

**HANGZHOU HIKVISION DIGITAL
TECHNOLOGY CO., LTD.**

2016 Annual Report



April 14th 2017

To Shareholders

Dear Shareholders,

The security industry in 2016 was characterized by further consolidation and steady growth. Despite continued volatility in the global economy and diverse competitive landscapes around the world, Hangzhou Hikvision Digital Technology Co., Ltd. (the Company) made numerous effective strategic adjustments. The Company's focus on increasing its profitability resulted in a gross profit margin of 41.58% in 2016, up from 40.10% in 2015. With increased investments, the Company achieved balanced growth of 26.32% in operating revenue, 24.32% in operating profit, and 26.46% in net profit, while continuing to maintain healthy overall development.

Interest in intelligent video surveillance solutions accelerated in 2016, driven by technology innovations. The Company's research and development in intelligent video surveillance based on the modeling analysis technique of video content has been progressing slowly for the past decade, and we have experienced commercial success notably in the car license plate identification market segment. In 2015, based on advancements in GPU and deep learning technologies, the Company launched its Artificial Intelligence (AI)-central product line: "Falcon" (猎鹰), a video structuring server, and "Blade" (刀锋), a vehicle image structuring server, which received favorable market recognition last year. Then, in 2016, based on further developments in GPU/VPU and deep learning technologies, the Company launched "DeepInview"(深眸), a new series of intelligent video cameras; "DeepInmind"(超脑) NVRs; "Divine Captor"(神捕), intelligent traffic products; and "Hikface"(脸谱), facial analytics products. As a result, the Company now offers AI-edge devices and AI-central products. AI-edge products include front-end and back-end products, along with integrated AI-product applications tailored to vertical markets.

As our mission “New Vision, New World” implies, we believe Hikvision is well-positioned to provide compelling, state-of-the-art, and innovative intelligent video surveillance solutions to our markets. As video surveillance digitization and networking did at the beginning of the millennium, the Company believes AI and intelligent video surveillance solutions now present an outstanding opportunity to increase our global market share and expand shareholder value, continue to provide new technology that enables businesses across the globe to be more efficient and profitable, and to make the world safer and more secure.

In 2016 the Company also saw the initial implementation of *Management Measures for Core Staff Co-investment in Innovative Business* (核心员工跟投创新业务管理办法), along with three new business ventures: 1) EZVIZ Network Company (萤石网络公司), converted to a Smart Home business; 2) Robotics Technology Company launched, focusing on industrial automation; and 3) Automotive Technology Company emerged, focused on intelligent automobile developments. These three entrepreneurial innovative subsidiaries, co-founded by internal staffs, created exciting new opportunities for further growth of the Company. Based on the long-term effective mechanism of “risk-sharing and benefit-sharing” for internally co-founded innovative enterprises, the innovative businesses are expected to drive the Company beyond the industrial life-cycle and maintain a long-term sustainable healthy development of the Company.

As a global company, we are mindful of potential volatility in the market as the result of political and economic pressures in various regions of the world. The Company’s executive management team is dedicated to diligently performing its duties while adhering to the highest ethical standards. We strive to improve our growth as a respectable world-class enterprise by continually evaluating our performance and maintaining optimal productivity. To drive the

Company's growth, we will continue to enhance and optimize our processes with the goal of providing outstanding value for our customers and generating long-term sustainable returns for our shareholders.

In the year ahead, continuing uncertainty in global political and economic conditions combined with a decline in domestic economic growth rate is expected. The Company will continue to confront this new macro-economic reality with a steadfast focus on its values, and we are confident that 2017 will be a year of solid and sound development for the Company.

We would like to express our sincere gratitude for the trust and support you place in the executive management team of the Company.

Board of Directors

Hangzhou Hikvision Digital Technology Co., Ltd.

April 2017

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.

Chen ZongNian, the Company's Chairman, Jin Yan, the head of accounting (Accounting Officer) hereby declare and warrant that the financial statements in the Report are authentic, accurate and complete.

Chen ZongNian, the Company's Chairman, directors of the Company including Hu Yangzhong, Wu weiqi, and independent directors of the Company, including Cheng Tianzong, Lu Jianzhong, Wang Zhidong, and Hong Tianfeng attended the Board Meeting to review this Annual Report. Gong Hongjia, the Company's vice chairman did not attend the Board Meeting because of his trip overseas. Director Hu Yangzhong was authorized to attend the board meeting on behalf of Gong Hongjia and exercise Mr Gong's voting rights instead.

The profit distribution proposal passed upon deliberation at the meeting of the Board of Directors is set out as follows: Based on the total share capital on the actual date of record when implementing the proposal, all shareholders will receive a cash dividend of RMB 6 (tax inclusive) per each 10 shares; and the Company proposed to bonus issue of 5 shares (tax inclusive) for each 10 ordinary shares; share distribution from capital reserve is nil.

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 product information security:** Although the Company has dedicated resources to prevent the cybersecurity risk for our products, there is still a possibility of deliberate third-party (including viruses, malicious software, hacker and similar disruptions) attempts to damage our systems or products, causing the security issues for cybersecurity.
- 3) Risk of foreign exchange:** The overseas sales ratio has increased continuously, and the Company has to carry out operations in different countries with various currencies. Exporting transactions are mostly settled in United States Dollars ("USD"), meanwhile, parts of the imported raw materials are also mainly settled in USD. Therefore, the fluctuation of the foreign exchange rate has a potential to affect the profits of the Company.
- 4) Risk of management:** the Company continues to expand business scale, innovative product and business continues to increase, total number of employees also grows rapidly, which pose challenges and higher requests to the Company's management. The sustainable development of the company might face certain risk, if the management ability could not match up with the Company's business expansion.

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

Contents

Section I Important Notes and Definitions	4
Section II Corporate Profile and Substantial Financial Indicators	8
Section III Corporate Business Summary	12
Section IV Management Discussion and Analysis.....	27
Section V Significant Events	47
Section VI Changes in Shares and Information about Shareholders.....	63
Section VII Information on Preferred Shares	72
Section VIII Information on Directors, Supervisors, Senior Management and Employees	73
Section IX Corporate Governance	88
Section X Corporate Bonds.....	99
Section XI Financial Report.....	100
Section XII Documents Available for Reference	206

Definitions

Term	Definition
Reporting Period	From January 1 st 2016 to December 31 st , 2016
Articles of Associations	<i>Articles of Associations for Hangzhou Hikvision Digital Technology Co., Ltd</i>
Hikvision, our Company, Company	Hangzhou Hikvision Digital Technology Co., Ltd
Innovative Co-investment Partnership	Hangzhou Hikvision Equity Investment Partnership (Limited Partnership)
Ezviz Network Inc.	Hangzhou Ezviz Network Co., Ltd.
Hikvision Robotics	Hangzhou Hikvision Robotics Technology Co., Ltd.
Hikvision Automotive Technology	Hangzhou Hikvision Automotive Technology Co., Ltd.
Hikvision Weiying	Hangzhou Hikvision Weiying Sensor Technology Co., Ltd.
Hikvision Tonglu Security Industrial Base	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).
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》) (www.cninfo.com) In this report, innovative business also refers to Ezviz, Hikvision Robotics, Hikvision Automotive Technology, Hikvision Weiying, 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 18th, 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 and Substantial Financial Indicators

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		

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	Securities Times, China Securities News and Securities Daily
Website specified by CSRC for release of the Annual Report	www.cninfo.com
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 research and development, production and sales of following categories: explosion-proof electrical products, communications equipment and its ancillary equipment, multimedia equipment, aircraft, robot and intelligent equipment, auto parts and accessories, automotive electrical signal equipment. After the change, the Company's business scope is: the electronic products (including explosion-proof electrical products, communications equipment and its ancillary equipment, multimedia equipment), aircraft, robot and intelligent equipment, auto parts and accessories, automotive electrical signal equipment research and development, production; Sales of self-produced products; provide technical services, electronic equipment installation; electrical engineering and intelligent systems engineering design, construction and maintenance. (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)	None

V. Other Relevant Information

Accounting firm engaged by the Company

Name of the accounting firm	Deloitte Touche Tohmatsu CPA LLP
Business address of the accounting firm	30F Bund Center 222 Yan An Road East Shanghai 200002,PRC
Name of accountants for writing signature	Mou Zhenfei, Huang Yan

Sponsors/Financial advisors engaged by the Company to continuously perform its supervisory function during the Reporting Period

☐ Applicable ☒ Inapplicable

VI. Key Accounting Data and Financial Indicators

Whether the Company performed a retroactive adjustment to or restatement of accounting data due to changes of accounting policies and correction of accounting errors

☐ Yes ☒ No

	2016	2015	YoY Change (%)	2014
Operating income (RMB)	31,924,020,872.44	25,271,390,273.42	26.32%	17,233,114,021.70
Net profits attributable to shareholders of the Company (RMB)	7,422,261,983.16	5,869,049,646.23	26.46%	4,665,368,689.94
Net profits attributable to shareholders of the Company excluding non-recurring gains and losses (RMB)	7,270,742,762.47	5,604,890,259.09	29.72%	4,474,975,306.54

Net cash flows from operating activities (RMB)	6,213,692,160.56	3,216,722,169.17	93.17%	3,706,420,782.04
Basic earnings per share (RMB/share)	1.227	0.977	25.59%	0.777
Diluted earnings per share (RMB/share)	1.221	0.971	25.75%	0.776
Weighted average ROE	34.56%	35.28%	-0.72%	36.27%
	At the end of 2016	At the end of 2015	YoY Change (%)	At the end of 2014
Total assets (RMB)	41,339,007,814.83	30,316,442,436.17	36.36%	21,290,520,311.29
Net assets attributable to shareholders of the Company (RMB)	24,288,634,890.08	19,253,803,738.78	26.15%	14,842,243,666.05

Total capital shares by one day before the disclosure:

Total capital shares by one day before the disclosure (share)	6,155,033,743
Diluted earnings per share calculated based on the most updated capital shares (RMB/share)	1.206

Whether any corporate bond existed

☐ Yes ☒ No

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 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 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 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Operating income	5,199,710,391.90	7,348,488,334.22	8,588,270,242.70	10,787,551,903.62
Net profit attributable to shareholders of the Company	1,143,615,399.83	1,463,231,055.55	2,243,111,069.90	2,572,304,457.88
Net profit attributable to shareholders of the Company excluding non-recurring gains and losses	1,133,528,590.60	1,440,674,330.49	2,143,368,877.17	2,553,170,964.21
Net cash flows from operating activities	-1,432,111,768.75	1,829,919,025.23	1,556,206,067.43	4,259,678,836.65

Significant difference between the above financial indicators or sum of it with disclosed quarterly report, half-year report

☐ Yes ☒ No

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

Unit: RMB

Item	2016	2015	2014
Profit or loss from disposal of non-current assets (including the write-off for the impairment of assets)	-736,149.02	1,715,423.04	-467,280.37
The government subsidies included in the current profits and losses (excluding the government subsidy ¹ 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.)	171,321,088.31	169,279,486.81	48,953,698.71
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.	321,708.86	132,518,794.00	154,461,038.78
Other non-operating income and expenditures except the items mentioned above	18,276,871.38	15,481,300.69	9,898,857.59
Less: Impact of income tax	36,000,258.26	54,882,891.58	22,458,098.06
The impact of the minority interests (after tax)	1,664,040.58	-47,274.18	-5,166.75
Total	151,519,220.69	264,159,387.14	190,393,383.40

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>, or classifies any non-recurring gain/loss item mentioned in the aforementioned note as a recurrent gain/loss item

¹ Please refer to Note (V) 47 for details about 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.

Section III Corporate Business Summary

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

1. Main business and position in the industry

As a provider of Internet of Things (IoT) solutions and data operation service based on the video, Hikvision provides security, visual management and big data services to customers around the world. Hikvision has the core technologies of audio and video encoding, video image processing, and audio and video data storage, as well as forward-looking technologies such as cloud computing, big data, and deep learning. It provides professional segmentation products, Intelligent Visual Management (IVM) solutions and big data services to industries, including Public Security, Transportation, Judicial System, Education and Healthcare, Financial Institutions, Energy, as well as Intelligent Building. In addition to the video surveillance industry, Hikvision extended its business to smart home, industrial automation and automotive electronics industries based on video technology to explore potential for sustainable development.

As the world's largest security manufacturer, Hikvision is the witness, practitioner and important promoter of video surveillance's revolutions of digitalization, networking, and intelligence. In 2016, Hikvision was granted international credit rating of A-, A-, and A3 by Fitch, S&P, and Moody's respectively and the rating outlooks are stable, representing a leading position among the global enterprises.

2. Main products, services and applications

After engaging in the security industry for many years, the Company has rich experience in technologies, products and solutions and possesses full range of products from the front end (perception), transmission, storage,



and display control to the integrated management platform and provides "one-stop" overall solution for multi-level security needs of governments, enterprises, families and individual users.

The multidimensional front-end (perception), all-weather, three-dimensional and intelligent features are important elements of system efficiency. Front-end (perception) products have abundant categories in the Company's product mix, which mainly comprises a full-range and full-format of optical cameras suitable for a variety of scenarios, a full range of access control, all-purpose card, video intercom and burglary alarm products, multi-series thermal imaging camera and sensor products, as well as multi-series industrial camera products. In addition to the realization of video capture for visible light and thermal imaging, the Company currently has the product layout of multi-dimensional capture for non-video information such as audio, switching value, Radio Frequency Identification Devices (RFID), temperature and humidity, PM2.5, geographical coordinates, and camera azimuth.

In 2016, the Company launched the Super-Defog (超级透雾), Darkfighter+² (星光+) and DarkfighterX³ (黑光) series cameras to meet the need for clear imaging in all-weather scenarios through innovative design of camera image processing technology and image sensor architecture. In view of the three-dimensional perception needs of different industries, the Company launched products including PanoVu⁴ (鹰眼) camera series,



² Darkfighter+ series camera, using sensors of large surface and leveraging Hikvision's proprietary ISP image processing technology, which enables users to capture clear and bright color image even in low-lighting environment without the help of supplemental lighting. It performs better than traditional Darkfighter camera.

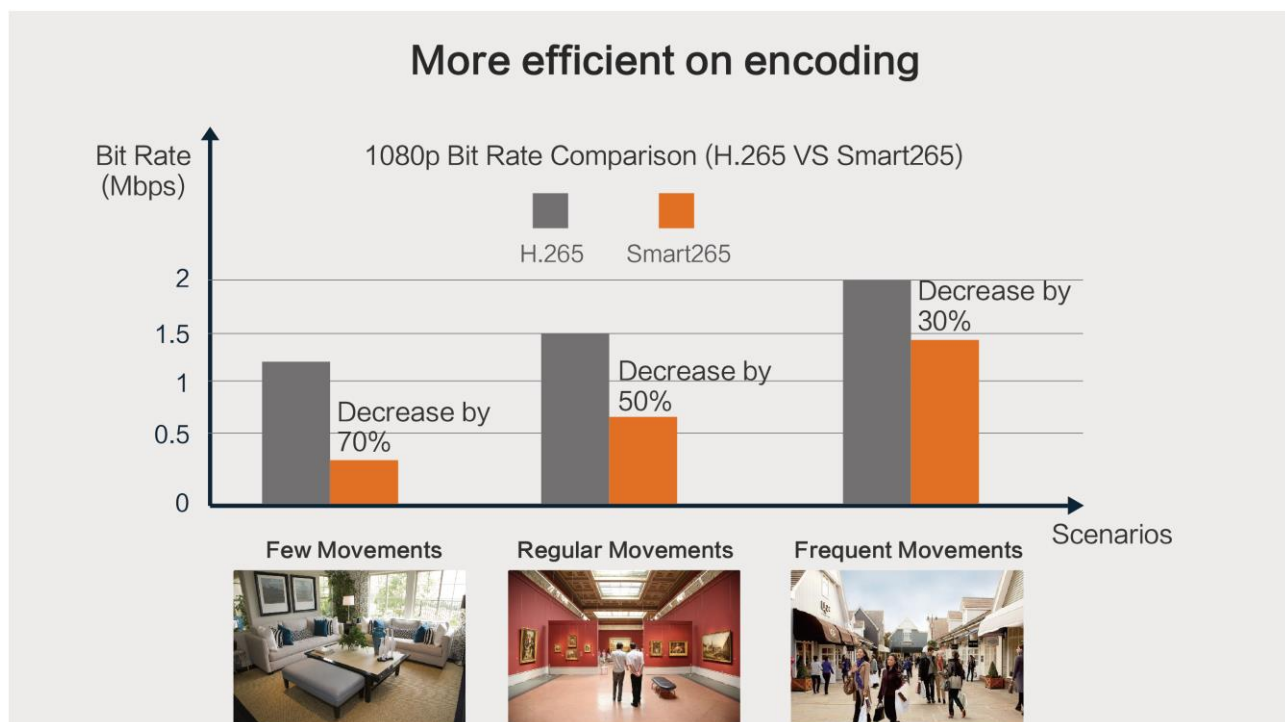
³ DarkfighterX series camera, using Hikvision's proprietary SpecEX dual lighting fusion technology, which enables users to capture clearer, cleaner and brighter color image than that of Darkfighter+ series camera in darker environment than Starlight.

⁴ PanoVu series camera, using Hikvision's proprietary exposure simultaneous control technology and the technology of characteristic matching, the single product can support 180 °and 360 °panoramic merging image, of which Dome-shaped PanoVu can be linked to close-up shots to capture details. [as shown in the picture]

professional Unmanned Aerial Vehicle (UAV) series, vehicle-mounted and handheld camera, vehicle entrances and exits camera system, access portal camera system, electronic police camera system, traffic camera recording system, and parking guidance camera system.

The Company's transmission products mainly include a variety of optical transmission products including video encoders, video decoders, video optical transceivers, network optical transceivers, as well as other network switches.

As more than 99.9% of the information transmitted in the video sensor network is video information, to achieve the quality and cost balance under the effective transmission, we must use the least data volume to transmit better quality video images, and the key lies in the video coding and decoding performance. Video coding and decoding technology is one of the core technologies invested by Hikvision for a long term.



In 2003, the Company pioneered the application of H.264 in video surveillance industry and achieved success (after more than a decade of development, H.264 has become the industry standard). With maturing application conditions for the new generation of video coding standard H.265, Hikvision launched the Smart 265 coding technology which is independently researched and developed by the Company and it is fully compatible with H.265. In the same image quality conditions, it reduced at least 30% of data volume compared to H.265 and 70% compared to H.264. It greatly reduced the transmission and storage costs, making the Company's products and solutions more competitive and laying a solid foundation for wide application of High Definition (HD) and Ultra High Definition (UHD) equipment and preparation for the arrival of video big data era.

The Company's storage products mainly include multi-series video storage products such as XVR (Hybrid Video Recorder), NVR (Network Video Recorder), and CVR (Central Storage Video Recorder), cloud storage system products for mass storage requirements, as well as central data storage product series based on NAS and SAN architecture. To meet front-end storage needs, the Company also introduced other storage media products such as SD memory card and Solid State Disk (SSD).

Storage products are mainly used to store video. Due to the particularity of video information, it is priority to achieve the "reliable storage and efficient retrieving"; especially in the context of mass video information, under which video storage products should have higher storage security and reading efficiency. The R&D team for storage of Hikvision has focused on development of storage technology for years and took the lead in launching a number of advanced technologies in the industry. The "Active object mass storage systems and key technologies" (主动对象海量存储系统及关键技术) was granted the second place of National Technology Invention Award.

The cloud storage system of Hikvision applies the design idea for the user-oriented business applications and integrates the technologies of cluster application, load balancing, virtualization, cloud structuring, discrete storage, and disaster recovery backup. The Company provides users with high-performance, highly reliable and uninterrupted video, picture data storage and business access services, which are suitable for mass PB-level video and image data storage. Given that the hardware device scale and storage capacity continued to expand, the performance and storage capacity of video cloud storage system maintained a linear growth, and this attribute laid a foundation for the expansion of cloud services on the basis of video cloud storage.

Control and display products are usually located in the monitoring center and used for presentation of the image and information in the monitoring center, mainly composed of the Multifunction Video Center (视频综合平台), LCD/DLP (splicing) large screen, small pitch LED large screen and large screen controller products, controlling keyboard, and etc. The Multifunction Video Center is originated by Hikvision and integrates HD video coding and decoder, display control, storage control, intelligent analysis, centralized control and other features to greatly simplify the monitoring center deployment architecture. Since its first release in 2010, it has become a classic device in the industry.

The Comprehensive Management Platform (综合管理平台) is the platform software for the management of the above-mentioned products/systems and helps users to integrate various resources of the system based on the network, providing abundant security and application functions, so as to maximize the power of technical protection and enhance the users' ability to deal with various security incidents and risks.

Comprehensive Management Platform Examples

Video Surveillance Management System



Prison Security System



Intelligent Transportation Management Platform



Smart School Campus Visualized Management System



Unified Security Platform



Comprehensive Surveillance & Maintenance Platform



Security business is the Company's core business and traditional pillar business, which is mainly to satisfy the security protection needs of users. With the accumulation and innovation of technologies, the Company used a variety of new technical protection measures to help users to constantly enhance the response to a variety of security risks and problems. At the same time, the Company is conducting another major business filed, the management visualization (可视化管理), to meet the need of promoting business management capability, adopting visualization technology to help users to expand their management methods, improve their management capabilities, hereby enhancing business management efficiency. The visualization management solution oriented on industry applications is an important part of Hikvision's business system.

Since Hikvision commenced the solution business in 2008, the Company's solution team has formed a complete solution product system which continues to deepen the development through conducting in-depth research on user business scenarios for customized needs of seven vertical industries including the Public Security, Finance, Transportation, Judicial System, Energy, Intelligent Building, as well as Education and Healthcare and hundreds of sub-sectors. In response to the core needs of industrial users to enhance business management capabilities, the Company helped users build a complete perception network covering information collection,

transmission, storage, analysis and application, with application of Intelligent Visual Management Software (iVMS), to achieve the business management innovation model, so as to enhance the business management efficiency.

Take the transportation industry as an example, Hikvision's intelligent city transportation comprehensive management solution integrates video surveillance system, monitoring point, electronic police, UAV, traffic signals and many other means of perception and provides penalties for traffic violation acts, intersection control, traffic guidance, special rectification, traffic information services and other functions based on intelligent analysis and big data technology. It can meet the needs of various intelligent traffic management applications and transform the video information into front-line productivity, shorten the decision-making time, reduce the labor cost, improve the work efficiency, and promote transition of the urban traffic management to the three-dimensional, visualized, and intelligent development.

Users' needs to use visual means to enhance the business management ability have already existed in the beginning of the appearance of video surveillance system. Due to the limitation of technology in the past, users could only manually extract the key information in the video, therefore, the practical application is limited. In recent years, with application of the computer vision-based video intelligent analysis technology, computers can make elementary analysis and identification of certain specific objects and scenario characteristics, which solves the problems of only relying on labor to some extent and helps users carry out some simple visual management business applications. However, this application is still limited by insufficient computer analysis accuracy and unsatisfied multi-dimensional information processing capabilities due to constraints such as computing capabilities, data size, and so on.

As the deep learning algorithm gets mature, training data size expands and hardware computing capabilities enhance, machines can do better than people in many aspects. This provides a broader room for the development of visual management business. Compared with the traditional intelligent analysis algorithm, the deep learning algorithm can advance the "intelligence" to higher accuracy, greater environmental adaptability and richer identification of object types to tap the needs for deeper level of data value.

Hikvision paid much attention to the intelligent technology development in the computer vision field since its inception. The Company started the research and development of intelligent analysis technology in 2006 and made the technical layout of deep learning in 2013; it formally established Hikvision Research Institute (海康威视研究院) in 2014, focusing on the research of perception, intelligent analysis, cloud storage, cloud computing

and video big data. In 2015, the deep learning technology research team of Hikvision was ranked the world's first in MOT Challenge⁵ Multi-Target Tracking Technology, KITTI⁶ Vehicle Detection and Vehicle Head Direction Assessment Algorithm Evaluation. It also was ranked the world's first in PASCAL VOC⁷ Target Detection and ImageNet⁸ Scenario Classification in 2016. It won the championship in the text recognition tasks of three competitions of ICDAR⁹ Robust Reading including "Web and Email Born-Digital Images", the "Focused Scene Text" and the "Incidental Scene Text" in March 2017, significantly surpassing other domestic and international teams.

With the experience in video technology applications and the capabilities to integrate products and systems, the Company quickly commercialized deep learning and video big data technology advantages into products, forming an advanced intelligent product family from capturing to processing, embedded intelligent analysis technology from the front-end to back-end products, and big data application platform.



⁵ MOT Challenge: an algorithm evaluation organization jointly founded by Adelaide University, Zurich Federal Institute of Technology and Technical University of Darmstadt to evaluate the performance of multiple pedestrian object tracking technology in video surveillance environment. MOT Challenge is the authority in the multi-target tracking technology evaluation.

⁶ KITTI: An algorithmic evaluation organization co-founded by the Karlsruhe Institute of Technology and the Toyota Institute of Technology in Chicago to evaluate the object (motor vehicle, non-motor vehicle, pedestrian, etc.) detection, target tracking, etc.. KITTI is the authority in automotive applications evaluation.

⁷ PASCAL VOC: A visual identification competition, jointly founded by University of Leeds, Zurich Federal Institute of Technology, University of Edinburgh, Microsoft, Oxford University, contains the tasks such as object classification, target detection, image segmentation, and etc. PASCAL VOC is the originator of visual identification competition, and has profound and great influence on the development of computer vision.

⁸ ImageNet Large Scale Visual Recognition Challenge is a computer vision competition sponsored by Stanford, Carnegie Mellon, North Carolina and Michigan and other first-class schools. It guides the direction of the development of computer vision, and has attracted a lot of active top research teams, academic schools and industrial giants. The results of each competition have an important and far-reaching impact on the academic and industry.

⁹ ICDAR is known as the International Conference on Document Analysis and Recognition, hosted by the International Association for Pattern Recognition (IAPR). Its document analysis and recognition competition is the world's most influential game in the current OCR (Optical Character Recognition, image recognition) technology field. It has attracted 2367 teams from 82 countries to participate.

Intelligent camera series such as "DeepInview", "Divine Captor", People and Identification Matching (人证对比), and "DeepInmind" series intelligent NVR, with embedded deep learning algorithm, have more accurate big data induction capabilities than human brains, and can extract multiple feature information of people, vehicles and objects and detect events in complex environments;



"Blade" vehicle feature structured server, "Falcon" video cloud structured server, "Divine Captor" traffic incident detection server, "Hikface" face analysis server and other GPU array video cloud structured server products enable efficient structured processing of massive video and image data;

Blade – Vehicle Image Structuration



Image Re-recognition based on Deep Learning algorithm

Licence Plate Recognition

Car type

Vehicle Color

Brand/Sub-brand

Front/Back Detection

Sunroof Standing

Heavy-Polluting Vehicle

Dangerous Goods Vehicle

Seat Belt

using cell phone

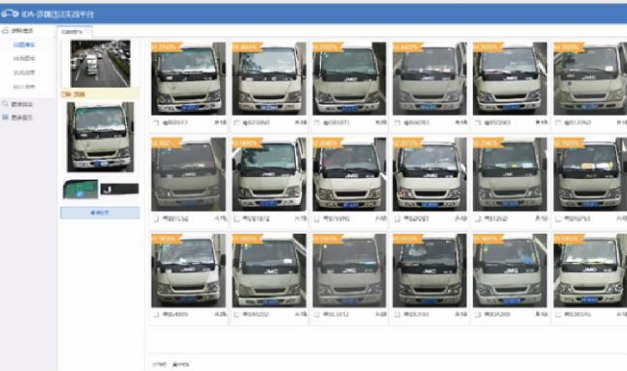
Sun Shield

Accessory

Public Security: Vehicle Big Data – Path Tracking



Transportation: Search by Vehicle Image



Divine Captor – Event Detection Server



Pedestrian Detection



Thrown object Detection



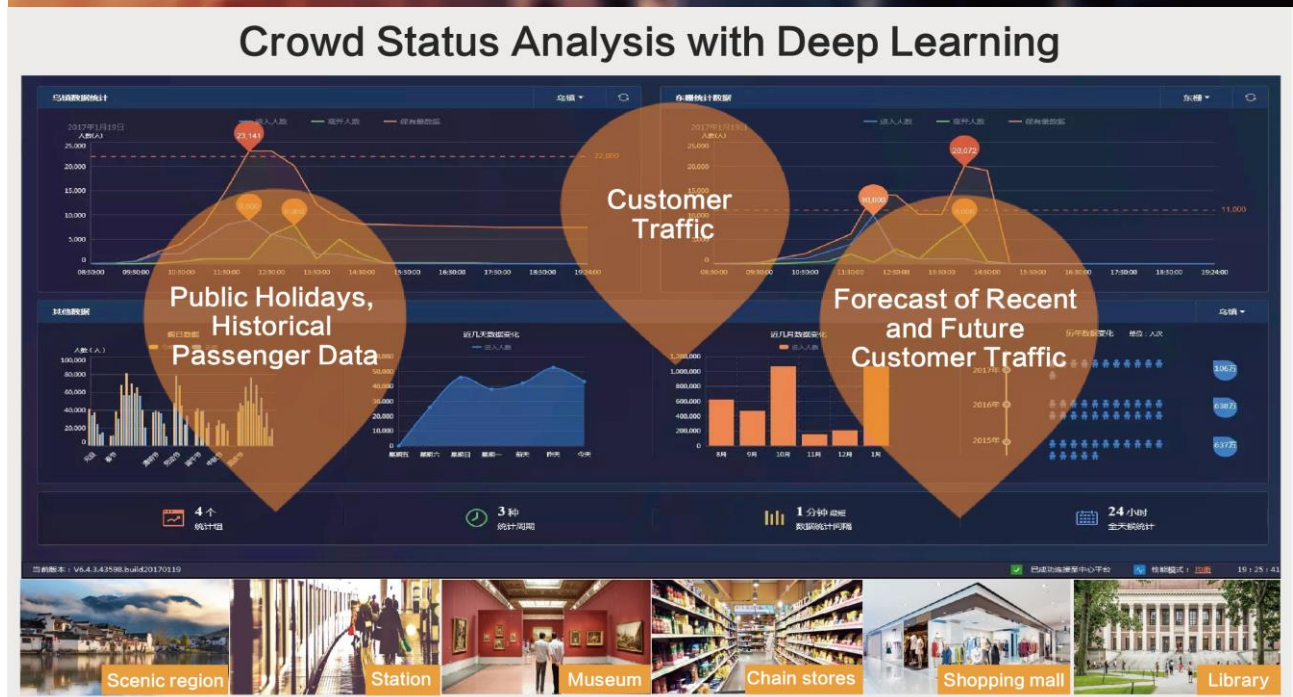
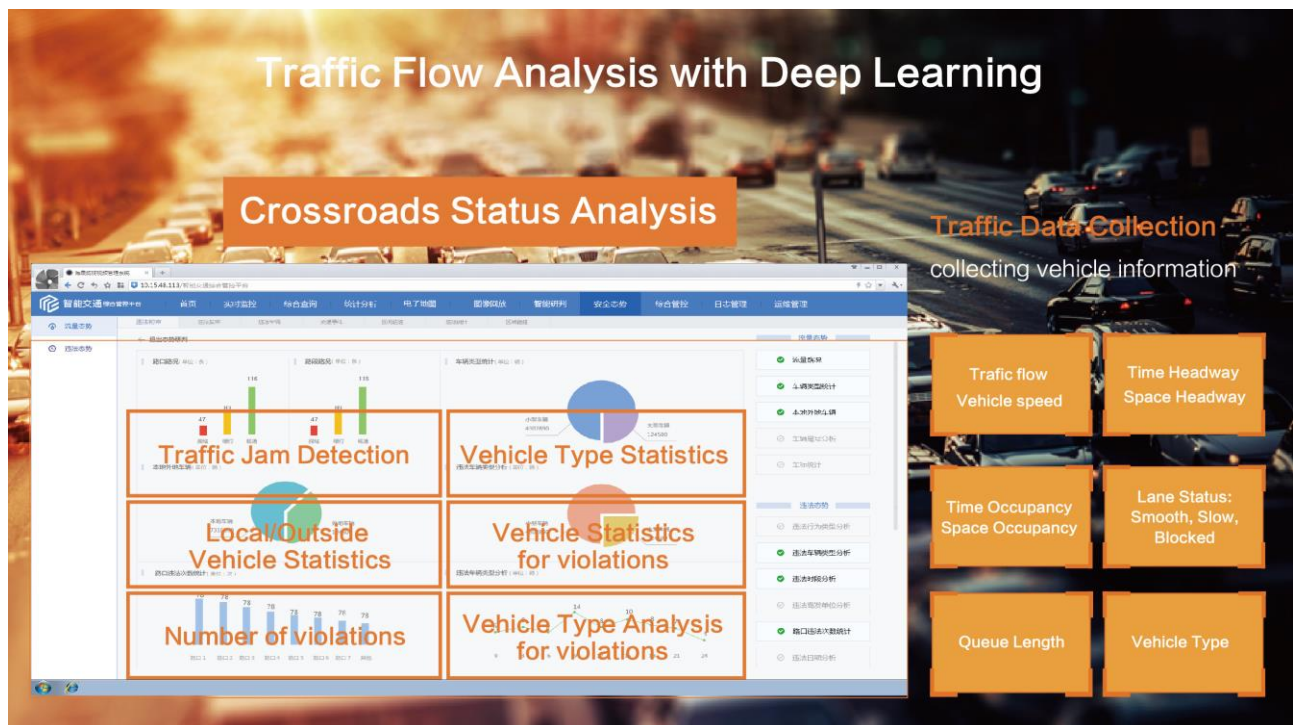
Traffic Jam Detection



Roadblock Detection



Hikvision big data server applies the high-speed data bus and memory computing framework, which is better than the traditional Hadoop framework, combining with the video cloud structured server. It achieves million-level message sending and receiving, 100 billion-level data searching in seconds, and billion-level image searching by image in seconds, and the massive structured video data can be effectively applied to provide efficient retrieval, and provides efficient retrieval, analysis, in-depth application, statistic and other big data services.



