th</sup> General Meeting of the 3<sup>rd</sup> session Board of Directors authorized by the first Extraordinary General Meeting in 2012, the Company repurchased and cancelled 451,494 granted but restricted treasury shares by cash, and the total share capital of the Company decreased by RMB 451,494.00, capital reserve decreased by RMB 1,151,310.35. The registration procedures were completed on November 16<sup>th</sup> 2016.

### 35. Capital reserves

Unit: RMB

Item	Opening balance	Increase in the current period (Note 1)	Decrease in the current period (note 2)	Closing balance
2017				
Share premium	906,039,832.49	716,962,658.24	28,685,094.02	1,594,317,396.71
Other capital reserves	142,281,021.17	191,200,597.45	108,401,299.70	225,080,318.92
<b>Total</b>	<b>1,048,320,853.66</b>	<b>908,163,255.69</b>	<b>137,086,393.72</b>	<b>1,819,397,715.63</b>
2016				
Share premium	1,327,227,275.17	393,718,317.67	814,905,760.35	906,039,832.49
Other capital reserves	315,260,377.05	122,970,423.83	295,949,779.71	142,281,021.17
<b>Total</b>	<b>1,642,487,652.22</b>	<b>516,688,741.50</b>	<b>1,110,855,540.06</b>	<b>1,048,320,853.66</b>

Note 1: The Company's granted restricted shares in last year, of which the registration was done in the current year, increased the share premium of RMB 608,561,358.54; please refer to Note (V) 34-Note 1.

The increase of RMB 191,200,597.45 in other capital reserves is due to recognition of equity investment payments into capital reserve; please refer to Note (XI).

Note 2: The decrease of RMB 12,694,500.00 in share premium was due to the Company's repurchase of 2,457,000 granted but restricted treasury shares by cash, please refer to Note (V) 34-Note 3. The decrease of RMB 5,868,000.00 in share premium was due to business merger involving enterprises under common control for Hangzhou Haikang Ximu Intelligent Technology Co., Ltd. (Haikang Ximu) in the current year, please refer to Note (VI) 1; The decrease of RMB 5,873,882.52 in share premium was acquisition payment for acquiring minority's equity of Haikang Ximu, please refer to Note (VII) 2; the decrease of RMB 4,248,711.50 in share premium was due to share distributions of equity settlements to minority shareholders.

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

### 36. Treasury shares

Unit: RMB

Item	Opening Balance	Increase in the current year (Note 1)	Decrease in the current year (Note 2)	Closing balance
2017				
Restricted shares incentive scheme	300,177,750.17	660,888,216.54	216,482,339.49	744,583,627.22
<b>Total</b>	<b>300,177,750.17</b>	<b>660,888,216.54</b>	<b>216,482,339.49</b>	<b>744,583,627.22</b>
2016				
Restricted shares incentive scheme	518,074,596.90	-	217,896,846.73	300,177,750.17
<b>Total</b>	<b>518,074,596.90</b>	<b>-</b>	<b>217,896,846.73</b>	<b>300,177,750.17</b>

Note 1: The increase of RMB 660,888,216.54 in treasury shares was due to granting 52,326,858 shares RMB common shares to 2,936 grantees, with issuing price of RMB 12.63 per share on December 23<sup>rd</sup> 2016. Please refer to Note (V) 34-Note 1.

Note 2: The decrease of RMB 216,482,339.49 in treasury shares includes a decrease of RMB 15,151,500.00 due to the repurchase and cancellation of 2,457,000 restricted ordinary shares of 2014 Restricted Share Incentive Scheme; and a decrease of RMB 92,407,139.16 due to provision of cash dividend allocated to restricted shareholders; and a decrease of RMB 108,923,700.33 due to the vesting and exercising of 33,803,907 shares for maturity of 2<sup>nd</sup> vesting period of 2014 Restricted Share Incentive Scheme.

### 37. Other comprehensive income

Unit: RMB

Item	Opening balance	Change for the period					Closing balance
		Before tax balance	Less: transfer to current period P/L from previous other comprehensive income	Less: income tax expense	Attributable to the owner of the Company (after tax)	Attributable to minority interest (after tax)	
2017							
Other incomes that may be reclassified subsequently to profit or loss	(41,230,777.21)	13,852,652.33	-	-	13,552,837.86	299,814.47	(27,677,939.35)
Included: Effect on conversion of financial statements denominated in foreign currencies	(41,230,777.21)	13,852,652.33	-	-	13,552,837.86	299,814.47	(27,677,939.35)
Other comprehensive income	(41,230,777.21)	13,852,652.33	-	-	13,552,837.86	299,814.47	(27,677,939.35)
2016							
Other incomes that may be reclassified subsequently to profit or loss	(27,660,017.70)	(12,687,807.98)	-	-	(13,570,759.51)	882,951.53	(41,230,777.21)
Included: Effect on conversion of financial statements denominated in foreign currencies	(27,660,017.70)	(12,687,807.98)	-	-	(13,570,759.51)	882,951.53	(41,230,777.21)
Other comprehensive income	(27,660,017.70)	(12,687,807.98)	-	-	(13,570,759.51)	882,951.53	(41,230,777.21)

### 38. Surplus reserve

Unit: RMB

Item	Surplus reserve	Increase in the current period	Decrease in the current period	Closing balance
2017				
Statutory surplus reserve (Note)	2,615,437,822.15	868,305,096.38	-	3,483,742,918.53
<b>Total</b>	<b>2,615,437,822.15</b>	<b>868,305,096.38</b>	<b>-</b>	<b>3,483,742,918.53</b>
2016				
Statutory surplus reserve (Note)	1,895,061,004.09	720,376,818.06	-	2,615,437,822.15
<b>Total</b>	<b>1,895,061,004.09</b>	<b>720,376,818.06</b>	<b>-</b>	<b>2,615,437,822.15</b>

Note: According to the *Company Law* and the *Articles of Association* of the Company, the Group shall make a statutory surplus reserve for 10% of the parent company's net profit.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

### 39. Retained earnings

Unit: RMB

Item	2017	2016
Retained Earnings at the close of previous reporting period before adjustment	14,866,457,856.65	12,196,097,444.07
Business merger involving enterprises under common control	(5,807,678.26)	(7,229,656.01)
Adjusted retained earnings at the beginning of the year (restated)	14,860,650,178.39	12,188,867,788.06
Add: Net profit attributable to owners of the Company for the current period	9,410,855,084.82	7,423,683,960.91
Less: Appropriation to statutory surplus reserve	868,305,096.38	720,376,818.06
Dividends on ordinary shares payable (Note)	3,728,583,103.20	2,810,893,076.52
Bonus shares (Note)	3,076,288,371.00	1,220,631,676.00
Retained earnings at the end of the period	16,598,328,692.63	14,860,650,178.39

Note: According to the resolution of 2016 annual General Meeting dated on May 4<sup>th</sup> 2017, based upon the total capital share of the Company on the equity distribution date, for each 10 ordinary shares, the company proposed distributing cash dividends of RMB 6 (tax inclusive), and distributing 5 bonus shares for each 10 ordinary shares to all shareholders, the rest of retained earnings were all carried forward for future distributions.

### 40. Operating income/operating cost

Unit: RMB

Item	2017		2016	
	Revenue	Cost	Revenue	Cost
Operating income	41,433,492,971.64	23,281,637,281.80	31,543,072,581.89	18,412,740,608.44
Other operating income	471,983,600.43	185,673,308.96	391,471,506.93	239,966,547.12
Total	41,905,476,572.07	23,467,310,590.76	31,934,544,088.82	18,652,707,155.56

### 41. Business Taxes and Surcharges

Unit: RMB

Items (Note)	Amount recognized in 2017	Amount recognized in 2016
Business tax	-	6,916,646.96
City construction and maintenance tax	184,178,487.72	126,110,876.80
Education surcharges	79,171,750.66	54,280,323.09
Local education surcharges	52,554,052.44	35,740,953.63
Real estate tax	27,313,836.21	15,606,172.07
Tax on use of land	3,809,143.26	2,021,501.93
Stamp duty	21,204,038.05	14,595,730.38
Vehicle and vessel tax	359,385.12	6,910.30
Others	2,403,130.99	-
Total	370,993,824.45	255,279,115.16

Note: According to the *Value-added Tax Accounting Regulations* (《增值税会计处理规定》) issued by Ministry of Finance (*Finance and Accounting [2016] no. 22*), the company accounted real estate tax, tax on use of land, and stamp duty under “Business taxes and Surcharges” starting from May 1<sup>st</sup>, 2016.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## 42. Selling expenses

Unit: RMB

Items	Amount recognized in the current period	Amount recognized in the prior period
Payroll	2,059,369,959.77	1,332,043,554.70
Sales service expense	726,810,426.94	501,175,676.22
Shipping, transportation, and vehicle expense	524,069,679.12	380,955,773.46
Advertising & Marketing expenses	262,986,005.02	178,161,704.10
Travelling expenses	237,314,257.81	145,061,251.90
Office expenses	170,953,756.11	129,539,773.52
Business entertainment	125,379,736.40	105,803,110.64
Rental expenses	114,093,486.77	73,763,291.06
Depreciation and amortization expenses	71,891,477.67	59,486,700.85
Others	137,351,279.52	85,282,983.36
<b>Total</b>	<b>4,430,220,065.13</b>	<b>2,991,273,819.81</b>

## 43. Administrative Expenses

Unit: RMB

Items	Amount recognized in the current period	Amount recognized in the prior period
Research and development expenses	3,194,223,108.16	2,433,400,645.23
Payroll	603,359,766.87	353,729,140.02
Office expenses	94,520,352.22	58,759,816.15
Depreciation and amortization expenses	65,761,526.31	54,607,108.23
Travelling expenses	62,187,444.48	26,677,546.75
Property rental expenses	37,430,367.92	22,794,345.33
Professional Intermediary expenses	27,989,898.95	55,076,770.55
Shipping, transportation, utility expense	31,626,528.25	27,867,121.19
Business entertainment	13,092,056.07	8,543,977.49
Others	75,246,516.22	67,853,366.11
<b>Total</b>	<b>4,205,437,565.45</b>	<b>3,109,309,837.05</b>

## 44. Financial Expenses

Unit: RMB

Items	Amount recognized in 2017	Amount recognized in 2016
Interest expenses	144,540,387.42	143,818,481.09
Less: Interest income	270,155,908.15	184,541,375.93
Effect on changes in foreign exchange	685,439,581.63	(301,689,249.60)
Less : Foreign exchange differences on specific loan and the capitalized specific loan interests	311,771,511.91	(105,000,000.00)
Others	17,358,738.67	12,106,577.32
<b>Total</b>	<b>265,411,287.66</b>	<b>(225,305,567.12)</b>

## 45. Impairment losses of assets

Unit: RMB

Items	Amount recognized in 2017	Amount recognized in 2016
Bad debt provision	324,219,726.79	267,456,779.03
Inventory provision	160,349,172.37	50,107,477.32
<b>Total</b>	<b>484,568,899.16</b>	<b>317,564,256.35</b>

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## 46. Profits (losses) from changes in fair values

Unit: RMB

Sources of gains/losses from changes in fair values	Amount recognized in 2017	Amount recognized in 2016
Financial assets at fair value through profits and losses	(11,752,575.40)	9,387,258.16
Including: Profits (losses) on the changes in fair value of derivative financial instruments	(11,752,575.40)	9,387,258.16
Financial liabilities at fair value through profits and losses	53,842,666.51	(49,558,836.96)
Including: Profits (losses) on the changes in fair value of derivative financial instruments	53,842,666.51	(49,558,836.96)
Total	42,090,091.11	(40,171,578.80)

## 47. Investment income

### (1) Details of investment income

Unit: RMB

Item	Amount recognized in 2017	Amount recognized in 2016
Long-term equity investment gains (losses) based on equity method	(2,525,266.42)	-
Investment income (losses) on disposal of financial assets at fair value through profits and losses	15,885,274.53	(8,280,159.82)
Investment incomes for available-for-sale financial assets during the holding period	8,505,842.42	-
Investment income redeemed on matured financial products	22,784,254.59	48,773,447.48
Total	44,650,105.12	40,493,287.66

## 48. Other income

Unit: RMB

Item	Amount recognized in 2017	Amount recognized in 2016	The amount booked into current year non-recurring profits and losses
VAT Refund (Note)	1,503,184,391.37	-	-
Special subsidies	146,314,453.00	-	146,314,453.00
Tax refunds	23,753,007.89	-	23,753,007.89
Total	1,673,251,852.26	-	170,067,460.89

Note: According to the *Accounting Standards for Enterprises No.16-Government Subsidies* executed on June 12<sup>th</sup> 2017, the Company booked government subsidies related to daily operations into other income, which was booked into non-operating income in the prior year.