Video surveillance system is a natural IoT system, with the perception as the means and the application as the core. The cameras work as the eyes of the machine, whose video capturing function has developed from analog to digital, from standard definition to high-definition, achieving image from "visible" to "clear". If the camera can "understand" and enable the machine to process video image content, it would be an intelligent upgrade in the video technology field, and a leap progress in video applications. Hikvision now stands in the forefront of industry reform and captures opportunities brought by deep learning for the industry, and integrates video perception, deep learning, cloud computing, big data technology with users' business needs, to give an new connotation of the four levels of IoT—"perception, transmission, understand and application" (感、传、知、用), promotes the upgrade of the industry as a whole, and embraces the arrival of video artificial intelligence (AI) era.

3. Main sales model and performance drivers

The Company's marketing organization structure is mainly composed of the sales branches/subsidiaries by regions, together with the matrix model of the vertical industry business divisions to sell products to end users, mainly through integrators, engineering contractors and distributors and other partners.

The Company's performance drivers are mainly derived from industry growth and technical expansion.

On the one hand, the increase of various instability factors has led to the increasing attention to security and stability around the world as a comprehensive social problem. Enhancing the ability of security defense, public security, and comprehensive management has become a prerequisite of the social development. The traditional security industry gained constant growth due to increasing demands of governments, enterprises and families for security products, as well as the upgrading demands from the existing market.

On the other hand, video-related technological innovation, cloud computing, big data, artificial intelligence, and biological recognition technologies have been further upgraded, leading to innovative products with fast-changing features, advanced shapes and innovative functions, as well as application demands that are gradually subdivided and deepening. The traditional security industry is still undergoing the transition of network and HD, and revolution of intelligence is on the way. The traditional security industry continues to expand towards security, visualization and big data, and the future industry is not limited by the form of traditional security. Under the progress of video image content recognition technology, video will gradually release the potential power as the natural container of massive data and information and will be applied in many other industries.

II. Major Changes in Main Assets

1. Major Changes in Main Assets

√ Applicable ☐ Inapplicable

Major assets	Explanation on Major Changes
Equity Assets	Increased by 469.01%, mainly due to investment to CETC Finance Co., Ltd. and Wuhu Sensor Technology Co, Ltd.
Fixed Assets	Increased by 51.21%, mainly due to the completion of Phase 1 of Tonglu Security Industrial Base project and its conversion into fixed assets
Intangible Assets	No significant changes
Construction in Progress	Decreased by 62.53%, mainly due to the completion of Phase 1 of Tonglu Security Industrial Base project and its conversion into fixed assets

2. Major Overseas Assets

☐ Applicable √ Inapplicable

III. Core Competitiveness

As an industry leader, Hikvision builds a global comprehensive competitive advantage through continuous improvement of internal management with strong R&D, production, sales, service integration capabilities and software, hardware, system integration capabilities.

1. Layered R&D to ensure continuous supply and effective R&D of new technologies and new products

The Company has established a one-stop Hierarchical R&D system from research, design, development, testing, technical support and service, centered in Hangzhou headquarter, covering R&D centers in Beijing, Shanghai, Chongqing, Wuhan, and Montreal of Canada and Silicon Valley of United States. In the system, the Hikvision Research Institute serves as the technology platform, the product R&D center serves as the product platform, and the system business center serves as the solution platform. Hikvision Research Institute is responsible for fundamental, forward-looking research, with the product R&D center responsible for the development of embedded software and hardware, and the system business center responsible for the development of platform software and system integration software for integrating industry products, enabling the technology, products, solutions platforms to complement each other. After years of operation, the different sectors of R&D systems of the Company independently and cooperatively work with each other to quickly meet users' needs.

Over the years, the Company's annual R&D investment accounted for about 7-8% of sales revenue. A relatively high level of R&D investment allows the Company to maintain long-term investment of research and development resources, while a good operating system not only allows the R&D team to continuously capture cutting-edge technology and launch innovative products that pioneer the industry, but also adjust product focus and enhance product features and performance based on market feedback and service summary, forming market-oriented effective research and development.

2. Focusing on the industry segment and enhancing ability in understanding and commercializing the business needs

The Company insists on "creating value for users according to their needs", leverages the deep understanding of the needs of users and provides competitive tailored products based on the features of Public Security, Transportation, Judicial System, Education and Healthcare, Finance, Energy, Intelligent Building and major industries and different characteristics of market segments and business segments. The Company also helps users achieve value by integrating systems, products, software and services through solutions.

In the ongoing cooperation in the industry segments, the Company has gained a lot of in-depth involvement "industry/business experience", enabling the Company to deeply understand the needs of users and to improve the synergy between product and software, and enhance the Company's system integration capabilities in the continuous cycle of introducing, implementing and improving solutions. Such move thus enables the Company to quickly meet users' core management needs with the rapidly changing applicable solutions. The experience and ability are accumulated over a long term across multiple dimensions, and was digged deeper with the continuous changing of users' needs, which cannot be directly copied and is also difficult to quickly obtained.

3. Global marketing service system contributing to the continued steady growth of the Company's business

The Company has established one of the most universal marketing networks in the industry, which comprises 35 branches and more than 200 liaison offices based on the branches throughout China mainland, which ensures quick response to the needs of customers, users and partners. The Company has established 28 overseas sales branches, forming a constantly improving marketing network covering more than 100 countries and regions globally, with products being sold to more than 150 countries and regions carrying our own brand. Facing tens of thousands of partners, such as engineering contractors, distributors and service outsourcing businesses, the Company provides certification and training system for all areas and continuously enhances the professional competence of its partners to better serve our customers.

The Company has established a three-tier service system, which comprises Hangzhou Global Customer Service Center, Subsidiary Customer Service Department and Authorized Customer Service Station. Through linking Hangzhou headquarters, which has resources advantage, with more than 50 subsidiaries in major markets and branches and partners around the world, and covering the pre-sales and after-sales including product delivery, project delivery, software deployment, system operation and maintenance and other multi-dimensional services, the Company has achieved localized comprehensive service system worldwide.

4. A good talent training system and a long-term incentive mechanism to ensure the sustainable and healthy development of the Company

In the rapid development of the industry, the Company has always adhered to the concept of "talent-focused, growing together". It has set up a dual career development path of management sequence and professional sequence, created a learning organization, cared about the growth of employees, implemented a targeted multi-level training system, established a professional qualification evaluation system and a talent assessment system, and formed a complete talent reserve's training mechanism, which continuously meets the Company's demand for core talents during the rapid growth stage.

The Company actively promotes the implementation of diversified incentive measures to maintain the stability of core talents. In 2012, 2014 and 2016, the Company implemented three restrictive stock incentive schemes, awarding a total of nearly 5,000 employees, covering the core talents team from the executive, middle, to low-level management staffs and business backbones, focusing on business backbones as the main incentive objects. In 2016, the Company has implemented an innovative business co-investment mechanism for the core staffs to co-invest in the new business with the Company. The Innovative Co-investment Partnership established by employees has become a shareholder of EZVIZ Network Inc., Hikvision Automotive Technology, Hikvision Robotic Technology and other innovative businesses, and the majority of core employees has become business partners sharing risk and benefits with the Company's innovative businesses, which has greatly stimulated the enthusiasm of employees' entrepreneurial spirits. The start of innovation business has brought new momentum for the Company's sustainable development.

5. Sustained significant scale advantages

Over the years, the Company has insisted on maximizing its ability in the professional field. It has built the industry's largest technology R&D platform and supply chain platform for lean productions, and has reduced costs through scale operation. For internal operation and management, the Company has successively introduced SAP's

ERP system R3, Oracle's CRM system Siebel, PTC's PDM/PLM system Windchill and Oracle's HCM system Peoplesoft, and has introduced CMMI and IPD into R&D management system. The introduction and implementation of these excellent management tools have further enhanced the Company's operational management capabilities.

Section IV Operation Discussion and Analysis

I. Overview

In 2016, the growth pattern of global developed economies becomes divided, and the uncertainty and downside risks of emerging market economies increased after adjustment and transformation, and the security industry worldwide was also affected by downside and unstable factors of the macro-economy. Affected by declining growth rate in 2015, the performance growth rate of the Company in 2016 was low in the beginning and high at the end, showing a rebound pattern. Based on different competition patterns in different regions, the Company made many strategic adjustments and started to pay more attention to profitability growth than scale growth.

The Company launched excellent new products through technological innovation, continuously improved product performance through constant improvement, optimized practice through deep understanding of users' demand and brought value to users by meeting continuously increasing demand on product application and service appeal from the users so as to ensure the development and growth of the Company. During the reporting period, the Company achieved total operating income of RMB 31.92 billion, increased by 26.32% on a year-over-year basis; and net profit attributed to shareholders of the listed company of RMB 7.42 billion, increased by 26.46% on a year-over-year basis. The profitability of the Company improved continuously, resulted in an overall gross profit margin of 41.58% in 2016, increased by 1.48% on a year-on-year basis. The net operating cash flow of the Company in 2016 was RMB 6.21 billion, increased by 93.17% on a year-on-year basis, and the condition of excessive account receivables increase in 2015 was obviously improved during this reporting period.

II. Main business analysis

1. Overview

(1) Continuous improvement of new technologies and products drives the development of the industry

In 2016, the R&D input of the Company was RMB 2.43 billion, accounting for 7.62% of its total sales volume, remained the largest in the industry with R&D team exceeded 9,000 personnels. The Company kept its leading position in technological innovation and product innovation through continuous inputs in technological innovation, rapidly promoted the technologies and products to the market through the operation system integrating

technologies, products and solutions and created benchmarking models in key vertical industry, which continuously promoted the business development and laid the foundation for the steady increase of company performance.

In 2016, the Company continued to promote AI products and launched “DeepInview” camera, “DeepInmind” NVR, “Hikface” face analysis server and other series of products, which has initially formed the market coverage.

In aspect of product R&D, the Company constantly made innovations based on its deep understanding and rich accumulated experience in video technology and continuously launched Darkfighter+, DarkfighterX, PanoVu cameras and other high-end products of the industry. With these advanced products, the Company broke through the homogeneous competition and continuously built new leading competitiveness to reinforce and enhance the competitive advantage of the Company.

(2) Deep cultivation of application market to expand visual management business

In 2016, the Company continued to promote the business development strategy of “maximum extending the industry vertically and expanding the business horizontally”, constantly proposed targeted vertical solutions based on the profound understanding of various business scenarios and business demand, which promoted the system-level competitiveness of the Company in gaining users/clients and achieved better vertical industry growth performance.

With continuously deepened demand on video application of the users, traditional security manufacturers integrated more functions to a single security product to ensure dual demands of security and business management from massive application scenarios, and thus the border for security industry gradually became blurred. Facing expanded scale of industry application system, increased complexity and extension trend of traditional security demand to business management demand, the Company continued to focus on the security industry, and has maintained a solid growth of the security business; meanwhile, it seized the upgrading opportunity of users’ demand for video application and explored the visual management of urban fire control, visual traceability for agricultural product process, visual supervision of constructional engineering, visual integrated management of hotels, finance visualization and other business scopes based on the rich product line and profound solution ability of the Company to promote the development of visual business.

(3) Continuous construction of marketing networks to improve marketing efficiency

For the domestic market, in light of the trend that users pay more attention to the application value of products and further demand for enhanced service from manufacturers, the Company continued to promote the

strategy of "industry segmentation and regional expansion", strengthened the investment on the user side and implemented solution marketing and consultative marketing; at the same time, the Company focused on the needs of users, improved the service ability, established a marketing network and a service system much closer to users. In the aspect of domestic channel market, the Company absorbed excellent channel partners by continuously promoting the standardization of products and market transparency, and standardized the channel market by strengthening sales supervision, to promote well-organized competition and healthy development of the industry.

For overseas markets, the Company acquired British alarm company, SHL and its Pyronix brand, to supplement the alarm business product line and obtained more sales channels. The Company established 3 overseas subsidiaries in Kazakhstan, Columbia and Turkey, and 3 new offices respectively in Thailand, Indonesia and Dubai, totaled in 28 overseas branches, to further improve the overseas sales network. The Company continued to implement the strategy of sales localization and technical support and service localization, and penetrating into project market from the SMB market. In 2016, the Company's overseas sales revenue continued to maintain at a leading position in the global security industry, but particular regions were impacted by the sluggish economy.

In 2016, the Company introduced the profit index into the Company's KPI system and considered the improvement of marketing efficiency as an important measure for the improvement of marketing management. The implementation of 2016 had represented a good effect on the stability of the Company's overall gross margin.

(4) Rapid takeoff of innovative businesses with promising prospects

For Internet video business, EZVIZ carried out continuous innovations, launched a series of products meeting various needs of medium-to-small and micro enterprises, families and individuals, and actively promoted an open platform based on the EZVIZ cloud business to provide stable and continuous integrated video services for external partners and solve all kinds of integrated video-based application. By the end of 2016, EZVIZ cloud platform had had 10 million-level of users, and a total of more than a thousand of EZVIZ O stores opened in more than 500 cities in China, and has achieved good market results.

For robot business, taking the Automatic Guided Vehicle (AGV) as the carrier and relying on the core technology maturely applied by "QIANMO", the Company launched Automatic Guided Vehicle, intelligent sorting robots and intelligent parking robots, among which, the intelligent parking robot was unveiled in Wuzhen in November 2016 at the Third Session of the World Internet Conference and became the world's first application case of robotic intelligent parking system. In addition, the professional products and solutions of Hikvision Robots

also had a certain market effect in the field of machine vision and industrial UAV.

For automotive electronics business, the Company founded Hikvision Automotive Technology in the middle of 2016 and had initially unveiled the automotive electronics business in October at the Beijing Security Exhibition, new launched products including Dashcam, intelligent rearview mirrors and vehicle-mounted monitoring camera and related accessories.

Based on the strategic deployment of upstream and downstream businesses in the industry and long-term development considerations of the Company, the Company established the uncooled infrared sensor (Hangzhou HIK Weiyang Sensor Technology Co., Ltd.) and the solid state disk (SSD) storage technology as new innovative businesses, in order to establish a strategic control point in new fields to form new growth momentum for the Company.

(5) New Security Industry Base was put into production, upgraded manufacturing capacity

In the reporting period, Phase I of Tonglu Security Industry Base was completed and put into production, became the most significant manufacturing base of the Company at present. Relying on the development of the Hikvision robotic business, the Company applied the self-developed warehouse management system and more than 600 "QIANMO" intelligent robots and fully implemented automated warehousing and internal logistics, which had improved the efficiency of warehousing operations by 60%. In addition, Tonglu Base has constantly promoted the automated production line project, introduced an automatic production line in every stage of production, from the production of components to the completion of the whole equipment, improved the product quality and production efficiency, established leading manufacturing ability and flexible customization ability in the industry to ensure on-time high-quality product delivery to meet the needs from various business developments.

(6) Promotion of management reform and improvement of internal efficiency

In 2016, the Company continued to promote the management reform, implemented strategic consulting projects, corporate culture consulting projects, sales value chain projects, R&D IPD projects and projects for building long-term mechanism for procedures, and continued to promote the implementation of LTC (from business opportunity to payment) process optimization projects and solutions IPD projects. Through introducing excellent management tools and management methodologies and learning from the best practice in the industry, the Company enhanced the level of internal management and improved its efficiency.

2. Operating incomes and operating costs

(1) Operating income structure

Unit: RMB

	2016		2015		Increase/ decrease over previous year
	Amount	Proportion to operating income	Amount	Proportion to operating income	
Total operating income	31,924,020,872.44	100.00%	25,271,390,273.42	100.00%	26.32%
Classified by industry					
Video products and video content services	31,924,020,872.44	100.00%	25,271,390,273.42	100.00%	26.32%
Classified by product					
Front-end equipment	15,881,528,158.70	49.75%	13,317,160,183.14	52.70%	19.26%
Back-end equipment	5,197,388,761.80	16.28%	4,355,419,527.94	17.23%	19.33%
Central control equipment	3,988,683,952.14	12.49%	2,355,593,484.09	9.32%	69.33%
Construction projects	1,451,424,275.00	4.55%	1,690,863,504.02	6.69%	-14.16%
Innovative business	647,651,465.10	2.03%	221,928,671.32	0.88%	191.83%
Others	4,757,344,259.70	14.90%	3,330,424,902.91	13.18%	42.84%
Classified by region					
Domestic	22,563,636,220.37	70.68%	18,614,982,772.42	73.66%	21.21%
Overseas	9,360,384,652.07	29.32%	6,656,407,501.00	26.34%	40.62%

Note: in the category classified by product, the "innovative business" will be listed separately from this reporting period, so the category classified by product is adjusted with the same caliber from the same period of last year. The term "innovative business" includes corresponding business products of innovative business subsidiaries - EZVIZ Network, Hikvision Robotics, and Hikvision Automotive Technology. 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	Increase/ decrease of operating income over previous year	Increase/ decrease of operating cost over previous year	Increase/ decrease of gross margin over previous year
Classified by industry						
Video products and video content services	31,924,020,872.44	18,649,694,075.44	41.58%	26.32%	23.21%	1.48%

	Operating income	Operating cost	Gross margin	Increase/ decrease of operating income over previous year	Increase/ decrease of operating cost over previous year	Increase/ decrease of gross margin over previous year
Classified by product						
Front-end equipment	15,881,528,158.70	8,186,413,345.14	48.45%	19.26%	16.58%	1.18%
Back-end equipment	5,197,388,761.80	2,705,461,109.51	47.95%	19.33%	14.51%	2.19%
Central control equipment	3,988,683,952.14	2,069,135,295.77	48.12%	69.33%	68.21%	0.34%
Construction projects	1,451,424,275.00	1,328,601,510.98	8.46%	-14.16%	-16.38%	2.43%
Innovative business	647,651,465.10	394,446,839.95	39.10%	191.83%	135.74%	14.49%
Others	4,757,344,259.70	3,965,635,974.09	16.64%	42.84%	43.37%	-0.31%
Classified by region						
Domestic	22,563,636,220.37	13,744,528,947.19	39.09%	21.21%	20.05%	0.59%
Overseas	9,360,384,652.07	4,905,165,128.25	47.60%	40.62%	33.02%	2.99%

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	2016	2015	Increase/ decrease over previous year
Video products and video content services	Sales volume	Per unit	68,801,020	47,778,446	44.00%
	Output volume	Per unit	70,402,646	48,643,670	38.15%
	Inventory	Per unit	5,024,772	3,423,146	46.79%

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 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	2016		2015		Increase/ decrease over previous year
		Amount	Proportion to operating cost	Amount	Proportion to operating cost	
Video products and video content services	Operating cost	18,649,694,075.44	100.00%	15,136,793,517.44	100.00%	23.21%

Unit: RMB

Product	Item	2016		2015		Increase/ decrease over previous year
		Amount	Proportion to operating cost	Amount	Proportion to operating cost	
Front-end equipment	Operating cost	8,186,413,345.14	43.90%	7,021,910,915.24	46.39%	16.58%
Back-end equipment	Operating cost	2,705,461,109.51	14.51%	2,362,654,134.89	15.61%	14.51%
Central control equipment	Operating cost	2,069,135,295.77	11.09%	1,230,092,234.52	8.13%	68.21%
Construction projects	Operating cost	1,328,601,510.98	7.12%	1,588,821,153.01	10.50%	-16.38%
Innovative business	Operating cost	394,446,839.95	2.12%	167,322,253.16	1.11%	135.74%
Others	Operating cost	3,965,635,974.09	21.26%	2,765,992,826.62	18.27%	43.37%

(6) Any change in consolidation scope during the reporting period

☒ Yes ☐ No

During the reporting period, the Company has newly set up five wholly-owned subsidiaries, i.e., Hikvision Kazakhstan Limited Liability Partnership, Hangzhou Hikvision Investment Management Co., Ltd., Hikvision Colombia SAS, Hikvision Turkey Technology and Security Systems Commerce Corporation and Tianjin Hikvision System Technology Co., Ltd., five holding subsidiaries, including Hangzhou Hikvision Robotics Technology Co., Ltd., Hangzhou Hikvision Automotive Technology Co., Ltd., Hangzhou Hikvision Communication Technology Co., Ltd., Hangzhou HIK Weiyang Sensor Technology Co., Ltd. and Henan Hikvision Huaan Secure Electronics Co., Ltd., and acquired two companies: Hangzhou Hikvision Zhicheng Investment Development Co., Ltd., Secure Holdings Limited and its subsidiaries, which have caused the increase of 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)	1,164,470,830.53
Total sales to top five customers as a percentage of the total sales for the year (%)	3.64%
Total sales to the related parties in top five customers as a percentage of the total sales of the year (%)	1.20%

Information on top five customers

No.	Name of Customer	Sales Amount (RMB)	Percentage of total sales for the year
1	First (related party)	383,212,609.06	1.20%
2	Second	256,048,950.53	0.80%
3	Third	194,822,374.32	0.61%
4	Fourth	181,997,469.43	0.57%
5	Fifth	148,389,427.19	0.46%
Total	--	1,164,470,830.53	3.64%

Other information of major customers

☒ Applicable ☐ Inapplicable

The first customer is a related party of the Company: the subordinate research institute and company of China Electronics Technology Group Corporation (CETC) (controlled by a same actual controller CETC, and consolidated and listed as required).

Major suppliers of the Company

Total purchases from top five suppliers (RMB)	7,016,429,539.28
Total purchases from top five suppliers as a percentage of the total purchases for the year	33.43%
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	3,399,273,169.12	18.40%
2	Second	1,076,252,752.97	5.83%
3	Third	682,569,996.73	3.69%
4	Fourth	549,680,099.36	2.98%
5	Fifth	468,217,191.75	2.53%
Total	--	6,175,993,209.93	33.43%

Other information on major suppliers

☐ Applicable ☒ Inapplicable

3. Expense

Unit: RMB

	2016	2015	Increase/decrease over previous year	Note of significant change
Sales expense	2,991,273,819.81	2,179,045,314.71	37.27%	Improve sales network, increase personnel contribution
Administrative expense	3,106,761,432.94	2,211,221,871.15	40.50%	Expansion of the scale of operation, increase of R&D expense
Financial expense	-226,063,754.62	-152,896,391.70	-47.85%	Increase of exchange gains

4. R&D Investment

Benefited from the professional intellectual property management system, the Company has newly applied for 907 patents (including 435 patents for invention, 139 utility models and 333 product design patents), and added 124 software copyrights. As of the end of 2016, the Company had accumulatively applied for 2530 patents, and had been granted 1245 patents (including 286 invention patents, 317 utility models and 642 product design patents), and owned 605 software copyrights.

During the reporting period, the Company invested RMB 2.43 billion in R&D, which accounted for 7.62% of the operating income. Owing to the continuous high 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

	2016	2015	Change Percentage
Number of R&D headcount	9,366	7,181	30.43%
Percentage of Total headcount	46.80%	47.18%	-0.38%
Amount of R&D expenses (RMB)	2,433,400,645.23	1,722,638,163.98	41.26%
R&D investment as a percentage of operating income	7.62%	6.82%	0.80%
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	2016	2015	Increase/decrease over previous year
Subtotal of cash inflows from operating activities	35,741,107,180.68	25,304,603,442.59	41.24%
Subtotal of cash outflows from operating activities	29,527,415,020.12	22,087,881,273.42	33.68%
Net cash flows from operating activities	6,213,692,160.56	3,216,722,169.17	93.17%
Subtotal cash inflows from investing activities	5,071,127,419.52	3,125,701,099.57	62.24%
Subtotal of cash outflows from investing activities	8,454,271,190.61	3,200,901,506.74	164.12%
Net cash flows from investing activities	-3,383,143,771.09	-75,200,407.17	-4,398.84%
Subtotal of cash inflows from financing activities	8,480,182,623.37	2,794,211,998.69	203.49%
Subtotal of cash outflows from financing activities	8,037,387,072.16	2,913,002,779.73	175.91%
Net cash flows from financing activities	442,795,551.21	-118,790,781.04	472.75%

Item	2016	2015	Increase/decrease over previous year
Net increase in cash and cash equivalents	3,486,219,235.60	2,921,778,750.70	19.32%

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 payment collection; the fluctuation of net cash flows from investing activities is mainly due to the increase of investment in principal-guaranteed financial products; the fluctuation of net cash flows from financing activities is mainly due to the increase of euro bonds financing.

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

	End of 2016		End of 2015		Increase/D ecrease	Note of significant change
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Cash and bank balances	13,634,993,154.18	32.98%	10,106,500,588.53	33.34%	-0.36%	Increase in sales payment collection
Accounts receivable	11,242,812,902.86	27.20%	8,125,932,742.98	26.80%	0.40%	Increase follows the increase in sales revenue
Inventory	3,825,159,212.28	9.25%	2,818,665,737.11	9.30%	-0.05%	Inventory increases as sales increase
Long-term equity investment	35,000,000.00	0.08%	0.00	-	0.08%	Increase of investment in associated companies
Fixed assets	2,853,743,612.67	6.90%	1,887,240,766.08	6.23%	0.67%	Increase of fixed assets & Decrease of construction in progress due to the completion of Hikvision Tonglu Security Industrial Base Project Phase I
Construction in process	316,482,522.36	0.77%	844,631,051.21	2.79%	-2.02%	
Short-term loans	32,291,324.85	0.08%	876,600,473.94	2.89%	-2.81%	Balance decreased by bank loan expiring reimbursements
Long-term loans	1,722,207,584.33	4.17%	675,753,935.00	2.23%	1.94%	Increase of revolving loan

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	Effect of foreign currency exchange difference	Purchase during the period	Sales during the period	Closing balance
Financial assets						
1. Financial assets measured at their fair values and of which the changes are recorded into the current profits and losses(exclude derivative financial assets)	6,160,279.18	9,387,258.16	0	0	0	15,547,537.34
3. Available-for-sale financial assets	56,033,513.00	0	0	227,802,500.00	0	283,836,013.00
Subtotal of financial assets	62,193,792.18	9,387,258.16	0	227,802,500.00	0	299,383,550.34
Financial Liabilities	19,281,989.69	-49,558,836.96	-948,676.32	0	0	69,789,502.97

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

Item	Closing Book Value	Reasons for being restricted
Monetary fund	115,740,442.28	Various cash deposits and deposit pledge for long-term loan
Notes receivable	421,356,552.77	Pledge for issuance of bank acceptance
Accounts receivable	95,128,752.51	Pledge for long-term loan
Total	632,225,747.56	

V. Analysis of Investments

1. Overview

Investment during the reporting period(RMB)	Investment during the prior reporting period(RMB)	Fluctuation
884,389,030.00	1,469,102,728.38	-39.80%

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 reporting period	Cumulative amount of investment by the end of reporting period	Source of funds	Project schedule
Hikvision Tonglu Security Industrial Base-Phase 1	Self-built	YES	Video product and service	34,070,087.02	635,259,705.43	Company's own funds	88.00%
Hikvision Tonglu Security Industrial Base-Phase 2	Self-built	YES	Video product and service	2,713,228.89	2,713,228.89	Bond	0.40%
Internet Security Industry Base	Self-built	YES	Video product and service	67,195,526.75	238,269,427.37	Bond	24.00%
Total	--	--	--	103,978,842.66	876,242,361.69	--	--

4. Financial assets measured at their fair values

Unit: RMB

Category	Initial investment cost	Profits or losses on the changes in fair value in this period	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	1,701,837,006.10	-40,171,578.80	0.00	3,373,718,586.16	0.00	-8,280,159.82	2,485,985,565.37	Company's own funds
Total	1,701,837,006.10	-40,171,578.80	0.00	3,373,718,586.16	0.00	-8,280,159.82	2,485,985,565.37	--

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

Major subsidiaries and investees accounts for 10% net profit or above

Unit: RMB

Company name	Company type	Principal business	Registered capital	Total assets	Net assets	Revenue from operation	Operating profit	Net profit
Hangzhou Hikvision System Technology Co., Ltd.	Subsidiary	Technology development and service: computer system integration, electronic product, communication product; service: the installation of electric security engineering, the design, construction and maintenance of intelligent system; manufacturing: video surveillance system, selling its own products, import and export its own products and technology.	150 million	1,525,884,858.45	633,702,598.42	1,749,071,730.75	67,316,380.11	31,035,084.20
Hangzhou Hikvision Science and Technologies Co. Ltd.	Subsidiary	Manufacturing: security electronic product, intelligent hardware products, explosion-proof electric products., IC card and IC card RW device, mobile phone, cordless phone, handheld wireless terminal, hand held mobile police terminal; import and export business	100 million	16,058,562,853.55	548,487,159.53	30,128,507,312.77	190,957,553.33	118,923,073.97
Chongqing Hikvision Science and Technologies Co., Ltd.	Subsidiary	The R&D, production, sale, technical service of electronic products and software; the installation of electronic devices, the design, construction and maintenance of intelligent system; import and export products and technology.	100 million	593,799,194.36	157,217,223.41	916,464,419.74	31,706,591.55	26,145,794.81

Acquisition and disposal of subsidiaries during the reporting period

Company name	Equity acquisition and disposal mode	Impact on overall production results
Hikvision Kazakhstan limited liability partnership	Cash contribution	Expand overseas sales channels
Hangzhou Hikvision Investment Management Co., Ltd.	Cash contribution	Business development
Hangzhou Hikvision Robotic Technology Co., Ltd.	Cash contribution	Business development
Hikvision Colombia SAS	Cash contribution	Expand overseas sales channels
Hikvision Turkey Technology And Security Systems Commerce Corporation	Cash contribution	Expand overseas sales channels
Tianjin Hikvision System Technology Co., Ltd.	Cash contribution	Business development
Hangzhou Hikvision Automotive Technology Co., Ltd.	Cash contribution	Business development
Hangzhou Hikvision Communication Technology Co., Ltd.	Cash contribution	Business development
Hangzhou HIK Weiying Sensor Technology Co., Ltd.	Cash contribution	Business development
Henan HIK Hua'an Baoquan Electronics Co., Ltd.	Cash contribution	Business development
Hangzhou Haikang Zhicheng Investment and Development Co., Ltd.	Equity Transfer settled by Cash	Business development
Secure Holdings Limited	Equity Transfer settled by Cash	Expand overseas sales channels

VIII. Structural entities Controlled by the Company:

☐ Applicable ☒ Inapplicable

IX. Outlook for the Future Development of the Company

1. Industry developing trends

(1) Stable growth in the traditional security business needs with increasing technical complexity

As video surveillance acts as important infrastructure and data sources of stability and security, along with constant advancement of China's new urbanization, as well as sustainable construction of safe city and smart city, the demand for traditional security business will continue to grow steadily. At the same time, the deep learning is driving the technological reform. The computer's processing capacity of video content will greatly enhance the efficiency of video data utilization. Combined with multi-dimensional means of perceptions, the security protection and defense technology will be greatly improved.

(2) Overseas security market competition is further intensified

The influence of Chinese manufacturers in the security industry continued to strengthen and the domestic market competition was relatively stable. The competition of Chinese manufacturers for overseas market share further intensified. Overseas competition between overseas high-end brand manufacturers and Chinese manufacturers, as well as among Chinese manufacturers will further intensify.

(3) Video technology applications expanded the development capacity of the industry, leading to new industrial landscape

Artificial intelligence will drive revolutions in the video technology industry and computer processing technology for video images will greatly increase the efficiency and utilization of video. The function of image capture by camera will not be limited to the purpose of security protection and the application of video technology into business management will be further expanded.

2. Development strategy of the Company

As a provider of IoT solutions and data operations service based on the video, Hikvision continues to develop video technology for serving human beings, adhering to the mission of "new vision and new world". It is committed to "becoming a respectable global enterprise".

The Company adheres to the business philosophy of "professionalism, honesty, and integrity" and implements the core values of "customer success, value-orientation, integrity and practicability, and pursuit of excellence". It will provide high-quality products and services for global customers and create greater value for customers worldwide through continuous innovation.

3. Key operation emphases in year 2017

(1) Continuous innovation and increasing investment in technology. The Company will continue to increase R&D investment and maintain its leading position in key technologies of video image processing, structuring, big data and intelligent analysis relying on the ability of Research Institutes and product R&D center. It will continuously conduct research and development of excellent technologies and products to satisfy customer demand.

(2) To accelerate the application of technology into products and continue to promote the performance

growth. Through years of in-depth research on market segments and practical experience, the Company will focus on the industry's intelligent application scenarios, make in-depth integration of intelligent products, software technology and industry applications to introduce standardized products and solutions which are easy for promotion to meet the intelligent application needs of the industry and continue to create new value for users.

(3) To expand the overseas project market for more breakthrough in regional coverage. The Company will enrich its product line for overseas markets, optimize the user experience, and strengthen the local support ability of overseas team to enhance the competitiveness of overseas products and solutions driven by advantageous products.

(4) To strengthen the strategic guidance and continuously deepen management reform. The Company will continue to learn from the world-class enterprises about the successful practical experience and continue to deepen management reform through the adoption of BLM (business leading model) and IPD (integrated product development). The Company also accelerates the decentralized flat organization construction and its transition from the functional organization (职能化组织) to the procedure organization (流程化组织) to achieve the strategic objectives.

(5) To constantly develop innovative business and cultivate the driving force for sustainable development. The Company will continue to develop EZVIZ, robotics and automotive technology and other innovative businesses and seize the development opportunities from extension of video technology to smart home, industrial automation and automotive electronics. The Company will continue to make strategic layout into emerging markets and emerging business with a promising prospect to offer a new impetus into the sustainable development of the Company in the future.

X. Reception of activities including research, communication and interviews

√ Applicable □ Inapplicable

1. Schedule for the reception of activities including research, communication and interviews during the report period

Time of reception	Method of reception	Type of reception object	Basic situation of the research
From April 11 th 2016 to	Site Research	Institutional	CNINF, <i>Investor Relations Activity Record: From April 11th 2016 to April 15th 2016</i>

Time of reception	Method of reception	Type of reception object	Basic situation of the research
April 15 th 2016		investors	
From April 18 th 2016 to April 22 nd 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From April 18th 2016 to April 22nd 2016</i>
From April 25 th 2016 to April 29 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From April 25th 2016 to April 29th 2016</i>
May 5 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: May 5th 2016</i>
From May 9 th 2016 to May 13 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From May 9th 2016 to May 13th 2016</i>
From May 16 th 2016 to May 20 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From May 16th 2016 to May 20th 2016</i>
From May 31 st 2016 to June 3 rd 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From May 31st 2016 to June 3rd 2016</i>
From June 13 th 2016 to June 17 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From June 13th 2016 to June 17th 2016</i>
From June 20 th 2016 to July 1 st 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From June 20th 2016 to July 1st 2016</i>
From July 4 th 2016 to July 8 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From July 4th 2016 to July 8th 2016</i>
From July 11 th 2016 to July 15 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From July 11th 2016 to July 15th 2016</i>
July 27 th 2016	Telephone Communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: July 27th 2016</i>
From July 28 th 2016 to August 5 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From July 28th 2016 to August 5th 2016</i>
From August 8 th 2016 to August 12 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From August 8th 2016 to August 12th 2016</i>
From August 15 th 2016 to August 19 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From August 15th 2016 to August 19th 2016</i>
From August 22 nd 2016 to August 26 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From August 22nd 2016 to August 26th 2016</i>
From August 29 th 2016 to September 1 st 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From August 29th 2016 to September 1st 2016</i>
From September 6 th 2016 to September 14 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From September 6th 2016 to September 14th 2016</i>
From September 19 th 2016	Site Research	Institutional	CNINF, <i>Investor Relations Activity Record: From September 19th 2016</i>

Time of reception	Method of reception	Type of reception object	Basic situation of the research
to September 23 rd 2016		investors	to September 23 rd 2016
From September 26 th 2016 to September 30 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From September 26th 2016 to September 30th 2016</i>
October 14 th 2016	Telephone Communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: October 14th 2016</i>
From October 17 th 2016 to October 21 st 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From October 17th 2016 to October 21st 2016</i>
From October 27 th 2016 to October 28 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From October 27th 2016 to October 28th 2016</i>
From November 1 st 2016 to November 11 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From November 1st 2016 to November 11th 2016</i>
From November 14 th 2016 to November 25 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From November 14th 2016 to November 25th 2016</i>
From November 28 th 2016 to December 9 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From November 28th 2016 to December 9th 2016</i>
From December 12 th 2016 to December 23 rd 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From December 12th 2016 to December 23rd 2016</i>
From December 26 th 2016 to December 30 th 2016	Site Research	Institutional investors	CNINF, <i>Investor Relations Activity Record: From December 26th 2016 to December 30th 2016</i>

2. Participation of conferences for investor relationship activities

Time of conference	Location	Conference Name	Type of reception object	Method of reception
January 2016	Shanghai	UBS Great China Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
January 2016	Hongkong	Goldman Sachs Shenzhen A-Share Corporate Day	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
April 2016	Hangzhou	Haitong Securities A-Share Corporation Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2016	Shenzhen	Macquarie Greater China Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2016	Chengdu	CLSA China Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2016	Hongkong	BNP Paribas 7th Asia Pacific TMT Conference	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 2016	Hongkong	Nomura China A/H TMT Corporate Day	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2016	Shenzhen	HSBC China Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2016	Hongkong	Goldman Sachs Tech-net Conference Asia Pacific	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2016	Beijing	Morgan Stanley Second Annual China Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2016	Shenzhen	Credit Suisse A-shares Corporate Day	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2016	Beijing	J.P. Morgan Global China Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2016	Shanghai	Huatai Securities 2016 Half Year Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2016	New York Boston San Francisco	US NDR Roadshow-via JP Morgan	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2016	Beijing	China Merchants Securities 2016 Half Year Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2016	Qingdao	China Galaxy Securities 2016 Half Year Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2016	London	Morgan Stanley China Corporate Day	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2016	London	“China Feature” 4 th CICC London Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2016	Taipei	Credit Suisse 17th Annual Asian Technology Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2016	Hangzhou	Haitong Securities 2016 Fall A-share Corporation Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2016	New York	CITI Asia Corporate Forum 2016	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
October 2016	Hongkong	Jefferies 6th Annual Greater China Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
October 2016	Singapore	Shenwan Hongyuan Listed Company Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2016	Shenzhen	CITI China Investor Conference 2016	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
November 2016	Shenzhen	Credit Suisse 7th Annual China Investment Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2016	New York Boston	HSBC 8th Annual Asia Investor Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2016	Beijing	CICC A-share Corporation Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2016	Beijing	Bank of America Merrill Lynch 2016 China Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2016	Hongkong	J.P. Morgan Global TMT Conference in Asia 2016	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2016	Hongkong	HK NDR Roadshow-via BNP Paribas	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2016	Singapore	Morgan Stanley Fifteenth Annual Asia Pacific Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2016	Hongkong	Guosen Securities SZHKconnection Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
December 2016	Hangzhou	Fangzheng Securities Annual Investor Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
December 2016	Hongkong	Morgan Stanley China A Share Corporate Day	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
December 2016	Shenzhen	China Merchants Securities Annual Investor Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
December 2016	Shenzhen	Huatai Annual Investor Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
December 2016	Taipei	KGI Securities 2016 Q4 Investro Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
December 2016	Taipei	2016 Guotai Securities Q4 Investor Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
December 2016	Hangzhou	Caitong Securities Annual Investor Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.

3. Investor relations activity statistics during the reporting period

Number of daily research received (Site and telephone conference)	185
Number of institutional investors received (times)	665
Number of individual investors received (ppl)	36
Number of investor relations conference participated	39

Section V Significant Events

I. Profit distribution of ordinary shares and capitalization of share premium

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

☐ Applicable ☒ Inapplicable

Profit Appropriation and Capitalizing of Capital Reserves Plan or Proposal in Last Three Years

- (1) Profit distribution plan for the year 2014: Based on the total share capital of 4,069,128,026 shares at the end of 2014, a final cash dividend of RMB 4 (tax inclusive) per 10 ordinary shares, bonus shares is nil, share distribution from capital reserves is nil.
- (2) Profit distribution plan for the year 2015: Based on the total share capital of 4,068,772,253 shares of the Company at the end of 2015, all shareholders will be distributed a cash dividend of RMB 7 (tax inclusive) per 10 ordinary shares. The Company proposed bonus issue of 3 shares (tax inclusive) for each 10 ordinary shares to all shareholders by way of debiting retained profit and share distribution of 2 shares for each 10 ordinary shares to all shareholders from capital reserves.
- (3) Profit distribution plan for the year 2016: Based on the total share capital on the actual date of record when implementing the proposal, all shareholders will receive a cash dividend of RMB 6 (tax inclusive) per each 10 shares; and the Company proposed to bonus issue of 5 shares (tax inclusive) for each 10 ordinary shares; share distribution from capital reserve is nil.

Cash dividend of ordinary shares in recent 3 years (including 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 ways	Ratio of cash dividends in other ways
2016	3,691,546,045.80	7,422,261,983.16	49.74%	0.00	0.00%
2015	2,848,140,577.10	5,869,049,646.23	48.53%	0.00	0.00%
2014	1,627,651,210.40	4,665,368,689.94	34.89%	0.00	0.00%

II. Profit distribution and Capitalizing of Capital Reserves Plan or Proposal for the reporting period

Bonus issue per 10 shares (share)	5
Cash dividend per 10 shares (RMB) (tax inclusive)	6.00
Additional shares converted from capital reserves for every 10 shares (share)	0

Total shares as the basis for the distribution plan (share)	6,152,576,743
Total cash dividend (RMB) (tax inclusive)	3,691,546,045.80
Distributable profits (RMB)	14,138,569,341.95
Percentage of cash dividends in the total distributed profit (%)	54.55%
Cash dividend policy:	
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%.	
Details about the plan for profit distribution and capitalizing capital reserves into share capital	
As audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, in 2016, the parent company of the Company recorded net profit of RMB 7,203,768,180.57. After deducting the statutory surplus reserve of RMB 720,376,818.06, which was provided at 10%, plus the undistributed profit of the parent company at the beginning of the year of RMB 11,686,702,731.96, deducting the cash dividends of RMB 2,810,893,076.52 in 2015, and the stock dividend of RMB 1,220,631,676.00, as of December 31, 2016, the profits attributable to shareholders of the parent company amounted to RMB 14,138,569,341.95. As of December 31, 2016, the profits attributable to shareholders in the consolidated statement were RMB 14,866,457,856.65 (consolidated). To sum up, according to the principle of “whichever is lower”, the profits attributable to shareholders this year was RMB 14,138,569,341.95. Based on the total share capital on the actual date of record when implementing the proposal (Note), all shareholders will receive a cash dividend of RMB 6 (tax inclusive) per each 10 shares; and the Company proposed to bonus issue of 5 shares (tax inclusive) for each 10 ordinary shares; share distribution from capital reserve is nil. The Company guaranteed, considering the future changes in equity, the total expected distribution will not exceed the allocatable range in the financial statements. From the above proposal, total cash dividend in 2016 is RMB 3,691,546,045.80. The remaining undistributed profit shall be carried forward to the following year. Total bonus shares are 3,076,288,371, so the total share capital will be 9,228,865,114 shares from 6,152,576,743 shares originally. Note: the most updated total capital share of the Company is 6,155,033,743 shares, however, the procedure for the first repurchase and cancelation of the 2014 Restricted Stocks Scheme is underway currently and 2,457,000 restricted shares should be repurchased and cancelled before the date of record of the implementation of the future profit distribution. By that point of time, the total share capital of the Company will be changed from 6,155,033,743 shares to 6,152,576,743 shares.	

III. Performance of commitments

1. Complete and incomplete commitments of the Company, Shareholders, Actual Controller, Acquirer, Directors, Supervisor, Senior Executives or other related parties

√ Applicable □ Inapplicable

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
Commitments in offering documents or shareholding alterations	CETHIK Group Co., Ltd.	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	29 October, 2013	Long-term	Strict performance

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		not be engaged in such business that is competitive to Hikvision and its subsidiaries directly or indirectly. 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: (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. (2) Haikang Group will not make use of the controlling power to obtain the prior right to complete the transaction with Hikvision. (3) Haikang Group will not deal with Hikvision in not fair terms comparing to the market prices to prejudice the Company's interests. 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 3. Commitment to the maintenance of the independence of the listed Company 3.1 Commitment to Personnel Independence of the listed Company (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			

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		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; 3.2 Commitment to the independence of the asset of the listed Company (1) Commitment to independent and complete asset of the listed Company (2) Commitment free of unlawful use of cash and asset of the listed Company by the controlling shareholders 3.3 Commitment to financial independence of the listed Company (1) Commitment to an independent finance department with a team and accounting system; (2) Commitment to a regulated, independent accounting system and financial management system of the branches and subsidiaries (3) Commitment to maintaining accounts with banks independently of and not sharing any bank account with our controlling shareholders (4) Commitment that the financial staff shall not assume any positions in CETHIK (5) Commitment to paying taxes independently according to the law; (6) Commitment to implementing financial decisions independently 3.4 The Company has set up an independent organizational structure which maintains its independent operations which is independent from that of CETHIK. 3.5 Commitment to business Independence of the listed Company (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 the market. (2) Commitment in independence in both business and operations 4. Regarding plans for the development and relevant commitment for the listed			

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		Company, Haikang Group has committed as below for the subsequent development of Hikvision according to the Securities Acts and relevant laws and rules, 4.1 Currently the Company has no plan to change or make significant adjustments for principal business in the next 12 months; 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. 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. 4.4 Currently the Company has no plan to make significant changes to the Articles of Association for the listed Company. 4.5 Currently the Company has no plan to make significant changes to the existing employee recruitment for the listed Company. 4.6 Currently the Company has no plan to make significant changes for the dividend distribution plan for the listed Company. 4.7 Currently the Company has no plan to make significant changes for business and organizational structure for the listed Company.			
Commitments in Initial Public	Hangzhou Weixun Investment Management	During Hu Yangzhong, Wu Weiqi, JiangHaiqing, Zhou Zhiping, Xu	17 May, 2010	Long term	Strict performance

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
Offering or re-financing	Limited Partnership (later renamed as Xinjiang Weixun Investment Management Limited Partnership)	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.			
	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 personee, 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.	17 May, 2010	Long term	Strict performance
	The Company's directors, supervisors and executive: HuYangzhong, 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.	17 May, 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 25% of total number of shares held under Pukang; whthin 6 months after their dimission, they should not transfer their shares held under Pukang.	17 May, 2010	Long term	Strict performance

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
	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.	17 May, 2010	Long-term	Strict performance
	China Electronics Technology Group Corporation	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.	18 September, 2008	Long term	Strict performance
	Gong Hongjia; XinJiang WeiXun Investment Management Limited Partnership; XinJiang KangPu Investment Management 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 Letters of non-competition on 10 July, 2008.	10 July, 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 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 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

No such case in the reporting period.

VII. Reason for retrospective restatement of major accounting errors during the reporting period

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

VIII. Reason 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 five wholly-owned subsidiaries, i.e., Hikvision Kazakhstan Limited Liability Partnership, Hangzhou Hikvision Investment Management Co., Ltd., Hikvision Colombia SAS, Hikvision Turkey Technology and Security Systems Commerce Corporation and Tianjin Hikvision System Technology Co., Ltd., five holding subsidiaries, including Hangzhou Hikvision Robotics Technology Co., Ltd., Hangzhou Hikvision Automotive Technology Co., Ltd., Hangzhou Hikvision Communication Technology Co., Ltd., Hangzhou HIK Weiying Sensor Technology Co., Ltd. and Henan Hikvision Huaan Secure Electronics Co., Ltd., and acquired two companies: Hangzhou Hikvision Zhicheng

Investment Development Co., Ltd., Secure Holdings Limited and its subsidiaries, which have caused the increase of 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 CPA LLP
Remuneration for the domestic CPA firm (RMB'0000)	230
Consecutive years of the audit service provided by the domestic CPA firm	1
Name of the certified public accountants from the domestic CPA firm	Mou Zhengfei, Huang Yan

Whether the CPA firm was changed in the current period

☒ YES ☐ NO

Whether the CPA firm was changed during the auditing period

☐ YES ☒ NO

Whether the Change of CPA firm performed approval process

☒ YES ☐ NO

Details about changing CPA firm in the current period

On May 5, 2016, the Company's general meeting of shareholders for 2015 examined and approved the Proposal on Engaging Certified Public Accountants in 2016, and agreed to appoint Deloitte Touche Tohmatsu Certified Public Accountants LLP (Special General Partnership) as the auditor for 2016. For details, please refer to the Announcement on Engaging Certified Public Accountants in 2016 issued by the Company on April 9, 2016 (Announcement No.: No. 2016-012).

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

☐ Applicable ☒ Inapplicable

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

☐ 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 Ownership Plan, or other incentive plan

☒ Applicable ☐ Inapplicable

During the reporting period, the Company has for the third time unlocked, repurchased and cancelled shares for the 2012 Restricted Share Incentive Scheme: On 29 August 2016, “Resolution for the fulfillment of the unlocking conditions of the third unlock period for the first batch of Restricted Share Incentive Schemes” and the “Resolution for the repurchase and cancelation of a portion of locked shares that already granted to personnel not fulfilling the incentive conditions in the year” were approved by the fifteenth meeting of the third Board. Authorized by the first special general meeting for 2012, a total of 7,620,714 restricted shares of 539 grantees was vested and circulated on 13 September 2016. Meanwhile, 451,494 restricted shares held by a portion of grantees not fulfilling the incentive conditions were repurchased and cancelled. On 16 November 2016, repurchase and cancelation of restricted shares was completed. For details, please refer to in the “Indicative notice of the unlocking conditions of the third unlock period for the first batch of Restricted Share Incentive Schemes” (No. 2016-045) 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 in the year” (No. 2016-057) issued on 9

September 2016 and 17 November 2016 respectively.

During the reporting period, the restricted shares granted under the 2014 Restricted Share Incentive Scheme of the Company were still in lockup period.

The Accounting Treatment in Relation to the Restricted Share Incentive Schemes is based on the *Accounting Standard for Business Enterprises No. 11 – Share-based Payment* (企业会计准则第11号-股份支付) and other accounting standards. Costs in relation to the shares granted under 2012 and 2014 Restricted Share Incentive Schemes are amortized over the waiting period for vesting. During the reporting period, costs amortized in relation to the Restricted Share Incentive Schemes of the Company have no material impact on the financial position and operating results of the Company.

XVI. Significant related-party transaction

1. Related-party transactions arising from routine operation

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

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 with external parties

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

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

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

5. Other significant related party transactions

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

XVII. Significant contracts and their execution

1. Trusteeship, contracting and leasing

1.1 Trusteeship

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

1.2 Contracting

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

1.3 Leasing

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

2. Significant guarantees

2.1 Details of guarantees

Unit: RMB'0000

Guarantees provided by the Company for subsidiaries								
Term of guarantee	Term of guarantee	Term of guarantee	Term of guarantee	Term of guarantee	Term of guarantee	Term of guarantee	Term of guarantee	Term of guarantee
Hangzhou Hikvision Science and Technologies Co. Ltd.	October 21 st 2016	850,000	December 25 th 2015	200,036.88	Joint guarantee	2015.12.15-2018.5.4	NO	YES
Hangzhou Hikvision Electronics Co. Ltd.	December 23 rd 2015	170,000	July 14 th 2016	370.17	Joint guarantee	2016.7.14-2017.3.31	NO	YES

Chongqing Hikvision Science and Technologies Co., Ltd	December 23rd 2015	30,000	has not occurred during the reporting period					
HIKVISION INTERNATIONAL CO., LTD.	October 21 st 2016	160,800	September 8 th 2016	2,168.80	Joint guarantee	2016.9.8-2017.9.8	NO	YES
Total guarantee cap for subsidiaries approved during the reporting period(B1)		309,200		Total actual guarantee amount for subsidiaries during the reporting period(B2)		395,172.74		
Total approved guarantee cap for subsidiaries at the end of the reporting period(B3)		1,210,800		Total actual guarantee balance for subsidiaries at the end of the reporting period(B4)		202,575.85		
Guarantees provided between subsidiaries								
Guaranteed party	Announce ment date of disclosure of the guarantee cap	Guarantee	Actual occurrence date(date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarante e for a related party or not
COÖPERATIEF HIKVISION EUROPE U.A.	April 9 th 2016	32,500	April 8 th 2015	0	Joint guarantee	2015.4.8-2016.6.21	YES	YES
Total guarantee cap for subsidiaries approved during the reporting period (C1)		26,050		Total actual guarantee amount for subsidiaries during the reporting period (C2)		0		
Total approved guarantee cap for subsidiaries at the end of the reporting period (C3)		32,500		Total actual guarantee balance for subsidiaries at the end of the reporting period (C4)		0		
Total guarantee amount provided by the Company (total of the above-mentioned kinds of guarantees)								
Total guarantee cap approved during the reporting period (A1+B1+C1)		335,250		Total actual guarantee amount during the reporting period (A2+B2+C2)		395,172.74		
Total approved guarantee cap at the end of reporting period (A3+B3+C3)		1,243,300		Total actual guarantee balance at the end of the reporting period (A4+B4+C4)		202,575.85		
Portion of the total actual guarantee amount (A4+B4+C4) in net assets of the Company				8.27%				
Of which								
Amount of guarantees provided for shareholders, the actual controller				0				

and their related parties (D)	
Amount of debt guarantees provided directly or indirectly for entities with a liability-to-asset ratio over 70% (E)	202,205.68
Portion of the total guarantee amount in excess of 50% of net assets (F)	0
Total guarantee amount (D+E+F)	202,205.68

Illustration of compound method guarantee

As required by the project owner, China Electronics Technology Group Corporation has provided a joint guarantee to responsibility and duties of 41 construction projects of “Safe Chongqing, Emergency Control System Digital Construction Project,” signed by Chongqing Hikvision System Technology Co., Ltd. Meanwhile, the Company provides a counter guarantee to China Electronics Technology Group Corporation.

2.2 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

3.1 Entrust finances

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

3.2 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 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.

2. 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 its "Annual Social Responsibility Report 2016" disclosed in CNINFO (www.cninfo.com.cn)

Whether the listed Company and its subsidiaries are critical pollutant enterprises regulated by national environmental protection department

☐ YES ☒ NO

Whether issued social responsibility report

☐ YES ☒ NO

Corporate Social Responsibility Report					
Nature	Whether included environmental information	Whether included social information	Whether included Corporate Governance information	Standards of disclosure	
				Domestic standards	Overseas standards
Other	Yes	Yes	Yes	Guidance on Corporate Social Responsibilities for Listed Companies on Shenzhen Stock Exchange Place (《深圳证券交易所上市公司社会责任指引》) and other relevant documents	N/A

Details

1. Whether the Company has obtained the Environmental Management System Certification (ISO14001)	Yes
2. Annual investment and expenditure in respect of environment protection (RMB' 0000)	263.48
3. The Company's performance in the emission of waste gas, waste water and waste residue	In compliance with relevant emission requirements of the state
4. The Company's investment for improving employees' knowledge and skills to promote their professional development (RMB' 0000)	928.20
5. The Company's donation for public welfare (including money,	0

material and free professional service) (RMB' 0000)	
---	--

XIX. Other significant events

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

XX. Significant events of 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	Shares newly issued	Bonus share	Share transferred from reserve	Others	Sub-total	Shares	Ratio
1. Shares subject to conditional restriction(s)	913,364,679	22.45%		276,368,829	184,245,886	43,946,639	504,561,354	1,417,926,033	23.23%
(3) Other domestic shares	355,377,179	8.73%		108,972,579	72,648,386	43,946,639	225,567,604	580,944,783	9.52%
Including: held by domestic nonstate-owned enterprises	296,885,625	7.30%		69,496,836	46,331,224	7,864,752	123,692,812	420,578,437	6.89%
Including: held by domestic natural person	58,491,554	1.44%		39,475,743	26,317,162	36,081,887	101,874,792	160,366,346	2.63%
(4) Foreign shares	557,987,500	13.71%		167,396,250	111,597,500	0	278,993,750	836,981,250	13.71%
Including: held by foreign enterprises	0	0.00%		0	0		0	0	0.00%
Including: held by foreign natural person	557,987,500	13.71%		167,396,250	111,597,500		278,993,750	836,981,250	13.71%
2. Shares without restriction	3,155,407,574	77.55%		944,262,847	629,508,564	-44,398,133	1,529,373,278	4,684,780,852	76.77%
(1) RMB ordinary shares	3,155,407,574	77.55%		944,262,847	629,508,564	-44,398,133	1,529,373,278	4,684,780,852	76.77%
3. Total	4,068,772,253	100.00%		1,220,631,676	813,754,450	-451,494	2,033,934,632	6,102,706,885	100.00%

Reason for the changes in share capital

☒ Applicable ☐ Inapplicable

(1) Annual Implementation of Equity Distribution for 2015

The Company distributed the cash dividend of RMB 7 (tax included) for every 10 shares to all shareholders

on the basis of the Company's total share capital of RMB 4,068,772,253 as at 31 December 2015 according to the Company's annual profit distribution plan for 2015, and at the same time transferred capital reserve to all shareholders for every 10 shares by 2 shares. The ex-dividend date was May 18, 2016, and the total share capital of the Company increased by 2,034,386,126 shares from 4,068,772,253 shares to 6,103,158,379 shares.

(2) The Third Repurchase and Cancellation of the 2012 Restricted Share Incentive Scheme

On August 29th, 2016, at the 15th Session of the Third Board of Directors of the Company, the Board reviewed and approved the *Resolution for the repurchase and cancelation of a portion of locked shares that were already granted to personnel not fulfilling the incentive conditions in the year* (关于回购注销部分已不符合激励条件的激励对象已获授但尚未解锁的限制性股票的议案). As mandated by the 1st Extraordinary General Meeting of 2012, the Board of Directors agreed to repurchase and cancell 451,494 shares already granted to the participant who was no longer eligible to be a participant under the 2012 Restricted Shares Incentive Scheme. On November 16th, 2016, after the completion of cancelation procedures for 451,494 shares, the total share capital of the Company decreased to 6,102,706,885 Shares from 6,103,158,379 Shares.

Approval for changes in share capital

√ Applicable ☐ Inapplicable

(1) Annual Implementation of Profit Distribution for 2015

On April 8, 2016, the Tenth Meeting of the Third Board of Directors of the Company reviewed and approved the Annual Profit Distribution Plan for 2015. On May 5, 2016, the Annual General Meeting of 2015 reviewed and approved the Annual Profit Distribution Plan for 2015.

(2) The Third repurchase and cancelation of the 2012 Restricted Share Incentive Scheme

On August 29th, 2016, at the 15th Session of the Third Board of Directors of the Company, the Board reviewed and approved the *Resolution for the repurchase and cancelation of a portion of locked shares that were already granted to personnel not fulfilling the incentive conditions in the year* (关于回购注销部分已不符合激励条件的激励对象已获授但尚未解锁的限制性股票的议案). As mandated by the 1st Extraordinary General Meeting of 2012, the Board of Directors agreed to repurchase and cancell 451,494 shares already granted to the participant who was no longer eligible to be a participant under the 2012 Restricted Shares Incentive Scheme.

Transfer for changes in share capital

√ Applicable ☐ Inapplicable

(1) Annual Implementation of Profit Distribution for 2015

May 18th 2016 was the ex-dividend date of Annual Implementation of Profit Distribution for 2015, the total capital share of the company increased by 2,034,386,126 shares from 4,068,772,253 shares to 6,103,158,379 shares.

(2) The Third repurchase and cancelation of the 2012 Restricted Share Incentive Scheme

On November 16th, 2016, after the completion of cancelation procedures of 451,494 shares, the total share capital of the Company decreased to 6,102,706,885 Shares from 6,103,158,379 Shares.

Effects of changes in share capital on the basic earning 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

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	Unlocked in current period	Increased in current period	Closing restricted shares	Reason for unlocking	Date of unlocking
Gong Hongjia	836,831,250	0	0	836,831,250	Executives locked shares	According to the relevant provisions of executives shares management
Xinjiang Weixun Investment Management Limited Partnership	336,780,000	12,375,000	0	324,405,000	Institution restricted share before IPO	April 25 th 2016
Xinjiang Pukang Investment Limited Partnership	108,548,437	12,375,000	0	96,173,437	Institution restricted share before IPO	April 25 th 2016
Targets of restricted share incentive plan (summary statistic)	87,437,331	7,620,714	0	79,365,123	Restricted shares of equity incentive plan	September 13 th 2016
Hu Yangzhong	0	0	61,166,741	61,166,741	Executives locked shares	According to the relevant provisions of executives shares management
Wu Weiqi	0	0	5,480,945	5,480,945	Executives locked shares	According to the relevant provisions of executives shares management
Jiang Haiqing	0	0	5,481,442	5,481,442	Executives locked shares	According to the relevant provisions

						of executives shares management
Zhou Zhiping	0	0	3,550,938	3,550,938	Executives locked shares	According to the relevant provisions of executives shares management
Jia Yonghua	0	0	2,745,873	2,745,873	Executives locked shares	According to the relevant provisions of executives shares management
Li Pan	450,000	0	2,245,284	2,695,284	Executives locked shares	According to the relevant provisions of executives shares management
Huang Fanghong	0	0	30,000	30,000	Executives locked shares	According to the relevant provisions of executives shares management
Total	1,370,047,018	32,370,714	80,701,223	1,417,926,033	--	--

Note: In respect of changes in shares due to the implementation of equity distribution for 2015, the number of shares with restrictions on sale lifted and increased at the beginning and in the current period has been adjusted accordingly.

II. Issuance and listing of securities

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

☐Applicable ☒Inapplicable

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

☒Applicable ☐Inapplicable

(1) Annual Implementation of Equity Distribution for 2015

The Company distributed the cash dividend of RMB 7 (tax included) for every 10 shares to all shareholders on the basis of the Company's total share capital of RMB 4,068,772,253 as at 31 December 2015 according to the Company's annual profit distribution plan for 2015, and at the same time transferred capital reserve to all shareholders for every 10 shares by 2 shares. The ex-dividend date was May 18, 2016, and the total share capital of the Company increased by 2,034,386,126 shares from 4,068,772,253 shares to 6,103,158,379 shares.

(2) The Third repurchase and cancelation of the 2012 Restricted Share Incentive Scheme

On August 29th, 2016, at the 15th Session of the Third Board of Directors of the Company, the Board reviewed and approved the *Resolution for the repurchase and cancelation of a portion of locked shares that were already granted to personnel not fulfilling the incentive conditions in the year* (关于回购注销部分已不符合激励条件的激励对象已获授但尚未解锁的限制性股票的议案). As mandated by the 1st Extraordinary General Meeting of 2012, the Board of Directors agreed to repurchase and cancell 451,494 shares already granted to the participant who was no longer eligible to be a participant under the 2012 Restricted Shares Incentive Scheme. On November 16th, 2016, after the completion of cancelation procedures for 451,494 shares, the total share capital of the Company decreased to 6,102,706,885 Shares from 6,103,158,379 Shares.

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	94,712	Total number of common shareholders at the end of the previous month before the disclosure date of the annual report			72,835	
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
China Electronics Technology HIK Group Co., Ltd.	State-owned corporation	39.91%	2,435,783,304	0	0	2,435,783,304
Gong Hongjia	Foreign individual	16.30%	994,500,000	-121,275,000	836,831,250	157,668,750
Xinjiang Weixun Investment Management Limited Partnership	Domestic non-state-owned corporation	6.38%	389,540,000	-43,000,000	324,405,000	65,135,000
Xinjiang Pukang Investment Limited Partnership	Domestic non-state-owned corporation	2.10%	128,231,250	0	96,173,437	32,057,813
UBS AG	Foreign corporation	2.02%	123,315,671	-	0	123,315,671

The 52nd Research Institute at China Electronics Technology Group Corporation	State-owned corporation	1.97%	120,516,696	0	0	120,516,696
Hu Yangzhong	Domestic Individual	1.34%	81,750,651	+81,750,651		20,388,910
JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	Foreign corporation	0.90%	55,066,504	-	0	55,066,504
Citic Securities Co., Ltd.	Domestic non-state-owned corporation	0.74%	45,292,085	-	0	45,292,085
Zhejiang Orient Holdings Co., Ltd.	Domestic non-state-owned corporation	0.74%	45,236,800	-31,367,132	0	45,236,800
Explanation on associated relationship or/and persons acting in concert among the above-mentioned shareholders:	China Electronics Technology HIK Group Co., Ltd. and The 52nd Research Institute at China Electronics Technology Group Corporation are all subject to control of China Electronics Technology Group Corporation. Ms. Chen Chunmei, controlling shareholder 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. Except for these, the Company does not know whether the other shareholders are related parties and whether they are acting-in-concert parties in accordance with the <i>Measures for Management of the Disclosure</i> (《上市公司股东持股变动信息披露管理办法》) of the Shareholding changes of shareholders of the listed Company.					

Particulars about shares held by the Top 10 shareholders holding shares 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.	2,435,783,304	RMB ordinary shares	2,435,783,304
Gong Hongjia	157,668,750	RMB ordinary shares	157,668,750
UBS AG	123,315,671	RMB ordinary shares	123,315,671
The 52nd Research Institute at China Electronics Technology Group Corporation	120,516,696	RMB ordinary shares	120,516,696
Xinjiang Weixun Investment Management Limited Partnership	65,135,000	RMB ordinary shares	65,135,000
JPMORGAN CHASE BANK, NATIONAL ASSOCIATION	55,066,504	RMB ordinary shares	55,066,504
Citic Securities Co., Ltd.	45,292,085	RMB ordinary shares	45,292,085

Zhejiang Orient Holdings Co., Ltd.	45,236,800	RMB ordinary shares	45,236,800
Central Huijin Investment Ltd.	43,879,200	RMB ordinary shares	43,879,200
GIC PRIVATE LIMITED	38,001,648	RMB ordinary shares	38,001,648
Explanation on associated relationship or/and persons acting in concert among the top ten tradable shareholders and between the top ten tradable shareholders and the top ten shareholders	China Electronics Technology HIK Group Co., Ltd. and The 52nd Research Institute at China Electronics Technology Group Corporation are all subject to control of China Electronics Technology Group Corporation. Except for these, the Company does not know whether the other shareholders are related parties and whether they are acting-in-concert parties in according to the <i>Measures for Management of the Disclosure</i> (《上市公司股东持股变动信息披露管理办法》) of the Shareholding changes of shareholders of the listed Company.		