## 49. Non-operating income

Unit: RMB

Item	Amount recognized in 2017	Amount recognized in 2016	The amount booked into current year non-recurring profits and losses
VAT Refund	-	1,319,545,019.54	-
Special subsidies	9,456,852.87	151,794,448.39	9,456,852.87
Tax refunds	5,032,729.51	19,526,639.92	5,032,729.51
Fines and confiscations	28,955,431.80	11,819,624.33	28,955,431.80
Others	3,284,236.45	8,036,040.87	3,284,236.45
Total	46,729,250.63	1,510,721,773.05	46,729,250.63

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## 50. Non-operating expenses

Unit: RMB

Item	Amount recognized in 2017	Amount recognized in 2016	Amount recorded into the current period non-recurring profits (losses)t
Local water conservancy construction fund	825,530.98	28,329,199.04	-
Others	2,194,847.74	1,582,043.52	2,194,847.74
Total	3,020,378.72	29,911,242.56	2,194,847.74

## 51. Income tax expenses

### (1) Details of Income tax expenses

Unit: RMB

Item	Amount recognized in 2017	Amount recognized in 2016
Current income tax	1,564,816,313.41	1,285,412,458.83
Deferred income tax	(103,759,710.79)	(114,055,891.26)
Differences of income tax annual filing	(351,737,760.08)	(281,468,083.87)
Total	1,109,318,842.54	889,888,483.70

### (2) Reconciliation of income tax expenses to the accounting profit

Unit: RMB

	Amount recognized in 2017	Amount recognized in 2016
Total profit	10,486,820,482.36	8,314,111,562.34
Income tax expenses calculated at applicable tax rates of 15%	1,573,023,072.35	1,247,116,734.35
Impact of non-deductible costs, expenses and losses	9,131,011.50	7,059,336.12
Tax effect of non-taxable income	(2,382,834.30)	-
Impact of deductible temporary differences or deductible losses for which no deferred income tax assets is recognized for the current period	101,441,652.47	61,847,835.10
Impact of deductible temporary differences or deductible losses for which no deferred income tax assets is recognized for the prior periods	(4,975,770.84)	(1,034,263.90)
Differences of income tax annual filing (Note)	(351,737,760.08)	(281,468,083.87)
Impact by different tax rates applicable to different subsidiaries	91,779,869.98	38,278,159.98
Impact of additional deduction of R&D expenses	(209,272,075.55)	(155,040,484.90)
Others	(97,688,322.99)	(26,870,749.18)
Income tax expenses	1,109,318,842.54	889,888,483.70

Note: Pursuant to the *Notice on Printing the List of Key Software Enterprises and Integrated Circuit Design Enterprises under the National Planning Layout between 2013 and 2014* (Fa Gai Gao Ji [2013] No. 2458), the Company was identified as a national key software enterprise in December 2013. Pursuant to the *Notice on Relevant Issues Concerning the Preferential Policies for Enterprise Income Tax on Software and Integrated Circuit Industry* (Finance and Taxation [2016] No. 49), the Company was approved by the tax authorities in May 2017 to apply enterprise income tax of 10% for 2016, therefore, the enterprise's 2017 income tax expenses was reduced by RMB 351,737,760.08.

## 52. Notes to consolidated cash flow statement

### (1) Other cash receipts relating to operating activities

Unit: RMB

Item	Amount recognized in 2017	Amount recognized in 2016
Interest income	270,155,908.15	184,537,947.93
Government subsidies <sup>3</sup>	194,485,605.87	151,794,448.39
Others	69,287,721.31	153,291,620.13
Total	533,929,235.33	489,624,016.45

### (2) Other cash payments relating to operating activities

Unit: RMB

Item	Amount recognized in 2017	Amount recognized in 2016
Office expenses and business expenses	813,083,186.67	536,275,608.23
Advertising and Selling services	762,346,850.11	436,719,048.45
R&D expense	403,860,343.28	334,367,206.73
Shipping and transportation expense	566,519,922.42	422,076,453.97
Travelling expense	380,420,837.39	245,280,426.97
Deposits to restricted monetary funds	348,737,496.48	42,273,330.05
Costs for outsourcing labor, etc.	218,848,220.03	174,383,961.34
Rental expense	163,324,165.39	110,722,987.56
Others	144,156,727.47	18,417,306.78
Total	3,801,297,749.24	2,320,516,330.08

### (3) Other cash receipts relating to investing activities

Unit: RMB

Item	Amount recognized in 2017	Amount recognized in 2016
Receipts of government subsidies related to assets	24,189,300.00	-
Receipts of financing leases	21,175,369.30	4,398,940.46
Withdrawal of project loan	18,000,000.00	9,000,000.00
Total	63,364,669.30	13,398,940.46

### (4) Other cash receipts relating to financing activities

Unit: RMB

Item	Amount recognized in 2017	Amount recognized in 2016
Receipts of subscriptions for equity incentive	-	660,888,216.54
Total	-	660,888,216.54

<sup>3</sup> Please refer to Note (V) 48 for details about government subsidy (Value-added Tax Rebate for Software Product), which is closely related to daily operations of the Company.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## (5) Other cash payments relating to financing activities

Unit: RMB

Item	Amount recognized in 2017	Amount recognized in 2016
Repurchase of restricted shares	15,151,500.00	1,602,804.35
Payments for temporary borrowing	7,000,000.00	-
Payments for acquiring minority shareholders' equity	6,520,000.00	-
Payments for business merger involving enterprises under the common control in cash consideration	9,780,000.00	-
<b>Total</b>	<b>38,451,500.00</b>	<b>1,602,804.35</b>

## 53. Supplementary information about cash flow statement

### (1) Supplementary information about cash flow statement

Unit: RMB

Supplementary information	Amount recognized in 2017	Amount recognized in 2016
<b>1. Reconciliation of net profit to cash flow from operating activities:</b>		
<b>Net profit</b>	9,377,501,639.82	7,424,223,078.64
Add: Impairment of assets	484,568,899.16	317,564,256.35
Fixed assets depreciation	301,861,330.86	211,703,919.76
Amortization of intangible assets	39,412,000.70	29,159,827.06
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains)	(1,585,222.50)	736,149.02
Losses from changes in fair value (gains)	(42,090,091.11)	40,171,578.80
Financial expenses	272,067,756.32	63,806,734.82
Investment income	(44,650,105.12)	(40,493,287.66)
Share-based payment based on equity	191,200,597.45	122,970,423.83
Changes in other monetary fund	(323,504,991.19)	(42,273,330.05)
Increase in deferred income tax assets	(103,759,710.79)	(114,055,891.26)
Increase in inventories	(1,269,276,296.32)	(1,018,365,072.45)
Increase in other operating non-current assets	(488,178,801.99)	-
Increase in operating receivables	(4,734,950,220.76)	(3,603,400,179.99)
Increase in operating payables	3,660,640,740.49	2,813,782,689.19
Increase in deferred income (decrease)	53,902,725.66	10,833,745.99
<b>Net cash flow from operating activities</b>	<b>7,373,160,250.68</b>	<b>6,216,364,642.05</b>
<b>2. Significant investing and financing activities not involving cash receipts and payments:</b>		
<b>3. Net changes in cash and cash equivalents:</b>		
Ending balance of cash	16,029,185,269.17	13,522,337,697.28
Less: Beginning balance of cash	13,522,337,697.28	10,033,468,750.19
Add: Ending balance of cash equivalents	-	-
Less: Beginning balance of cash equivalents	-	-
<b>Net increase in cash and cash equivalents</b>	<b>2,506,847,571.89</b>	<b>3,488,868,947.09</b>

## (2) Net Cash payments of obtaining subsidiaries and other business units

Last year:

Unit: RMB

	Amount
Cash and cash equivalents payments in last year for business merger	202,268,141.07
Including: Secure Holding Limited and its subsidiaries	178,268,141.07
Hangzhou Haikang Zhicheng Investment Development Co., Ltd	24,000,000.00
Less: the subsidiary's cash and cash equivalent balance on the acquisition date	29,794,352.58
Including: Secure Holding Limited and its subsidiaries	99,069.36
Hangzhou Haikang Zhicheng Investment Development Co., Ltd	29,695,283.22
Add: Cash and cash equivalents payments in last year for previous period's business merger	-
Net Cash outflow of obtaining subsidiaries	172,473,788.49

## (3) Constituents of cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
<b>Cash</b>	16,029,185,269.17	13,522,337,697.28
Including: Cash on hand	769,612.23	749,268.69
Bank deposit for payment at any time	16,007,539,118.39	13,513,776,790.24
Other monetary capital for payment at any time	20,876,538.55	7,811,638.35
<b>Cash equivalents</b>	-	-
<b>Ending balance of cash and cash equivalents</b>	16,029,185,269.17	13,522,337,697.28

Among the total balance of RMB 460,121,972.02 of the other monetary fund(s) at the end of the period (December 31<sup>st</sup> 2016: RMB 123,552,080.63), RMB 439,245,433.47 are various guarantee deposits (December 31<sup>st</sup> 2016: RMB 115,740,442.28), not cash and cash equivalents.

## 54. Assets with restriction in ownership or use rights

Unit: RMB

Item	Carrying Value at the end of the period	Cause of restriction
Monetary fund(s)	439,245,433.47	Various guarantee deposits, and deposits pledged for obtaining long-term borrowing
Notes receivable	99,091,810.24	Pledged for issuing bank acceptance bill
Accounts receivable	60,646,697.33	Pledged for obtaining long-term borrowing
Total	598,983,941.04	

## 55. Monetary items of foreign currencies

### (1) foreign currencies

Item	Balance in foreign currency at the end of period	Exchange rate for conversion	Balance of RMB converted at the end of period
<b>Monetary funds</b>			
Including: USD	795,791,034.10	6.5342	5,199,857,775.02
EUR	31,967,018.03	7.8023	249,416,264.78
GBP	48,487.27	8.7792	425,679.44
AED	5,134,108.08	1.7790	9,133,578.28
THB	4,267,411.59	0.1998	852,750.61
<b>Accounts receivable</b>			
Including: USD	263,110,103.20	6.5342	1,719,214,036.33
EUR	5,058,605.50	7.8023	39,468,757.69
<b>Short-term borrowing</b>			
Including: GBP	8,500,000.00	8.7792	74,622,548.39
<b>Accounts Payable</b>			
Including: USD	204,499,455.17	6.5342	1,336,240,339.97
<b>Bond Payable</b>			
Including: EUR	404,308,219.18	7.8023	3,154,534,018.51

### (2) Details of Overseas Operational Entities

Name of overseas subsidiaries	Main overseas operational office	Recording Currency	Basis of selection
HDT International Ltd.	Hongkong	HKD	Selection based on local economic environment
Hikvision Europe BV	Netherlands	EUR	Selection based on local economic environment
Prama Hikvision Indian Private Limited	India	INR	Selection based on local economic environment
Hikvision Uk Limited	UK	GBP	Selection based on local economic environment
Hikvision Italy (S.R.L.)	Italy	EUR	Selection based on local economic environment
Hikvision International Co., Limited	Hongkong	HKD	Selection based on local economic environment
Hikvision Australia PTY Ltd.	Australia	AUD	Selection based on local economic environment
Hikvision Spain, S.L.	Spain	EUR	Selection based on local economic environment
Hikvision France SAS	France	EUR	Selection based on local economic environment
Hikvision Singapore Pte. Ltd	Singapore	SGD	Selection based on local economic environment
Hikvision South Africa (Pty) Ltd.	South Africa	ZAR	Selection based on local economic environment
Hikvision FZE	Dubai	USD	Selection based on local economic environment
Hikvision Poland Spolka Z ograniczona Odpowiedzialnoscia.	Poland	PLN	Selection based on local economic environment
Hikivision do Brasil Comercio de Equipamentos de Segurança Ltd.	Brazil	BRL	Selection based on local economic environment
Hikvision LLC	Russia	RUB	Selection based on local economic environment
Ezviz Inc.	USA	USD	Selection based on local economic environment
Cooperative Hikvision Europe U.A.	Netherlands	USD	Selection based on local economic environment
Hikvision Korea Limited	Korea	KRW	Selection based on local economic environment
Hikvision Colombia SAS	Columbia	COP	Selection based on local economic environment
Hikvision Kazakhstan limited liability partnership	Kazakhstan	KZT	Selection based on local economic environment
Pyronix Ltd	UK	GBP	Selection based on local economic environment
Microwave Solutions Limited	UK	GBP	Selection based on local economic environment

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

Name of overseas subsidiaries	Main overseas operational office	Recording Currency	Basis of selection
Secure Holdings limited	UK	GBP	Selection based on local economic environment
Hikvision Turkey Technology And Security Systems Commerce Corporation	Turkey	TRL	Selection based on local economic environment
ZAO Hikvision	Russia	RUB	Selection based on local economic environment
Hikvision Hungary Kft	Hungary	HUF	Selection based on local economic environment
Hikvision New Zealand Limited	New Zealand	NZD	Selection based on local economic environment
Hikvision Czech s.r.o.	Czech	CZK	Selection based on local economic environment
Hikvision Deutschland GmbH	Germany	EUR	Selection based on local economic environment
Hikvision Kenya (Pty) Ltd	Kenya	KES	Selection based on local economic environment
Hikvision Tashkent LLC	Uzbekistan	UZS	Selection based on local economic environment
Hikvision (Malaysia) SDN. BHD	Malaysia	MYR	Selection based on local economic environment
Hikvision USA, Inc.	USA	USD	Selection based on local economic environment
Hikvision Canada INC.	Canada	CAD	Selection based on local economic environment

## 56. Others

Unit: RMB

Subsidies	Related to assets/ related to incomes	Financial Report Items (Note)	Accumulated amount in current year	Accumulated amount in last year
VAT Rebate	Income	Other Income	1,503,184,391.37	1,319,545,019.54
Special Subsidies				
Including: Other Special Subsidies	Income	Other Income Note (V) 48/ Non-operating Income Note (V) 49	139,685,605.87	151,794,448.39
Subsidies for core electronic devices, high-end universal chip and basic software product projects	Income	Deferred Income	54,800,000.00	-
Subsidies for construction of Chongqing Manufacture Base	Asset	Deferred Income	24,189,300.00	-
Tax Refund	Income	Other Income Note (V) 48/ Non-operating Income Note (V) 49	28,785,737.40	19,526,639.92
<b>Total</b>			<b>1,750,645,034.64</b>	<b>1,490,866,107.85</b>
Including: subsidies booked into current profit/loss			1,687,741,434.64	1,490,866,107.85

Note: According to the *Accounting Standards for Enterprises No.16—Government Subsidies* executed on June 12<sup>th</sup> 2017, the Company booked government subsidies related to daily operations into other income, which was previously booked into non-operating income in last year.