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

☐ Applicable ☒ Inapplicable

2. Particulars about the controlling shareholder

Nature of the controlling shareholder: Central State-owned

Type of the actual controller: Corporation

Name of controlling shareholder	Legal Representative / Company Principal	Date of establishment	Organization code	Business scope
China Electronics Technology HIK Group Co., Ltd.	Chen Zongnian	November 29 th , 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 own real estate, import and export businesses.
Shares held by the controlling shareholder in other listed companies by controlling or holding during the reporting period				Indirect control of Phoenix Optical Co. LTD., domestic listed company

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

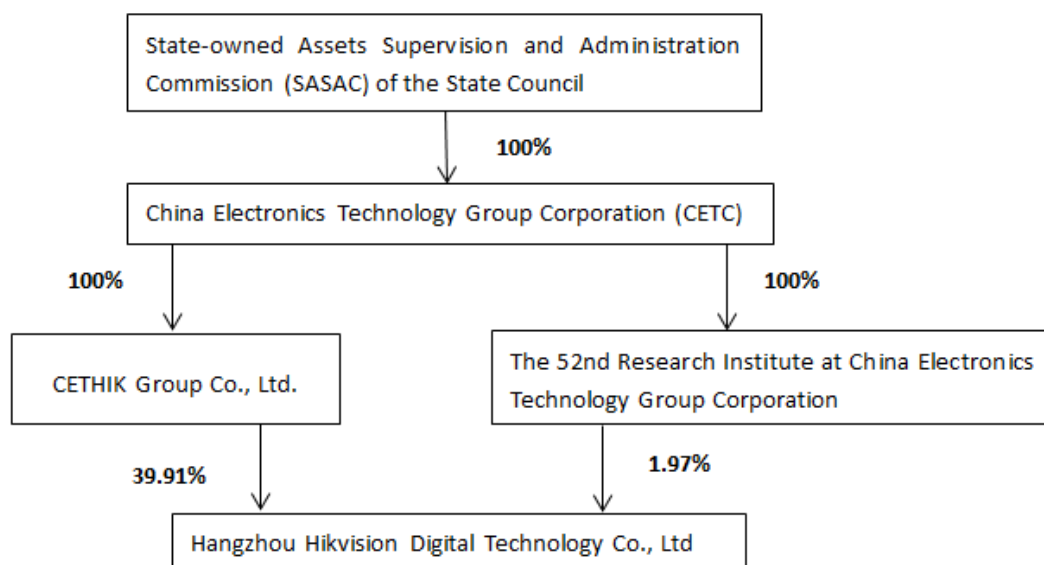
Type of the actual controller: Corporation

Name of the actual controller	Legal Representative / Company Principal	Date of establishment	Organization code	Business scope
China Electronics Technology Group Corporation	Xiong Qunli	January 1 st , 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 industry to participate in and hold overseas exhibitions.
Shares held by the actual controlling shareholder in other listed companies by controlling or holding during the reporting period		China Electronics Technology Group Corporation is the actual controller of a total of seven domestic listed companies including Anhui Sun Create Electronic Co., Ltd, Shanghai East China Computer Co., Ltd, Chengdu Westone Information Industry Co., Ltd., GCI Science & Technology Co., Ltd., Taiji Computer Corporation Limited, GLARUN Technology Co., Ltd. and Phenix Optics 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 plan during the reporting period proposed or implemented by the controlling shareholders, actual controller, restructuring or other parties

☐ Applicable ☒ Inapplicable

Section VII Information of Preferred Shares

☐ Applicable ☒ Inapplicable

No such cases in the Reporting Period.

Section VIII Information about Directors, Supervisors, Senior Management and Employees

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

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 decreased during the Period (Shares)	Other changes (Shares)	Shares held at the end of the Period (Shares)
Chen Zongnian	Chairman	Incumbent	M	52	June 19 th , 2008		0	0	0	0	0
Gong Hongjia	Vice Chairman	Incumbent	M	52	June 19 th , 2008		1,115,775,000	0	-121,275,000	0	994,500,000
Liu Xiang	Director	Incumbent	M	45	May 24 th , 2014		0	0	0	0	0
Hu Yangzhong	Director, General Manager	Incumbent	M	52	December 28 th , 2001		195,000	81,555,651	0	0	81,750,651
Wu Weiqi	Director, Standing Deputy General Manager	Incumbent	M	53	March 1 st , 2003		174,000	7,307,926	0	0	7,481,926
Cheng Tianzong	Independent Director	Incumbent	M	65	March 6 th , 2015		0	0	0	0	0
Lu Jianzhong	Independent Director	Incumbent	M	63	March 6 th , 2015		0	0	0	0	0
Wang Zhidong	Independent Director	Incumbent	M	50	March 6 th , 2015		0	0	0	0	0
Hong Tianfeng	Independent Director	Incumbent	M	51	December 22 nd , 2016		-	-	-	-	0
Cheng Huifang	Supervisor Chairman	Incumbent	F	64	March 6 th , 2015		0	0	0	0	0
Wang Qiuchao	Supervisor	Incumbent	M	66	March 6 th , 2015		0	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 decreased during the Period (Shares)	Other changes (Shares)	Shares held at the end of the Period (Shares)
Chen Junke	Supervisor	Incumbent	M	46	June 19 th , 2008		0	0	0	0	0
Jiang Haiqing	Deputy General Manager	Incumbent	M	48	March 1 st , 2003		150,000	7,308,588	0	0	7,458,588
Zheng Yibo	Deputy General Manager	Incumbent	M	55	June 3 th , 2004		135,000	0	0	0	135,000
Cai Dingguo	Deputy General Manager	Incumbent	M	50	December 18 th , 2005		135,000	0	0	0	135,000
He Hongli	Deputy General Manager	Incumbent	F	44	December 18 th , 2005		129,000	0	0	0	129,000
Fu Baijun	Deputy General Manager	Incumbent	M	45	January 20 th , 2009		129,000	0	0	0	129,000
Xu Lirong	Deputy General Manager	Incumbent	M	54	March 1 st , 2007		129,000	0	0	0	129,000
Zhou Zhiping	Deputy General Manager	Incumbent	M	52	December 18 th , 2005		129,000	4,734,584	0	0	4,863,584
Jiang Yufeng	Deputy General Manager	Incumbent	M	46	December 18 th , 2005		135,000	0	0	0	135,000
Jin Duo	Deputy General Manager	Incumbent	M	52	March 10 th , 2015		0	0	0	0	0
Jin Yan	Deputy General Manager, Chief Finance	Incumbent	F	38	July 22 th , 2015		0	0	0	0	0
Jia Yonghua	Deputy General Manager	Incumbent	M	40	July 22 th , 2015		0	3,661,163	0	0	3,661,163
Li Pan	Deputy General Manager	Incumbent	M	39	July 22 th , 2015		600,000	2,993,712	0	0	3,593,712
Cai Changyang	Deputy General Manager	Incumbent	M	46	April 8 th , 2016		-	-	-	-	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 decreased during the Period (Shares)	Other changes (Shares)	Shares held at the end of the Period (Shares)
Huang Fanghong	Deputy General Manager Board Secretary Internal audit director	Incumbent	F	35	April 8 th , 2016		-	-	-10,000	-	195,000
Xu Ximing	Deputy General Manager	Incumbent	M	44	October 11 th , 2016		-	-	-	-	0
Bi Huijuan	Deputy General Manager	Incumbent	F	46	October 11 th , 2016		-	-	-	-	0
Total	--	--	--	--	--	--	1,117,815,000	107,561,624	-121,285,000		1,104,296,624

Note:

- (1) Number of shares held by directors, supervisors, and senior management personnel above are all shares directly held by them accordingly.
- (2) During the reporting period, number shares held at the beginning of the period, shares increased during the period, shares decreased during the period for newly appointed executives are all calculated after their appointment.
- (3) During the reporting period, in respect of changes in the number of shares due to the implementation of equity distribution for 2015, 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

III. Positions of directors, supervisors and senior management personnel

1. Directors

Mr. Chen Zongnian (陈宗年), born in 1965, Chinese nationality with no overseas residence permission, PhD in management, senior engineer, served as a assistant to the head of 52nd Research Institute at China Electronics Technology Group Corporation (中国电子科技集团公司第五十二所, the 52nd Institute), a deputy head of the 52nd Institute. Chen currently serves as the head of 52nd Institute, the chairman and the Communist Party

secretary of China Electronics Technology HIK Group Co., Ltd. (中电海康集团, CETHIK) and chairman of the Company.

Mr. Gong Hongjia (龚虹嘉), foreign shareholder of the Company, permanent resident of HKSAR of People's Republic of China, took part in the establishment of the Company in 2011 and served as a director and vice chairman of Hikvision. Gong currently serves as a vice chairman of the Company.

Mr. Liu Xiang (刘翔), Chinese nationality with no overseas residence permission, master of management, economist, served as a deputy general manager, secretary of the board and finance chief of Hikvision since June 2007. Liu has been appointed as a director of the Company since May 2015, and currently serves as Chairman of Phenix Optical CO.,LTD, a director of the Company, and a deputy general manager of CETHIK.

Mr. Hu Yangzhong (胡扬忠), Chinese nationality with no overseas residence permission, master of engineering, senior engineer with institute grade, served as an engineer and a head engineer of the 52nd Institute from June 1989 to December 2001. He has been appointed as a director of the Company and general manager of the company since December 2001. Hu currently serves as a director and the general manager of the Company.

Mr. Wu Weiqi (邬伟琪), Chinese nationality with no overseas residence permission, bachelor's degree, senior engineer, held various positions at the 52nd Institute, including technician, assistant manager, engineer and senior engineer, from July 1986 to December 2001. He joined the Company since December 2001, and 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 Tianzhong (程天纵), with nationality of Taiwan, China, master's degree in business administration, 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. Cheng currently served as an independent director of the Company.

Mr. Wang Zhidong (王志东), permanent resident of HKSAR of People's Republic of China, graduated with bachelor's degree in engineering. He served as a deputy general manager and chief engineer of Suntendy Electronic Technology and Research Institute (新天地电子信息技术研究所) 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 a founding director of Peking University Entrepreneurs Club and an independent director of the Company.

Mr. Lu Jianzhong (陆建忠), Chinese nationality, obtained a bachelor's degree in economics and CPA certificate. Lu served as a lecturer and an associate professor of finance and accounting at the Shanghai Maritime University (上海海事大学) from September 1986 to September 1997; he was a partner and a chartered accountant of the auditing department of PricewaterhouseCoopers, from October 1997 to June 2012; he was a director of marketing development and 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 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 the Company.

Mr. Hong Tianfeng (洪天峰), Chinese nationality, obtained a 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, vice chairman of Huawei technologies co., LTD (华为技术有限公司) from July 1993 to September 2011; Hong currently serve 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)), a 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), Chinese nationality, obtained PhD in international finance. She was a member of the 8th and 9th Zhejiang CPPCC (浙江省政协). Cheng currently serve as principal of the Zhejiang Institute of Innovation Management of Zhejiang University of Technology (浙江工业大学浙商创新管理研究院), vice president of the Zhejiang Institute of Science and Technology Development Strategy (浙江省科技发展战略研究院), 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), Chinese nationality, a lawyer with master degree in law, 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"), a member of the Stratgy Committee of the China Lawyers Association (全国律协战略委员会), a committee member of the Hangzhou People's Congress Legislative Advisory Committee (杭州市人大常委会立法咨询委员会), an arbitrator of Shanghai International Arbitration Center (上海国际仲裁中心), 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), Chinese nationality with no overseas residence permission, a bachelor degree in engineering, senior engineer, began to work since 1994 and held various positions in the 52nd Institute, including assistant engineer, engineer and senior engineer. He joined the Company in 2001 and has been appointed as the

technical director of the Digital Video Recorder (DVR) Division of the Technology Management Center. Chen currently serves as a supervisor of the Company and the general manager of the supply chain management center.

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), Chinese nationality with no overseas residence permission, a bachelor's graduate in engineering, senior engineer, 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 deputy general manager of the Company.

Mr. Zheng Yibo (郑一波), Chinese nationality with no overseas residence permission, a bachelor's graduate in engineering, senior engineer, joined Hikvision in June 2004 and served as a deputy general manager and board secretary of the Company. Mr. Zheng currently serves as a deputy general manager of the Company.

Mr. Cai Dingguo (蔡定国), Chinese nationality with no overseas residence permission, master degree in business administration, 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. Mr. Cai currently serves as a deputy general manager of the Company.

Ms. He Hongli (何虹丽), Chinese nationality with no overseas residence permission, master's degree in business administration, joined Hikvision in December 2001 and served as a manager of the Human Resource Division, an assistant to the general manager and a deputy general manager. Ms. He currently serves as a deputy general manager of the Company.

Mr. Fu Baijun (傅柏军), Chinese nationality with no overseas residence permission, obtained bachelor degree in economics, Chinese Certificated Public Accountant, and is a senior accountant. He served as an accountant of the Financial Division of the 52nd Institute, from July 1996 to January 2009, and a deputy general manager of Zhejiang Haikang Information (浙江海康信息技术股份有限公司). He joined Hikvision in January 2009, and served as financial manager, deputy general manager and chief financial officer. Mr. Fu currently serves as a deputy general manager of the Company.

Mr. Xu Lirong (徐礼荣), Chinese nationality with no overseas residence permission, obtained master degree in engineering, and is a senior engineer. He joined Hikvision in January 2002 and served as a manager of the R&D Center, a board secretary and a deputy general manager. Mr. Xu currently serves as a deputy general manager of the Company and the secretary of Communist Party of the Company Division.

Mr. Zhou Zhiping (周治平), Chinese nationality with no overseas residence permission, obtained master degree in engineering, and is a senior engineer. He joined Hikvision in January 2002 and served as the chief technical officer and a deputy general manager. Mr. Zhou currently serves as a deputy general manager of the Company.

Mr. Jiang Yufeng (蒋玉峰), Chinese nationality with no overseas residence permission, obtained bachelor degree in engineering, and is an engineer. He joined Hikvision in January 2005 and held various positions in our Beijing branch, including general manager, director of marketing, assistant to the general manager, deputy general manager and marketing director. Mr. Jiang currently serves as a deputy general manager of the Company.

Mr. Jin Duo (金铎), Chinese nationality with no overseas residence permission, obtained bachelor degree in engineering, is a senior engineer. He served as a technical officer, assistant to engineers, an engineer and a senior engineer of the 52nd Institute, from July 1986 to June 2004. He joined Hikvision in July 2004 and served as a general manager of our Hangzhou Branch. Mr. Jin currently serves as a deputy general manager of the Company.

Ms. Jin Yan (金艳), Chinese nationality with no overseas residence permission, obtained master degree in management, and is an accountant. She joined Hikvision in 2004 and held various positions at the Company, including financial manager and the general manager of the Financial Management Center. Ms. Jin currently serves as a deputy general manager and chief financial officer of the Company.

Mr. Jia Yonghua (贾永华), Chinese nationality with no overseas residence permission, obtained bachelor degree in engineering, and is a senior engineer. He joined Hikvision in January 2002 and held various positions at the Company, including the president to the Image Process and Analysis Division of the R&D Center, the president to the Strategy and Marketing Division, a deputy general manager of the Supply Chain Management Center. Mr. Jia currently serves as a deputy general manager of the Company.

Mr. Li Pan (礼攀), Chinese nationality with no overseas residence permission, obtained master degree in engineering, and is a senior engineer. He served as an engineer of the 52nd 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 our Hangzhou Branch. Mr. Li currently serves as a deputy general manager of the Company.

Ms. Huang Fanghong (黄方红), Chinese nationality with no overseas residence permission, master degree in law, served in Hangzhou Silan Microelectronics Co.,Ltd. legal team from 2004 to 2008. She joined Hikvision in June 2009 and held various positions at the Company including legal department director, internal audit director, and internal control director. Ms. Huang currently serves as deputy general manager, board secretary, and internal audit director of the Company.

Mr. Cai Changyang (蔡昶阳), Chinese nationality with no overseas residence permission, obtained 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 for investment department, director for strategy and marketing department, and deputy general manager of the Company. Mr. Cai currently serves as deputy general manager of the Company.

Mr. Xu Ximing (徐习明), Chinese nationality with no overseas residence permission, obtained bachelor degree in engineering. From July 1996 to September 2016, he was held various postions in IBM, including engineer, department manager, director, cusulting service partner, consulting service senior partner, and deputy general manager. He joined Hikvision in September 2016. Mr. Xu currently serves as deputy general manager of the Company.

Ms. Bi Huijuan (毕会娟), Chinese nationality with no overseas residence permission, obtained doctor in engineering. From April 1999 to August 2016, she held various positions in the 15th Research Institute at China Electronics Technology Group Corporation, including engineer, senior engineer, senior research engineer, head of R&D department, vice chief engineer, and deputy director. She joined Hikvision in August 2016. Ms. Bi currently serves as deputy general manager of the Company.

Position held in shareholders entities

Name	Shareholder's entity	Position	Commencement of term of office	Remuneration from the shareholders' entity
Chen Zongnian	China Electronics Technology HIK Group Co., Ltd.	Chairman, Party Secretary	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.	Party member	December 2015	N

Post held in other entities (Exlude subsidiaries included in the consolidated reports)

Name	Shareholder's entity	Position	Commencement of term of office	Termination of term of office	Remuneration from the other entities
Cheng Zongnian	The 52nd Institutes	Head	May 2009		N
Cheng Zongnian	Zhejiang Periodical Office	Legal Representative	Feburary 2004		N
Cheng	Director of CETC Finance Co., Ltd.	Director	December 2012		N

Name	Shareholder's entity	Position	Commencement of term of office	Termination of term of office	Remuneration from the other entities
Zongnian					
Cheng Zongnian	Shanghai Fuel Cell Vehicle Powertrain Co., Ltd.	Director	November 2013		N
Gong Hongjia	Guangzhou Funian Electronic Technology Co., Ltd.	Chairman	November 2011		Y
Gong Hongjia	FunVio Co., Ltd.	Chairman	February 2004		N
Gong Hongjia	Shanghai Fullhan Microelectronics Co., Ltd.	Director	April 2013		N
Gong Hongjia	Fuce Holdings Co., Ltd.	Director	October 2014		N
Gong Hongjia	Chuangjia Chuangtuo Co., Ltd	Director	October 2014		N
Gong Hongjia	Shenzhen Jiadao Gongcheng Equity Investment Fund (Limited Partnership)	Executive Partner	November 2014		N
Gong Hongjia	Shenzhen Jiadao Valley Investment Management Co., Ltd.	General Manager	October 2014		N
Gong Hongjia	Shenzhen Innovative Valley Investment Management Co., Ltd	Director	July 2014		N
Gong Hongjia	JiuBaYao Health Technology Co., Ltd.	Director	November 2014		N
Gong Hongjia	Shanghai Pukun Information Technology Co., Ltd	Director	September 2014		N
Gong Hongjia	Beijing Woqi Co., Ltd.	Director	July 2011	November 2016	N
Gong Hongjia	Wuhan YouXinGuang communication equipment co., LTD	Director	January 2016		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
Hu Yangzhong	Zhejiang Tuxun Technology Co.,Ltd.	Director	January 2016		N
Wu Weiqi	Xinjiang Pukang Investment Management Limited Partnership	Executive Partner	May 2011		N
Wang Zhidong	Beijing Yilian Yisheng Technology Co., Ltd.	Chairman, CEO	July 2013		Y
Cheng	Wenhui Technology Co., Ltd.	Independent	June 2016		Y

Name	Shareholder's entity	Position	Commencement of term of office	Termination of term of office	Remuneration from the other entities
Tianzhong		Director			
Cheng Tianzhong	Hechun Technology Co., Ltd.	Director	June 2014		Y
Cheng Tianzhong	Zuozhen Co., Ltd.	Director	January 2015		Y
Lu Jianzhong	Dahua Certificated Public Accountants LLP	Chartered Accountant	January 2016		Y
Lu Jianzhong	Antai College of Economics & Management, Shanghai Jiao Tong University	Mentor	December 2013		Y
Hong Tianfeng	Shanghai Fangguang Venture Investment Management Co., Ltd.	Executive Director	February 2012		Y
Hong Tianfeng	Suzhou Fangguang Venture Investment Management (Limited Partnership)	Managing Partner	September 2012		N
Hong Tianfeng	Suzhou Fangguang Venture Investment Management-Phase 2 (Limited Partnership)	Managing Partner	July 2016		N
Hong Tianfeng	Shenzhen Fangguang Enterprise Management Consulting Co., Ltd.	General Manager	May 2016		N
Hong Tianfeng	Shenzhen Pengfenghui Venture Investment Co., Ltd.	General Manager	June 2014		N
Hong Tianfeng	Shanghai Guangfang Venture Capital Investment Partnership (Limited Partnership)	Managing Partner	August 2012		N
Hong Tianfeng	Shanghai Guangerqi Venture Capital Investment Partnership (Limited Partnership)	Managing Partner	September 2016		N
Hong Tianfeng	Shanghai Huace Navigation Technology Co., Ltd.	Director	February 2015		N
Hong Tianfeng	Sannuo Biology Sensor Co., Ltd.	Director	September 2013		N
Hong Tianfeng	Shanghai Chuangyuan Equipment Technology Co., Ltd.	Director	August 2014		N
Hong Tianfeng	Shenzhen ShiYunZhiXun Network Technology Co., Ltd.	Director	May 2014		N
Hong Tianfeng	Jiangsu JiTaiKe Electronics Co., Ltd.	Director	July 2015		N

Name	Shareholder's entity	Position	Commencement of term of office	Termination of term of office	Remuneration from the other entities
Hong Tianfeng	Shanghai Baishitong Information Technology Co., Ltd.	Director	September 2016		N
Hong Tianfeng	Changjiang Shidai YidongZhuanhou Communication Co., Ltd.	Director	June 2014		N
Hong Tianfeng	Zhongwei DaheYun Network Connection Technology Co., Ltd.	Director	November 2016		N
Hong Tianfeng	Shenzhen Fuzhi Software Technology Co., Ltd.	Director	November 2016		N
Hong Tianfeng	Shenzhen DongfengMingTu Corporation Management Co., Ltd.	Supervisor	August 2016		N
Cheng Huifang	Zhejiang Furun Company Limited	Independent Director	April 2014		Y
Cheng Huifang	China Kings Resources Group Co., Ltd	Independent Director	March 2014		Y
Cheng Huifang	Hangzhou HangYang Co., Ltd.	Independent Director	January 2015		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
Wang Qiuchao	ZhejiangT&C Law Firm	Partner	-		Y
Wang Qiuchao	Sanbian Sci-Tech Co., Ltd.	External Supervisor	August 2014		Y
Wang Qiuchao	Zhejiang Kaishan Compressor Co., Ltd.	Independent Director	May 2015		Y
Wang Qiuchao	Zhejiang Jingsheng Mechanical & Electrical Co.,Ltd	Independent Director	April 2015		Y
Wang Qiuchao	Zhejiang Hanjia Design Co., Ltd. Independent Director	Independent Director	July 2015		Y

Incumbent or Outgoing Directors, Supervisors and Senior management personnel in 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 following describes 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, then submitted to the Board for further review and finally approved by the shareholders at a general meeting. 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 according to the existing Salary Management System and Performance Appraisal Policies.

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	52	Incumbent	0	Y
Gong Hongjia	Vice Chairman	M	52	Incumbent	0	Y
Liu Xiang	Director	M	45	Incumbent	0	Y
Hu Yangzhong	Director, General Manager	M	52	Incumbent	308	N
Wu Weiqi	Director, Standing Deputy General Manager	M	53	Incumbent	290	N
Cheng Taizong	Independent Director	M	65	Incumbent	15	N
Lu Jianzhong	Independent Director	M	63	Incumbent	15	N
Wang Zhidong	Independent Director	M	50	Incumbent	15	N
Hong Tianfeng	Independent Director	M	51	Incumbent	1.25	N
Cheng Huifang	Supervisor Chairman	F	64	Incumbent	10	N
Wang Qiuchao	External Supervisor	M	66	Incumbent	10	N
Chen Junke	Employee Supervisor	M	46	Incumbent	172	N
Jiang Haiqing	Deputy General Manager	M	48	Incumbent	244.5	N
Zheng Yibo	Deputy General Manager	M	55	Incumbent	213	N
Cai Dingguo	Deputy General Manager	M	50	Incumbent	217	N
He Hongli	Deputy General Manager	F	44	Incumbent	273	N
Fu Baijun	Deputy General Manager	M	45	Incumbent	263	N
Xu Lirong	Deputy General Manager	M	54	Incumbent	215	N
Zhou Zhiping	Deputy General Manager	M	52	Incumbent	210	N
Jiang Yufeng	Deputy General Manager	M	46	Incumbent	240	N

Name	Title	Gender	Age	Tenure status	Total remuneration from the Company (RMB'0,000)	Remuneration from related parties (Y/N)
Jin Duo	Deputy General Manager	M	52	Incumbent	260	N
Jin Yan	Deputy General Manager, CFO	女	38	Incumbent	170.97	N
Jia Yonghua	Deputy General Manager	M	40	Incumbent	202.73	N
Li Pan	Deputy General Manager	M	39	Incumbent	202.12	N
Cai Changyang	Deputy General Manager	M	46	Incumbent	141.79	N
Huang Fanghong	Deputy General Manager Board Secretary Internal audit directo	F	35	Incumbent	119.95	N
Xu Ximing	Deputy General Manager	M	44	Incumbent	90.22	N
Bi Huijuan	Deputy General Manager	F	46	Incumbent	41.75	N
Total	--	--	--	--	3,941.28	--

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

√ Applicable □ Inapplicable

Unit: share

Name	Title	Restricted Shares held at year-begin	Shares unlocked in the current period	Shares granted in the current period	Price for restricted shares granted (RMB per share)	Restricted Shares held at year-end
Hu Yangzhong	Director, General Manager	195,000	0	0		195,000
Wu Weiqi	Director, Standing Deputy General Manager	174,000	0	0		174,000
Jiang Haiqing	Deputy General Manager	150,000	0	0		150,000
Zheng Yibo	Deputy General Manager	135,000	0	0		135,000
Cai Dingguo	Deputy General Manager	135,000	0	0		135,000
He Hongli	Deputy General Manager	129,000	0	0		129,000
Fu Baijun	Deputy General Manager	129,000	0	0		129,000
Fu Baijun	Deputy General Manager	129,000	0	0		129,000
Zhou Zhiping	Deputy General Manager	129,000	0	0		129,000
Jiang Yufen	Deputy General	135,000	0	0		135,000

	Manager					
Total	--	1,440,000	0	0	--	1,440,000

注：(1) This personnels listed above are executives who were included in 2014 restricted shares incentive plan, and shares held represented above are all 2014 granted restricted shares.

(2) The granted date of 2016 restricted incentive shares scheme was December 23rd, 2016; however the listing date of the restricted shares was January 20th 2017, therefore, was not covered in the above chart.

(3) During the reporting period, in respect of changes in the number of shares due to the implementation of equity distribution for 2015, the number of shares at the beginning has been adjusted accordingly.

V. Staff in the Company

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

Number of incumbent employees in the Company	10,192
Number of incumbent employees in major subsidiaries	9,821
Number of incumbent employees	20,013
Number of employees with salaries in current period	20,013
Number of retired employees requiring the Company and its subsidiaries to bear costs	0
Professional structure	
Tier	Number of employees
Administrative staff	293
R&D staff	9,366
Sales staff	4,061
Functional staff	589
Production staff	5,704
Total	20,013
Educational background structure	
Education background	Number of employees
Master and/or doctor/or above	2,535
Bachelor	10,315
College, technical secondary school	1,890
Other	5,273
Total	20,013

2. Staff remuneration policy

Hikvision has always adhered to the core value of "employee-focused, growing together", emphasizing the corporate culture of "respecting and caring for the individual". While strengthening and optimizing organization management as well as enhancing the professional work of human resources, the Company provides employees with competitive compensation and benefits, incentives and supporting work, living facilities and environment in industry. It is also concerned about the growth and development of employees, and provides them with good career development paths and platforms.

3. Staff training plans

The Company is committed to creating a viable training system, focusing on key staff training and cultural transmission, in order to create a learning organization. In 2016, the Company continued to focus on construction and investment in key projects such as cadre training and reserve, new staff systemic training, etc. The Company is also fully focused on internal learning resources development and other aspects, closely aligning with organizational business development and organization's requirements for employees' capabilities and promoting the continuous development of business. In 2016, the Company trained 3406 employees internally, including 2574 new employees, 832 management staff, with the total training hours exceeding 180,000 hours and the investment of more than RMB 9 million in training costs. Through continuous investment and team focus, the Company's training and development efforts align with long-term strategic objectives, annual development plans, job responsibilities and performance improvement, as well as the employees' own ability gap and career development, helping to achieve the overall goal of Hikvision from multiple dimensions, while meeting the needs of employees for personal capabilities and career development, leading to a win-win result.

In the future, the Company will stick to the goal of constructing a viable training system, build a capacity training channel system from new employees, junior management staff to middle and senior management staff, and support more employees in growth and learning with professionalism as the team's primary requirement.

4. Labor outsourcing

☐ Applicable ☒ Inapplicable

Section IX Corporate Governance

I. Basic situation of corporate governance

During the reporting period, in accordance with the *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* (深圳证券交易所中小板上市公司规范运作指引) on the Small and Medium-sized Enterprise Board and related regulation, the Company is constantly improving its corporate governance, optimizing the internal control systems, in order to standardize the management and operation. The actual situation of corporate governance is in line with laws, regulations and normative documents regarding corporate governance of listed companies issued by China Securities Regulatory Commission and Shenzhen Stock Exchange.

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

1. Improvement in internal management. On the basis of the governance structure where the shareholders' general meeting, the board of directors and its subordinate committees and the board of supervisors as the highest power, the decision-making, the supervisory organs respectively, have a clear division of responsibilities and coordinated operation with the management, the Company has established professional committees internally for professional division of labor and business decision. The newly established investment committee is responsible for reviewing investment decisions, and further regulating investment matters and strictly controlling risk. The newly established human resources management committee is responsible for reviewing decisions on human resources matters audit to meet the development and management needs of human resources. The newly established change management and steering committee is responsible for the management and guidance of various projects promotion. It aims to achieve a transformation from a function-oriented organization to a process-oriented organization through a series of management changes, comprehensively enhancing the internal management efficiency and support the Company's strategic objectives.

2. Implementation of long-term incentives. According to the Management Measures for Core Staff's Investment in Innovative Business, the Company has set up an investment partnership as the innovative business

investment platform for the core staff. The investment partnership and Hikvision have established joint ventures including Hik Automobile Technology and Hik Weiyang, and made capital increase to EZVIZ Network Inc. and Hik Robot. The Company has implemented the innovative business investment mechanism for core staff, and built business partners mechanism while cultivating and developing innovative business, so as to align the interests of employees and the Company, and form a risk-sharing and benefit-sharing structure to establish long-term protection mechanism for the Company's sustained and healthy development.

3. Continuous improvement in investor relations management. After the annual report, semi-annual report, three quarterly reports and other disclosures, the Company took the initiative to hold a public performance briefing (including conference call), to make necessary explanation on contents of the regular reports and the development of the Company within the scope of the rules, and to maintain effective communication with all investors. The Company also timely released Investor Relations Activity Record Form, and did a good job in appropriate information disclosure, to increase the transparency of information and protect the interests of small and medium investors. Meanwhile, general meetings of shareholders held by the Company all provided all shareholders with online voting platform to ensure that the interests of investors could be reasonably and effectively achieved.

During the reporting period, the Company's information disclosure was approved by the regulatory authorities: In June 2016: Shenzhen Stock Exchange issued the evaluation results of the information disclosure of small and medium enterprise board listed companies in 2015, and Hikvision ranked in the A-level (for the sixth consecutive year). 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 Companies Investor Relations" by Securities Times and China Fund, "China's Top 50 Listed Companies in Outstanding Value Creation in 2016" by Economic Observer, Shanghai Advanced Institute of Finance of Shanghai Jiaotong University and China Scope, "Golden Bull Top 100 Listed Companies", "Golden Bull Most Efficient Company", "Golden Bull Best Small and Medium-Sized Growth Company" in the 18th 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" in the 10th Chinese Listed Companies Value Award by Securities Times and New Fortune Magazine, NO.1 in "Future Value Ranking of A-share Listed Companies in 2016" and "Best A-share Listed Companies" of the 3rd future growth value ranking list of A-share listed companies in 2016 sponsored by Value Line Magazine, Sina.com, China Economic Net and China Reform Daily, "Best Corporate Governance Practice Award" in the 6th reputation ranking of Chinese listed companies by

National Business Daily, and "CCTV China's Top Ten Listed Companies in 2016" by China Central Television.

Any incompliance of relevant requirements of 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 independence & 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 have 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. Competing Business

☐ 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 First Extraordinary General Meeting 2016	Extraordinary General Meeting	70.63%	January 8 th 2016	January 9 th 2016	No. 2016-001 号; www.cninfo.com.cn
2015 Annual General Meeting	Annual General Meeting	71.29%	May 5 th 2016	May 6 th 2016	No. 2016-025 号; www.cninfo.com.cn
2016 Second Extraordinary General Meeting	Extraordinary General Meeting	69.25%	December 22 nd 2016	December 23 rd 2016	No. 2016-066 号; www.cninfo.com.cn

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						
Name of Independent Director	Presence due in the Reporting Period (times)	Presence on site (times)	Presence by telecommunication (times)	Presence through a proxy (times)	Absence (times)	Absence for two consecutive times
Cheng Tianzong	12	1	11	0	0	N
Wang Zhidong	12	1	11	0	0	N
Lu Jianzhong	12	1	11	0	0	N
Hong Tianfeng	1	0	1	0	0	N
Presence of independent directors in general meetings (times)	1					

Note: Mr Hong Tianfeng was elected as the Company's independent director on December 22nd 2016 during 2016 Second Extraordinary General Meeting. After he took office, the Company held total one time of general board meeting of directors during the reporting period.

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

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.

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 with regard to operating items of the Company assets and significant investment decisions, and carried out inspection and evaluation on the implementation situation of the above matters. Meanwhile, the Strategy Committee has 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 has carefully audited the Company's financial information and its disclosure, proposed to replace, select and employ external audit institutions. This committee has been responsible for communication between internal audit and external audit, and supervising internal audit system of the Company and its implementation. During the reporting period, the Audit Committee has convoked special meetings to carefully listen to reports of the internal audit of the Company and the external audit institution which was newly employed, audited scientificity, rationality, effectiveness and implementation situation of internal control system of the Company, all subsidiaries and branches, and given guiding opinions on conscientiousness and job examination of internal audit personnel.

3. Nomination Committee

During the reporting period, the Nomination Committee has strictly audited qualifications of independent directors and senior managers to be elected and employed, and nominated one independent director and four senior managers and submitted to the Board Directors for review. This Nomination Committee has perfected management structure of the Company, continuously improved the Company's management level, and carried out earnestly its responsibilities.

4. Remuneration and Assessment Committee

During the reporting period, in strict accordance with provisions of Articles of Association, the Remuneration and Assessment Committee has carefully researched and reviewed remuneration policies and plans of directors, senior managers and other staff, and proposed profession assessment and suggestion on assessment criterion of the above personnel. During the reporting period, the Remuneration and Assessment Committee has researched and reviewed the implementation situations of incentive plans for two main kinds of long-term employees who involved in core employees investing innovation business and restricted share plan, and given important guiding opinions and suggestions.