## vi. Changes in consolidation scope

### 1. Business mergers not involving enterprises under the common control

(1) Business mergers not involving enterprises under common control during last year

Hangzhou Hikvision Zhicheng Investment Development Co., Ltd (杭州海康智城投资发展有限公司) (“Hangzhou Zhicheng”)

On January 20<sup>th</sup> 2016, the Company entered into a *PPP Project Investment Construction Contract on the Tonglu Intelligent Governance of Information Platform* (《桐庐智慧治理信息平台PPP项目投资建设合同》) with the TongLu intelligent Information Governance Center, pursuant to which, the Company agreed to acquire 80% of Hangzhou Zhicheng by a capital increase of RMB 24,000,000. This acquisition was completed on January 26<sup>th</sup> 2016.

Secure Holdings Limited (“SHL”)

On May 19<sup>th</sup> 2016, Cooperative Hikvision Europe U.A., one of the Company’s subsidiaries, entered into the *Share Sales and Purchase Agreement Related to Secure Holdings Limited* with two independent third parties, pursuant to which, it agreed to acquire the entire equity interests of SHL and its subsidiaries, Pyronix Ltd and Microwave Solutions Limited, at the consideration of £ 18,914,800 (equivalent to approximately RMB 178,268,141.07). This acquisition was completed on May 31<sup>st</sup> 2016.

Unit: RMB

Name of the acquiree	Time of equity acquisition	Equity acquisition cost	Equity acquisition ratio (%)	Equity acquisition method	Date of acquisition	Basis for determining date of acquisition	Income of acquiree from date of acquisition to the end of the year	Net profit from date of acquisition to the end of the year (loss)
Hangzhou Zhicheng	January 2016	24,000,000.00	80	Payment in cash	January 26 <sup>th</sup> 2016	Equity transfer date of acquiring the control of acquiree	-	(165,241.41)
SHL	May 2016	178,268,141.07	100	Payment in cash	May 31 <sup>st</sup> 2016	Equity transfer date of acquiring the control of acquiree	160,382,908.22	7,192,967.25

(2) Cost of combination and goodwill

Last year:

Unit: RMB

Cost of business merger	Hangzhou Zhicheng	SHL
- Cash	24,000,000.00	178,268,141.07
Total cost of combination	24,000,000.00	178,268,141.07
less: fair value of identifiable net assets acquired	23,987,426.58	47,776,513.61
Goodwill	12,573.42	130,491,627.46

(3) Acquiree's identifiable assets and liabilities at the date of acquisition.

Last year:

Unit: RMB

	Hangzhou Zhicheng		SHL	
	Fair value at the date of acquisition	Carrying value at the date of acquisition	Fair value at the date of acquisition	Carrying value at the date of acquisition
<b>Assets:</b>				
Cash and bank balances	29,695,283.22	29,695,283.22	99,069.36	99,069.36
Accounts receivable			48,599,229.99	48,599,229.99
Inventories	304,000.00	304,000.00	39,897,038.84	39,897,038.84
Prepayments			2,735,883.80	2,735,883.80
Other receivables			1,582,824.69	1,582,824.69
Fixed assets			48,275,194.55	48,275,194.55
<b>Liabilities:</b>				
Accounts payable			33,212,325.66	33,212,325.66
Short-term borrowings			29,166,419.88	29,166,419.88
Long-term borrowings			19,353,939.08	19,353,939.08
Other payables			11,680,043.00	11,680,043.00
Taxes payable	15,000.00	15,000.00		
Net assets	29,984,283.22	29,984,283.22	47,776,513.61	47,776,513.61
less: minority interests	5,996,856.64	5,996,856.64	-	-
Net assets acquired	23,987,426.58	23,987,426.58	47,776,513.61	47,776,513.61

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## 2. Business merger involving enterprises under common control

### (4) Business merger involving enterprises under common control during the reporting period

#### Hangzhou Haikang Ximu Intelligent Technology Co., Ltd. (“Haikang Ximu”)

Pursuant to the resolution approved by the Company’s 21<sup>st</sup> meeting of the 3rd session of the Board of Directors held on January 18<sup>th</sup> 2017, the Company’s subsidiary Hangzhou Automotive Technology, CETHIK and 7 individual shareholders including Yang Feng signed the agreement to acquire CETHIK’s subsidiary Hangzhou Haikang Ximu Intelligent Technology Co., Ltd., of which RMB 9.78 million was for acquiring 60% shares of Haikang Ximu held by CETHIK, and RMB 6,520,000.00 was for acquiring 40% shares of Haikang Ximu held by 7 individual shareholders including Yang Feng. The aforementioned acquisition was completed on April 30<sup>th</sup> 2017 and May 24<sup>th</sup> 2017 respectively. CETHIK is the controlling shareholder of Haikang Ximu, therefore, this acquisition of 60% shares of Haikang Ximu is categorized as business merger involving enterprises under common control

Unit: RMB

Name of the acquiree	Equity acquisition ratio (%)	Basis for Business merger under common control	Date of acquisition	Basis for determining date of acquisition	Income of acquiree from beginning of the year to the date of acquisition	Net profit of acquiree from beginning of the year to the date of acquisition	Income of acquiree from beginning of the prior year to the date of acquisition in prior year (comparative period)	Net profit of acquiree from beginning of the prior year to the date of acquisition in prior year (comparative period)
HIK Ximu	60%	Both parties are under the common control of CETHIK before and after the business combination, which is not temporary	April 30 <sup>th</sup> 2017	Equity transfer date of acquiring the control of acquiree	-	(42,070.90)	10,523,216.38	3,949,939.20

### (5) Cost of business merger

Unit: RMB

Cost of business merger	HIK Ximu
- Cash	9,780,000.00

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## (6) Acquiree's carrying value of assets and liabilities at the date of acquisition

Unit: RMB

	HIK Ximu	
	On the date of acquisition	Ending balance at the end of prior year
<b>Assets:</b>		
Cash and bank balances	2,462,383.90	3,084,985.38
Accounts receivable	919,422.04	1,030,422.04
Inventories	4,788,664.47	4,788,664.47
Other assets	386,806.71	516,863.68
<b>Liabilities:</b>		
Other payables	15,927,658.68	15,995,583.60
Other liabilities	804,128.96	1,557,791.59
<b>Net assets (liabilities)</b>	<b>(8,174,510.52)</b>	<b>(8,132,439.62)</b>
less: minority interests	(3,269,804.21)	(3,252,975.85)
Net assets (liabilities) acquired	(4,904,706.31)	(4,879,463.77)

### 3. Changes of consolidation scope due to other causes

#### (1) The subsidiaries newly established and incorporated in the consolidation scope during the current period as follows:

Company Name	Time of establishment	Registered capital	Amount of contribution of the Company	Ratio of contribution (%)
Hikvision Hungary Kft (Hungary Subsidiary)	May 2017	HUF 58 million	HUF 58 million	100
Hikvision New Zealand Limited (New Zealand Subsidiary)	March 2017	NZD 300,000	NZD 300,000	100
Hikvision Czech s.r.o. (Czech Subsidiary)	August 2017	CZK 5.12 million	CZK 5.12 million	100
Hikvision Deutschland GmbH (Germany Subsidiary)	December 2017	EUR 260,000	EUR 260,000	100
Hikvision Kenya (Pty) Ltd (Kenya Subsidiary)	April 2017	KES 26 million	KES 26 million	100
Hikvision Tashkent LLC (Uzbekistan Subsidiary)	April 2017	UZS 478.26 million	UZS 478.26 million	100
Hikvision (Malaysia) SDN. BHD (Malaysia Subsidiary)	July 2017	MYR 1 million	MYR 1 million	100
Hangzhou Hikvision Automotive Software Co., Ltd. (Hangzhou Automotive Software) (Note 1)	July 2017	RMB 50 million	RMB 30 million	60
Wuhan Hik Storage Technology Co., Ltd. ("Wuhan Storage Technology")	April 2017	RMB 100 million	RMB 60 million	60
Urumchi Hai Shi Xin An Electronics Technology Co., Ltd. (乌鲁木齐海视新安电子技术有限公司) (Urumchi Haishi)	April 2017	RMB 120 million	RMB 108 million	90
Hangzhou Haikang Intelligent Technology Co., Ltd. (Haikang Intelligent Technology) (Note 2)	July 2017	RMB 20 million	RMB 1.2 million	60
Wuhan Hik Storage Software Co., Ltd. (Wuhan Storage Software) (Note 3)	September 2017	RMB 100 million	RMB 60 million	60

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

Company Name	Time of establishment	Registered capital	Amount of contribution of the Company	Ratio of contribution (%)
Chengdu Hikvision Digital Technology Co., Ltd. (“Chengdu Hikvision”)	April 2017	RMB 80 million	RMB 80 million	100
MoYuHaiShi Electronic Technology Co., Ltd. (MoYuHaiShi) (Note 4)	October 2017	RMB 57.8 million	RMB 49.13 million	85
Hangzhou EZVIZ Software Co., Ltd. (Hangzhou EZVIZ Software) (Note 5)	October 2017	RMB 3000 million	RMB 18 million	60
PiShanHaiShi Yong’An Electronic Technology Co., Ltd. (PiShanHaiShi) (Note 6)	December 2017	RMB 67.2 million	RMB 60.48 million	90

Note 1: At the end of the reporting period, the actual paid-up capital of Hangzhou Automotive Software was RMB 30,000,000.00, of which RMB 18,000,000 that resulted in 60% equity holding percentage was contributed by the Group.

Note 2: At the end of the reporting period, the actual paid-up capital of Haikang Intelligent Technology was RMB 5,000,000.00, of which, RMB 3,000,000.00 that resulted in 60% equity holding percentage was contributed by the Group.

Note 3: At the end of the reporting period, Wuhan Storage Software has not completed capital contribution yet; therefore, its actual paid-up capital was nil.

Note 4: At the end of the reporting period, the actual paid-up capital of MoYuHaiShi was RMB 49,130,000.00, entirely contributed by the Group.

Note 5: At the end of the reporting period, Hangzhou EZVIZ Software has not completed capital contribution yet; therefore, its actual paid-up capital was nil.

Note 6: At the end of the reporting period, PiShanHaiShi has not completed capital contribution yet; therefore, its actual paid-up capital was nil.