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 Board of the Company had no objection to the matters of supervision during the Reporting Period.

The Board of Supervisors 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 for Board of Supervisors, and relevant laws, regulations and rules, diligently perform its duties, supervise behaviors of senior managers conforming to relevant laws, regulations relevant provisions and implementing the Company position, and practically safeguard the legitimate rights and interests of the Company, staff and shareholders.

In 2016, the Company's Board of Supervisors convoked a total of 7 meetings, and reviewed a total of 27 proposals which mainly involved in aspects of the Company daily operation, financial information and its disclosure, and implementation of restricted share plan. In 2016, the Company's Board of Supervisors organized one special meeting, and deeply understood measures in the aspects of the Company's financial situation, employee rights protection and process construction via communication with the management level and other relevant personnel; The Company's Board of Supervisors has attended the special meeting of the Audit Committee, carefully listened to reports of the internal audit of the Company and the external audit institution which was newly employed, and understood scientificity, rationality, effectiveness and implementation situation of internal control system of the Company, all subsidiaries and branches. Supervision situation of relevant issues of the Company's Board of Supervisors in 2016:

1. Normative Operation Conditions of the Company

During the reporting period, the Board of Supervisors members have supervised the Company's daily operation situation by means of attending the board meeting and the shareholders' meeting, listening to special report about review, interview and other forms. The Board of Supervisors thinks that the Company has established a comparatively perfect 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.

2. Situation about Checking the Company Finance

During the reporting period, the Board of Supervisors has convoked special meetings to carefully listen to reports of annual financial works by financial headers, understood audit work arrangement of external auditors, and carried out meticulous inspection regarding financial systems and financial conditions of the Company, and it thinks that preparation and deliberation procedure of the Company's periodic report conforms to provisions of laws, administrative regulations and CSRC (China Securities Regulatory Commission), the report contents truly, correctly and completely reflects actual conditions of the Company, and any false record, misleading statement or important omission doesn't exist. There is no behavior violating confidentiality provisions of personnel who participated in preparation and deliberation procedure of periodic report

3. Self-evaluation report about internal control of year 2016

During the reporting period, the Board of Supervisors has convoked special meetings to listen to reports regarding construction and implementation situations for the internal control system of the Company, all branches and subsidiaries by directors of Internal Audit Department, Process Management Department. After a careful study and discussion, the Board of Supervisors thinks that the Company has established a comparatively perfect internal control system which conforms to relevant national laws and regulations requirements, and actual demand of the Company's production and operation management, and is obtained effective implementation, and has a better risk prevention and control effect on each section of the Company's production and operation management. The self-evaluation report about internal control of the Board of Directors 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 Board of Supervisors has known about demand of guarantees items and relevant implementation situations of the Company and subsidiaries by means of interviewing financial headers, and researched and reviewed relevant proposals regarding additional guarantees for wholly-owned subsidiaries by the Company. Board of Supervisors thinks that: The Company provides guarantees for wholly-owned subsidiaries, which is beneficial to further improve its production and operation abilities, fully meets fund demand required by its production and management, and effectively improves management benefit. 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. 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 transaction Conditions of the Company

During the reporting period, the Board of Supervisors has supervised decision-making process of transactions, including daily related-party transaction of the Company and related-party transaction with investment and partnership enterprise, and the follow-up implementation situations by means of attending the Board of Directors and interviewing the management level. The Board of Supervisors thinks that related-party transactions happened to the Company are subject to the principles of voluntariness, equity, 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, affiliated directors avoid votes. 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 Board of Supervisors has carefully reviewed each proposal of the shareholders' meeting submitted by the Board of Directors, and further inspected practical implementation of each proposal. The Board of Supervisors thinks that the Company's Board of Directors can carefully perform relevant resolutions of the Shareholders' Meeting.

7. Situations about restricted share plan of the Company

During the reporting period, the Board of Supervisors has researched and reviewed relevant proposals unlocking of 2012 and 2014 restricted share plans, and relevant proposals of implementation of 2016 restricted share plan. The Board of Supervisors thinks that: The implementation process of the Company's restricted share plan is legal and valid, and the launch of the restricted share plan is beneficial to further perfect the Company's governance structure, and form a favorable and balanced value distribution system; Fully arouse positivity of core employees, and support realization of the Company strategy and long-term sustainable development; Attract and retain core employees, and ensure long-term development and competitive advantage of the Company. At the same time, the Board of Supervisors has carried out special audit regarding Incentive Object List of 2016 Restricted Share Plan, it thinks that: The incentive objects listed in the 2016 restricted share plan of the Company conform to incentive object conditions stipulated by laws, regulations and normative documents, and incentive object scope and condition stipulated by 2016 restricted share plan of the Company, which acting as subject qualification of incentive object of 2016 restricted share plan is legal and valid.

During the Reporting Period, the Company strictly followed relevant rules and regulations, strengthened management of information insiders in preparation of the report, resolution and disclosure, and announcement of significant affairs, and other matters related to inside information. The Company respectfully submitted the registration form for information insiders, and reported to Shenzhen Stock Exchange Place in time.

VIII. Assessment and incentive mechanism for the senior management

The Company established a complete appraisal system on the basis of its target-oriented responsibility system and adopted a fair and transparent appraisal mechanism for senior management members and other employees. The Company's board of directors has carried out appraisals of senior management members on the basis of its annual target-oriented responsibility system and the appraisal result was reflected in the annual performance-based incentive rewards. The Board carried out appraisals of the general manager and the general manager carried out appraisals of other senior management members with the duty, capacity and performance of operation and management objectives.

In the year 2016, senior management personnel carried out their duties with good performance, and completed their objectives and missions set 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 4 th 2017
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	Significant deficiency: A deficiency or a combination of deficiencies in internal control	Internal control deficiencies at non-financial report level are mainly identified by the

criteria	may prevent significant errors in financial reports from being identified or prevented, e.g.: 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. 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.: 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; D. One or more deficiencies which prevent the preparation of true and fair financial statements. Normal deficiency: Not significant and not important deficiency.		likelihood of occurrence and the extent of impacts on operating effective in business. Significant deficiency: the high likelihood leading to significant reduction of working efficiency, or significant increase of uncertainty, or significant deviation from the expected target; Important deficiency: a higher likelihood leading to remarkable reduction of working efficiency, or remarkable increase of uncertainty, or remarkable deviation from the expected target; Normal deficiency: a low likelihood leading to reduction of working efficiency, or increase of uncertainty, or deviation from the expected target;
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. Auditor's report on internal control

☐ Applicable ☒ Inapplicable

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.

☐ Applicable ☒ Inapplicable

Section XI Financial Report

I. Audit report

Audit Opinion	Unmodified unqualified audit opinion
Audit Report sign-off Date	April 12 th 2017
Audit Institution Name	Deloitte Touche Tohmatsu CPA LLP
Audit Report Number	Deloitte Auditors' Report (Audit) No. 17-P01795
Certified Public Accounts Name	Mou Zhengfei, Huang Yan

To the shareholders of Hangzhou Hikvision Digital Technology Co., Ltd.

We have audited the accompanying financial statements of Hangzhou Hikvision Digital Technology Co., Ltd. (the "Company"), which comprise the Company's and consolidated balance sheets as of 31 December 2016, and the Company's and consolidated income statements, the Company's and consolidated statements of changes in shareholders' equity, and the Company's and consolidated cash flow statements for the year then ended, and the notes to the financial statements.

1. Management's responsibility for the financial statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation of the financial statements; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

2. Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. China Standards on Auditing require that we comply with the Code of Ethics for Chinese Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, Certified Public Accountants consider the internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. Opinion

In our opinion, the financial statements of the Company present fairly, in all material respects, the company's and consolidated financial position as of 31 December 2016, and the company's and consolidated results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

December 31st 2016

Consolidated Balance Sheet

Unit: RMB

Item	Notes	Closing balance	Opening balance
Current Assets:			
Cash and bank balances	(V)1	13,634,993,154.18	10,106,500,588.53
Financial assets at fair value through profit or loss	(V)2	15,547,537.34	6,160,279.18
Notes receivable	(V)3	2,843,404,415.52	3,044,148,064.81
Accounts receivable	(V)4	11,242,812,902.86	8,125,932,742.98
Prepayments	(V)5	278,971,025.67	132,662,264.81
Other receivables	(V)6	528,600,591.43	335,274,098.54
Inventories	(V)7	3,825,159,212.28	2,818,665,737.11
Other current assets	(V)8	4,153,992,276.78	2,113,013,249.46
Total Current Assets		36,523,481,116.06	26,682,357,025.42
Non-current Assets:			
Available-for-sale financial assets	(V)9	283,836,013.00	56,033,513.00
Long-term receivables	(V)10	251,588,919.15	105,903,265.79
Long-term equity investment	(V)11	35,000,000.00	-
Fixed assets	(V)12	2,853,743,612.67	1,887,240,766.08
Construction in progress	(V)13	316,482,522.36	844,631,051.21
Intangible assets	(V)14	410,256,469.09	343,200,704.36
Goodwill	(V)15	248,364,401.47	117,860,200.59
Deferred tax assets	(V)16	375,255,076.61	261,215,909.72
Other non-current assets	(V)17	40,999,684.42	18,000,000.00
Total Non-current Assets		4,815,526,698.77	3,634,085,410.75
Total Assets		41,339,007,814.83	30,316,442,436.17

December 31st 2016

Consolidated Balance Sheet - continued

Unit: RMB

Item	Notes	Closing balance	Opening balance
Current Liabilities:			
Short-term borrowings	(V)18	32,291,324.85	876,600,473.94
Financial liabilities at fair value through profit or loss	(V)19	69,789,502.97	19,281,989.69
Notes payable	(V)20	876,804,536.72	209,741,787.71
Accounts payable	(V)21	7,008,335,023.47	5,869,739,370.78
Receipts in advance	(V)22	469,691,437.39	395,510,795.73
Payroll payable	(V)23	1,084,529,374.71	788,069,735.32
Taxes payable	(V)24	1,205,675,099.74	822,299,350.08
Interests payable		-	4,668,652.09
Dividends payable	(V)25	20,105,831.16	24,128,481.48
Other payables	(V)26	1,033,169,123.84	159,857,666.08
Non-current liabilities due within one year	(V)27	15,340,813.03	586,430,847.08
Other current liabilities	(V)28	300,177,750.17	518,074,596.90
Total Current Liabilities		12,115,909,818.05	10,274,403,746.88
Non-current Liabilities:			
Long-term borrowings	(V)29	1,722,207,584.33	675,753,935.00
Bonds payable	(V)30	2,954,449,528.77	-
Long-term payables		7,000,000.00	7,000,000.00
Provisions	(V)31	41,933,212.54	61,833,874.59
Deferred income	(V)32	10,833,745.99	-
Total non-current liabilities		4,736,424,071.63	744,587,809.59
Total liabilities		16,852,333,889.68	11,018,991,556.47
Owner's Equity			
Share capital	(V)33	6,102,706,885.00	4,068,772,253.00
Capital reserves	(V)34	1,045,440,853.66	1,639,607,652.22
Less: Treasury stock	(V)35	300,177,750.17	518,074,596.90
Other comprehensive income	(V)36	(41,230,777.21)	(27,660,017.70)
Surplus reserve	(V)37	2,615,437,822.15	1,895,061,004.09
Retained profits	(V)38	14,866,457,856.65	12,196,097,444.07
Total owners' equity attributable to owner of the Company		24,288,634,890.08	19,253,803,738.78
Minority interests		198,039,035.07	43,647,140.92
Total owners' equity		24,486,673,925.15	19,297,450,879.70
Total liabilities and owners' equity		41,339,007,814.83	30,316,442,436.17

Notes are parts of the financial statements.

Financial statements signed by the following responsible officer:

Legal Representative: Chen Zongnian; Person in Charge of the Accounting Organization: Jin Yan;

Chief Accountant: Jin Yan

December 31st 2016

Balance sheet of the Company

Unit: RMB

Item	Notes	Closing balance	Opening balance
Current Assets:			
Cash and bank balances		10,249,118,159.19	6,554,624,806.82
Financial assets at fair value through profit or loss		5,284,890.86	-
Notes receivable		221,542,747.41	285,916,430.68
Accounts receivable	(XV)1	10,128,753,520.42	9,120,541,604.04
Prepayments		8,256,040.04	3,975,968.87
Other receivables	(XV)2	417,963,245.46	344,944,956.54
Inventories		566,168,466.17	354,607,355.65
Other current assets		3,889,519,711.57	1,475,771,382.66
Total Current Assets		25,486,606,781.12	18,140,382,505.26
Non-current Assets:			
Available-for-sale financial assets		283,221,700.00	55,429,200.00
Long-term receivables		72,153,363.60	27,000,000.00
Long-term equity investment	(XV)3	1,714,688,703.42	1,175,799,927.25
Fixed assets		1,720,579,461.05	1,759,900,661.47
Construction in progress		248,447,641.34	179,392,535.51
Intangible assets		131,566,733.76	137,328,714.00
Deferred tax assets		177,568,964.27	153,437,862.78
Other non-current assets		10,782,858.00	-
Total Non-current Assets		4,359,009,425.44	3,488,288,901.01
Total Assets		29,845,616,206.56	21,628,671,406.27

December 31st 2016

Balance sheet of the Company - continued

Unit: RMB

Item	Notes	Closing balance	Opening balance
Current Liabilities:			
Short-term borrowings		-	432,500,194.74
Financial liabilities at fair value through profit or loss		58,858,697.43	-
Accounts payable		138,851,152.86	116,211,859.13
Receipts in advance		233,831,105.17	171,072,708.07
Payroll payable		811,701,475.85	633,419,309.99
Taxes payable		998,754,860.91	642,749,926.57
Dividends payable		20,105,831.16	24,128,481.48
Other payables		787,861,780.95	91,301,389.43
Non-current liabilities due within one year		-	162,340,000.00
Other current liabilities		300,177,750.17	518,074,596.90
Total Current Liabilities		3,350,142,654.50	2,791,798,466.31
Non-current Liabilities:			
Bonds payable		2,954,449,528.77	-
Provisions		28,799,848.84	56,788,335.77
Total non-current liabilities		2,983,249,377.61	56,788,335.77
Total liabilities		6,333,392,032.11	2,848,586,802.08
Owners' Equity			
Share capital		6,102,706,885.00	4,068,772,253.00
Capital reserves		955,687,875.52	1,647,623,212.04
Less: Treasury stock		300,177,750.17	518,074,596.90
Surplus reserve		2,615,437,822.15	1,895,061,004.09
Retained profits		14,138,569,341.95	11,686,702,731.96
Total owners' equity		23,512,224,174.45	18,780,084,604.19
Total liabilities and owners' equity		29,845,616,206.56	21,628,671,406.27

For fiscal year period from January 1st 2016 to December 31st 2016

Consolidated Income Statement

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
I. Total operating income	(V)39	31,924,020,872.44	25,271,390,273.42
Less: Total operating costs	(V)39	18,649,694,075.44	15,136,793,517.44
Business taxes and surcharges	(V)40	255,078,931.50	196,876,622.43
Selling expenses	(V)41	2,991,273,819.81	2,179,045,314.71
Administrative expenses	(V)42	3,106,761,432.94	2,211,221,871.15
Financial expense	(V)43	(226,063,754.62)	(152,896,391.70)
Impairment losses of assets	(V)44	317,497,358.88	338,874,649.43
Add: Gains from changes in fair values (Losses are indicated by "—")	(V)45	(40,171,578.80)	(16,154,643.25)
Investment income (Loss is indicated by "—")	(V)46	40,493,287.66	148,673,437.25
II. Operating profit (Loss is indicated by "—")		6,830,100,717.35	5,493,993,483.96
Add: Non-operating income	(V)47	1,510,919,327.24	1,293,978,970.29
Including: Gains from disposal of non-current assets		203,854.22	2,829,117.71
Less: Non-operating expenses	(V)48	30,841,696.08	37,930,721.86
Including: Losses from disposal of non-current assets		940,003.24	1,113,694.67
III. Total profit (total losses expressed with "-")		8,310,178,348.51	6,750,041,732.39
Less: Income tax expenses	(V)49	889,905,208.07	867,643,887.69
IV. Net profit (net loss expressed with "-")		7,420,273,140.44	5,882,397,844.70
Net profit attributable to owners of parent company		7,422,261,983.16	5,869,049,646.23
Profit or loss attributable to minority shareholders		(1,988,842.72)	13,348,198.47
V. Other comprehensive income, net of income tax		(12,687,807.98)	(17,989,248.27)
Other comprehensive income attributable to owners of the Company, net of tax		(13,570,759.51)	(18,822,600.24)
(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		(13,570,759.51)	(18,822,600.24)
1. Exchange differences arising on conversion of financial statements denominated in foreign currencies		(13,570,759.51)	(18,822,600.24)
Other comprehensive income attributable to minority interests, net of tax		882,951.53	833,351.97
VI. Total comprehensive income		7,407,585,332.46	5,864,408,596.43
Total comprehensive income attributable to owners of the parent company		7,408,691,223.65	5,850,227,045.99
Total comprehensive income attributable to minority shareholders		(1,105,891.19)	14,181,550.44
VII. Earnings per share			
(I) Basic earnings per share	(XVI)2	1.227	0.977
(II) Diluted earnings per share	(XVI)2	1.221	0.971

For fiscal year period from January 1st 2016 to December 31st 2016

Income statement of the Company

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
I. Total operating income	(XV)4	17,165,449,311.27	14,247,382,172.06
Less: Operating Cost	(XV)4	5,967,138,876.83	5,635,878,721.53
Business taxes and surcharges		222,640,567.03	163,525,293.31
Selling expenses		1,923,037,271.14	1,560,498,015.69
Administrative expenses		2,331,920,426.33	1,824,491,151.65
Financial expense		(67,337,491.29)	(66,657,382.50)
Impairment losses of assets		151,838,196.39	310,847,916.44
Add: Gains from changes in fair values (Losses are indicated by "—")		(53,573,806.57)	-
Investment income (Loss is indicated by "—")	(XV)5	57,191,401.59	346,511,489.93
II. Operating profit (Loss is indicated by "—")		6,639,829,059.86	5,165,309,945.87
Add: Non-operating income		1,372,223,454.12	1,201,709,022.19
Including: Gains from disposal of non-current assets		154,566.50	2,710,672.80
Less: Non-operating expenses		7,973,687.35	11,191,064.63
Including: Losses from disposal of non-current assets		370,396.59	976,769.69
III. Total profit (Total loss is indicated by "—")		8,004,078,826.63	6,355,827,903.43
Less: Income tax expenses		800,310,646.06	801,193,702.77
IV. Net profit (Net loss is indicated by "—")		7,203,768,180.57	5,554,634,200.66
V. Other comprehensive income, net of income tax		-	-
VI. Total comprehensive income		7,203,768,180.57	5,554,634,200.66

For fiscal year period from January 1st 2016 to December 31st 2016

Consolidated Cash Flow Statement

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
I. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		32,660,216,112.46	22,777,510,666.14
Refund of tax and levies		2,592,008,277.39	2,001,179,512.70
Other cash received relating to operating activities	(V)50(1)	488,882,790.83	525,913,263.75
Sub-total of cash inflows from operating activities		35,741,107,180.68	25,304,603,442.59
Cash payments for goods purchased and services received		20,889,389,503.82	15,694,627,971.95
Cash paid to and on behalf of employees		3,404,886,547.11	2,501,048,931.40
Payments of various types of taxes		2,913,713,175.75	2,455,175,034.68
Other cash paid relating to operating activities	(V)50(2)	2,319,425,793.44	1,437,029,335.39
Sub-total of cash outflows from operating activities		29,527,415,020.12	22,087,881,273.42
Net Cash Flow from Operating Activities	(V)51(1)	6,213,692,160.56	3,216,722,169.17
II. Cash Flows from Investing Activities:			
Cash receipts from disposals and recovery of investments		4,989,550,266.43	2,928,000,000.00
Cash receipts from investment income		48,773,447.48	148,673,437.25
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		19,404,765.15	13,030,975.34
Other cash received relating to investing activities	(V)50(3)	13,398,940.46	35,996,686.98
Sub-total of cash inflows from investing activities		5,071,127,419.52	3,125,701,099.57
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		911,376,475.87	1,330,084,112.50
Cash paid to acquire investments		7,335,420,926.25	1,870,817,394.24
Net cash payments for acquisitions of subsidiaries and other business units	(V)51(2)	172,473,788.49	-
Other cash paid relating to investing activities		35,000,000.00	-
Sub-total of cash outflows from investing activities		8,454,271,190.61	3,200,901,506.74
Net Cash Flow from Investment Activities		(3,383,143,771.09)	(75,200,407.17)
III. Cash flows from financing activities:			
Cash receipts from capital contributions		247,269,466.66	-
Including: cash receipts from capital contributions from minority owners of subsidiaries		247,269,466.66	-
Cash receipts from borrowings		4,668,904,940.17	2,790,211,998.69
Cash receipts from bond issue		2,903,120,000.00	-
Other cash receipts relating to financing activities	(V)50(4)	660,888,216.54	4,000,000.00
Sub-total of cash inflows from financing activities		8,480,182,623.37	2,794,211,998.69
Cash repayments of amounts borrowed		5,104,870,545.06	1,258,504,731.78
Cash payments for distribution of dividends or profits or settlement of interest expenses		2,930,913,722.75	1,652,404,056.80
Including: payments for distribution of dividends or profits to minority owners of subsidiaries		-	5,121,125.61
Other cash payments relating to financing activities	(V)50(5)	1,602,804.35	2,093,991.15
Sub-total of cash outflows from financing activities		8,037,387,072.16	2,913,002,779.73
Net Cash Flow from Financing Activities		442,795,551.21	(118,790,781.04)
IV. Net foreign exchange differences		212,875,294.92	(100,952,230.26)
V. Net Increase (Decrease) in Cash and Cash Equivalents	(V)51(1)	3,486,219,235.60	2,921,778,750.70
Add: Opening balance of Cash and Cash Equivalents	(V)51(1)	10,033,033,476.30	7,111,254,725.60
VI. Closing Balance of Cash and Cash Equivalents	(V)51(3)	13,519,252,711.90	10,033,033,476.30

For fiscal year period from January 1st 2016 to December 31st 2016

Cash Flow Statements of the Company

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
I. Cash Flows from Operating Activities::			
Cash receipts from the sale of goods and the rendering of services		18,882,254,702.72	10,803,039,228.70
Refund of tax and levies		1,284,036,478.69	1,074,852,534.11
Other cash receipts relating to operating activities		322,630,474.75	324,140,950.48
Sub-total of cash inflows from operating activities		20,488,921,656.16	12,202,032,713.29
Cash payments for goods acquired and services received		7,375,020,750.77	6,903,906,913.83
Cash payments to and on behalf of employees		1,998,015,491.73	1,584,444,500.81
Payments of all types of taxes		2,349,110,778.76	2,032,510,607.05
Other cash payments relating to operating activities		2,003,975,502.85	1,239,471,585.53
Sub-total of cash outflows from operating activities		13,726,122,524.11	11,760,333,607.22
Net Cash Flow from Operating Activities	(XV)8(1)	6,762,799,132.05	441,699,106.07
II. Cash Flows from Investing Activities:			
Cash receipts from disposals and recovery of investments		3,871,026,616.63	2,858,000,000.00
Cash receipts from investment income		49,164,784.96	347,490,333.16
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		3,129,852.68	9,847,896.80
Net cash receipts from disposals of subsidiaries and other business units		-	6.77
Other cash receipts relating to investing activities		3,389,327,585.78	2,344,996,750.40
Sub-total of cash inflows from investing activities		7,312,648,840.05	5,560,334,987.13
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		255,328,076.51	502,365,875.50
Cash payments to acquire investments		6,996,128,459.52	1,482,672,227.26
Other cash payments relating to investing activities		3,403,968,158.86	1,366,590,091.86
Sub-total of cash outflows from investing activities		10,655,424,694.89	3,351,628,194.62
Net Cash Flow from Investment Activities		(3,342,775,854.84)	2,208,706,792.51
III. Cash Flows from Financing Activities			
Cash receipts from borrowings		-	600,084,089.00
Cash receipts from issue of bonds		2,903,120,000.00	-
Other cash receipts relating to financing activities		1,334,260,247.19	518,560,000.00
Sub-total of cash inflows from financing activities		4,237,380,247.19	1,118,644,089.00
Cash repayments of amounts borrowed		597,065,694.74	159,210,925.14
Cash payments for distribution of dividends or profits or settlement of interest expenses		2,898,933,448.56	1,616,845,537.75
Other cash payments relating to financing activities		654,145,840.87	531,454,491.15
Sub-total of cash outflows from financing activities		4,150,144,984.17	2,307,510,954.04
Net Cash Flow from Financing Activities		87,235,263.02	(1,188,866,865.04)
IV. Net foreign exchange differences		190,636,781.99	(28,926,650.38)
V. Net increase in cash and cash equivalents	(XV)8(1)	3,697,895,322.22	1,432,612,383.16
Add: Beginning balance of cash and cash equivalents	(XV)8(1)	6,548,073,680.91	5,115,461,297.75
VI. Closing Balance of Cash and Cash Equivalents	(XV)8(2)	10,245,969,003.13	6,548,073,680.91

For fiscal year period from January 1st 2016 to December 31st 2016

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		
I. Closing balance of the preceding year	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
II. Increase or decrease in the current year (decrease indicated with "-")	2,033,934,632.00	(594,166,798.56)	(217,896,846.73)	(13,570,759.51)	720,376,818.06	2,670,360,412.58	154,391,894.15	5,189,223,045.45
(I) Total comprehensive income				(13,570,759.51)		7,422,261,983.16	(1,105,891.19)	7,407,585,332.46
(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 owners		97,768,537.96					155,497,785.34	253,266,323.30
2. Share-based payment recognised in owners' equity		122,970,423.83						122,970,423.83
3. Others (Note(V)33)	(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 owners (or 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. Capitalisation of capital reserve	813,754,450.00	(813,754,450.00)						
(V) Others								
III. Closing balance of the current year	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
Item	Amount for the same period of last year							
	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		
I. Closing balance of the preceding year	4,069,128,026.00	1,480,046,325.41	547,853,280.23	(8,837,417.46)	1,339,597,584.02	8,510,162,428.31	36,912,881.21	14,879,156,547.26
II. Increase or decrease in the current year (decrease indicated with "-")	(355,773.00)	159,561,326.81	(29,778,683.33)	(18,822,600.24)	555,463,420.07	3,685,935,015.76	6,734,259.71	4,418,294,332.44
(I) Total comprehensive income				(18,822,600.24)		5,869,049,646.23	14,181,550.44	5,864,408,596.43
(II) Owners' contributions and reduction in capital	(355,773.00)	157,235,161.69	(29,778,683.33)					186,658,072.02
1. Capital contribution from owners								
2. Share-based payment recognised in owners' equity		158,773,879.84						158,773,879.84
3. Others	(355,773.00)	(1,538,718.15)	(29,778,683.33)					27,884,192.18
(III) Profit distribution					555,463,420.07	(2,183,114,630.47)	(5,121,125.61)	(1,632,772,336.01)
1. Transfer to surplus reserve					555,463,420.07	(555,463,420.07)		
2. Distributions to owners (or shareholders)						(1,627,651,210.40)	(5,121,125.61)	(1,632,772,336.01)
3. Others								
(IV) Transfers within owners' equity								
1. Capitalisation of capital reserve								
(V) Others		2,326,165.12					(2,326,165.12)	
III. Closing balance of the current year	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

For fiscal year period from January 1st 2016 to December 31st 2016

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
I. Closing balance of the preceding year	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
II. Increase or decrease in the current year (decrease indicated with "-")	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 recognised 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 owners (or 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. Capitalisation of capital reserve	813,754,450.00	(813,754,450.00)				
III. Closing balance of the current year	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
Item	Amount for the same period of last year					
	Share capital	Capital reserves	Less: Treasury share	Surplus reserve	Retained profits	Total owners' equity
I. Closing balance of the preceding year	4,069,128,026.00	1,490,388,050.35	547,853,280.23	1,339,597,584.02	8,315,183,161.77	14,666,443,541.91
II. Increase or decrease in the current year (decrease indicated with "-")	(355,773.00)	157,235,161.69	(29,778,683.33)	555,463,420.07	3,371,519,570.19	4,113,641,062.28
(I) Total comprehensive income					5,554,634,200.66	5,554,634,200.66
(II) Owners' contributions and reduction in capital	(355,773.00)	157,235,161.69	(29,778,683.33)			186,658,072.02
1.Share-based payment recognised in owners' equity		158,773,879.84				158,773,879.84
2. Others	(355,773.00)	(1,538,718.15)	(29,778,683.33)			27,884,192.18
(III) Profit distribution				555,463,420.07	(2,183,114,630.47)	(1,627,651,210.40)
1.Transfer to surplus reserve				555,463,420.07	(555,463,420.07)	
2. Distributions to owners (or shareholders)					(1,627,651,210.40)	(1,627,651,210.40)
3. Others						
(IV) Transfers within owners' equity						
1. Capitalisation of capital reserve						
III. Closing balance of the current year	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

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

I. Basic Information About the Company

Hangzhou Hikvision Digital Technology Co., Ltd. (hereinafter referred to as "the Company" or "Company"), is a Sino-foreign Equity Joint Venture Company, formerly known as "Hangzhou Hikvision Digital Technology Ltd", established on December 30th 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 25th 2008, with approval of Shang Zi No. 598[2008] issued by the MOFCOM, 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 28th 2010, the Company was listed on the Shenzhen Stock Exchange.

On May 5th 2016, the Company's 2015 Annual General Meeting approved 2015 Annual Profit Distribution Proposal (2015 年年度利润分配预案). On May 18th 2016, based upon the total capital shares of 4,068,772,253 shares on December 31st 2015, the Company issued bonus shares of 1,220,631,676 shares, and distributed 813,754,450 shares through capitalization of capital reserve, as result, resulted in total capital share of 6,103,158,379 shares.

By the end of November 16th, 2016, the Company completed cancelation procedures for 451,494 shares that already granted to the participant who was no longer eligible to be a participant, authorized by the 1st Extraordinary General Meeting of 2012. After the completion of cancelation procedures for 451,494 shares, the total share capital of the Company decreased to 6,102,706,885 shares. For detail of capital share, please refer to Note (V) 33.

By the end of December 31st, 2016, the Company's registered capital is RMB 6,102,706,885, with total capital share of 6,102,706,885 shares (RMB 1 per share), including 1,417,926,033 restricted A-shares, and 4,684,780,852 tradable A-shares.

The Company is engaged in electronic equipment manufacturing business mainly including development, production and sales of electronic products (including explosion-proof electrical products, communications equipment and its ancillary equipment, multimedia equipment). Business scope of the Company includes distribution of self-manufactured products, technical service, 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.

This financial report was approved for issue by the 22nd meeting of the third session Board of Directors of the Company as of April 12th, 2017.

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 for preparation of financial statements

Basis of preparation

The Company and its subsidiaries (hereinafter referred to as "the Group") implement Accounting Standards for Business Enterprises issued by Ministry of Finance and relevant provisions. In addition, the Group also discloses relevant financial information in accordance with *No. 15 Preparation*

*Regulations regarding Information Disclosure of Company Public Issuing Securities - General Provisions of Financial Statement (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.

(II) Basis for Preparation of Financial Statements - continued**Bookkeeping base and valuation principles - continued**

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 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 assets or liabilities.

Sustainability concern

The Group has evaluated the sustainable operation ability within 12 months from December 31, 2016, and there is no matter or condition that has significant doubt on the sustainable operation ability. Therefore, the financial statements are prepared on the basis of going-concern assumption.

III. Important accounting policies and accounting estimates**1. Statement for Compliance with Accounting Standards for Business Enterprises**

The financial statements prepared by the Company comply with requirements of the Accounting Standards for Business Enterprises, truly and completely reflect situations of the Company and consolidated financial on December 31, 2016, the Company and consolidated operating results as well as the Company and consolidated cash flow in year 2016.

2. Accounting Period

The fiscal year of the Group is January 1 to December 31 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. Recording Currency

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 the recording currency. Overseas subsidiaries of the Company determine their recording currency based on the main economic environment in the place of operation. For recording currency of overseas subsidiaries of the Company, see Note (V) 53. The currency adopted by the Company for preparing the financial statements is RMB.

5. Accountant arrangement method for business merger under the common control and under the different control

Business merges are classified into the business merger under the common control and the business merger under the different control.

5.1 Business Merger under the Common Control

Business merger under the common control refers to the enterprise participating in the merger, which is subject to the final control of the same party or the same parties before and after the merger, and such control is not temporary.

The assets and liabilities obtained during business merger shall be measured on the basis of their carrying amount of the combined party on the merger date. Adjust capital share premium of the capital reserve based on the differences between book value of net assets and that of the paid combination consideration (or total face value of issued shares); if the capital share premium is insufficient to be written down, the retained earnings shall be adjusted.

Costs incurred directly attributable to the business combination are recorded in the profits and losses of the current period.

5.2 Business Merger and Goodwill under the Different Control

It suggests that business involved in the combination is free from the final control of one and the same party or more than one same parties before and after the combination.

Combination cost refers to asset paid by the purchaser to buy the control power from the purchased party, liabilities incurred or assumed and fair value of equity instrument issued. The expenses made by the 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.

The identifiable assets, liabilities and contingent liabilities that are achieved by the purchaser in merger and confirmed by the purchased party shall be measured with the fair value on the purchase day.

When combination cost is higher than fair value of the identifiable net assets acquired from the purchased party due to combination, the difference will be confirmed as goodwill and measured initially at cost. When combination cost is lower than fair value of the identifiable net assets acquired from the purchased party due to combination, reexamination shall be made to the measurement of fair value of all identifiable net assets acquired from the purchased party and combination cost. If combination cost is still lower than the said fair value, the difference shall be included into current profit or loss.

Goodwill arising on a business combination is stated separately in the consolidated financial statement, and the measurement is made its costs minus the accumulative impairment provisions.