## (2) Cancellation of the Company’s Subsidiary during the current year:

Company Name	Date of equity disposition	Proportion of shareholding (%)
Wuhan Hikvision System Technology Co., Ltd.	March 2017	100

## VII. Interest in other entities

### 1. Equity in subsidiaries

#### (1) Composition of corporate group

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
Hangzhou Hikvision System Technology Co., Ltd.	Hangzhou	Hangzhou, Zhejiang	System integration, Technology development	100.00		Establishment
Hangzhou Hikvision Science and Technology Co., Ltd.	Hangzhou	Hangzhou, Zhejiang	manufacture	100.00		Establishment
Hangzhou Hikvision Security Equipment Leasing Services Ltd.	Hangzhou	Hangzhou, Zhejiang	Finance lease	100.00		Establishment
Chongqing Hikvision System Technology Co., Ltd.	Chongqing	Chongqing	System integration	100.00		Establishment
Hikvision USA, Inc.	USA	Los Angeles	Sales	100.00		Establishment
HDT International Ltd.	Hong Kong	Hong Kong	Sales	95.00	5.00	Establishment
Prama Hikvision Indian Private Limited	India	Mumbai	Sales	58.00		Business combination not involving enterprises under

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
						common control
Hikvision Europe BV	Europe	Amsterdam	Sales		100.00	Establishment
Hikvision FZE	Dubai	Dubai	Sales	100.00		Establishment
Hikvision Singapore Pte. Ltd	Singapore	Singapore	Sales	100.00		Establishment
Chongqing Hikvision Science and Technology Co., Ltd.	Chongqing	Chongqing	Manufacture	100.00		Establishment
Beijing Hikvision Security Technology Services Co., Ltd.	Beijing	Beijing	Services	100.00		Establishment
Hangzhou Fuyang Hik Baotai Security Technology Services Co., Ltd. (Note 1)	Hangzhou	Hangzhou, Zhejiang	Construction		51.00	Establishment
Hikvision South Africa (Pty) Ltd.	South Africa	South Africa	Sales	100.00		Establishment
Hikvision Italy (S.R.L.)	Italy	Milan	Sales		100.00	Establishment
Hikvision do Brasil Comercio de Equipamentos de Seguran ca Ltda.	Brazil	Brazil	Sales	95.00	5.00	Establishment
Hikvision Australia PTY Ltd.	Australia	Australia	Sales	100.00		Establishment
Hikvision International Co., Limited	Hong Kong	Hong Kong	Sales	100.00		Establishment
Hikvision France SAS	France	France	Sales		100.00	Establishment
Hikvision Spain,S.L.	Spain	Spain	Sales		100.00	Establishment
Shanghai Goldway Intelligent Traffic System Co., Ltd.	Shanghai	Shanghai	Manufacture	100.00		Business combination not involving enterprises under common control
ZAO Hikvision	Russia	St. Peterburg	Sales		100.00	Business combination not involving enterprises under common control
Beijing Brainaire Storage Technology Co., Ltd.	Beijing	Beijing	Manufacture	100.00		Business combination not involving enterprises under common control
Henan Hua'an Intelligence Development Co., Ltd.	Zhengzhou	Zhengzhou	Construction	51.00		Business combination not involving enterprises under common control
Henan Hua'an Security Services Co., Ltd. (Note 2)	Zhengzhou	Zhengzhou	Services		45.90	Business combination not involving enterprises under common control
Hundure Technology (Shanghai) Co., Ltd.	Shanghai	Shanghai	Manufacture	100.00		Business combination not involving enterprises under common control
Hikvision Uk Limited	UK	UK	Sales		100.00	Establishment
Hikvision Poland Spolka Z Ograniczona Odpowiedzialnoscia	Poland	Poland	Sales		100.00	Establishment
Hangzhou Hikvision Electronics Co., Ltd. (Note 3)	Hangzhou	Hangzhou	Manufacture	71.30		Establishment
Wuhan Hikvision System Technology Co., Ltd. (Note 4)	Wuhan	Wuhan, Hubei Province	Technology development	-		Business combination not involving enterprises under common control
Cooperative Hikvision Europe U.A.	Netherlands	Netherlands	Sales	99.00	1.00	Establishment
Hikvision Canada Inc.	Canada	Canada	Sales	100.00		Establishment
Hikvision LLC	Moscow	Moscow	Sales	100.00		Establishment
Hikvision Korea Limited	Korea	Korea	Sales	100.00		Establishment
Hangzhou EZVIZ Network Co., Ltd.	Hangzhou	Hangzhou	Technology development	60.00		Establishment
Ezviz Inc.	USA	Los Angeles	Sales		60.00	Establishment
Hangzhou Haikang Zhicheng Investment Development Co., Ltd	Hangzhou	Hangzhou	System integration	80.00		Business combination not involving enterprises under common control
Hangzhou Hikvision Robotics Technology Co. Ltd.	Hangzhou	Hangzhou	Technology development	60.00		Establishment
Hangzhou Hikvision Investment Management Co., Ltd.	Hangzhou	Hangzhou	Investment Management	100.00		Establishment
Hangzhou Hik Automotive Technology Co., Ltd.	Hangzhou	Hangzhou	Technology development	60.00		Establishment
Hangzhou Hikvision Communication Technology	Hangzhou	Hangzhou	Technology	70.00		Establishment

## Notes to Financial Statements

For the reporting period ended on December 31<sup>st</sup> 2017

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
Co., Ltd.			development			
Hangzhou Hikvision Weiyang Sensory Technology Co., Ltd.	Hangzhou	Hangzhou	Technology development	60.00		Establishment
Hikvision Turkey Technology And Security Systems Commerce Corporation	Turkey	Istanbul	Sales	100.00		Establishment
Hikvision Colombia SAS	Columbia	Santa Fe Bogota	Sales	100.00		Establishment
Hikvision Kazakhstan limited liability partnership	Kazakhstan	Astana	Sales	100.00		Establishment
Secure Holding Limited	British	Sheffield	Manufacture		100.00	Business combination not involving enterprises under common control
Pyronix Limited	British	Sheffield	Manufacture		100.00	Business combination not involving enterprises under common control
Microwave Solutions Limited	British	Sheffield	Manufacture		100.00	Business combination not involving enterprises under common control
Tianjin Hikvision System Technology Co., Ltd.	Tianjin	Tianjin	Construction	100.00		Establishment
Hikvision Hungary Kft	Hungary	Hungary	Sales		100.00	Establishment
Hikvision New Zealand Limited	New Zealand	Auckland	Sales		100.00	Establishment
Wuhan HIK Storage Technology Co., Ltd.	Wuhan	Wuhan, Hubei Province	Technology development	60.00		Establishment
Urumchi Hai Shi Xin An Electronics Technology Co., Ltd.	Urumchi	Urumchi, Xinjiang	Construction		90.00	Establishment
Hangzhou Hik Ximu Intelligent Technology Co., Ltd	Hangzhou	Hangzhou, Zhejiang	Manufacture		60.00	Business combination involving enterprises under common control
Hikvision Tashkent LLC	Uzbekistan	Tashkent	Sales		100.00	Establishment
Hikvision Kenya (Pty) Ltd	Kenya	Kenya	Sales		100.00	Establishment
Hangzhou HIK Automotive Software Co., Ltd.	Hangzhou	Hangzhou, Zhejiang	Technology development		60.00	Establishment
Hangzhou HIK Intelligent Technology Co., Ltd.	Hangzhou	Hangzhou, Zhejiang	Technology development		60.00	Establishment
Wuhan HIK Storage Software Co., Ltd.	Wuhan	Wuhan, Hubei	Technology development		60.00	Establishment
Chengdu Hikvision Digital Technology Co., Ltd.	Chengdu	Chengdu	Technology development	100.00		Establishment
MoYuHaiShi Electronic Technology Co., Ltd.	Hetian	Moyu	Construction		85.00	Establishment
Hangzhou EZVIZ Software Co., Ltd.	Hangzhou	Hangzhou	Technology development		60.00	Establishment
PiShanHaiShi YongAn Electronic Technology Co., Ltd.	Hetian	Pishan	System integration		90.00	Establishment
Henan Haikang Hua'anBaoQuan Electronics Co., Ltd.	Zhengzhou	Zhengzhou	Construction	51.00		Establishment
Hikvision Czech s.r.o.	Czech	Czech	Sales		100.00	Establishment
Hikvision (Malaysia) SDN. BHD	Malaysia	Malaysia	Sales		100.00	Establishment
Hikvision Deutschland GmbH	Germany	Germany	Sales		100.00	Establishment

Note 1: Hangzhou Fuyang HIK Baotai Security Technology Services Co., Ltd. is a subsidiary controlled by Hangzhou Hikvision System Co., Ltd who holds 51% equity interests. According to the *Articles of Association* of the Company, Hangzhou Hikvision Systems Co., Ltd. has a 50% dividend payout ratio in the said company (Fuyang Baotai).

Note 2: Henan Hua'an Security Services Co., Ltd. is a subsidiary controlled and invested by Henan Hua'an Intelligence Development Co., Ltd.

Note 3: The remaining 28.70% equity interests of Hangzhou Hikvision Electronics Co., Ltd. is held by China Development Bank Fund. Please refer to Note (V) 30 for details.

Note 4: Wuhan Hikvision System Technology Co., Ltd. has processed cancellation registration in Industrial and Commercial Bureau in 2017.

**2. Transactions that resulted in change in equity shares in the subsidiary, and maintained the controlling power over the subsidiary.**

(1) Details about changes in owners' equity in subsidiary

Pursuant to the resolution approved by the Company's 21<sup>st</sup> meeting of the 3<sup>rd</sup> session of the Board of Directors held on January 18<sup>th</sup> 2017, the Company's joint-venture subsidiary, Hangzhou Automotive Technology, and 7 individual shareholders including Yang Feng signed the agreement to acquire 40% shares of Haikang Ximu held by 7 individual shareholders including Yang Feng with RMB 6.52 million. The aforementioned acquisition was completed on May 24<sup>th</sup> 2017.

(2) Effect of the transaction on minority interests and owner's equity attributable to the parent company

Unit: RMB

	Haikang Ximu
Acquisition Cost	
- Cash	6,520,000.00
Subtotal of acquisition cost	6,520,000.00
Less: Difference in the subsidiary's net assets (liabilities) calculated based on the proportion of equity acquired	(3,269,804.21)
Including: Capital reserve adjustment	(5,873,882.52)

**3. Equity in joint ventures or associates**

(1) Aggregated financial information of insignificant joint-ventures or associates

Unit: RMB

	Closing balance / amount for 2017	Opening balance / amount for 2016
Associates:		
The aggregate carrying amount of investments in associates	133,000,000.00	35,000,000.00
The aggregate amount of the following items calculated based on the Company's equity share percentage of the associates		
--Total net profit and comprehensive income	(2,525,266.42)	-

**VIII. Risks associated with financial instrument**

The Group's principal financial instruments include cash and bank balances, equity investments, notes receivable, accounts receivable, other receivables, long-term receivables, borrowings, accounts payable, interest payable, other payables, other current assets, note payables, dividends payable, bonds payable, long-term payables, derivative financial instruments, etc. Details of these financial instruments are set out in Note (V). Below are the risks associated with such financial instruments and the risk management policies adopted by the Group to mitigate such risks. The management of the Group manages and monitors such risk exposures to ensure such risks are contained within a prescribed scope.

The Company adopts sensitivity analysis techniques to analyze the possible effects of rational and probable changes in risk variables to profit or loss for the period or to the interests of shareholders. Since risk variables seldom change on a stand-alone basis, while the correlation between variables may have significant influence to the ultimate amount of change effected by the change in a single risk variable, the analysis below is based on the assumption that the changes in each variable occurred separately.

## 1. Objectives and policies of risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and return, where the negative effects of risks against the Group's operating results are minimized, in order to maximize the benefits of shareholders and other stakeholders. Based on such objective in risk management, the underlying strategy of the Group's risk management is to ascertain and analyze all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

### 1.1 Market risks

#### 1.1.1. Foreign exchange risks

Foreign exchange risks refer to the risk that losses will occur because of changes in foreign exchange rates. The Company is primarily exposed to risks relating to the currencies such as USD and EUR. The Group's subsidiaries in the mainland of China whose procurement, sales and financing are denominated in RMB, USD and EUR, other principal activities are settled in RMB. The Group's subsidiaries in Hong Kong and outside China are principally engaged in procurement, sales, financing and other major business activities in local currencies such as USD, EUR, GBP, RUB, and etc.

As of December 31<sup>st</sup> 2017, except for monetary items of foreign currencies set out in Note (V) 55, the Group mainly adopted the functional currency of each of its subsidiary to present the balance of its assets and liabilities. The foreign exchange risks arising from assets and liabilities denominated in USD and EUR (which has been converted into RMB) as follows may affect the operating results of the Group.

Unit: RMB

Currencies	Assets		Liabilities	
	Closing balance	Opening balance	Closing balance	Opening balance
USD	6,919,071,811.35	5,368,890,321.65	1,336,240,339.97	858,395,317.22
EUR	288,885,022.47	459,593,188.17	3,154,534,018.51	2,954,449,528.77

The Company has been paying close attention to the effect of fluctuation in exchange rate on the foreign exchange risks of the Group and has purchased forward foreign exchange contracts to mitigate the foreign exchange risk exposure.