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 (date of losing control right) have been properly included in the consolidated profit statement and consolidated cash flow statement.

For the subsidiary achieved through business merger under different control, the business performance and cash flow since the purchase day (date from obtaining the control power) have been properly included in the consolidated profit statement and consolidated cash flow statement.

For a subsidiary acquired through business combination under the same control, regardless of the time of business combination in the reporting period, which is regarded to which included in the Group since the date of finally controlled by the controller, its operating results and cash flows since the beginning of the reporting period have been included in the Consolidated Income Statement and the Consolidated Cash Flow Statement.

The principal accounting policies adopted by the subsidiary and the accounting policies will be specified by the Company, and determination of the accounting period.

The impact of internal transaction of the Company and subsidiary, and between the subsidiaries on the consolidated financial statement shall be offset during mergers.

Share in owner's equity of subsidiaries that is not accounted for as equity of parent Company shall be recorded as the minority shareholder's interest and shall be stated as "Minority Shareholder's Interest" under shareholder's equity in the consolidated Liability Statement. Amount in subsidiaries' current profit and loss accounted for as equity of minority shareholder shall be stated as "Minority Shareholder Interest" under the net profits in the consolidated Liability Statement.

Where subsidiaries' loss shared by minority shareholders exceeds the amount of owner's interests shared by minority shareholders at the beginning of a year, the balance shall be written down to minority shareholder's equity.

For the transaction of the control power of the subsidiary not lost due to purchase of minority equity of the subsidiary or disposal of partial equity investment in the subsidiary, it shall be accounted as equity transaction, and the book value attributable to the parent Company's owners' equity and minority shareholders' equity shall be adjusted to reflect the changes of related equity in the subsidiary. The capital reserve shall be adjusted by difference between the adjustment amount of the minority shareholders' equity and the fair value of payment /receipt of consideration. Retained earnings can be adjusted for the enough offset of the capital reserve.

7. Determination Standards of Cash and Cash Equivalents

The term "cash" refers to cash on hand and deposits that are available for payment at any time. The term "cash equivalents" refers to short-term and highly liquid investments that could be readily convertible to known amounts of cash and which are subject to an in significant risk of change in value.

8. Foreign Currency Transaction and Conversion of Foreign Currency Statements

8.1 Foreign Currency Transaction

Foreign currency transaction adopts the exchange rate conversion similar to the spot rate of transaction date during the initial recognition; the exchange rate similar to the spot rate of transaction date is calculated according to the market rate middle price of the transaction at the beginning of the month.

On the balance sheet date, foreign currency monetary items are converted to recording currency by spot rate. The exchange balance between the spot rate on that day and initial spot rate or spot rate on former balance sheet date is included into current profits and losses besides the exchange balance of foreign currency borrowings meeting capitalization conditions is included into the capital cost upon capitalization during capitalization period.

Where the preparation of consolidated financial statements is involved in overseas operation, in case of any foreign currency monetary items of net investment in an overseas operation substantially, then the exchange balance occurred due to exchange rate movement shall be listed in "Foreign Currency Statement Conversion Balance" of shareholders' equity. When disposing overseas operation, it is included into the profits and losses of the current period.

For foreign currency non-monetary items measured by historic cost, spot rate on date of transaction occurrence shall be used for conversion and its recording currency amount. For foreign currency non-monetary items measured by fair value, spot rate on the fair value determination day will be used for conversion. The difference between the converted recording currency amount and original recording currency amount shall be taken as the fair value fluctuation (including exchange rate fluctuation) and included into current profits and losses or other comprehensive income.

8.2 Conversion of Foreign Currency Financial Statement

In order to prepare the consolidated financial statements, the foreign currency financial statement of overseas operation shall be converted as RMB statement according to the following methods: All assets and liabilities items in the balance sheet shall be converted according to the spot rate of the balance sheet date; The shareholders' equity item shall be converted according to spot rate at the time of occurrence; All items in profit statement and all items of reflecting the income distribution amount shall be converted according to the exchange rate similar to spot rate of transaction date; The difference between the converted assets items and total number of liabilities items and shareholders' equity items is determined as other comprehensive incomes and is included in the shareholder's equity.

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.

Opening amount of the year and actual amount last year are presented according to the amount after conversion of financial statement last year.

In case of loss of control power of foreign operation due to disposal of the Group's entire owners' equity in foreign operation, or the disposal of part of the equity investment or other reasons, the translation reserve listed in the shareholders' equities items in the balance sheet, related to the foreign operation and attributable to foreign currency conversion balance of the owners' equity of the parent company shall be totally converted into the current disposal profit and loss.

In case of the decrease of the ratio of overseas business, but no loss of control power due to disposal of part of the equity investment or other reasons, the conversion balance related to the disposal of part of related currency in the overseas business shall be attributable to the minority shareholders' equities, and not converted into the current profit and loss. In case of disposal of part of equity of the associated enterprises or joint enterprise in the overseas business, the conversion balance related to the overseas business shall be converted into the current profit and loss based on the ratio to dispose overseas business.

9. Financial Instruments

A financial asset or financial liability shall be recognized when the Group becomes a party of financial instrument contract. Financial asset or financial liability shall be measured at the fair value when initially recognized. For financial assets and financial liabilities measured at fair value, the change of which is included into current profits and losses, relevant transaction expenses shall be directly included into the profits and losses; for other categories of financial assets and liabilities, the relevant transaction expenses shall be included into the initial recognition amount.

9.1 Effective Interest Method

The actual interest rate method refers to the method by which the post-amortization costs and the interest incomes of different installments or interest expenses are calculated in light of the actual interest rates of the financial assets or financial liabilities (including a set of financial assets or financial liabilities). The actual interest rate refers to the interest rate adopted to cash the future cash flow of a financial asset or financial liability within the predicted term of existence or within a shorter applicable term into the current carrying amount of the financial asset or financial liability.

For calculation of actual interest, the Group shall predict the future cash flow on the basis of taking into account all the contractual provisions concerning the financial asset or financial liability (the future credit losses shall not be taken into account), and take into account various fee charges, trading expenses, premiums or reduced values, etc., which are paid or collected by the parties to a financial asset or financial liability contract and which form a part of the actual interest rate.

9.2 Classification, Confirmation and Measurement of the Financial Assets

Financial asset shall be classified into the following four categories when they are initially recognized: the financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period, the investments which will be held to their maturity, loans and the account receivables and financial assets available for sale. Financial asset bought and sold by regular means shall be recognized and derecognized in accordance with accounting at the transaction date.

9.2.1 Financial Assets Measured at the Fair Value with Their Changes Included into Current Profit and Loss

The financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses, include transactional financial liabilities and the designated financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses.

The financial assets or liabilities meeting any of the following requirements shall be classified as transactional financial assets or financial liabilities: (1) The purpose to acquire the said financial assets or undertake the financial liabilities is mainly for selling or repurchase of them in the near future; (2) Forming a part of the identifiable combination of financial instruments which are managed in a centralized way and for which there are objective evidences proving that the enterprise may manage the combination by way of short-term profit making in the near future; (3) Being a derivative instrument, excluding the designated derivative instruments which are effective hedging instruments, or derivative instruments to financial guarantee contracts, and the derivative instruments which are connected with the equity instrument investments for which there is no quoted price in the active market, whose fair value cannot be reliably measured, and which shall be settled by delivering the said equity instruments.

Financial assets which are measured at fair value and of which the variation is included in the current profits and losses shall be measured at the fair value subsequently. Profits and losses generated from

variation of fair value and earnings from dividend and interest related to the financial assets shall be included into profits and losses of the current period.

9.2.2 Investments Held To Maturity

The term "held-to-maturity investment" refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of repo price and which the Group holds for a definite purpose or the enterprise is able to hold until its maturity.

For held-to-maturity investments measured at the post-amortization costs by using actual interest method, the profits and losses that arise when such financial assets are terminated from recognition, or are impaired or amortized, shall be recorded into the profits and losses of the current period.

9.2.3 Loans and Receivables

"Loans and accounts receivables" refers to the non-derivative financial assets for which there is no quoted price in the active market and of which the repo amount is fixed or determinable. The Group's financial assets that are divided into the loan and receivables include notes receivables, accounts receivables, other receivables, other current assets and long-term receivables, etc.

The loan and receivables adopt the effective interest method, and shall conduct subsequent measurement according to amortized costs. The gains or losses arising from derecognition, impairment or amortization should all be included into the current profits and losses.

9.2.4 Available-for-sale Financial Assets

The "sellable financial assets" include the non-derivative financial assets which are designated as sellable when they are initially recognized as well as the financial assets other than financial assets measured at their fair values and of which the variation is recorded into the profits and losses of the current period, loans and accounts receivables and investments held until their maturity.

The subsequent measurement may be conducted for the available-for-sale financial assets by the fair value; the gains or losses formed from the changes of fair value, except that the impairment losses as well as the relevant exchange balance between foreign currency monetary financial assets and amortized cost are included into current profits and losses, are determined as other comprehensive incomes which shall be transferred out during the derecognition of such financial assets and included into current profits and losses.

Interest acquired from salable financial asset during the holding time and cash dividend that has been the investee announces to distribute shall be recorded into investment income.

The equity instrument investments for which there is no quotation in the active market and whose fair value cannot be measured reliably, and the derivative financial assets which are connected with the said equity instrument and must be settled by delivering the said equity instrument shall be measured on the basis of their costs.

9.3 Financial Asset Impairment

On the balance sheet date, the Group will inspect the book value of all financial assets except the financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period. Where there is any objective evidence proving that such financial asset has been impaired, an impairment provision shall be made. The objective evidences showing the impairment of financial assets refer to the matters that happen after the initial recognition of financial assets and influence the expected future cash flows of financial assets, and the influence can be reliably measured by the Company.

The objective evidences that can prove the impairment of financial asset shall include

- (1) A serious financial difficulty occurs to the Issuer or debtor;
 - (2) The debtor breaches any of the contractual stipulations, for example, failing to pay the interests or the principal or delay, etc.;
 - (3) The Group makes a concession to the debtor considering the economic or legal factors;
 - (4) The debtor will probably become bankrupt or carry out other financial restructuring;
 - (5) The financial asset can no longer continue to be traded in the active market due to serious financial difficulties of the issuer;
 - (6) The cash flow decrease of some property in a group of financial assets is indefinable, but after the general assessment with the public data, the predicted future cash flow of this group of financial assets has definitely decreased from the initial recognition, and the decreased amount is calculable, including:
 - The payment capacity of Debtor in this group of financial assets gets worse gradually;
 - The country or region's economy of the Debtor may lead to the financial assets unable to pay;
 - (7) Any seriously disadvantageous change has occurred to technical, market, economic or legal environment, etc. operated by the issuers of the equity instruments, which makes the investor of an equity instrument unable to take back its cost of investment;
 - (8) The fair value of the equity instrument investments drops significantly or non-contemporarily;
 - (9) Other objective evidences showing the impairment of the financial asset.
- The financial assets impairment measured by the amortized costs

When impairment occurs, the financial assets counted as amortized cost will write-down its book value to predict present value of future cash flow confirmed as the primary actual rate of this financial assets (except for the future credit losses that not happened yet), the write-down cash will be confirmed as the impairment loss, and will be counted into the current gains and loss. Where any financial asset is recognized as having suffered from any impairment loss, if there is any objective evidence proving that

9.3 Impairment of Financial Asset -continued

the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment-related loss as originally recognized shall be reversed and be recorded into the profiles and losses of the current period. However, the reversed carrying amounts shall not be paid more than the post-amortization costs of the said financial asset on the day of reverse under the assumption that no provision is made for the impairment.

An independent impairment test shall be made by the Group on the financial assets with significant single amounts. Regarding the financial assets with insignificant single amounts, an independent impairment test shall be carried out, or they shall be included in a combination of financial assets with similar credit risk features so as to carry out an impairment-related test. Where, upon independent test, the financial asset (including those financial assets with significant amounts and those with insignificant amounts) has not been impaired, it shall be included in a combination of financial assets with similar risk features so as to conduct another impairment test. The financial assets which have suffered from an impairment loss in any single amount shall not be included in any combination of financial assets with similar risk features for any impairment test.

- Available-for-sale financial assets impairment

In case of impairment in available-for-sale financial assets, transfer out the accumulated losses originally included into other comprehensive incomes and formed due to fair value depreciation and include into current profits and losses. The transferred-out accumulated losses are the balance of initial asset acquisition cost, deducting recovered principal, amortized amount, current fair value and impairment loss originally included into profits and losses.

After the confirmation of impairment loss, if the objective evidence shows that the value of the financial assets is recovered after the period and it is objectively related with events happening after the confirmation of the loss, the originally confirmed impairment loss will be switched back; the impairment loss for the available-for-sale equity instrument investment is switched back and confirmed as other comprehensive incomes and the impairment loss for available-for-sale debt instrument is switched back and included into current profits and losses.

- The financial assets impairment measured by the costs

When equity instrument investment which is not quoted in an active market and whose fair value cannot be measured reliably, or derivative financial assets which is linked with the equity instrument and has to make settlement by delivering the equity instrument has asset depreciation, the book value shall be reduced to the present value determined by discounted cash flow based on market return of similar financial asset at that time which is recognized as impairment loss and shall be included into the current profits and losses. The impairment loss of such financial asset shall not be reversed once confirmed.

9.4 Transfer of Financial Assets

Where a financial asset satisfies any of the following requirements, the recognition of is shall be terminated: (1) where the contractual rights for collecting the cash flow of the said financial asset are terminated; (2) where the said financial asset has been transferred and all of the risks and rewards related to the ownership of the said asset has been transferred to the transferee; or (3) where the financial asset has been transferred and the Group has waives its control over the financial asset though it retained nearly all of the risks and rewards related to the ownership of the said asset.

If the Group does not transfer or retain nearly all of the risks and rewards related to the ownership of the financial asset, and does not waive its control over the financial asset, it shall, according to the extent of its continuous involvement in the transferred financial asset, recognize the related financial asset and recognize the relevant liability accordingly. The term "continuous involvement in the transferred financial asset" shall refer to the risk level that the enterprise faces resulting from the change of the value of the financial assets.

If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the amounts of the following 2 items shall be recorded in the profits and losses of the current period: (1) the book value of the transferred financial asset, and (2) The sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the owner's equities.

If the transfer of partial financial asset satisfies the conditions to stop the recognition, the entire book value of the transferred financial asset shall, between the portion whose recognition has been stopped and the portion whose recognition has not been stopped, be apportioned according to their respective relative fair value, and the difference between the amounts of the following 2 items shall be included into the profits and losses of the current period: (1) the sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the owner's equities, and (2) the said apportioned book value.

9.5 Classification, Confirmation and Measurement of the Financial Liabilities

The group shall classify financial instruments or its components into financial liabilities or equity instruments during the initial recognition in accordance with contract terms of the issued financial instruments and reflected economic essence in legal forms and others, in combination with definitions of financial liabilities and equity instruments.

Financial liability is classified into the financial liability measured at their fair values and of which the variation is included in the current profits and losses and other financial liabilities.

9.5.1 Financial Liabilities Measured at the Fair Value with Their Changes Included into Current Profit and Loss

The financial liabilities which are measured at their fair values and of which the change is included in the current profit and loss, including transactional financial liabilities and the designated financial liabilities which are measured at their fair values and of which the change is included in the current profit and loss.

9.5 Classification, Recognition and Measurement of Financial Liability- continued

9.5.1 Financial Debts Which Are Measured on the Fair Value and Whose Variations Are Recorded in the Current Profit and Loss - continued

The financial liability meeting one of the following conditions will be classified as trading financial liabilities: (1) The purpose for bearing the financial liability is mainly to buy back in the near future; (2) Forming a part of the identifiable combination of financial instruments, initial recognition is managed in a centralized way and has objective evidences proving that the Group may manage the combination by way of short-term profit making in the near future; (3) Belong to derivative instruments excluding derivative instruments that are designated as the effective hedging instruments, derivative instruments belonging to financial guarantee contracts, and derivative instruments which are connected with the equity instrument investment, for which there is no quotation in the active market, whose the fair value cannot be measured reliably, and which shall be settled by delivering the said equity instruments.

In case of meeting one of the following conditions, the financial liabilities can be measured by fair value during initial recognition and the changes can be included in the financial liabilities of current profits and losses: (1) The appointment can eliminate or obviously decrease the inconformity of gains or losses in confirmation or measurement caused by inconformity in the measurement basis of financial liabilities; (2) The official written documents on risk management or investment strategies of the Group concerned have recorded that the portfolio of said financial liabilities, or the portfolio of said financial assets and liabilities will be managed and evaluated on the basis of their fair values and be reported to the key management personnel; (3) Eligible mixed instruments, including embedded derivatives;

The current profits and losses and expenses of dividends and interests, arising from the change in the fair value of the financial liabilities which is follow-up measured at its fair value and of which the change is included in the current profit and loss, shall be included in the current profit and loss.

9.5.2 Other Financial Liability

The derivative financial liabilities which are connected to the equity instrument for which there is no quotation in the active market and whose fair value cannot be reliably measured, and which must be settled by delivering the equity instrument, shall be measured subsequently on the basis of the cost. These kinds of financial liabilities should be calculated subsequently with the effective rate method and in accordance with the amortized cost. The profits and losses result from the derecognition or amortization should be put in the current profit and loss.

9.5.3. Financial Guarantee Contracts

The financial guarantee contract means an agreement pursuant to which a surety and a creditor agree that the surety shall perform the obligation or bear the liability according to the agreement, when the debtor fails to perform his obligation. Financial guarantee contract that doesn't belong to financial liabilities that are specified to be measured according to fair value and the changes of which are included in the current profit and loss is initially confirmed according to fair value; after the initial confirmation, conduct subsequent measurement with the higher remaining balance after deducting the

accumulated amortization amount in accordance with principles provided in *Accounting Standards for Business Enterprises No. 14 - Income* by the amount confirmed according to *Accounting Standards for Business Enterprises No. 13 - Contingency* and the initial confirmation amount.

9.6 Derecognition of Financial Liabilities

For financial asset whose present obligation has been fully or partially relieved, all or part of the financial asset is derecognized. The Group (the Obligor) and the Obligee sign the agreement to substitute the new financial liability mode for the existing financial liability. The essences of the contract provisions for the new financial liability and existing financial liability are different, so the recognition of existing financial liability can be terminated and the new financial recognition be recognized at the same time.

Where the recognition of a financial liability is totally or partially terminated, the enterprise concerned shall include into the profits and losses of the current period the gap between the carrying amount which has been terminated from recognition and the considerations it has paid (including the non-cash assets it has transferred out and the new financial liabilities it has assumed).

9.7 Derivative Instruments and Embedded Derivative Instruments

Derivative financial instruments include forward foreign exchange contract, monetary exchange rate swap contract, interest rate swap contract and foreign exchange option contract. Conduct initial measurement and subsequent measurement for the derivative instruments on the related contract signing date based on fair value. The changes in the fair value of derivatives shall be included into the current profits and losses.

If mixed instruments that include embedded derivative instruments are not designated as financial assets or liabilities measured based on fair value with the changes being included into the current profits and losses, the embedded derivative instruments are not closely related to the main contract concerning economic characters and risks and the independent instruments conforming to the definition of derivative instruments that have the same conditions with the embedded derivative instruments are broken out from the embedded derivative instruments to be disposed as independent derivative financial instruments. Where it is unable to separately measure the embedded derivative instrument at acquisition or subsequent balance sheet date, the hybrid instruments shall be designated in whole as the financial assets or liabilities measured at fair value with changes included in current profits and losses.

9.8 Offset of Financial Assets and Financial Liabilities

When the group has the legal right to offset the confirmed financial assets and financial liabilities and is entitled to perform the aforesaid legal right at the present, and meanwhile when the group intends to settle or sell off the financial assets and pay off the financial liabilities by the net amount, the financial assets and financial liabilities shall be presented in the balance sheet with the amount after the mutual offset. In all other situations, they are presented separately in the balance sheet and are not offset.

9.9 Equity instrument

Equity instrument refers to a contract specifying the instrument holder's share in the remaining equity of the Group's asset less all its liabilities. Consideration received from issuing equity instrument less transaction cost is recorded in owners' equity. That the group issues (including refinancing), repurchases, sells or cancels equity instruments is taken as the change treatment of rights and interests. 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 accounts of single significant amount and individual provision for bad debts:

Judgment basis or amount standard for financial assets with single significant amount	The Group deems that the fund with amount of more than RMB 4 million (inclusive) and accounting for more than 10% of the receivables book balance is the receivables with single significant amount.
Withdrawing method of single withdrawing of bad-debt provision with significant amount	The Group separately conducts the impairment test on the accounts receivables with single significant amount and other receivables, the accounts receivables and other receivables without impairment after the separate test include the impairment test in the financial asset portfolio with similar credit risk characteristics. The accounts receivables and other receivables with the confirmed impairment loss after the separate test on longer include the impairment test in the financial asset portfolio with similar credit risk characteristics.

10.2 Accounts receivables of withdrawing bad-debt provision as per credit risks feature combination:

Method of combined bad-debt provision based on credit exposure characteristics	
Accounts receivables with insignificant single amount and significant single amount but no single test impairment	The method of aging accounting receivables

Withdrawing bad-debt provision by aging analysis method in combination

Aging (more than credit period)	Calculation and withdrawal proportion of receivables (%)	Withdrawing percentage 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 Receivables accounts of single non-significant amount except individual provision for bad debts:

Reasons for single withdrawing of 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 as credit risk feature by ageing.
Withdrawing method for bad-debt provision	By respective impairment test, it carries out the bad debts preparation according to the difference of the present value of future cash flows lower than book value

11. Inventories

11.1 Classification of Inventories

The Group's inventory mainly includes 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. Initial measurement is conducted for inventory according to cost. The inventory costs include procurement cost, processing cost and other expenditures for inventory to be in current place and state.

11.2 Valuation Methods of the Inventory Issuing

When the shares are issued, the actual costs of the issued shares are determined using the moving weighted average method.

11.3 Determination basis of the net realizable value of inventory:

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 inventories is generally made as the excess of the cost of single inventory item over its net realizable value.

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 System for Inventory

The inventory system is a perpetual inventory system.

11.5 Amortization Method for Low-value Consumables and Packaging

Packing materials and low-price easily-worn materials are amortized by the one-time writing-off process.

12. Long-term Equity Investment

12.1 Judgment Standard of Joint Control and Significant Impact

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. 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 approval of participants sharing the control right. The significant influence refers to having the power to participate in the formulation of financial and operating policies of the invested entity, but no power to control or jointly control the formulation of these policies together with other parties. When it is confirmed whether or not the invested unit can be controlled or significantly influenced, the following potential vote power factors have been considered: transferable bond and warrants executable in the current period by the investing enterprise and other invested units held by it, etc.

12.2 Confirmation of Initial Investment Costs

For the long-term equity investment acquired through the enterprise merger under the 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 act 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 a combined financial statement of the final controlling party 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.

The long-term equity investments obtained by the combination of controlling interests under different control and the merger cost confirmed on the purchased date are regarded as the initial investment cost.

The 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 and determined held equity investment and newly-increased investment cost in accordance with *No. 22 Accounting Standards for Business Enterprises---Recognition and Measure of the Financial Instruments*.

12.3 Subsequent Measurement and Profit and Loss Confirmation Method

12.3.1 Long-term Equity Investments of Cost Method Accounting

Financial statement shall be calculated through the cost method, in relation to the long-term equity investments of subsidiaries. Subsidiary corporation means the investee body which can be 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 Subsequent Measurement and Profit and Loss Confirmation Method - Continued

12.3.2 Long-term Equity Investments of Equity Method Accounting

Investment in consortium and joint venture is accounted for using the equity method. Consortium refers to investee on which the Group has significant influence; joint venture refers to investee over which the Group is able to jointly exercise control together with other investors. Associated enterprise means that the investee which can be greatly influenced by the group; joint enterprise means a kind of joint arrangement and the group only has control rights of such net assets.

When the equity method is adopted, where exceeding the Company's share of the fair value of the invested party's identifiable net assets at investment date, the initial investment cost of the long-term equity investment is kept unadjusted; where the initial investment cost of the long-term equity investment is less than the Company's share of the fair value of the invested party's identifiable net assets at the investment date, the differences are recorded as profit & loss for the current period and the costs of long-term equity investment are adjusted simultaneously.

When the equity method is used for the accounting, in accordance with the shares in the net profits and losses, and other comprehensive incomes of the invested unit which the Company is entitled to share or bear, the investment income and other comprehensive incomes are determined separately, and 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 investment 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 to recognize its attributable share of profits.

12.4 Disposing of Long-term Equity Investment

When disposing of a long-term equity investment, the difference between its book value and the actual purchase price shall be recorded into the current profits and losses.

13. Fixed Assets

13.1 The Conditions of Recognition

The fixed assets refer to tangible assets held for commodity production, rendering of labor service, renting or operation management, having a service life of more than one accounting year. The fixed asset can be confirmed only when the economic interest related to a fixed asset is likely to flow into the group, and the cost of such fixed asset can be reliably measured. Fixed assets are measured initially in accordance with costs.

Subsequent expenditures related to fixed assets are included in costs of fixed assets when the associated economic benefits are likely to flow to the Group and the costs can be measured reliably, and the book value of the replaced part is derecognized; all other subsequent expenditures are included in profits and losses in the current period when incurred. Other subsequent expenditures except for the above said subsequent expenditure shall be included into the current profit and loss once occurred.

13.2 Depreciation Method

From the following month when fixed assets reach the estimated applicable status on, the counting and withdrawing depreciation shall be conducted in its service life using age limit average method. The service lives, expected rates of net residual value and annual depreciation rates of the fixed assets are as follows:

Class	Depreciation life (year)	Salvage value rate (%)	Annual depreciation rate (%)
Houses and buildings	20 years	10	4.5
Common facilities	3-5 years	10	18.0-30.0
Special-purpose equipment	3-5 years	10	18.0-30.0
Transport equipment	5 years	10	18.0

The predicted net residual value refers to the expected amount that the group may obtain from the current disposal of a fixed asset after deducting the expected disposal expenses at the expiration of its predicted service life.

13.3 Identification Basis, Valuation and Depreciation Method of Fixed Assets of Financial Lease

On the commencement date of the lease term, record the fair value of the leasing asset or the present value of the minimum lease payments on the lease commencement date, whichever is lower, as the entry value of the leased asset, make the amount of the minimum lease payments as the entry value of long-term account payable, and recognize the balance between the entry value of the leased asset and that of the long-term account payables as unrecognized financing charges. In addition, the initial direct costs directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be included into the asset value of the rent.

The Group applies depreciation policy consistent with its own fixed assets to depreciate the rented fixed assets under financing lease. If it is reasonable to be certain that the Company will obtain the ownership of the leased asset when the lease term expires, the leased asset may be fully depreciated over its useful life. If it is not reasonable to be certain that the Company will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset may be fully depreciated over the shorter one of the lease term or its useful life. If the ownership of the leased asset can be reasonably confirmed on the lease term expiry, the accrual depreciation shall be conducted within the service life of the lease asset; if not, the accrual depreciation shall be conducted within the shorter of two periods, namely the lease term and the service life of lease asset.

13.4 Other Instructions

The fixed assets are derecognized when the fixed assets are in disposed state or no future economic benefits are expected from their use or disposal. The amount of proceeds on sale and transfer of a fixed asset as well as disposal of a scrapped or damaged fixed asset less its book value and related taxes, are recognized in profits and losses of the current period.

The Group performs review on service life, predicted net residual value and depreciation method of fixed assets at the end of the year, any changes will be treated as changes in accounting estimates.

14. Construction in Process

The cost of construction in process shall be measured as per actual costs, including various engineering expenditures in the construction process, capitalized borrowing expenses for making the engineering reach the expected serviceable condition, other relevant costs, etc. No depreciation calculated and withdrawn arises from construction in process. The construction in process shall be transferred to the fixed assets when it reaches the expected serviceable condition. For those that could reach to the expected serviceable condition, but haven't gone through the procedures for the final accounts of the completed projects, they will be converted to fixed assets according to the estimated value. When they have gone through the final accounts of the completed projects, the provisional estimate value of the original fixed assets will be adjusted according to the actual costs.

15. Borrowing Expenses

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.

After actual interest expense generated from the specific loan for current period, minus interest income from the yet unused borrowed money kept in the bank or investment income made from temporary investment, these amounts are capitalized; The capitalizing amount is determined after the weighted average of excess part of accumulative asset expenditures compared to the asset expenditure of special borrowing multiplied by the capitalization rate of the general borrowing. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing. In the capitalization period, all exchange balance of special foreign currency borrowing shall be capitalized; Exchange balance of general foreign currency borrowing shall be included in the current profit and loss.

16. Intangible Assets

16.1 Intangible Assets

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

The initial measurement of intangible assets shall be made at its cost. The intangible assets with the limited service life can be amortized evenly for the original value by installment through the straight-line method within its predicted service life since the time available for using. The service life and predicted net residual value of various intangible assets are shown as follows:

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

At the end of the period, the service life and amortization method of intangible assets whose service life is limited shall be reviewed and adjusted when necessary.

16.2 Internal Research and Development Expenditure

Expenditures at research stage are included in current profit and loss when incurred.

Expenditures at development stage that meet all the following conditions are recognized as intangible assets, otherwise included in current profit and loss:

- (1) Complete the intangible asset so that it can be used or sold and has feasibility in technology;
- (2) Have the intents to complete, use or sell the intangible assets;

- (3) The usefulness of methods for intangible assets to generate economic benefits can be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally;
- (4) There are sufficient technical, financial and other resources to complete the development of the intangible assets, and there is ability to use or sell the intangible assets;
- (5) The expenditures of the intangible assets in the development stage can be reliably measured.

The expenditures in the research stage and development stage, if failing to be classified, shall be totally included into the current profit and loss.

17. Long-term Assets Impairment

The Group checks whether the intangible assets determined by a long-term equity investment, fixed assets, construction in process and service life have any signs of possible impairment at each balance sheet date. For the assets with signs of impairment, their recoverable amount will be estimated. The intangible assets with uncertain service life and the intangible assets which have not yet reached serviceable condition shall be give impairment test every year no matter whether there are signs of impairment.

The recoverable amount of estimated assets shall be based on single assets; if it is difficult to estimate the recoverable amount of single assets, the recoverable amount of the asset group shall be determined based on its belonging asset group. The recoverable amount shall be determined in light of the higher one between the net amount of the fair value of the assets or asset group deducted by the disposal expenses and the present value of the expected future cash flow.

If the recoverable amount of assets is lower than its book value, assets impairment preparation shall be counted and drawn based on its balance and be included in the current profits and losses.

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 apportion-included asset group or asset portfolio of goodwill is less than book value of goodwill, impairment loss shall be confirmed. 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 above asset impairment losses are confirmed, they are not reversed in subsequent accounting periods.

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 which are included in current profit and loss or relevant asset cost. For the employee services and benefits of the Group, they are included into current profit and loss or relevant asset cost according to actual amount during the actual period. If the staff welfare is non-monetary welfare, it shall be measured according to its fair value.

During the period when the employees service the Group, the Group pays social insurance premiums such as medical insurance premium, industrial injury insurance premium, birth insurance premium and housing accumulation fund for its employees, as well as labor union expenditure and employee education expenses calculated and withdrawn according 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 which are 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: When the Group cannot unilaterally withdraw the termination benefits provided due to labor relation cancellation plan or employee lay-off suggestion; When the Group determines costs or expenses in relation with the restructuring of the paid termination benefits. 19

19. Provisions

When the contingency obligation related to product quality guarantee and others is the present obligation of the Group, and the obligation performance may cause the outflow of economic profits, of which the amount can be measured reliably, the amount shall be confirmed as provisions.

The estimated liabilities are measured at balance sheet date in accordance with the best estimate of the necessary expenses for the performance of the current obligation and factors pertinent to contingencies such as the risks, uncertainties and the time value of money are taken into account as a whole. If the time value of money generates a great influence, the best estimate shall be determined in accordance with discounted amount of the expected future cash outflow.

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.

20.1 Equity-settled Share-based Payment

Equity-settled share-based payment granted to employees

For the equity-settled share-based payment in exchange of services provided by employees, the fair value shall be measured with the equity instrument granted to the employees on the grant date. The fair value's amount is based on the optimal estimation of the number of vesting equity instruments within the waiting period, and shall be included in relevant cost or expense at the time of the granted immediate vesting according to the straight-line method, the fair value's amount is included in relevant cost or expense with a corresponding increase of capital reserve at the grant date.

As for each balance sheet date in the waiting period, the Group can make best estimate according to the variations in the number of vesting staff and other subsequent information, in order to amend the amount of equity instrument of the predicated vesting right. The stated effects of evaluation shall be included into the current relevant cost or fees, and the capital reserves shall be adjusted correspondingly.

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

20.2. Related Accounting Treatment of Implementation, Modification and Termination of The Share-Based Payment Plan

When the Group modifies the share-based payment plan, if the modification increases the fair value of equity instrument granted, the increase of service shall be recognized according to the increase of fair value of equity instrument accordingly; If the number of equity instrument granted is modified to increase, the Group shall confirm the fair value of equity instrument increased as the increase of service obtained. The increment of fair value for equity instrument refers to the difference in fair value of the equity instrument before and after the modification on the modification date. If the modification decreases the total amount of share-based payment fair value or adopts other ways which are adverse to the employees to modify terms and conditions of share-based payment plan, unless the Group cancels the part or all of the granted equity instruments, it shall conduct the further accounting treatment of the services acquired, and it shall be deemed that such change never happens.

If the conferred equity instruments are cancelled during the waiting period, the Group shall accelerate exercising the rights of the equity instruments. The amount recognized during the remaining waiting period shall be included into current profit and loss immediately and the capital reserve shall be determined simultaneously. If the employees may meet non-exercisable conditions, but fail to not meet within the waiting period, the Group may cancel them as conferred equity instruments.