### Sensitivity analysis on exchange rate risk

With other variables unchanged, the exchange rate might float within a reasonable range, and has the following before-tax effect on profit or loss and shareholders' equity for the current period:

Unit: RMB

Change in interest rates	2017		2016	
	Effect on profit	Effect on shareholders' equity	Effect on profit	Effect on shareholders' equity
5% appreciation of USD against functional currency	279,141,573.57	279,141,573.57	225,524,750.22	225,524,750.22
5% depreciation of USD against functional currency	(279,141,573.57)	(279,141,573.57)	(225,524,750.22)	(225,524,750.22)
5% appreciation of EUR against functional currency	(143,282,449.80)	(143,282,449.80)	(124,742,817.03)	(124,742,817.03)
5% depreciation of EUR against functional currency	143,282,449.80	143,282,449.80	124,742,817.03	124,742,817.03

#### 1.1.2. Interest rate risk — risk related to changes in cash flow

The Group's risk related to changes in the cash flow of financial instruments due to changes in interest rates is mainly related to floating interest rate bank borrowings. The Group's policy is to maintain the floating rate of these borrowings to eliminate the risk of changes in the fair value of interest rates.

At the end of the reporting period, the Group's amount of loans with floating interest rate is not significant, the risk of cash flow fluctuation caused by the fluctuation of interest rate is relatively low, therefore, the sensitivity analysis on interest rate risk was not performed.

#### 1.2 Credit risk

As of December 31<sup>st</sup> 2017, the biggest credit risk exposure that may cause financial loss suffered by the Group was mainly due to the other party's inability to fulfill obligations that caused the loss on the Group's financial assets, which include:

The book value of a confirmed financial asset in the consolidated balance sheet : for those financial instruments that are measured by fair value, the book value reflects its risk exposure rather than its biggest risk exposure, the biggest risk exposure will change as the future fair value changes.

In order to minimize credit risk, the Group has established a team responsible for formulating credit limit, credit approval and implementing other monitoring procedures to ensure necessary follow-up measures are carried out to recover the overdue debts. In addition, the Group reviews the recovery of each individual receivable at each balance sheet date to ensure that sufficient provision for bad debts is made for uncollectible funds. As such, the management of the Group believes that the Group's exposure to credit risk has been significantly lowered.

The Group only deposits cash and cash equivalents into banks with relatively high level of credit rating; as such the risk of cash and cash equivalents is low.

The Group has adopted necessary policies to ensure that all the sales customers have good credit records. Since the Group's risk exposure exists in several parties to the contract and certain customers, the Group has no other significant concentration of credit risk.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

### 1.3. Liquidity risk

The Group maintains and monitors a level of cash and cash equivalents deemed adequate by the management to meet the operation needs of the Group and to reduce the effect of cash flow movements when managing liquidity risk. The management of the Company monitors the usage of bank borrowings, and ensures compliance with borrowing agreements.

According to the term to maturity of non-discounted and remaining contract obligations, the financial liabilities held by the Group are analyzed as below:

Unit: RMB

December 31 <sup>st</sup> 2017				
	Within one year	1-5 years	More than five years	Total
<b>Non-derivative financial liabilities</b>				
Short-term borrowings	98,728,156.85	-	-	98,728,156.85
Notes payables	845,397,427.92	-	-	845,397,427.92
Accounts payables	10,039,943,012.26	-	-	10,039,943,012.26
Other payables	401,861,078.67	-	-	401,861,078.67
Other current liabilities	744,583,627.22	-	-	744,583,627.22
Bonds payable	39,011,500.00	3,159,931,500.00	-	3,198,943,000.00
Dividends payable	94,857,139.16	-	-	94,857,139.16
Long-term borrowings	1,552,199,194.44	424,640,512.24	80,960,000.00	2,057,799,706.68
Long-term payables	-	2,437,038.62	-	2,437,038.62
<b>Derivative financial liabilities</b>				
Forward foreign exchange contracts- settled in the gross amount				
- Cash inflow	832,518,206.78	-	-	832,518,206.78
- Cash outflow	848,465,043.24	-	-	848,465,043.24
- Net cash outflow	15,946,836.46	-	-	15,946,836.46

## IX. Fair value disclosure

### 1. The financial assets and financial liabilities measured at fair value at the balance sheet date:

Unit: RMB

Items	Closing fair value			
	Level 1	Level 2	Level 3	Total
<b>I. Continuous fair value measurement</b>	-	(11,846,178.92)	-	(11,846,178.92)
(I) Financial assets at fair value through profit and loss				
1. Tradable Financial Assets	-	4,100,657.54	-	4,100,657.54
-- Derivative financial assets	-	4,100,657.54	-	4,100,657.54
<b>Total assets measured continuously at fair value</b>	-	4,100,657.54	-	4,100,657.54
(II) Tradable Financial Liabilities				
- Derivative financial liabilities	-	15,946,836.46	-	15,946,836.46
<b>Total liabilities measured continuously at fair value</b>	-	15,946,836.46	-	15,946,836.46

## 2. Information on the estimation technique and important parameters adopted as for continuous Level 2 fair value measurement items

	Fair value at December 31 <sup>st</sup> 2017	Estimation technique	Inputs
Forward Foreign Exchange Contracts (Assets)	3,669,300.00	Discounted cash flow approach	Forward exchange rate discounted rate that reflects the credit risk of counterparties
Foreign Exchange Structured Options (Assets)	182,000.00	Discounted cash flow approach	Forward exchange rate discounted rate that reflects the credit risk of counterparties
Interest rate swap contracts (Assets)	249,357.54	Discounted cash flow approach	Forward exchange rate discounted rate that reflects the credit risk of counterparties
Forward Foreign Exchange Contracts (Liabilities)	(15,946,836.46)	Discounted cash flow approach	Forward exchange rate discounted rate that reflects the credit risk of counterparties

### 3. Items measured at continuous fair value. There were no transfers between levels for the current reporting period. There was no estimation technique change for the current reporting period

### 4. Fair values of financial assets and financial liabilities that not measured at fair value

The Group's management believes that the carrying amounts of financial assets and financial liabilities stated in current assets and current liabilities in financial statements approximate to their respective fair values.

The financial liabilities which are not subsequently measured at fair values by the Group include long-term borrowings, bonds payable and long-term payables, and the differences between their carrying amounts and their respective fair values are insignificant.

## X. Related parties and related-party transactions

### 1. Information on parent company of the Company

Name	Place of registration	Nature of business	Registered capital	Shareholding ratio of parent company in the Company (%)	Percentage of voting rights of parent company to the Company (%)
China Electronics Technology HIK Group Co., Ltd. (CETHIK)	Hangzhou, Zhejiang	Industrial investment	RMB 660 million	39.59	39.59

The ultimate controlling party of the Company is China Electronics Technology Group Corporation ("CETE").

### 2. Information on the subsidiaries of the Company

For details of the subsidiaries of the Company, see Note (VII).

### 3. Information on the joint ventures and associated companies of the Company

For details of the associated companies of the Company, see Note (V) 12.

### 4. Information on other related parties

Name	Relationship
Gong Hongjia	Director of the company, holds 15.01% of the share of the Company
Shanghai Fullhan Microelectronics Co., Ltd. (Shanghai Fullhan)	Gong Hongjia or his relative(s) serve(s) as the director(s)
Zhejiang Tuxun Technology Co.,Ltd. (Zhejiang Tuxun)	the Company's senior management serve(s) as director(s)
Confirmware Technology(Hangzhou) Co., Ltd. (Hangzhou Confirmware)	the Company's senior management serve(s) as director(s)
Beijing Woqi Co., Ltd.(Beijing Woqi)	Gong Hongjia or his relative(s) serve(s) as the director(s) (Note 1)
Wuhu Sensor Technology Co., Ltd. (Wuhu SensorTech)	Associated company of the Group

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

Name	Relationship
Maxio Technology (Hangzhou) Ltd. and its subsidiaries (Maxio Technology and its subsidiaries)	Associated company of the Group
Subsidiaries of CETE (Note 2)	Under common control of the ultimate controlling party of the Company
Minority shareholders of Henan Hua'an BaoQuan Intelligence Development Co., Ltd. (Minority shareholders of Hua'an BaoQuan)	Minority shareholders who carry out significant influence on subsidiaries

Note 1: Mr Gong Hongjia left Beijing Woqi as senior management personnel on November, 2016. This year is the subsequent one year after Gong left his post, so Beijing Woqi is still regarded as the Group's related party.

Note 2: Subsidiaries of CETC, excluding Hikvision and its subsidiaries.

## 5. Related party transactions

(1) Related party transactions regarding sales and purchases of goods, provision of services and receiving services

### Purchase of commodities / receiving of services:

Unit: RMB

Related party	Transaction type	Amount for 2017	Amount for 2016
Shanghai Fullhan	Purchase of materials and receiving of services	219,306,864.78	125,473,819.16
Subsidiaries of CETE	Purchase of materials and receiving of services	215,050,909.52	254,200,197.75
Wuhu SensorTech	Purchase of materials and receiving of services	31,125,042.77	-
Maxio Technology and its subsidiaries	Purchase of materials and receiving of services	23,702,468.99	-
Beijing Woqi	Purchase of materials	4,441,973.51	3,910,029.08
Total		493,627,259.57	383,584,045.99

### Sales of commodities / rendering of services:

Unit: RMB

Related party	Transaction content	Amount for 2017	Amount for 2016
Subsidiaries of CETE	Sales of products and rendering of services	796,423,974.48	388,432,638.00
Zhejiang Tuxun	Sales of products	1,474,411.13	-
Wuhu Sensor Tech	Sales of products	985,868.39	-
Hangzhou Confirmware	Sales of products	370,341.82	-
Maxio Technology and its subsidiaries	Sales of products	7,068.37	-
Total		799,261,664.19	388,432,638.00

### Statement of deposit services:

Unit: RMB

Related Party	Content of related party transaction	Amount occurred in the current year	Balance at the end of the year	Amount occurred during last year	Opening Balance
Subsidiaries of CETE (Note)	Deposit into Fixed deposits	1,000,000,000.00	1,000,000,000.00	-	-
Subsidiaries of CETE (Note)	Deposit into Fixed deposits	500,000,000.00	500,000,000.00	-	-
Total		1,500,000,000.00	1,500,000,000.00	-	-

Note: the fixed deposit and the deposit at notice that the Group deposited into China Electronic Technology Finance Co., Ltd. during the current year.

The above transactions are executed at market prices.

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## (2) Guaranteed by the related party

As required by the project owner, China Electronics Technology Group Corporation has provided a joint guarantee to responsibility and duties of construction projects of “Safe Chongqing, Emergency Control System Digital Construction Project”, including 41 districts and counties, signed by Chongqing Hikvision System Technology Co., Ltd. (Chongqing System) Meanwhile, the Company provides a counter guarantee to China Electronics Technology Group Corporation.

## (3) Remuneration of key management personnel

Unit: RMB

Item	Amount for the current year	Amount for the prior year
Compensation of key management personnel	43,518,890.00	39,400,274.73

## (4) Other related party transactions

Pursuant to resolution of the Company’s 21<sup>st</sup> meeting of the 3<sup>rd</sup> session of the Board on January 18<sup>th</sup> 2017, the Company’s subsidiary Hangzhou Hikvision Automotive Technology acquired the parent company CETHIK’s asset group with RMB 79.41 million in cash, including RMB 32,700,579.89 in inventories, net of RMB 37,747,049.94 in credit and debt, RMB 3,966,381.68 in fixed assets, and RMB 5,000,000.00 in prepaid expenses.

## 6. Receivables from related parties and payables to related parties

## (1) Receivables from related parties

Unit: RMB

Item	Related Party	Closing balance		Opening balance	
		Carrying balance	Bad debt provision	Carrying balance	Bad debt provision
Accounts receivable	Subsidiaries of CETE	764,292,224.05	39,661,148.57	417,423,058.74	21,711,986.75
Accounts receivable	Zhejiang Tuxun	833,986.98	41,699.35	-	-
Accounts receivable	Hangzhou Confirmware	21,219.99	1,197.00	-	-
<b>Total</b>		<b>765,147,431.02</b>	<b>39,704,044.92</b>	<b>417,423,058.74</b>	<b>21,711,986.75</b>
Other Receivables	Maxio Technology and its subsidiaries	13,500,000.00	675,000.00	-	-
<b>Total</b>		<b>13,500,000.00</b>	<b>675,000.00</b>	<b>-</b>	<b>-</b>
Prepayments	Maxio Technology and its subsidiaries	5,201,444.41	-	-	-
<b>Total</b>		<b>5,201,444.41</b>	<b>-</b>	<b>-</b>	<b>-</b>

## (2) Payables to related parties

Unit: RMB

Item	Related Party	Closing balance	Opening balance
Accounts payable	Subsidiaries of CETE	160,186,487.11	145,207,580.30
Accounts payable	Shanghai Fullhan	103,732,194.30	40,115,748.45
Accounts payable	Wuhu Sensor Tech	14,496,160.00	-
Accounts payable	Beijing Woqi	1,301,025.64	888,807.70
Accounts payable	Maxio Technology and its subsidiaries	117,563.33	-
<b>Total</b>		<b>279,833,430.38</b>	<b>186,212,136.45</b>
Dividends payable	Minority Shareholders of Hua’an BaoQuan	2,450,000.00	-
<b>Total</b>		<b>2,450,000.00</b>	<b>-</b>
Receipts in advance	Subsidiaries of CETE	1,647,988.21	22,293,294.23
<b>Total</b>		<b>1,647,988.21</b>	<b>22,293,294.23</b>
Other payables	Subsidiaries of CETE	73,881,697.00	29,306,379.13
Other payables	Beijing Woqi	150,000.00	-
Other payables	Shanghai Fullhan	100,000.00	-
<b>Total</b>		<b>74,131,697.00</b>	<b>29,306,379.13</b>

## XI. Share-based payments

### 1. Overview of share-based payments

According to the “Approval of the Implementation of the Restrictive Share Incentive Scheme of Hangzhou Hikvision Digital Technology Co., Ltd. (关于杭州海康威视数字技术股份有限公司实施限制性股票激励计划的批复)” (Guo Zi Fen Pei [2012] No. 426) issued by the State-owned Assets Supervision and Administration Commission of the State Council and the “Opinion the Restrictive Share Incentive Scheme of Hangzhou Hikvision Digital Technology Co., Ltd. (关于杭州海康威视数字技术股份有限公司限制性股票激励计划的意见)” (Shang Shi Bu Han [2012] No. 353) issued by China Securities Regulatory Commission, the Company convened the ninth meeting of the second session of the Board of Directors on July 25<sup>th</sup> 2012 and the first extraordinary general meeting for 2012 on August 13<sup>th</sup> 2012, whereat the Proposal Relating to the Restrictive Share Scheme (Amendments to the Draft) of the Company and Highlights was reviewed and passed. The purpose of the Share Incentive Scheme is to: further improve the Company’s governance structure to establish a good and balanced value allocation system; establish a profit-sharing and restriction mechanism among shareholders, the Company and its employees, so as to provide shareholders with sustainable return; fully mobilize the positivity of core employees to support the Company in realizing its strategies and long-term sustainable development; attract and retain core employees to ensure the Company’s long-term development.

The Scheme shall be effective for a term of 10 years commencing from the date of approval by general meeting of the Company, during which the Company may grant restricted shares to grantees under the Scheme. In principle, each grant should be at an interval of two years. After the expiry of the Scheme, no restricted shares could be granted to grantees under the Scheme. However, all the provisions of the Scheme remain valid to the restricted shares granted under the Scheme.

The total number of subject Shares related to the Restricted Shares granted under the Scheme (excluding lapsed restricted shares) and the total number of subject Shares related to other effective share incentive schemes of the Company (if any) in aggregate shall not exceed 10% of the total issued share capital of the Company. Unless approval is obtained at the general meeting by way of special resolution, the total number of Restricted Shares granted or to be granted to any Participant under this Scheme or other effective share incentive schemes of the Company (if any) in aggregate shall not exceed 1% of the total issued share capital of the Company.

The grant price for restricted shares, being the purchase price by staff, shall be determined by the Board of Directors. The grant price shall not be lower than 50% of the following price, whichever is the highest:

- (I) The closing price of the subject shares of the Company for one trading day prior to publication of the summary Share Incentive Scheme draft;
- (II) The average closing price of the subject shares of the Company for 30 trading days prior to publication of the summary Share Incentive Scheme draft;
- (III) The average price of the subject shares of the Company for 20 trading days prior to publication of the summary Share Incentive Scheme draft; or
- (IV) The unit nominal value of the subject shares of the Company.

Each batch of restricted shares shall not be unlocked unless fulfilling, each time, by the Company its unlock performance criteria (including net asset yield and operating income growth rate), and by grantees’ individual performance criteria simultaneously. Where, during any year of the unlocking period, any one or more unlock criteria for the Company or individuals is or are not fulfilled, such portion of subject shares shall be cancelled, and no grantees shall be entitled to make another application for unlocking those subject shares in the future years. The cancelled restricted shares will be repurchased by the Company based on the grant price.

On August 23<sup>rd</sup> 2012, after consideration and approval by the general meeting, the Company granted 8,611,611 restricted shares to grantees at a grant price of RMB 10.65 per share (“2012 Share Incentive Scheme”). The Lock-up Period of the Subject Shares shall last for a period of 24 months commencing on the grant date, during which the Subject Shares granted to grantees under the scheme shall be subject to lock-up and shall not be transferable. The Unlocking Period shall be the 24 to 60 months following the grant of restricted shares (including Lock-up Period), during which grantees may, subject to unlocking conditions stipulated by the scheme being satisfied, apply for unlocking in 3 tranches: the first unlocking period shall be the 24 to 36 months following the grant date and the number of shares to be unlocked shall be 1/3 of the aggregate number of the Subject Shares granted; the second unlocking period shall be the 36 to 48 months following the grant date and

the number of shares to be unlocked shall be 1/3 of the aggregate number of the Subject Shares granted; the third unlocking period shall be the 48 to 60 months following the grant date and the number of shares to be unlocked shall be 1/3 of the aggregate number of the Subject Shares granted. As of December 31<sup>st</sup> 2016, the 2012 restricted incentive shares scheme had been completed.

On October 24<sup>th</sup> 2014, after consideration and approval by the general meeting, the Company granted 52,910,082 restricted shares to grantees at a grant price of RMB 9.25 per share ("2014 Share Incentive Scheme"). The Lock-up Period of the Subject Shares shall last for a period of 24 months commencing on the grant date, during which the Subject Shares granted to grantees under the scheme shall be subject to lock-up and shall not be transferable. The Unlocking Period shall be the 24 to 60 months following the grant of restricted shares (including Lock-up Period), during which grantees may, subject to unlocking conditions stipulated by the scheme being satisfied, apply for unlocking in 3 tranches: the first unlocking period shall be the 24 to 36 months following the grant date and the number of shares to be unlocked shall be 40% of the aggregate number of the Subject Shares granted; the second unlocking period shall be the 36 to 48 months following the grant date and the number of shares to be unlocked shall be 30% of the aggregate number of the Subject Shares granted; the third unlocking period shall be the 48 to 60 months following the grant date and the number of shares to be unlocked shall be 30% of the aggregate number of the Subject Shares granted.

On December 23<sup>rd</sup> 2016, after consideration and approval by the general meeting, the Company granted 52,326,858 restricted shares to grantees at a grant price of RMB 12.63 per share ("2016 Share Incentive Scheme"). The Lock-up Period of the Subject Shares shall last for a period of 24 months commencing on the grant date, during which the Subject Shares granted to grantees under the scheme shall be subject to lock-up and shall not be transferable. The Unlocking Period shall be the 24 to 60 months following the grant of restricted shares (including Lock-up Period), during which grantees may, subject to unlocking conditions stipulated by the scheme being satisfied, apply for unlocking in 3 tranches: the first unlocking period shall be the 24 to 36 months following the grant date and the number of shares to be unlocked shall be 40% of the aggregate number of the Subject Shares granted; the second unlocking period shall be the 36 to 48 months following the grant date and the number of shares to be unlocked shall be 30% of the aggregate number of the Subject Shares granted; the third unlocking period shall be the 48 to 60 months following the grant date and the number of shares to be unlocked shall be 30% of the aggregate number of the Subject Shares granted.

Unit: share

2014 Share Incentive Scheme	Current year	Last year
Total of equity instruments outstanding at the beginning of the year	46,220,473	52,910,082
Total of equity instruments granted during the current reporting period	23,110,236	26,455,041
Total of equity instruments vested during the current reporting period	33,803,907	30,687,650
Total of equity instruments forfeited during the current reporting period (Note)	1,594,641	2,457,000
Total of equity instruments outstanding at the end of the reporting period	33,932,161	46,220,473
The exercise price (ex-rights) of the outstanding Share-based payments of the Company at the end of the year and the remaining period of the contract	RMB 4.11 per share and 22 months	RMB 6.17 per share and 34 months

Note: on December 15<sup>th</sup> 2017, pursuant to the revised articles of association and resolutions of the 26<sup>th</sup> general meeting of 3<sup>rd</sup> session board, and approved by the 2<sup>nd</sup> extraordinary general meeting of 2016, the Company repurchased and cancelled 1,594,641 granted and unvested restricted RMB treasury shares in cash settlement. The company completed the business change registration procedure on March 27<sup>th</sup> 2018.

On December 6<sup>th</sup> 2016, pursuant to the revised articles of association and resolutions of the 19<sup>th</sup> meeting of the third session board, and authorized by the first extraordinary general meeting for 2014, the Company repurchased and cancelled 2,457,000 granted and unvested restricted RMB treasury shares in cash settlement. The company completed the business change registration procedure on April 27<sup>th</sup> 2017.

Unit: share

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

2016 Share Incentive Scheme	Current year	Last year
Total of equity instruments outstanding at the beginning of the year	52,326,858	-
Total of equity instruments granted (share dividend) during the current reporting period	26,163,429	52,326,858
Total of equity instruments vested during the current reporting period	-	-
Total of equity instruments forfeited during the current reporting period	-	-
Total of equity instruments outstanding at the end of the reporting period	78,490,287	52,326,858
The exercise price (ex-rights) of the outstanding Share-based payments of the Company at the end of the year and the remaining period of the contract	RMB 8.42 per share and 48 months	RMB 12.63 per share and 60 months

## 2. Information of the share-based payment through equity settlements

Unit: RMB

	2014 Share Incentive Scheme	2016 Share Incentive Scheme
Method of determine the fair value of equity instruments at the grant date	Determined based on stock price at the grant date and the costs of restricted shares during Lock-up Period	Determined based on stock price at the grant date and the costs of restricted shares during Lock-up Period
Recognition basis of the number of the equity instruments qualified for vesting	Determined based on the results estimation of each vesting period	Determined based on the results estimation of each release period
Reasons of the significant difference between the estimates of the current year with that of the prior year	None	None
Accumulative amount of share-based payment through equity settlement and further included in the capital reserve	342,675,340.86	138,846,781.00
Total amount of the expenses recognized according to share-based payment through equity settlement in the current reporting period	52,353,816.45	138,846,781.00

## 3. There is no share-based payment through cash settlements

## XII. Commitments and contingencies

### 1. Significant commitments

#### (1) Capital commitments

Unit: RMB'000

	Closing balance	Opening balance
Contracted but not yet recognized in financial statements		
- Commitment on construction of long-term assets	11,641,286	490,098
<b>Total</b>	11,641,286	490,098

#### (2) Operating lease commitments

As of the balance sheet date, the Group had the following external commitments in respect of non-cancellable operating leases:

Unit: RMB'000

	Closing balance	Opening balance
Minimum lease payments under non-cancellable operating leases:		
First year subsequent to the balance sheet date	93,006	61,829
Second year subsequent to the balance sheet date	49,061	40,469
Third year subsequent to the balance sheet date	33,185	23,452
Subsequent years	72,516	42,010
<b>Total</b>	247,768	167,760

(3) As of December 31<sup>st</sup> 2017, the Group has no other commitments need to be disclosed.

## 2. Contingencies

The Group has no significant contingencies to be disclosed.

## XIII. Events after the balance sheet date

### 1. Significant unadjusted events

The Group did not have any significant unadjusted events after the balance sheet date.

### 2. Profit Distribution

Pursuant to the resolution of 2<sup>nd</sup> meeting of the 4<sup>th</sup> session Board of Directors on April 19<sup>th</sup> 2018, the Company proposed to distribute cash dividend of RMB 5 (tax inclusive) per each 10 shares to all shareholders, the above dividend distribution plan is subject to the approval of the general meeting of shareholders.

## XIV. Other significant events

### 1. Segment information

#### 1.1 Report segment determining and accounting policy

According to the Group's internal organization structure, management requirements and internal report principles, the Group has only one operating segment, which is the research and development, production and sales of video products and video services.