21. Income

21.1 Income From Commodity Sales

The Group has transferred the main risk and remuneration from the commodity ownership to the buyer; the Group retains neither the management rights usually associated with ownership, nor the effective control of the sale of goods; the amount of incomes can be measured reliably; the related economic benefits may flow to the enterprise; when the related cost has occurred or will be occur can be measured reliably, the realization on income from commodity sales shall be confirmed.

21.2 Income From Provision of Labor Service

The realization of incomes for providing labor service shall be confirmed when the amount of incomes for providing labor service can be reliably measured, relevant economic interests can probably flow into the enterprise, completion degree of transaction can be reliably determined, costs that have occurred and will occur in the transaction can be reliably measured. The Group shall confirm the labor service income provided at the balance sheet date according to the completion percentage method. The completion process of labor service transaction is determined by the ratio of the already accrued labor service cost to the total costs.

In the event that result of labor service cannot be estimated reliably, revenue from such labor service is recognized in accordance with the incurred labor cost which is estimated to be compensated, and such labor cost is recognized as expenses for current period; where the incurred labor cost is estimated not to be compensated, revenue from such labor service shall not be recognized. If the labor service cost already accrued is estimated not to be compensated as predicted, its income shall not be confirmed.

21.3 Construction Contract

If the results of the construction contracts can be reliably estimated, the enterprise can confirm the contract income and expenses as achieved by the completion percentage method on the balance sheet date.

Progress of contract completion will be determined based on the proportion of finished contractual amount of work covering estimated total amount of work.

If the results of the construction contract cannot be estimated reliably: where the contract costs can be recovered, the contract revenue shall be recognized according to the actual contract costs that can be

recovered and the contract costs shall be recognized as the expenses incurred in the current period; when the contract costs cannot be recovered, the contract costs shall be recognized as the expenses once they are incurred and the revenue shall not be recognized. Where the uncertain factors affecting the reliable estimation of the results of the construction contract have no longer been in existence, contract revenue and expenses shall be recognized based on the percentage-of-completion method. If the uncertain factors in that results of construction contracts cannot be reliably estimated disappear, the relevant incomes and expenses to construction contract shall be confirmed according to the completion percentage method.

If the expected total contract costs exceed the total contract revenue, the expected loss is recognized as current expenses.

The accumulative cost accrued and accumulative gross profits (losses) confirmed and already settled payments in the construction contract shall be presented as net amount after offsetting in the balance sheet. If the sum of accumulative cost accrued and accumulative gross profits (losses) confirmed is surplus settled part of payments in the construction contract, this part is listed as inventory; If the settled part of payment is surplus the sum of accumulative cost accrued and accumulative gross profits (losses) confirmed in the construction contract, this part is listed as prepayment.

As for the construction business of public infrastructures in BOT, the Group will recognize the relevant income and expenses of the construction services according to *Accounting Standards for Business Enterprises No. 15- Construction Contract* in the project construction period; After the completion of infrastructure, the income and expenses related to the follow-up operation services will be recognized according to *Accounting Standards for Business Enterprises No. 14 - Income*.

22. Governmental Subsidy

Governmental subsidies are the monetary and non-monetary assets obtained by the Group from the government for free. According to the subsidy object regulated in government documents, the government subsidy will be divided into government subsidy related to assets and income.

The government subsidy shall be recognized when the attached conditions of government subsidies can be met and obtained. The government subsidy which is monetary assets shall be calculated by the actually received amount.

22.1 Judgment Basis and Accountant Arrangement Method of Government Subsidy Related to the Assets

Asset-related government subsidy, shall be recognized as deferred income, evenly spread to the service life of corresponding assets, and included as profit or loss of the current period.

22.2 Judgment Basis and Accountant Arrangement Method of Government Subsidy Related to the Income

The income-related government subsidies shall be recognized as the deferred incomes if it is used to compensate the relevant expenses and losses in the later period and included into the current profit and loss in the period of confirming the related expenses; Those used for compensating the related expenses and losses incurred shall be included into the current profit and loss directly.

23. Deferred Income Tax Assets / Deferred Income Tax Liabilities

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

23.1. Current Income Tax

On the balance sheet date, the current income tax liabilities (or assets) incurred in the current period or prior periods shall be measured on the basis of the expected payable (or refundable) amount of income tax, which is calculated according to the tax law.

23.2 Deferred Income Tax Assets and Deferred Income Tax Liabilities

In case of temporary differences including the difference between the book value of assets and liabilities and the tax base and difference between the book value and the tax base of the items which are not recognized as assets and liabilities, however, the tax base of which can be determined in accordance with tax law, the deferred income tax assets and liabilities shall be recognized by adopting the balance sheet liability method.

In general, all temporary differences shall be recognized as relevant deferred income taxes. For deductible temporary differences, the Group shall confirm the related deferred income tax assets when the taxable income amount of deductible temporary differences that is likely to be deducted in future is regarded as the limit. In addition, related to the initial recognition of goodwill, and the taxable temporary differences related to the initial recognition of assets or liabilities occurred in the transaction which will not influence the accounting profit and taxable income (or deduction loss), and not the business merger, shall not confirm the deferred income tax assets or liabilities.

As for any deductible loss or tax deduction that can be carried forward to the subsequent years, the corresponding deferred income tax assets shall be determined to the extent that the amount of future taxable income to be offset by the deductible loss and tax deduction to be likely obtained.

The Group can confirm deferred income tax liabilities arisen by the taxable temporary differences related to investment invested with its subsidiary, except that it can control the timing of reversal of temporary differences, and the temporary differences in the foreseeable future is unlikely to be reversed. For deductible temporary differences related to the investment of the subsidiary, if it's possible that the temporary difference shall be switched back in the foreseeable future and obtain sufficient taxable income for deducting the deductible temporary difference in the future, the Group will confirm it as the deferred income tax assets.

23.2 Deferred Income Tax Assets and Deferred Income Tax Liabilities - continued

On the balance sheet date, the deferred income tax assets and deferred income tax liabilities shall, under the tax law, be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

Except that the current income tax and deferred income tax which are confirmed as other comprehensive incomes or those related to transactions and events directly included into the shareholders' equities shall be included into other comprehensive incomes or shareholders' equities, as well as the book value of deferred income tax for goodwill adjustment arising from business merger, the remaining current income tax and deferred income tax expenses or revenues shall be included into current profit and loss.

At balance sheet date, it shall recheck the book value of deferred income tax assets. If taxable income is likely to fail to cover the profits generated from the deferred income tax assets, then it is necessary to write down the book value of deferred income tax assets. When adequate taxable income is likely to obtain, recover the deducted amount. When adequate taxable income is likely to obtain, the deducted amount shall be recovered.

23.3 Offset of Income Tax

When having the legal rights settled at a net amount are owned and it is intended to make settlement at a net amount, obtain assets or repay liabilities simultaneously, the Group's current income tax assets and current income tax liabilities shall be presented at a net amount after offsetting.

The deferred income tax assets and liabilities of the Group shall be presented at the net amount after deducting when having the legal right of settling income tax assets and liabilities in current period at net amount and the deferred income tax assets and liabilities are pertinent to income tax of the same taxation subject or different subjects collected by the same tax collection and administration department, however during each period of significance when the deferred income tax assets and liabilities are reversed, the taxation subjects involved intend to settle the income tax assets and liabilities in current period at net amount or obtain assets and settle liabilities simultaneously.

24. Lease

Transfer the financing lease of all risks and remunerations related to the ownership of assets in essence. Operating leases refer to the leases other than finance leases.

24.1 Accountant Arrangement Method of The Operating Lease

24.1.1 The Group will record operating leasing business as the lessee.

Any rental payment from operating leases shall be recognized in relevant asset costs or current profit and loss in accordance with the straight-line method in each period within the lease term. Initial direct expenses shall be included in current profit and loss while the contingent rents shall be included in current profit and loss when they actually occur. The initial direct costs shall be included into the current profit and loss. The contingent rental shall be included into the current profit and loss when it is actually incurred.

24.1.2 The Group will record operating leasing business as the lesser.

The rental income of operating lease during each period within the lease term will be recognized as the current profit and loss according to the straight-line method. A large amount of initial direct costs shall be capitalized when occurring and be included into current profit and loss according to the same installment of rental income in the entire lease term; the other initial direct costs of smaller amount will be included into the current profit and loss when it occurs. The contingent rental shall be included into the current profit and loss when it is actually incurred.

24.2. Accountant Arrangement Method of the Financing Lease

24.2.1 The Group will record operating leasing business as the lessee.

For relevant accountant arrangement method, see Note (III) "15.3 Identification basis, valuation and depreciation method of fixed assets of financing lease".

Where the unrecognized financing costs are within the lease term, the current financing costs shall be recognized in accordance with the effective interest method. Contingent rents shall be included in current profit and loss when they actually occur. The minimum rental payment shall be presently respectively as long-term liabilities and long-term liabilities due within one year after deducting the unrecognized financing costs. The contingent rental shall be included into the current profit and loss when it is actually incurred. The remaining balance of the minimum leasing payment deducting unrecognized financing charges is respectively presented as long-term liability and long-term liability due in one year.

24.2. Accountant Arrangement Method of The Financing Lease

24.2.2 The Group will record operating leasing business as the lesser.

At the beginning date of the lease term, a lessor shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entry value in an account of the financing lease values receivables, and record the un-guaranteed residual value at the same time; The balance between the sums of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values shall be recognized as unrealized financing income.

The unrealized financing incomes adopt the effective interest method during each lease term to calculate and recognize the current financing incomes. The contingent rental shall be included into the current profit and loss when it is actually incurred.

The balance of the receivables financing lease amount deducting unrealized financing revenue is respectively presented as long-term creditor's rights and long-term creditor's rights due in one year.

25. Buy-back Its Own Shares

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 amount of cancelled share face value and share face value of cancelled number of 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.

If the transaction expense paid in the process of repurchasing this Company shares reduces the shareholders' equity, then gains or losses shall not be determined.

26. Important judgments used during accounting policy process and key assumptions and uncertainty factors used in 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 which may not be metered accurately. These judgments, estimates and assumptions are based on the historical experience of the Group's management level and other key factors. Differences may exist in the actual results and the group 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 number will be affirmed during the changing period; if it influences the current period and future period, the influence number 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 in book value of assets and liabilities in future period caused by the accounting estimate mainly are

Impairment of the fixed assets

At the balance sheet date, the Group will check whether fixed assets have signs that depreciation 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 assets or asset group is higher than the recoverable amount, namely the net amount of fair value minus the disposal expenses or the present value of expected future cash flow (which is higher). The net amount of fair value minimum 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 level 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 level deems that fixed assets shall not need to calculate and withdraw the impairment reserve.

Service life and predicted net residual value of fixed asset

The Group's estimation of fixed assets serviceable 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 that fixed assets' predicted service life expires and fixed assets are at the end of service life. The Group shall conduct the review on the predicted service life and predicted net residual value of fixed assets at least at the end of each year, this year the Group's management level fails to find the conditions to make the Group's fixed asset service life shortened or extended and need to change predicted net residual value.

Impairment of accounts receivables

When there is a clear evidence to make the accounts receivables recovery in doubt, then the Group will calculate and withdraw the impairment preparation to the accounts receivables. Because the Group's management level needs to decide the historic payment collection, aging, debtor's financial condition and overall economic environment when considering the impairment reserve, so the calculation of impairment reserve has the uncertainty. Although there is no reason to believe that the based estimation will have a major change in the future when calculating the impairment of accounts receivables, the book value and impairment loss of accounts receivables will change when the future actual result is different from the anticipated and original estimation.

Accrued liabilities of product quality assurance

Accrued liabilities of product quality assurance are an estimation made by the Group according to the repair and replacement cost of predicted relevant products. The estimation is involved in the product claim rate trend, history defect rate, industry practice and other major estimations. The management level deems that the current estimation on accrued liabilities of product quality assurance is reasonable, but the Group will continue to review the product after-sales service, the Group will conduct adjustment during the period of sign occurrence once there are indications that the accounting assumptions need to be adjusted

Provision for impairment of inventories

Inventories are stated at the lower of cost and net realizable value. The Group will regularly conduct a comprehensive inventory to determine whether there are outmoded and dull inventory and to review the impairment circumstances, in addition, the Group's management level will regularly review the impairment circumstance of inventory with long storage time according to the inventory storage time list. The review procedure includes the comparison between book value of outmoded, dull inventory and inventory with long storage time and its corresponding net realizable value in order to determine whether the outmoded, dull inventory and inventory with long storage time need to calculate and withdraw reserve in the financial statements. Based on the above procedure, the Group's management level deems that the full falling price reserves have been calculated and 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 future actual profit and the effective tax rate of temporary difference in the future use year. 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 turned back and be confirmed in the income statement during the period of return-back. 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 be confirmed in the income statement during the condition occurrence.

Goodwill impairment

When the goodwill conducts the impairment test, this needs to calculate the predicted present value of future cash flow of relevant asset group or asset group combination included in the goodwill, and needs to predict the future cash flow of relevant asset group or asset group combination, and needs to determine a proper pretax rate that reflects the current market time value of money and specific asset risk. When the future actual result is different from the original estimation, then the goodwill impairment loss will change.

IV. Taxes

Major tax categories and rates

Tax category	Taxation basis	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 an ordinary VAT payer; the VAT payable is the balance after the substituted money on VAT minus deductible	6%, 11%, 17% and simple collection rate of 3% (Note 2)

	input tax.	
Business tax	Assessable Income	5%, 3% (Note 3)
Urban 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 local tax rate.

(1) In accordance with the *Notice on Publishing the List of First Batch of 722 identified High-tech Enterprises of Zhejiang Province in 2014* (ZGQR [2014] No. 03) issued by Zhejiang high-tech enterprise identification management work leading group on September 19, 2014, this Company was identified as the high-tech enterprise with a valid term of 3 years from 2014 to 2016. This year the enterprise income tax shall be calculated and paid according to tax rate of 15%.

In accordance with the *Notice on Printing and Distributing the List of Key Software Enterprise and Integrated Circuit Design Enterprise within 2013- 2014 Annual National Planning Layout* (FGGJ [2013] No. 2458), in 2013 this Company was identified as the national key software enterprise. In accordance with the *Notice on Relevant Problems of Income Tax Preferential Policy of Software and Integrated Circuit Industry Enterprise* (CS [2016] No. 49), the 2015 annual enterprise income tax shall be calculated and paid according to tax rate of 10% after this Company was approved by the tax authority in May 2016. As at approval date of this report, the income tax preferential policy has not been approved in 2016, so this year the enterprise income tax shall still be calculated and withdrawn according to tax rate of 15%.

(2) Zhejiang Province Economic and Information Management Committee identified that the wholly-owned subsidiary - Hangzhou Hikvision System Technology Co., Ltd. ("Hangzhou System") is a software enterprise. In accordance with the tax law, the software enterprise shall enjoy the preferential policy of exemption for the next first two years and half rate reduction for the next subsequent three years, the 2016 is the fifth year of profit-making year. Hangzhou System's income tax rate shall be calculated and paid according to 12.5% after the review for the record in 2015, but this year Hangzhou System fails to pass the software enterprise review, so this year this Company cannot enjoy the tax preferential policy of half rate reduction of software enterprise income tax.

In accordance with the *Letter of Reply on Publishing the Registration of First Batch of High-tech Enterprises of Zhejiang Province in 2016* (GKH ZI [2016] No. 149) issued by Zhejiang high-tech enterprise identification management work leading group on December 9, 2016, this Company was identified as the high-tech enterprise with a valid term of 3 years from 2016 to 2018. Therefore, the enterprise income tax this year shall be calculated and paid according to tax rate of 15%.

(3) In accordance with the *Notice on Publishing the List of First Batch of Reviewed High-tech Enterprises of Shanghai in 2014* issued by Shanghai high-tech enterprise identification office, the wholly-owned subsidiary - Shanghai Gaodewei Intelligent Transportation Systems Co., Ltd. ("Shanghai Gaodewei") passed the review of the high-tech enterprise with a valid term of 3 years from 2014 to

2016. Therefore, this year the enterprise income tax shall be calculated and paid according to tax rate of 15%.

(4) In accordance with the *Notice on Publishing the List of Second Batch of Reviewed High-tech Enterprises of Shanghai in 2013* issued by Shanghai high-tech enterprise identification office, the wholly-owned subsidiary - Hundure Intelligent Systems (Shanghai) Co., Ltd. ("Shanghai Hundure") passed the review of the high-tech enterprise with a valid term of 3 years from 2013 to 2015. But this year Shanghai Hundure fails to pass the review of the high-tech enterprise, so this year the enterprise income tax shall be calculated and paid according to tax rate of 25%.

(5) In accordance with CS [2011] No. 58 Document of Ministry of Finance, SAT and General Administration of Customs, the wholly-owned subsidiaries - Chongqing Hikvision Science and Technology Co., Ltd. and Chongqing Hikvision System Technology Co., Ltd. Can enjoy the west development preferential tax policy from 2011 to 2020, 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 SAT, as for the sales of software products developed by this Company and its all wholly-owned subsidiaries, such as Shanghai Gaodewei, Hangzhou System, Shanghai Hundure, Beijing Brinaire Storage Technology Co., Ltd., Hangzhou EZVIZ Network Co., Ltd. and Hangzhou HIK Robot Technology Co., Ltd., The VAT shall be calculated and paid by tax rate of 17%, the part with actual tax bearing more than 3% shall be refunded after the approval of the SAT.

Note 3: In accordance with the *Notice on Fully Implementing the Change from Business Tax to Value-Added Tax* (CS [2016] No. 36) the Group's business tax has been changed as VAT since May 1, 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

Unit: RMB

	Closing Balance			Opening Balance		
Item	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
Cash:						
RMB	-	-	71,546.66	-	-	535,951.44
USD	54,518.00	6.9370	378,191.37	6,298.00	6.4936	40,896.69
EUR	9,914.76	7.3665	73,036.78	12,310.84	7.0952	87,347.87
GBP	3,194.57	8.5094	27,183.87	499.57	9.6159	4,803.82
ZAR	20,000.00	0.5083	10,165.18	20,000.00	0.4177	8,354.00
INR	648,250.61	0.1023	66,308.91	1,838,768.00	0.0977	179,666.02
RUB	700,327.10	0.1151	80,584.44	300,216.10	0.0884	26,539.10
AED	22,038.00	1.8876	41,599.39	-	-	-
Bank balance:						
RMB	-	-	9,008,949,518.02	-	-	8,366,477,608.69
USD	557,895,047.74	6.9370	3,870,112,669.33	233,090,986.16	6.4936	1,513,599,627.73
EUR	63,105,958.57	7.3086	461,213,364.03	10,995,696.90	7.0952	78,016,668.65
GBP	1,162,906.87	8.5162	9,903,554.55	940,967.10	9.6159	9,048,245.53
JPY	408.00	0.0596	24.31	-	-	-
CHF	4,350.83	6.7989	29,580.86	-	-	-
ZAR	479,939.35	0.5083	243,938.69	1,426,641.29	0.4177	595,908.07
INR	741,278,806.84	0.1023	75,824,667.94	202,153,791.00	0.0977	19,752,446.92
RUB	376,048,117.90	0.1149	43,219,734.70	410,300,913.83	0.0884	36,270,600.79
HKD	113,182.52	0.8945	101,242.90	247,198.58	0.8378	207,098.03
AUD	358,996.02	5.0157	1,800,616.34	91,861.63	4.7276	434,285.04
AED	8,811,007.21	1.8876	16,631,825.02	1,837.50	1.7684	3,249.44
BRL	8,453,226.09	2.1336	18,035,803.19	178,201.98	1.6445	293,060.28
SGD	34,035.93	4.7995	163,355.45	1,655.21	4.4426	7,353.44
PLN	1,403,342.82	1.6569	2,325,147.58	1,047,350.78	1.5841	1,659,108.37
KRW	120,990,676.00	0.0058	696,509.57	359,794,675.00	0.0055	1,978,870.71
CAD	42,307.32	5.1406	217,485.01	-	-	-
KZT	27,890,915.57	0.0207	577,341.95	-	-	-
COP	261,841,960.55	0.0023	604,226.04	-	-	-
TRY	21,242.60	1.9702	41,851.47	-	-	-
Other currency funds:						
RMB	-	-	102,586,217.99	-	-	77,272,897.90
USD	3,019,477.89	6.6811	20,173,564.54	-	-	-
EUR	108,432.98	7.3068	792,298.10	-	-	-
Total			13,634,993,154.18			10,106,500,588.53
including: deposited in overseas banks			565,682,133.09			331,732,952.04

As of 31 December 2016, other currency funds book value of the Group in RMB totalled RMB 123,552,080.63, including a RMB closing balance of RMB 102,586,217.99 (opening balance: RMB 77,272,897.90). The balance of other currency funds mainly includes cash deposit guaranteed for letter of guarantee of RMB 4,659,173.02 (opening balance: RMB 13,638,274.27), cash deposit guaranteed for forward foreign exchange transaction of RMB 3,100,000.00 (opening balance RMB 19,643,521.37), cash deposit guaranteed for bank acceptance bill of RMB 57,015,406.62 (opening balance RMB 39,665,967.24), bank deposit of RMB 30,000,000.00 (opening balance: nil) pledged for long-term borrowing. Other currency funds book value in US Dollar totalled USD 3,019,477.89 (equivalent to RMB 20,173,564.54), cash deposit guaranteed for letter of credit.

V. Notes to items in the consolidated financial statements- continued

2. Financial assets as fair value through profit and loss

Unit: RMB

Item	Closing Balance	Opening Balance
Held-for-trading financial assets	15,547,537.34	6,160,279.18
including: derivative financial assets	15,547,537.34	6,160,279.18
Total	15,547,537.34	6,160,279.18

Derivative financial assets includes forwards 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

3.1 Categories of notes receivable

Unit: RMB

Category	Closing Balance	Opening Balance
Bank acceptance bill	2,762,741,337.04	2,962,863,236.66
Commercial acceptance bill	80,663,078.48	81,284,828.15
Total	2,843,404,415.52	3,044,148,064.81

3.2 Notes receivable pledged at the closing of the year

Unit: RMB

Category	Pledged amount by December 31 st , 2016
Bank acceptance bill	421,356,552.77
Commercial acceptance bill	-
Total	421,356,552.77

3.3 Notes receivable discounted or endorsed at the closing of the year

Unit: RMB

Category	Derecognised amount (Note)	Not Derecognised amount
Bank acceptance bill	2,941,986,624.94	-
Commercial acceptance bill	-	-
Total	2,941,986,624.94	-

Note: After the notes receivable discounted was discounted or endorsed, the main risk such as interest rate has been transferred to bank or others, therefore, all discounted and endorsed bank acceptance bills have been derecognised by the Group.

3.4 As of December 31st, 2016, there is no such case the Group has to transfer the defaulted note receivable into account receivable.

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

V. Notes to items in the consolidated financial statements- continued
4. Account Receivable
4.1 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	Proportion (%)	Amount	Proportion (%)	
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	12,103,912,990.83	100	861,100,087.97	7.11	11,242,812,902.86	8,742,595,008.97	100.00	616,662,265.99	7.05	8,125,932,742.98
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Total	12,103,912,990.83	100	861,100,087.97	7.11	11,242,812,902.86	8,742,595,008.97	100.00	616,662,265.99	7.05	8,125,932,742.98

Note: The group categorizes account receivable above RMB 4 million or account for more than 10% of the total account receivable closing balance as accounts receivable that are individually significant.

The aging analysis of bad debt provision of account receivable in portfolio basis

Unit: RMB

Aging	Closing Balance		
	Carrying amount	Bad debt provision	Proportion (%)
Within 1 year	10,523,500,387.08	526,175,019.34	5.00
More than 1 year but not exceeding 2 years	1,079,076,499.37	107,907,649.94	10.00
More than 2 year but not exceeding 3 years	248,963,670.23	74,689,101.07	30.00
More than 3 year but not exceeding 4 years	173,515,249.59	86,757,624.79	50.00
More than 4 year but not exceeding 5 years	66,432,458.64	53,145,966.91	80.00
More than 5 years	12,424,725.92	12,424,725.92	100.00
Subtotal	12,103,912,990.83	861,100,087.97	7.11

V. Notes to items in the consolidated financial statements- continued

4.2 Provision, re-collection, or reverse of the bad debt allowance in current fiscal year

In current fiscal year, the Company recorded a bad debt allowance of RMB 263,333,762.07, an increase of RMB 20,723.58 bad debt allowance due to conversion from statements in foreign currency. There is no such case as reversed bad debt allowance or recovered bad debts.

4.3 Actual write-off of account receivable during current fiscal year

In current fiscal year, the amount of accounts receivable write-off is RMB 18,916,663.67.

4.4 Top five debtors based on corresponding closing balance of account receivable

Unit: RMB

Name of the Party	Relationship with the Company	Book balance of account receivable	Closing balance for bad debt provision	Proportion (%)
Related party A	Related Party	271,544,092.90	13,577,204.64	2.24
Company A	3 rd party	95,128,752.51	10,365,230.34	0.79
Company B	3 rd party	75,975,206.52	3,798,760.33	0.63
Company C	3 rd party	68,562,052.33	3,428,102.62	0.57
Company D	3 rd party	68,263,870.00	9,010,073.50	0.56
Total		579,473,974.26	40,179,371.43	4.79

4.5 As of December 31, 2016, there is no termination of account receivable booking due to transfer of a financial asset.

4.6 As of December 31, 2016, the Group has no assets/liabilities booked due to transferred account receivable that the Group still keep recourse or retain part of the corresponding rights or interests.

5. Prepayments

5.1 Aging analysis of prepayments is as follows

Unit: RMB

Aging	Closing Balance		Opening Balance	
	Carrying amount	Proportion (%)	Carrying amount	Proportion (%)
Within 1 year	259,834,265.50	93.14	120,408,286.44	90.76
More than 1 year but not exceeding 2 years	16,963,135.17	6.08	5,340,047.37	4.03
More than 2 year but not exceeding 3 years	122,880.00	0.04	452,917.80	0.34
More than 3 years	2,050,745.00	0.74	6,461,013.20	4.87
Total	278,971,025.67	100.00	132,662,264.81	100.00

5.2 Closing balances of top five prepayments parties

As of December 31, 2016, the Group's top five balances of prepayments amounted to RMB 96,905,107.31, accounting for 35% of total closing balance of prepayments.

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

V. Notes to items in the consolidated financial statements- continued
6. Other receivables
6.1 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	Proportion (%)	Amount	Proportion (%)	
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	572,194,253.84	100.00	43,593,662.41	7.62	528,600,591.43	374,811,641.46	100.00	39,537,542.92	10.55	335,274,098.54
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Total	572,194,253.84	100.00	43,593,662.41	7.62	528,600,591.43	374,811,641.46	100.00	39,537,542.92	10.55	335,274,098.54

Note: The group categorizes other receivables above RMB 4 million or accounts for more than 10% of the total other receivables closing balance as other receivables that are 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	426,374,987.93	21,318,749.40	5.00
More than 1 year but not exceeding 2 years	113,891,466.06	11,389,146.61	10.00
More than 2 year but not exceeding 3 years	26,634,966.16	7,990,489.85	30.00
More than 3 year but not exceeding 4 years	4,517,320.69	2,258,660.35	50.00
More than 4 year but not exceeding 5 years	694,484.00	555,587.20	80.00
More than 5 years	81,029.00	81,029.00	100.00
Total	572,194,253.84	43,593,662.41	7.62

V. Notes to items in the consolidated financial statements- continued
6. Other receivables - continued
6.2 Provision, re-collection, or reverse of the bad debt allowance in current fiscal year

For the year, the Company recorded a bad debt allowance of RMB 4,056,119.49, there is no such case as reversed bad debt allowance or recovered bad debts.

6.3 Actual write-off of other receivables during current fiscal year

In current fiscal year, there is no actual write-off of other receivables

6.4 Nature of other receivables

Unit: RMB

Nature of other receivables	Closing balance	Beginning balance
Guarantee deposits	120,485,983.73	75,198,326.73
Prepaid expenses	397,044,897.11	267,265,944.95
Investment intention fund	35,000,000.00	-
Tax rebate	17,096,975.74	22,671,403.61
Others	2,566,397.26	9,675,966.17
Total	572,194,253.84	374,811,641.46

6.5 Top five debtors based on corresponding closing balance of other receivables

Unit: RMB

Entities	Nature	Carrying amount	Aging	Proportion of total (%)	Bad debt Provision
Company E	Investment intention fund	35,000,000.00	Within 1 year	6.12	1,750,000.00
Company F	Guarantee deposits	20,873,680.00	Within 2 year	3.65	1,480,128.00
The government tax authorities	Tax rebate	17,096,975.74	Within 1 year	2.99	854,848.79
Company G	Prepaid expenses	7,945,422.84	Within 1 year	1.39	397,271.14
Company H	Guarantee deposits	6,858,813.80	Within 1 year	1.20	342,940.69
Total		87,774,892.38		15.35	4,825,188.62

- (1) As of December 31, 2016, the Group does not have other receivables related to government subsidies.
- (2) As of December 31, 2016, there is no termination of other receivables booking due to transfer of a financial asset.
- (3) As of December 31, 2016, 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.

V. Notes to items in the consolidated financial statements- continued

7. Inventories

7.1 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	873,060,183.25	1,516,317.17	871,543,866.08	494,856,446.00	2,975,568.73	491,880,877.27
Work-in-progress	159,844,928.42	-	159,844,928.42	227,201,050.82	-	227,201,050.82
Finished goods	2,677,500,696.17	86,718,096.08	2,590,782,600.09	2,159,539,421.37	59,955,612.35	2,099,583,809.02
Completed but unsettled assets formed by construction contracts	202,987,817.69	-	202,987,817.69	-	-	-
Total	3,913,393,625.53	88,234,413.25	3,825,159,212.28	2,881,596,918.19	62,931,181.08	2,818,665,737.11

7.2 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	2,975,568.73	990,675.54	2,164,915.83	285,011.27	-	1,516,317.17
Finished goods	59,955,612.35	52,932,575.97	1,650,858.36	26,264,532.36	1,745,298.48	86,718,096.08
Subtotal	62,931,181.08	53,923,251.51	3,815,774.19	26,549,543.63	1,745,298.48	88,234,413.25

At the closing of the year, the Company determined provision for inventory on a divididual basis, with net realizable value calculated based on estimated selling price for finished goods, and estimated selling price less all estimated cost of completion and costs necessary to make the sale for inventories.

For the year, the reversals or write-of of provision for inventories is due to those inventories being used or sold.

7.3 Completed but unsettled assets formed by construction contracts at the end of December 31, 2016

Unit: RMB

Item	Amount
Accumulated occurred costs of construction	682,071,033.77
Accumulated booked gross profit margin	40,661,975.97
Less: estimated losses	-
Settled amounts	519,745,192.05
Completed but unsettled assets formed by construction contracts	202,987,817.69

8 Other current assets

Unit: RMB

Item	Closing balance	Opening balance
Principal-garanteed bank finance products (Note)	3,820,000,000.00	1,450,212,000.00
Principal-garanteed trust products	-	295,000,000.00
Deductible VAT input	293,158,008.82	328,407,108.19
Prepaid income tax	40,834,267.96	39,394,141.27
Total	4,153,992,276.78	2,113,013,249.46

Note: 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, because those financial products are all principal-garanteed, with a termination period less than one year.

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

V. Notes to items in the consolidated financial statements- continued
9 Available-for-sale financial assets
9.1 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	283,836,013.00	-	283,836,013.00	56,033,513.00	-	56,033,513.00
Cost method	283,836,013.00	-	283,836,013.00	56,033,513.00	-	56,033,513.00
Total	283,836,013.00	-	283,836,013.00	56,033,513.00	-	56,033,513.00

9.2 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 2016
	Opening balance	Increase	Decrease	Closing balance	Opening balance	Increase	Decrease	Closing balance		
Zhejiang Topinfo Technology Co., Ltd. (浙江图讯科技股份有限公司)	28,800,000.00	-	-	28,800,000.00	-	-	-	-	9.5238	-
Confirmware Technology (Hangzhou) Co., Ltd. (康奋威科技(杭州)有限公司)	26,629,200.00	-	-	26,629,200.00	-	-	-	-	10.0000	-
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	-
Total	56,033,513.00	227,802,500.00	-	283,836,013.00	-	-	-	-		-

Note1: The Group's equity investments listed are all non-listed companies; therefore, 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 controlling shareholder.

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

V. Notes to items in the consolidated financial statements- continued
10 Long-term receivables
10.1 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	74,504,325.33	-	74,504,325.33	78,903,265.79	-	78,903,265.79	2.08% - 2.52%
including: Unrealized finance income	1,513,690.63	-	1,513,690.63	2,935,532.33	-	2,935,532.33	
Borrowings for project	18,000,000.00	-	18,000,000.00	27,000,000.00	-	27,000,000.00	
Instalment payment for selling products	159,084,593.82	-	159,084,593.82	-	-	-	
Total	251,588,919.15	-	251,588,919.15	105,903,265.79	-	105,903,265.79	

10.2 As of December 31, 2016, there is no termination of long-term receivables booking due to transfer of a financial asset.

10.3 As of December 31, 2016, 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.

11 Long-term Equity Investments

The invested entity	Opening Balance	Decrease/Increase in the current period								Closing Balance	Closing Balance For Provision for decline in value
		Additional Investments	Investment reduction	Investment Profit/Loss confirmed under the <i>Equity Method</i>	Adjustment: Other comprehensive income	Other Changes in equity	Declaration of cash dividends or profit distribution	Provision for decline in value	others		
Associated Companies											
Wuhu Sensor Technology Co., Ltd.	-	35,000,000.00	-	-	-	-	-	-	-	35,000,000.00	-
Subtotal	-	35,000,000.00	-	-	-	-	-	-	-	35,000,000.00	-
Total	-	35,000,000.00	-	-	-	-	-	-	-	35,000,000.00	-

Note: In December 2016, the Company has completed additional RMB 35 million investments in Wuhu Sensor Technology Co., Ltd, according to the investment agreement, and obtained 35% of the equity of Wuhu Sensor Technology Co., Ltd.