#### 1.2 Segment financial reporting

External revenue by product or business segments

Unit: RMB

Item	Amount for 2017	
	Operating income	Operating cost
Front-end equipment	21,090,230,299.49	10,354,906,543.30
Back-end equipment	6,151,038,063.70	3,164,186,804.35
Central control equipment	5,073,899,931.95	2,320,570,446.43
Constructions	2,540,799,165.58	2,280,617,025.82
Others	4,922,315,386.82	4,107,887,599.67
Subtotal	39,778,282,847.54	22,228,168,419.57
Smart home business	1,090,629,830.13	708,022,298.25
Other innovative businesses	564,580,293.97	345,446,563.98
Subtotal	1,655,210,124.10	1,053,468,862.23
Total	41,433,492,971.64	23,281,637,281.80

Unit: RMB

Item	Amount for 2016	
	Operating income	Operating cost
Front-end equipment	15,881,528,158.70	8,186,413,345.14
Back-end equipment	5,197,388,761.80	2,705,461,109.51
Central control equipment	3,988,683,952.14	2,069,135,295.77
Constructions	1,451,424,275.00	1,328,601,510.98
Others	4,366,090,848.76	3,725,706,081.81
Subtotal	30,885,115,996.40	18,015,317,343.21
Smart home business	507,566,718.33	329,534,759.28
Other innovative businesses	150,389,867.16	67,888,505.95
Subtotal	657,956,585.49	397,423,265.23
Total	31,543,072,581.89	18,412,740,608.44

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## External revenue by geographical area and non-current assets by geographical location

Unit: RMB

Item	Amount for 2017	Amount for 2016
External revenue generated in domestic area	29,661,186,316.32	22,574,159,436.75
External revenue generated in overseas area	12,244,290,255.75	9,360,384,652.07
Total	41,905,476,572.07	31,934,544,088.82

Unit: RMB

Item (Note)	Closing balance	Opening balance
Non-current assets in domestic area	5,676,079,020.66	3,525,186,754.19
Non-current assets in overseas area	321,187,347.68	345,030,264.81
Total	5,997,266,368.34	3,870,217,019.00

Note: the non-current assets above did not include available-for-sale financial assets, long-term receivables, long-term equity investment, and deferred tax assets.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## XV. Notes to major items of financial statements of the parent company

### 1. Accounts receivable

(1) Accounts receivable disclosed by categories:

Unit: RMB

Category	Closing balance					Opening balance				
	Carrying balance		Bad debt provision		Carrying value	Carrying balance		Bad debt provision		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)		Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivable that are individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Accounts receivable with provision accrued collectively on a portfolio basis for credit risk.	13,338,459,657.76	100.00	832,776,339.98	6.24	12,505,683,317.78	10,908,625,274.90	100.00	779,871,754.48	7.15	10,128,753,520.42
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>13,338,459,657.76</b>	<b>100.00</b>	<b>832,776,339.98</b>	<b>6.24</b>	<b>12,505,683,317.78</b>	<b>10,908,625,274.90</b>	<b>100.00</b>	<b>779,871,754.48</b>	<b>7.15</b>	<b>10,128,753,520.42</b>

The Group categorizes accounts receivable in an amount above RMB 4 million and representing more than 10% of the total accounts receivable closing balance as account receivable that is individually significant.

**Accounts receivable with bad debt provision provided by aging analysis on portfolio basis:**

Unit: RMB

Aging	Closing balance		
	Amount	Bad debt provision	Percentage (%)
Within 1 year	12,737,808,360.28	636,890,418.01	5.00
1-2 years	291,255,407.85	29,125,540.78	10.00
2-3 years	151,524,418.19	45,457,325.46	30.00
3-4 years	47,585,831.51	23,792,915.76	50.00
4-5 years	63,877,499.80	51,101,999.84	80.00
Over 5 years	46,408,140.13	46,408,140.13	100.00
Total	13,338,459,657.76	832,776,339.98	6.24

## (2) Bad debt provision provided, recovered or reversed during the reporting period

The amount of bad debt provision in the current reporting period was RMB 65,988,401.65, and the recovered or reversed bad debt provision was nil.

## (3) Accounts receivable actually written off in the current reporting period.

The accounts receivable actually written off in the current reporting period was RMB 13,083,816.15.

## (4) The five largest accounts receivable assembled by debtors

Unit: RMB

Company name	Relationship with the Company	Carrying balance	Ending balance of bad debt provision	Proportion of ending balance of accounts receivables in total (%)
Subsidiary A	Subsidiary	10,822,865,063.74	541,363,206.48	81.14
Company G	Third party	84,772,281.10	61,328,715.46	0.64
Company H	Third party	60,152,721.79	3,012,436.09	0.45
Subsidiary I	Third party	53,845,624.25	10,721,095.01	0.40
Company J	Third party	37,636,705.10	2,373,038.90	0.28
Total		11,059,272,395.98	618,798,491.94	82.91

## (5) At the end of the reporting period, there is no account receivable derecognized due to the transfer of financial assets.

## (6) At the end of the reporting period, there is no asset or liability formed by continuing involvement in derecognized accounts receivables.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## 2. Other receivables

### (1) Other receivables disclosed by categories

Unit: RMB

Category	Closing balance					Opening balance				
	Carrying amount		Bad debt provision		Carrying value	Carrying amount		Bad debt provision		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)		Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Other receivables with provision accrued collectively on a portfolio basis for credit risk	764,252,803.59	100.00	54,660,309.87	7.15	709,592,493.72	449,863,926.01	100.00	31,900,680.55	7.09	417,963,245.46
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>764,252,803.59</b>	<b>100.00</b>	<b>54,660,309.87</b>	<b>7.15</b>	<b>709,592,493.72</b>	<b>449,863,926.01</b>	<b>100.00</b>	<b>31,900,680.55</b>	<b>7.09</b>	<b>417,963,245.46</b>

The Group categorizes other receivable in an amount above RMB 4 million and representing more than 10% of the total other receivables closing balance as other receivable that is individually significant.

**Other receivables with bad debt provision provided by aging analysis on portfolio basis:**

Unit: RMB

Aging	Closing balance		
	Carrying amount	Bad debt provision	Percentage of appropriation (%)
Within 1 year	663,369,877.66	33,168,493.88	5.00
1–2 years	57,903,453.25	5,790,345.33	10.00
2–3 years	29,058,778.38	8,717,633.51	30.00
3–4 years	13,842,394.30	6,921,197.15	50.00
4–5 years	78,300.00	62,640.00	80.00
Over 5 years	-	-	100.00
<b>Total</b>	<b>764,252,803.59</b>	<b>54,660,309.87</b>	<b>7.15</b>

## (2) Bad debt provision provided, recovered or reversed during the reporting period

The amount of bad debt provision in the current reporting period was RMB 23,539,355.72, and the recovered or reversed bad debt provision was nil.

## (3) The write-off of other receivables for the current year

The write-off of other receivables was RMB 779,726.40 in the current reporting period.

## (4) Other receivables by nature

Unit: RMB

Nature	Closing balance	Opening balance
Temporary borrowing	425,722,254.59	149,296,781.06
Temporary receivables	240,668,412.28	232,789,859.54
Guarantee deposit	82,796,114.04	31,242,843.36
Investment deposit	13,500,000.00	35,000,000.00
Others	1,566,022.68	1,534,442.05
<b>Total</b>	<b>764,252,803.59</b>	<b>449,863,926.01</b>

## (5) Top 5 debtors of other receivables in terms of closing balance

Unit: RMB

The name of entity	Nature	Closing balance	Aging	Percentage to total other receivables (%)	Bad debt provision
Subsidiary B	Temporary borrowing	210,852,264.75	Within 1 year	27.59	10,542,613.24
Subsidiary A	Temporary borrowing	139,596,986.88	Within 1 year	18.27	6,979,849.34
Subsidiary C	Temporary borrowing	19,978,275.45	Within 1 year	2.61	998,913.77
Related Party B	Investment deposit	13,500,000.00	Within 1 year	1.77	675,000.00
Subsidiary D	Temporary borrowing	12,004,479.60	Within 1 year	1.57	600,223.98
<b>Total</b>		<b>395,932,006.68</b>		<b>51.81</b>	<b>19,796,600.33</b>

(6) At the end of the reporting period, there were no other receivables derecognized due to the transfer of financial assets.

(7) At the end of the reporting period, there were no assets or liabilities formed by continuing involvement in derecognized other receivables

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

### 3. Long-term equity investment

Details of long-term equity investment:

Unit: RMB

Name of investee	Accounting method	Opening balance	Increase/Decrease during the current reporting period				Closing balance	Provision for impairment losses	Provision for impairment losses for the current year
			Additional investment	Decrease investment	Investment Income recognized based on equity method	Increase due to granting share options			
Hangzhou Hikvision System Technology Co. Ltd.	Cost method	233,378,669.31	450,000,000.00	-	-	35,885,295.92	719,263,965.23	-	-
Hangzhou Hikvision Science and Technology Co. Ltd.	Cost method	108,430,558.84	900,000,000.00	-	-	6,775,477.56	1,015,206,036.40	-	-
Hangzhou Hikvision Security Equipment Leasing Services Ltd.	Cost method	200,000,000.00	-	-	-	-	200,000,000.00	-	-
Chongqing Hikvision System Technology Co., Ltd.	Cost method	200,000,000.00	-	-	-	-	200,000,000.00	-	-
Hikvision USA, Inc.	Cost method	1,546,160.00	-	-	-	-	1,546,160.00	-	-
HDT International Ltd.	Cost method	87,786.14	-	-	-	-	87,786.14	-	-
Prama Hikvision Indian Private Limited	Cost method	1,585,696.80	-	-	-	-	1,585,696.80	-	-
Hikvision Dubai FZE	Cost method	1,870,351.40	-	-	-	-	1,870,351.40	-	-
Hikvision Singapore Pte. Ltd	Cost method	1,900,590.00	-	-	-	-	1,900,590.00	-	-
Chongqing Hikvision Science and Technology Co., Ltd.	Cost method	100,000,000.00	-	-	-	-	100,000,000.00	-	-
Beijing Hikvision Security Technology Services Co., Ltd.	Cost method	10,000,000.00	-	-	-	-	10,000,000.00	-	-
Shanghai Goldway Intelligent Traffic System Co., Ltd.	Cost method	23,000,000.00	-	-	-	-	23,000,000.00	-	-
Beijing Brinaire Storage Technology Co., Ltd.	Cost method	96,482,439.85	-	(604,313.00)	-	-	95,878,126.85	-	-
Hikvision South Africa (Pty) Ltd.	Cost method	1,578,650.00	-	-	-	-	1,578,650.00	-	-
Wuhan Hikvision System Technology Co., Ltd.	Cost method	10,000,000.00	-	(10,000,000.00)	-	-	-	-	-
Henan Hua'an BaoQuan Intelligence Development Co., Ltd.	Cost method	67,475,000.00	-	-	-	-	67,475,000.00	-	-

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

Name of investee	Accounting method	Opening balance	Increase/Decrease during the current reporting period				Closing balance	Provision for impairment losses	Provision for impairment losses for the current year
			Additional investment	Decrease investment	Investment Income recognized based on equity method	Increase due to granting share options			
Hikvision do Brasil Comercio de Equipamentos de Seguran ç a Ltda.	Cost method	4,579,750.50	-	-	-	-	4,579,750.50	-	-
Hikvision Australia PTY Ltd.	Cost method	2,866,850.00	-	-	-	-	2,866,850.00	-	-
Hikvision International Co., Limited	Cost method	79,423.52	-	-	-	-	79,423.52	-	-
Hundure Technology (Shanghai) Co., Ltd.	Cost method	37,247,790.28	-	-	-	-	37,247,790.28	-	-
Hangzhou Hikvision Electronics Co. Ltd.	Cost method	397,745,645.00	-	-	-	-	397,745,645.00	-	-
Cooperative Hikvision Europe U.A.	Cost method	65,485.53	-	-	-	-	65,485.53	-	-
Hikvision Canada Inc.	Cost method	994,442.54	-	-	-	-	994,442.54	-	-
ZAO Hikvision	Cost method	647,249.19	-	-	-	-	647,249.19	-	-
Hikvision Korea Limited	Cost method	1,535,850.00	-	-	-	-	1,535,850.00	-	-
Hangzhou EZVIZ Network Co., Ltd.	Cost method	1,000,000.00	-	-	-	5,040,138.16	6,040,138.16	-	-
Hangzhou Haikang Zhicheng Investment and Development Co., Ltd.	Cost method	24,000,000.00	-	-	-	-	24,000,000.00	-	-
Hangzhou Hik Robotic Technology Co., Ltd.	Cost method	10,000,000.00	41,590,840.00	-	-	3,030,783.59	54,621,623.59	-	-
Hangzhou Hikvision Investment Management Co., Ltd.	Cost method	100,000.00	-	-	-	-	100,000.00	-	-
Hangzhou Hik Automotive Technology Co., Ltd.	Cost method	72,000,000.00	18,000,000.00	-	-	1,611,915.86	91,611,915.86	-	-
Hangzhou Hikvision Communication Technology Co. Ltd.	Cost method	7,000,000.00	-	-	-	-	7,000,000.00	-	-
Hangzhou Hik Weiyang Sensory Technology Co., Ltd.	Cost method	60,000,000.00	-	-	-	-	60,000,000.00	-	-
Hikvision Turkey Technology And Security Systems Commerce Corporation	Cost method	1,148,115.83	-	-	-	-	1,148,115.83	-	-
Hikvision Colombia SAS	Cost method	1,337,440.00	-	-	-	-	1,337,440.00	-	-
Hikvision Kazakhstan limited liability partnership	Cost method	4,758.69	-	-	-	-	4,758.69	-	-

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

Name of investee	Accounting method	Opening balance	Increase/Decrease during the current reporting period				Closing balance	Provision for impairment losses	Provision for impairment losses for the current year
			Additional investment	Decrease investment	Investment Income recognized based on equity method	Increase due to granting share options			
Henan Haikang Hua'an BaoQuan Electronics Co., Ltd.	Cost method	-	510,000.00	-	-	-	510,000.00	-	-
Tianjin Hikvision System Technology Co., Ltd.	Cost method	-	10,000,000.00	-	-	-	10,000,000.00	-	-
Wuhan Hik Storage Technology Co., Ltd.	Cost method	-	60,000,000.00	-	-	-	60,000,000.00	-	-
Chengdu Hikvision Digital Technology Co., Ltd.	Cost method	-	80,000,000.00	-	-	-	80,000,000.00	-	-
Hangzhou Hik Automotive Software Co., Ltd.	Cost method	-	-	-	-	734,594.74	734,594.74	-	-
Hangzhou Hik Intelligent Technology Co., Ltd.	Cost method	-	-	-	-	204,346.41	204,346.41	-	-
Wuhu Sensor Technology Co. Ltd.	Equity method	35,000,000.00	-	-	3,207,959.74	-	38,207,959.74	-	-
Maxio Technology (Hangzhou) Ltd.	Equity method	-	48,000,000.00	-	(1,599,007.45)	-	46,400,992.55	-	-
<b>Total</b>		1,714,688,703.42	1,608,100,840.00	(10,604,313.00)	1,608,952.29	53,282,552.24	3,367,076,734.95	-	-

As of December 31<sup>st</sup> 2017, there were no restrictions on the capability of transferring fund to the Company from investees in which the Company held long-term equity investment.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

#### 4. Operating income and operating cost

Unit: RMB

Item	2017		2016	
	Income	Cost	Income	Cost
Operating income	17,441,474,419.75	5,888,031,274.47	15,892,497,158.98	5,715,197,290.78
Other operating income	1,726,504,871.63	212,920,646.32	1,272,952,152.29	251,941,586.05
Total	19,167,979,291.38	6,100,951,920.79	17,165,449,311.27	5,967,138,876.83

#### 5. Investment income

(1) Details of investment income

Unit: RMB

Item	Amount for 2017	Amount for 2016
Long-term equity investment income measured by cost method	5,737,500.00	959,775.84
Long-term equity investment income measured by equity method	1,608,952.29	-
Investment loss on disposal of long-term equity investment	(9,929,719.62)	-
Investment gains (losses) for available-for-sale financial assets during the holding period	8,505,842.42	-
Gain (loss) on disposal of financial assets at fair value through current profit and loss	5,798,781.41	8,026,616.63
Investment income from redemption of bank finance products upon expiry	22,780,999.83	48,205,009.12
Total	34,502,356.33	57,191,401.59

#### 6. Related party transactions

(1) Sales and purchase of goods, provision of services and receiving services

Purchase of goods/receiving of services:

Unit: RMB

Related party	Transaction type	Amount for the current year	Amount for the prior year
Subsidiaries of Hikvision (Note)	Purchase of materials and receiving of services	6,627,993,954.60	6,792,502,379.98
Subsidiaries of CETE	Purchase of materials and receiving of services	638,139.08	253,499.98
Wuhu Sensor Tech	Purchase of materials and receiving of services	158,974.36	-
Total		6,628,791,068.04	6,792,755,879.96

Note: Subsidiaries of Hikvision are subsidiaries of the Company. See Note (VII) for details.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

Sales of goods/rendering of services:

Unit: RMB

Related party	Transaction type	Amount for the current year	Amount for the previous year
Subsidiaries of Hikvision	Sales of products and rendering of services	12,713,526,574.11	11,103,336,262.90
Subsidiaries of CETE	Sales of products	49,207,183.00	21,567,521.50
Wuhu Sensor Tech	Sales of products	38,888.89	-
<b>Total</b>		<b>12,762,772,646.00</b>	<b>11,124,903,784.40</b>

Statement of capital deposits:

Unit: RMB

Related Party	Content of related party transaction	Amount occurred in the current year	Balance at the end of the year	Amount occurred during last year	Opening Balance
Subsidiaries of CETE (Note)	Deposit into Fixed deposits	1,000,000,000.00	1,000,000,000.00	-	-
Subsidiaries of CETE (Note)	Deposit into Fixed deposits	500,000,000.00	500,000,000.00	-	-
<b>Total</b>		<b>1,500,000,000.00</b>	<b>1,500,000,000.00</b>	<b>-</b>	<b>-</b>

Those transactions above were executed at market prices or at the prices agreed by both parties.

## (2) Guarantees with related parties

During the year, the Company has provided guarantees for its 9 wholly-owned and majority-owned subsidiaries in an amount not exceeding an equivalent of RMB 14.05 billion (2016: RMB 10.5 billion, USD 250 million), including the joint liability guarantee for the payment obligations on purchase from suppliers in an amount not exceeding an equivalent of RMB 1.2 billion (2016: RMB 1.2 billion, USD 40 million), and the joint liability guarantee for the general credit limit applied from commercial banks and other financial institutions or other financing methods through agreed methods in an amount not exceeding an equivalent of RMB 12.85 billion (2016: RMB 9.3 billion, USD 210 million).

See Note (X) 5 for details in relation to the guarantee provided for Safety Chongqing Project by the Company.

## 7. Receivables from related parties and payables to related parties

### (1) Receivables from related parties

Unit: RMB

Item	Related party	Closing balance		Opening balance	
		Carrying balance	Bad debt provision	Carrying balance	Provision
Accounts receivable	Subsidiaries of Hikvision	10,839,522,465.63	542,196,076.58	8,421,896,636.50	508,104,730.72
Accounts receivable	Subsidiaries of CETE	24,170,969.21	1,526,150.68	16,029,332.62	1,171,983.59
<b>Total</b>		<b>10,863,693,434.84</b>	<b>543,722,227.26</b>	<b>8,437,925,969.12</b>	<b>509,276,714.31</b>

## Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

Item	Related party	Closing balance		Opening balance	
		Carrying balance	Bad debt provision	Carrying balance	Provision
Other receivables	Subsidiaries of Hikvision	425,722,254.59	21,286,112.72	149,296,781.06	7,569,789.81
Other receivables	Maxio Technology	13,500,000.00	675,000.00	-	-
<b>Total</b>		<b>439,222,254.59</b>	<b>21,961,112.72</b>	<b>149,296,781.06</b>	<b>7,569,789.81</b>
Prepayments	Subsidiaries of Hikvision	3,349,033.66	-	-	-
<b>Total</b>		<b>3,349,033.66</b>	<b>-</b>	<b>-</b>	<b>-</b>
Dividend receivables	Subsidiaries of Hikvision	2,550,000.00	-	-	-
<b>Total</b>		<b>2,550,000.00</b>	<b>-</b>	<b>-</b>	<b>-</b>

**(2) payables to related parties**

Unit: RMB

Item	Related party	Closing balance	Opening balance
Accounts payable	Subsidiaries of Hikvision	54,312,472.11	20,487,397.93
Accounts payable	Subsidiaries of CETE	1,314.27	152,222.25
Accounts payable	Shanghai Fullhan	-	100,000.00
<b>Total</b>		<b>54,313,786.38</b>	<b>20,739,620.18</b>
Receipts in advance	Subsidiaries of Hikvision	1,228,879.80	32,447,875.96
Receipts in advance	Subsidiaries of CETE	47,751.41	23,208.01
<b>Total</b>		<b>1,276,631.21</b>	<b>32,471,083.97</b>
Other payables	Subsidiaries of Hikvision	610,605,005.68	35,388,680.03
Other payables	Subsidiaries of CETE	150,000.00	146,300.00
Other payables	Shanghai Fullhan	100,000.00	-
<b>Total</b>		<b>610,855,005.68</b>	<b>35,534,980.03</b>

**8. Supplementary information to the cash flow statement**
**(1) Supplementary information to the cash flow statement**

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

Unit: RMB

Supplementary information	Amount for the current year	Amount for the previous year
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	<b>8,683,050,963.77</b>	<b>7,203,768,180.57</b>
Add: Assets impairment	107,602,826.75	151,838,196.39
Depreciation of fixed assets	152,589,101.28	123,434,024.41
Amortization of intangible assets	23,332,836.62	18,916,588.53
Losses (gains) on disposal of fixed assets, intangible assets and other long-term assets	(2,755,085.52)	215,830.09
Losses (gains) from change in fair value	(53,573,806.57)	53,573,806.57
Financial expenses	176,050,487.00	51,935,968.50
Investment income	(34,502,356.33)	(57,191,401.59)
Share-based payment through equity settlement	137,918,045.21	92,417,607.18
Change in other monetary funds	3,140,975.18	3,401,969.85
Increase in deferred income tax assets	(22,578,067.62)	(24,131,101.49)
Decrease (increase) of inventories	171,317,351.10	(246,139,724.71)
Increase in operating receivables	(2,617,942,969.04)	(1,168,908,965.92)
Increase in operating payables	504,231,944.54	559,668,153.67
Decrease in deferred income	38,714,300.00	-
<b>Net cash flow from operating activities</b>	<b>7,266,596,546.37</b>	<b>6,762,799,132.05</b>
<b>2. Major investing and financing activities not involving cash receipt and payment:</b>		-
<b>3. Net change in cash and cash equivalents:</b>		
Closing balance of cash	12,304,082,533.11	10,245,969,003.13
Less: Opening balance of cash	10,245,969,003.13	6,548,073,680.91
Add: Closing balance of cash equivalents	-	-
Less: Opening balance of cash equivalents	-	-
<b>Net increase in cash and cash equivalents</b>	<b>2,058,113,529.98</b>	<b>3,697,895,322.22</b>

## (2) Composition of cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
I. Cash	12,304,082,533.11	10,245,969,003.13
Including: Cash on hand	378,292.56	384,972.67
Bank deposit for payment at any time	12,303,704,240.55	10,245,584,030.46
Other monetary funds for payment at any time	-	-
II. Cash equivalents	-	-
III. Closing balance of cash and cash equivalents	12,304,082,533.11	10,245,969,003.13

On December 31<sup>st</sup> 2017, the Company's closing balance of other monetary funds was RMB 8,180.88 (December 31<sup>st</sup> 2016: RMB 3,149,156.06), all of which were various guarantee deposits, not cash and cash equivalents.

Notes to Financial Statements

 For the reporting period ended on December 31<sup>st</sup> 2017

## XVI. Supplementary information

### 1. Details of current non-recurring gains and losses

Unit: RMB

Item	Amount	Description
Profit or loss from disposal of non-current assets	1,585,222.50	/
The government subsidies included in the current profits and losses (excluding the government subsidy <sup>4</sup> closely related to regular course of business of the Company and government subsidy based on standard quota or quantitative continuous enjoyment according to the state industrial policy)	184,557,043.27	/
Net current profit and loss from the beginning of the period to the merger date for business merger involving enterprises under common control	(42,070.90)	/
Held- for-trading financial assets, profits and losses from change in fair value of held-for-trading financial liabilities, and investment income from disposal of held-for-trading financial assets and liabilities and available-for-sale financial assets excluding the effective hedging business related to the regular business operation of the Company	86,740,196.23	/
Other non-operating income and expense except the items mentioned above	30,044,820.52	/
Impact of income tax	(50,405,620.44)	/
The impact of minority equity	(18,741,470.42)	/
<b>Total</b>	<b>233,738,120.76</b>	/

### 2. Return on net assets and earnings per share

The return on net assets and earnings per share have been prepared by Hangzhou Hikvision Digital Technology Co., Ltd. in accordance with the *Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revised in 2010)* issued by China Securities Regulatory Commission.

Unit: RMB

Profit for the reporting period	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	34.96%	1.030	1.024
Net profit excluding non-recurring items of profit or loss attributable to ordinary shareholders of the Company	34.09%	1.004	0.999

<sup>4</sup> Please refer to Note (V) 48 for details about government subsidy (Value-added Tax Rebate for Software Product), which is closely related to daily operations of the Company.

## Section XII Documents Available for Reference

1. The financial report was signed a by the Company's legal representative.
2. The financial report was signed and sealed by the person in charge of the Company, the person in charge of accounting work and person in-charge of accounting organization.
3. Original copy of all the Company's documents and announcements were published on the newspapers designated by CSRC within the reporting period.

The above documents are completely placed at the Company's board of directors' office.

Hangzhou Hikvision Digital Technology Co., Ltd.  
Chairman: Chen Zongnian  
April 21<sup>st</sup> 2018

### Note:

This document is a translated version of the Chinese version 2017 Annual Report (“2017 年年度报告”), and the published announcements in the Chinese version shall prevail. The complete published Chinese 2017 Annual Report may be obtained at [www.cninfo.com.cn](http://www.cninfo.com.cn).