V. Notes to items in the consolidated financial statements- continued
12 Fixed Assets
12.1 Fixed assets

Unit: RMB

Items	Building	Office and other equipment	Machinery and Equipment	Transportation vehicles	Total
Total original carrying amount					
1. Opening balance	1,832,355,405.85	100,912,863.97	254,313,497.22	61,175,244.19	2,248,757,011.23
2. Increased	730,345,969.38	63,826,427.66	403,948,263.93	3,102,392.97	1,201,223,053.94
1) purchase	12,794,675.30	57,181,244.75	385,654,061.73	2,757,499.49	458,387,481.27
2) transferred from construction in progress	680,589,592.06	-	13,970,786.06	-	694,560,378.12
3) Acquisition of subsidiaries	36,961,702.02	6,645,182.91	4,323,416.14	344,893.48	48,275,194.55
3. Decrease	-	10,008,740.86	22,137,069.63	2,131,873.40	34,277,683.89
1) disposal	-	10,008,740.86	22,137,069.63	2,131,873.40	34,277,683.89
4. Effect of foreign currency exchange difference	(5,437,745.99)	(1,790,633.07)	(1,533,576.85)	(285,015.92)	(9,046,971.83)
5. Closing Balance	2,557,263,629.24	152,939,917.70	634,591,114.67	61,860,747.84	3,406,655,409.45
Accumulated depreciation					
1. Opening balance	185,571,688.47	44,094,468.22	89,429,125.29	42,420,963.17	361,516,245.15
2. Increased	89,792,580.18	24,486,731.10	92,061,655.69	5,204,041.28	211,545,008.25
(1) provided	89,792,580.18	24,486,731.10	92,061,655.69	5,204,041.28	211,545,008.25
3. Decreased	-	6,125,371.16	6,950,635.37	1,792,308.86	14,868,315.39
(1) disposal	-	6,125,371.16	6,950,635.37	1,792,308.86	14,868,315.39
4. Effect of foreign currency exchange difference	(303,468.70)	(4,009,802.80)	(799,877.32)	(167,992.41)	(5,281,141.23)
5. Closing balance	275,060,799.95	58,446,025.36	173,740,268.29	45,664,703.18	552,911,796.78
Provision for decline in value					
1. Opening balance	-	-	-	-	-
2. Increased	-	-	-	-	-
3. Decreased	-	-	-	-	-
4. Closing balance	-	-	-	-	-
Total carrying amount					
1. Closing balance	2,282,202,829.29	94,493,892.34	460,850,846.38	16,196,044.66	2,853,743,612.67
2. Opening balance	1,646,783,717.38	56,818,395.75	164,884,371.93	18,754,281.02	1,887,240,766.08

12.2 As of December 31, 2016, the Group does not have any idle fixed assets.

12.3 As of December 31, 2016, the Group has not leased any fixed asset through financial leasing.

12.4 As of December 31, 2016, the Group has not rent out any fixed asset through operating leasing.

12.5 Fixed assets of which certificates of title have not been granted as of December 31, 2016.

Unit: RMB

Item	Carrying amount	Reason for certificates of title not granted
Office building for branches	131,669,513.22	In the process of obtaining the real estate certificates
Hikvision Tonglu Security Industrial Base (Phase 1) -the factory and dormitory	617,155,169.94	In the process of obtaining the real estate certificates after transferred from construction in process
Total	748,824,683.16	

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

V. Notes to items in the consolidated financial statements- continued

13 Construction in progress

13.1 Details of construction in progress

Unit: RMB

Item	Closing balance			Opening balance		
	Carrying amount	Provision	Carrying value	Carrying amount	Provision	Carrying value
Security industrial base (Phase 1)	18,104,535.49	-	18,104,535.49	601,189,618.41	-	601,189,618.41
Security industrial base (Phase 2)	2,713,228.89	-	2,713,228.89	-	-	-
Internet Security Industry Base	238,269,427.37	-	238,269,427.37	171,073,900.62	-	171,073,900.62
Building for Coop in Netherland	-	-	-	46,742,574.64	-	46,742,574.64
Public Security Monitoring Site Project	42,542,379.61	-	42,542,379.61	7,521,288.04	-	7,521,288.04
Others	14,852,951.00	-	14,852,951.00	18,103,669.50	-	18,103,669.50
Total	316,482,522.36	-	316,482,522.36	844,631,051.21	-	844,631,051.21

13.2 Changes in significant construction in progress

Unit: RMB

Item	Budget (RMB 0,000)	Opening balance	Increased	Transferred to fixed assets	Effect of foreign currency exchange difference	Closing balance	Amount invested as a proportion of budget amount (%)	Construction Progress (%)	Accumulated capitalized interest and profit/loss on exchange	Including: capitalized interest and profit/loss on exchange for the current period	Capitalization rate for the current period (%)	Source of funds
Security industrial base (Phase 1)	72,000.00	601,189,618.41	34,070,087.02	617,155,169.94	-	18,104,535.49	88%	88%	-	-		Self-financing
Security industrial base (Phase 2)	74,100.00	-	2,713,228.89	-	-	2,713,228.89	0.4%	0.4%	-	-		Bond
Internet Security Industry Base	100,000.00	171,073,900.62	67,195,526.75	-	-	238,269,427.37	24%	24%	(105,000,000.00)	(105,000,000.00)	1.25%	Bond
Building for Coop in Netherland	5,500.00	46,742,574.64	4,842,895.14	54,777,175.09	3,191,705.31	-	100%	100%	-	-		Self-financing
Others	-	25,624,957.54	54,377,310.93	22,628,033.09	21,095.23	57,395,330.61			-	-		Self-financing
Total		844,631,051.21	163,199,048.73	694,560,378.12	3,212,800.54	316,482,522.36			-	-		

Note: 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, 2016, the Group dose not have any sign of impairment of projects under construction, therefore, no provision for impairment loss was booked.

V. Notes to items in the consolidated financial statements- continued
14 Intangible assets
14.1 Details of Intangible assets

Unit: RMB

Item	Land use right	Intellectual property right	Software	Total
Total original carrying amount				
Opening balance	249,350,758.88	22,393,162.60	126,156,590.60	397,900,512.08
Increased	74,180,711.48	6,030,269.56	16,647,629.71	96,858,610.75
Purchase	74,180,711.48	6,030,269.56	16,647,629.71	96,858,610.75
Decreased	-	500,000.00	319,547.72	819,547.72
Disposal	-	500,000.00	319,547.72	819,547.72
Effect of foreign currency exchange	-	-	287,801.45	287,801.45
Closing balance	323,531,470.36	27,923,432.16	142,772,474.04	494,227,376.56
Total accumulated amortization				
Opening balance	6,730,624.81	5,950,332.99	42,018,849.92	54,699,807.72
Increased	5,357,900.11	3,244,132.35	20,525,743.32	29,127,775.78
Provided	5,357,900.11	3,244,132.35	20,525,743.32	29,127,775.78
Decreased	-	72,881.35	15,120.70	88,002.05
Disposal	-	72,881.35	15,120.70	88,002.05
Effect of foreign currency exchange	-	-	231,326.02	231,326.02
Closing balance	12,088,524.92	9,121,583.99	62,760,798.56	83,970,907.47
Provision for decline in value				
1. Opening balance	-	-	-	-
2. Increased	-	-	-	-
3. Decreased	-	-	-	-
4. Closing balance	-	-	-	-
Total carrying amount				
Closing balance	311,442,945.44	18,801,848.17	80,011,675.48	410,256,469.09
Opening balance	242,620,134.07	16,442,829.61	84,137,740.68	343,200,704.36

15 Goodwill
15.1 Goodwill book value

Unit: RMB

The invested entity	Opening balance	Increased	Decreased	Closing balance
		Acquisition of subsidiaries	Disposal	
ZAO Hikvision	67,349.64	-	-	67,349.64
Beijing Brinaire 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
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 Hikvision 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	-	130,491,627.46	-	130,491,627.46
Total	117,860,200.59	130,504,200.88	-	248,364,401.47

V. Notes to items in the consolidated financial statements- continued
15. Goodwill - continued
15.2 Provision of decline in value for 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 the relevant assets have been determined on the discounted present value of the future cash flow projections. The cash flow projections are based on *2017-2021 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, which include 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.

The Group's annual impairment test was performed at the end of the reporting period. 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.

16. Deferred tax assets/deferred tax liabilities
16.1 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	856,826,652.25	182,964,493.73	621,958,693.00	116,738,792.78
Payroll payables	174,795,783.91	26,219,367.59	98,503,043.33	14,775,456.50
Share-based compensation	136,678,690.94	18,118,078.96	215,174,074.10	31,717,007.59
Provisions	28,799,848.84	4,319,977.33	56,788,335.77	8,518,250.37
Unrealized profit from inter-group transactions	918,416,162.13	137,762,424.32	606,709,815.23	91,006,472.28
Changes in the fair value of derivative financial instruments	60,459,998.68	9,229,129.93	-	-
Total	2,175,977,136.75	378,613,471.86	1,599,133,961.43	262,755,979.52

16.2 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	15,547,537.34	3,358,395.25	6,160,279.18	1,540,069.80
Total	15,547,537.34	3,358,395.25	6,160,279.18	1,540,069.80

16.3 Deferred tax assets and 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	Offset amount	Deferred tax assets or liabilities
Deferred tax assets	3,358,395.25	375,255,076.61	1,540,069.80	261,215,909.72
Deferred tax liabilities	3,358,395.25	-	1,540,069.80	-

V. Notes to items in the consolidated financial statements- continued
16.4 Details of unrecognized deferred tax asset

Unit: RMB

Item	Closing balance	Opening balance
Deductible temporary differences	389,553,597.09	62,680,292.86
Deductible losses	190,776,067.72	20,829,758.80
Total	580,329,664.81	83,510,051.66

16.5 Deductible tax losses, for which no deferred tax assets are recognized, will expire in the following years

Unit: RMB

Year	Closing balance	Opening balance
2016	-	2,975,163.34
2017	9,029,371.83	9,029,371.83
2018	4,063,278.80	4,063,278.80
2019	1,125,886.45	1,125,886.45
2020	3,636,058.38	3,636,058.38
2021	172,921,472.26	-
Total	190,776,067.72	20,829,758.80

17. Other non-current assets

Unit: RMB

Item	Closing balance	Opening balance
Prepayments for land use right	-	18,000,000.00
Prepayments for acquisition of real estate	10,782,858.00	-
Prepayments for purchase of equipments	30,216,826.42	-
Total	40,999,684.42	18,000,000.00

18. Short-term loans
18.1 Categories of short-term loans

Unit: RMB

Item	Closing balance	Opening balance
Fiduciary loan	1,448,732.40	876,600,473.94
Guaranteed loans	21,842,592.45	-
Secured loans (pledged)	9,000,000.00	-
Total	32,291,324.85	876,600,473.94

18.2 As of December 31, 2016, the Group did not have any overdue short-term loans that were failed to repay.

V. Notes to items in the consolidated financial statements- continued
19. 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	69,789,502.97	19,281,989.69
Including: derivative financial liabilities	69,789,502.97	19,281,989.69
total	69,789,502.97	19,281,989.69

Derivative financial assets includes forwards and foreign currency option 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.

20. Notes payable

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance Bill	876,804,536.72	209,741,787.71
Total	876,804,536.72	209,741,787.71

As of December 31,2016, the Group did not have any unpaid matured notes payables.

21. Accounts payable
21.1 List of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Payment for purchase of materials	6,943,222,170.36	5,739,694,866.97
Payment for construction	65,112,853.11	130,044,503.81
Total	7,008,335,023.47	5,869,739,370.78

21.2 As of December 31, 2016, the Group did not have any significant account payable with aging above one year.

22. Receipts in advance
22.1 List of receipts in advance

Unit: RMB

Item	Closing balance	Opening balance
Advanced payments from sales of goods	356,988,890.83	209,906,293.91
Advanced payments from construction contracts	112,702,546.56	185,604,501.82
Total	469,691,437.39	395,510,795.73

22.2 As of December 31, 2016, the Group did not have any significant receipts in advance with aging above one year.

V. Notes to items in the consolidated financial statements- continued
23. Employee remuneration payable
23.1 Details of payroll payables

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Short-term remuneration	787,135,461.87	3,501,255,777.95	3,204,381,640.06	1,084,009,599.76
Dimission benefits – defined contribution scheme	934,273.45	200,090,408.55	200,504,907.05	519,774.95
Total	788,069,735.32	3,701,346,186.50	3,404,886,547.11	1,084,529,374.71

23.2 List of Short-term remuneration

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Wages or salaries, bonuses, allowances and subsidies	762,387,741.64	3,039,020,136.88	2,752,347,892.20	1,049,059,986.32
Staff welfare	3,423,195.78	139,024,951.35	139,480,585.41	2,967,561.72
Social insurance contributions	530,831.39	139,920,598.86	140,232,439.82	218,990.43
Including: medical insurance	519,876.87	122,325,270.24	122,642,968.89	202,178.22
injury insurance	5,644.46	6,831,757.91	6,834,874.10	2,528.27
maternity insurance	5,310.06	10,763,570.71	10,754,596.83	14,283.94
Housing funds	181,432.50	124,991,155.02	124,360,187.52	812,400.00
Labor union and education fund	20,612,260.56	58,298,935.84	47,960,535.11	30,950,661.29
subtotal	787,135,461.87	3,501,255,777.95	3,204,381,640.06	1,084,009,599.76

23.3 Dimission benefits – defined contribution scheme (Note)

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Basic pension insurance	889,516.48	186,247,235.35	186,672,029.53	464,722.30
Unemployment insurance	44,756.97	13,843,173.20	13,832,877.52	55,052.65
Subtotal	934,273.45	200,090,408.55	200,504,907.05	519,774.95

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.

During the current reporting year, the Group has contributed a total of RMB 186,247,235.35 to retirement benefit scheme, and a total of RMB 13,843,173.20 to unemployment insurance scheme (2015: RMB 140,449,058.43 contributed to retirement benefit scheme and RMB 12,231,236.60 to unemployment insurance plan). As of December 31st, 2016, the Group still has RMB 464,722.30 payable and RMB 55,052.65 payable to retirement benefit plan and unemployment insurance plan accordingly (as of December 31st, 2015, RMB 889,516.48 and RMB 44,756.97 payable to retirement benefit plan and unemployment insurance plan accordingly). All relative benefit payables have been subsequently paid off accordingly after the reporting period.

V. Notes to items in the consolidated financial statements- continued
24. Taxes payable

Unit: RMB

Item	Closing balance	Opening balance
Enterprise income tax	898,545,866.96	589,856,504.15
Value-added tax	229,182,589.15	190,693,283.18
City construction and maintenance tax	28,164,988.43	13,750,953.28
Education surcharges	15,154,509.84	5,914,984.60
Local education surcharges	8,216,807.76	3,944,121.49
Others	26,410,337.60	18,139,503.38
Total	1,205,675,099.74	822,299,350.08

25. Dividends payable

Unit: RMB

Item	Closing balance	Opening balance
Dividends of restricted shares (Share Incentive Scheme)	20,105,831.16	24,128,481.48
Total	20,105,831.16	24,128,481.48

26. Other payables
26.1 List of other payables according to the nature of the payment

Unit: RMB

Item	Closing balance	Opening balance
Subscription proceeds for restricted shares (Note)	660,888,216.54	-
Accrued expenses	127,849,041.50	-
Guarantee and deposit fees	110,163,462.78	98,303,864.14
Collection and payment on behalf	85,898,444.67	52,790,947.67
Others	48,369,958.35	8,762,854.27
Total	1,033,169,123.84	159,857,666.08

Note: At December 31, 2016, the Company has not completed the share registration and formalities for the shares granted under Share Incentive Scheme in 2016(Note (XI)), therefore, the subscription proceeds have been recorded as other payables. The relevant registration process has been subsequently completed on January 20th, 2017.

26.2 As of December 31st, 2016, the Group does not have any significant other payables aging over one year.

27. Non-current liabilities due within one year

Unit: RMB

Item	Closing balance	Opening balance
Long-term borrowings due within one year (Note (V)29)	15,340,813.03	586,430,847.08
Total	15,340,813.03	586,430,847.08

V. Notes to items in the consolidated financial statements- continued
28. Other current liabilities

Unit: RMB

Item	Closing balance	Opening balance
Payment for subscription of restricted shares	300,177,750.17	518,074,596.90
Total	300,177,750.17	518,074,596.90

29. Long-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Pledged loan (Note 1)	31,421,001.00	52,368,335.00
Guaranteed loans	1,500,000,000.00	162,340,000.00
Fiduciary loan	16,127,396.36	1,047,476,447.08
Other borrowing (Note 2)	190,000,000.00	-
Less: Long-term loans due within one year (Note (V) 27)	15,340,813.03	586,430,847.08
Total	1,722,207,584.33	675,753,935.00

As of December 31st, 2016, the GBP loans, with book value RMB 16,127,396.36, carry annual interest rate ranging from 1.20% to 3.50% (as of December 31st 2015: nil); the RMB loans, with book value RMB 1,721,421,001.00, carry annual interest rate ranging from 2.65 to 5.00% (as of December 31st 2015: range from 4.36% to 5.00%).

Note 1: The Group pledged RMB 95,128,752.51 account receivables for this pledged loan, maturity date September 21st 2018, annual rate 5%.

Note 2: During the reporting period, 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 or take part in decision-making. The Group shall pay a 1.2% annualized return to CDBDF by way of dividends or interest payments, and the Group is required to redeem the CDBDF's equity investment by instalment each year from 2021 to 2024. Therefore, the capital injection by CDBDF is treated as a long-term loan. As of December 31st 2016, CDBDF has aggregately invested RMB 190 million (December 31st 2015: nil).

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

V. Notes to items in the consolidated financial statements- continued
30. Bonds payable

30.1 Bonds payable

Unit: RMB

Item	Closing balance	Beginning balance
Euro Bond (Note)	2,954,449,528.77	-
Total	2,954,449,528.77	-

30.2 Change in bond payable balance

Unit: RMB

Item	Face value	Issue Date	Maturity	Issuance	Opening balance	Issuance in current period	Foreign exchange effects	Interests expenses accrued for the year	Amortization of premiums or discounts	Payments in current year	Closing balance
Irish Euro Bond (Note)	Euro 400,000,000.00	February 18 th 2016	3 years	2,903,120,000.00	-	2,903,120,000.00	19,600,000.00	31,729,528.77	-	-	2,954,449,528.77
Total	Euro 400,000,000.00			2,903,120,000.00	-	2,903,120,000.00	19,600,000.00	31,729,528.77	-	-	2,954,449,528.77

Note: On February 3rd, 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 18th, 2016. The Euro bond has a maturity term for 3 years, maturity date is February 18th, 2019, the issuance price of the bond is 99.959% of the nominal value, interest rate is 1.25% per annum, with interest payment date of February 18th per annum, and one-time principal repayment on maturity date. The Euro Bonds are mainly used for the company's security industry base construction and the Internet video industry base construction.

V. Notes to items in the consolidated financial statements- continued
31. Provisions

Unit: RMB

Item	Closing balance	Beginning balance
Sales warranty	41,933,212.54	61,833,874.59
Total	41,933,212.54	61,833,874.59

32. Deferred income

Unit: RMB

Item	Beginning balance	Increase in current Period	Decrease in current period	Closing balance	Details
Cloud storage service income	-	19,902,201.63	9,068,455.64	10,833,745.99	Note
Total	-	19,902,201.63	9,068,455.64	10,833,745.99	

As of December 31st 2016, the Company has no deferred income related to government subsidies.

Note: This is revenue related to the cloud storage service the Company provides to its customers; and the Company will recognize the revenue accordingly during the period the service is actually provided.

33. Share capital

Unit: RMB

Unit: RMB							
	Opening balance	Changes for the period ("-" represents decrease)					Closing balance
		New issue of shares	Bonus issue (Note1)	Changes for the period ("-" represents decrease) (Note 1)	Others (Note2)	Subtotal	
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
2015:							
Total shares	4,069,128,026.00	-	-	-	(355,773.00)	(355,773.00)	4,068,772,253.00

Note 1: Pursuant to shareholder's resolution of 2015 annual General Meeting dated on May 5th 2016, based upon the total capital share of 4,068,772,253 shares on December 31st 2015, the company proposed distributing bonus 3 shares for each 10 ordinary shares (tax inclusive), and distributing 2 shares for each 10 ordinary shares to the existing shareholders by the way of capitalization of capital reserve. As a result, 2,034,386,126 shares were distributed, with face value RMB 1, and a total increase in capital share of RMB 2,034,386,126.00.

Note 2: On August 29th, 2016, pursuant to the Articles of Association of the Company revised by the resolution of 15th General Meeting of 3rd Board of Directors authorized in 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, capital reserve decreased by RMB 1,151,310.35. The registration procedures were completed on November 16th, 2016.

On August 24th, 2015, pursuant to the Articles of Association of the Company revised by the resolution of the 24th General Meeting of the 2nd Board of Directors authorized in the first Extraordinary General Meeting in 2012, the Company repurchased and cancelled 355,773 granted but restricted treasury shares by cash, reducing the paid-up capital of RMB 355,773 and capital reserve of RMB 1,538,718.15. The registration procedures were completed on December 3rd, 2015.

V. Notes to items in the consolidated financial statements- continued
34. Capital reserves

Unit: RMB

Item	Opening balance	Increased in the current period (Note 1)	Decreased in the current period (note 2)	Closing balance
2016:				
Share premium	1,324,347,275.17	393,718,317.67	814,905,760.35	903,159,832.49
Other capital reserves	315,260,377.05	122,970,423.83	295,949,779.71	142,281,021.17
Total	1,639,607,652.22	516,688,741.50	1,110,855,540.06	1,045,440,853.66
2015:				
Share premium	1,325,885,993.32	-	1,538,718.15	1,324,347,275.17
Other capital reserves	154,160,332.09	161,100,044.96	-	315,260,377.05
Total	1,480,046,325.41	161,100,044.96	1,538,718.15	1,639,607,652.22

注 1: The increase of RMB 122,970,423.83 in other capital reserves is due to recognition of equity investment payments into capital reserve, please refer to Note VI; The minority shareholders inject capitals into the Company's subsidiaries resulted in the change in equity of share premium increase of RMB 97,768,537.96; in the current year, due to the restricted shares vested through equity settlement, RMB 295,949,779.71 was transferred from other capital reserves to share premium.

Note 2: The decrease of RMB 813,754,450.00 in share premium is due to the Company's distribution of 2 shares for each 10 ordinary shares to all existing shareholders by the way of capitalization of capital reserve, for detail, please refer to Note (V) -33-Note 1; the decrease of RMB 1,151,310.35 in share premium is due to the the Company's repurchase and cancellation of 451,494 granted but restricted treasury shares by cash, for detail, please refer to Note (V)-33-Note 2.

35. Treasury shares

Unit: RMB

Item	Opening Balance	Increased in the current year	Decreased in the current year (Note)	Closing balance
2016:				
Restricted shares incentive scheme	518,074,596.90	-	217,896,846.73	300,177,750.17
Total	518,074,596.90	-	217,896,846.73	300,177,750.17
2015:				
Restricted shares incentive scheme	547,853,280.23	-	29,778,683.33	518,074,596.90
Total	547,853,280.23	-	29,778,683.33	518,074,596.90

注: For the year, treasury shares decreased of RMB 217,896,846.73, including a decrease of RMB 1,602,804.35 due to the repurchase and cancellation of 451,494.00 restricted ordinary shares of 2012 *Restricted Share Incentive Scheme*; Due to the 3rd vesting of 7,620,714.00 shares of 2012 restricted incentive shares, treasury shares decreased by RMB 27,053,534.05; due to the 1st vesting of 30,687,650 shares of 2014 restricted incentive shares, treasury shares decreased by RMB 189,240,508.33.

V. Notes to items in the consolidated financial statements- continued
36. Other comprehensive income

Unit: RMB

		Change for the period					Closing balance
Item	Opening 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)	Minority interest (after tax)	
2016:							
Items 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)
2015:							
Items that may be reclassified subsequently to profit or loss	(8,837,417.46)	(17,989,248.27)	-	-	(18,822,600.24)	833,351.97	(27,660,017.70)
Included: Effect on conversion of financial statements denominated in foreign currencies	(8,837,417.46)	(17,989,248.27)	-	-	(18,822,600.24)	833,351.97	(27,660,017.70)
Other comprehensive income	(8,837,417.46)	(17,989,248.27)	-	-	(18,822,600.24)	833,351.97	(27,660,017.70)

37. Surplus reserve

Unit: RMB

Item	Surplus reserve	Increased in the current period	Decreased in the current period	Closing balance
2016:				
Statutory surplus reserve (Note)	1,895,061,004.09	720,376,818.06	-	2,615,437,822.15
Total	1,895,061,004.09	720,376,818.06	-	2,615,437,822.15
2015:				
Statutory surplus reserve (Note)	1,339,597,584.02	555,463,420.07	-	1,895,061,004.09
Total	1,339,597,584.02	555,463,420.07	-	1,895,061,004.09

Note: In accordance with the relevant *Company Laws* and *Articles of Association*, the Company is required to transfer 10% of its net profit reported in its financial statements to the statutory surplus reserve.

38. Retained earnings

Unit: RMB

Item	2016	2015
Retained earnings at the beginning of the year	12,196,097,444.07	8,510,162,428.31
Add: Net profit attributable to owners of the Company for the period	7,422,261,983.16	5,869,049,646.23
Less: Appropriation to statutory surplus reserve	720,376,818.06	555,463,420.07
Dividends on ordinary shares (Note)	2,810,893,076.52	1,627,651,210.40
Share bonus (Note)	1,220,631,676.00	-
Retained earnings at the end of the year	14,866,457,856.65	12,196,097,444.07

Note: Pursuant to shareholder's resolution of 2015 annual General Meeting dated on May 5th 2016, based upon the total capital share of 4,068,772,253 shares on December 31st 2015, for each 10 ordinary shares, the company proposed distributing cash dividends of RMB 7 (tax inclusive), 3 bonus shares, and distributing 2 shares for each 10 ordinary shares to the existing shareholders by the way of capitalization of capital reserve, the rest of retained earnings were all carried forward for future distributions.

V. Notes to items in the consolidated financial statements- continued
39. Operating income and operating cost

Unit: RMB

Item	Amount recognized in the current period		Amount recognized in the prior period	
	Revenue	Cost	Revenue	Cost
Operating income	31,532,624,321.90	18,409,762,817.40	24,904,906,357.72	14,923,684,371.21
Other operating income	391,396,550.54	239,931,258.04	366,483,915.70	213,109,146.23
Total	31,924,020,872.44	18,649,694,075.44	25,271,390,273.42	15,136,793,517.44

40. Business Taxes and Surcharges

Unit: RMB

Items (Note)	Amount recognized in the current period	Amount recognized in the prior period
Business tax	6,916,646.96	10,358,293.68
City construction and maintenance tax	125,998,134.00	108,520,043.75
Education surcharges	54,199,792.53	46,369,832.12
Local education surcharges	35,740,953.63	31,628,452.88
Real estate tax	15,606,172.07	-
Tax on use of land	2,021,501.93	-
Stamp duty	14,595,730.38	-
Total	255,078,931.50	196,876,622.43

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 1st, 2016

41. Selling expenses

Unit: RMB

Item	Amount recognized in the current period	Amount recognized in the prior period
Payroll	1,332,043,554.70	932,721,054.77
Sales service expense	501,175,676.22	412,626,103.85
Shipping, transportation, and vehicle expense	380,955,773.46	255,783,844.00
Advertising & Marketing expenses	178,161,704.10	132,169,700.29
Office expenses	129,539,773.52	119,290,840.12
Travelling expenses	145,061,251.90	112,622,885.66
Business entertainment	105,803,110.64	84,988,494.49
Depreciation and amortization expenses	59,486,700.85	43,558,983.17
Rental expenses	73,763,291.06	43,221,123.58
Others	85,282,983.36	42,062,284.78
Total	2,991,273,819.81	2,179,045,314.71

V. Notes to items in the consolidated financial statements- continued
42. Administrative expenses

Unit: RMB

Items	Amount recognized in the current period	Amount recognized in the prior period
Research and development expenses	2,433,400,645.23	1,722,638,163.98
Payroll	351,416,561.96	268,762,872.47
Office expenses	58,716,173.49	43,570,661.37
Professional Intermediary expenses	55,076,770.55	42,544,328.08
Depreciation and amortization expenses	54,545,967.89	22,476,104.17
Property rental expenses	22,794,345.33	18,532,592.63
Shipping, transportation, utility expense	27,839,083.20	14,950,639.38
Travelling expenses	26,661,671.48	13,799,325.65
Business entertainment	8,543,977.49	3,546,690.91
Others	67,766,236.32	60,400,492.51
Total	3,106,761,432.94	2,211,221,871.15

43. Financial Expenses

Unit: RMB

Items	Amount recognized in the current period	Amount recognized in the prior period
Interest expenses	143,058,881.09	75,833,874.33
Less: Interest income	184,537,947.93	159,433,094.76
Effect on foreign exchange	(301,689,249.60)	(86,990,601.69)
Less : Foreign exchange effect on specific loan and the capitalization of specific loan interests	(105,000,000.00)	-
Others	12,104,561.82	17,693,430.42
Total	(226,063,754.62)	(152,896,391.70)

44. Impairment losses of assets

Unit: RMB

Items	Amount recognized in the current period	Amount recognized in the prior period
Bad debt provision	267,389,881.56	324,402,411.70
Inventory provision	50,107,477.32	14,472,237.73
Total	317,497,358.88	338,874,649.43

V. Notes to items in the consolidated financial statements- continued
45. Gains from changes in fair values (losses)

Unit: RMB

Sources of gains/losses from changes in fair values	Amount recognized in the current period	Amount recognized in the prior period
Financial assets measured by fair value and their changes recognized in the gains and losses during the current period	9,387,258.16	3,127,346.44
Including: Profits or losses on the changes in fair value of derivative financial asset	9,387,258.16	3,127,346.44
Financial liabilities measured by fair value and their changes recognized in the gains and losses during the current period	(49,558,836.96)	(19,281,989.69)
Including: Profits or losses on the changes in fair value of derivative financial asset	(49,558,836.96)	(19,281,989.69)
Total	(40,171,578.80)	(16,154,643.25)

46. Investment income
46.1 Details of investment income

Unit: RMB

Item	Amount recognized in the current period	Amount recognized in the prior period
Disposal G/L of financial assets measured by fair value and their changes recognized in the gains and losses during the current period	(8,280,159.82)	6,165,969.68
Investment income on matured financial product redemption	48,773,447.48	142,507,467.57
Total	40,493,287.66	148,673,437.25

47. Non-operating income

Unit: RMB

Item	Amount recognized in the current period	Amount recognized in the prior period	Amount incurred in nonrecurring gains and loss in the current period
Profits from disposal of non-current assets	203,854.22	2,829,117.71	203,854.22
Government subsidies	1,490,866,107.85	1,274,249,562.08	171,321,088.31
Fines and confiscations	11,819,624.33	15,774,511.98	11,819,624.33
Others	8,029,740.84	1,125,778.52	8,029,740.84
Total	1,510,919,327.24	1,293,978,970.29	191,374,307.70

Government subsidies recognized in current period P/L:

Unit: RMB

Item	Amount for the current period	Amount for the prior period	Pertinent to assets or Pertinent to incomes
VAT Refund ¹⁰	1,319,545,019.54	1,104,970,075.27	Pertinent to incomes
Grants and subsidies ¹¹	151,794,448.39	131,114,119.17	Pertinent to incomes
Refund of tax and levies ¹²	19,526,639.92	8,452,467.64	Pertinent to incomes
Subtotal	1,490,866,107.85	1,244,536,662.08	/
Amortization of deferred assets related to government subsidies ¹³	-	29,712,900.00	Pertinent to assets
Total	1,490,866,107.85	1,274,249,562.08	/

¹⁰ VAT Refund: Standard VAT tax rebate regulated by Ministry of Finance and State Administration of Taxation. (Finance and Tax No.[2011]100)

¹¹ Grants and subsidies: local government incentives provided to businesses (including foreign-owned businesses) that promote employment and economic development.

¹² Refund of tax and levies: Standard tax rebate, such as tax rebate for local water conservancy constructions.

¹³ Amortization of deferred assets related to government subsidies: government supports to encourage companies to make high-tech project investment.

V. Notes to items in the consolidated financial statements- continued
48. Non-operating expenses

Unit: RMB

Item	Amount for the current period	Amount for the prior period	Amount recorded into the current non-recurring profit
Total losses from disposal of non-current assets	940,003.24	1,113,694.67	940,003.24
Local water conservancy construction fund	28,329,199.04	35,398,037.38	-
Others	1,572,493.80	1,418,989.81	1,572,493.80
Total	30,841,696.08	37,930,721.86	2,512,497.04

49. Income tax expenses
49.1 List of income tax expenses

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Current income tax	1,285,412,458.83	1,017,022,940.12
Deferred income tax	(114,039,166.89)	(165,132,413.90)
Differences on final settlements of previous years' income tax	(281,468,083.87)	15,753,361.47
Total	889,905,208.07	867,643,887.69

49.2 Reconciliation of accounting profits and income tax expenses

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Total profit	8,310,178,348.51	6,750,041,732.26
Income tax expenses calculated at applicable tax rates of 15%	1,246,526,752.28	1,012,506,259.84
Impact of non-deductible costs, expenses and losses	6,943,034.59	-
Tax effect of non-taxable income	-	-
Impact of deductible temporary differences or deductible losses for which no deferred income tax assets is recognised for the year	61,857,869.72	-
Impact of deductible temporary differences or deductible losses for which no deferred income tax assets is recognised for the prior periods	(317,945.53)	-
Differences of income tax annual filing (Note)	(281,468,083.87)	15,753,361.47
Impact by different tax rates applicable to subsidiaries	38,291,539.47	33,535,330.76
Impact of additional deduction of R&D expenses	(155,040,484.90)	(114,430,437.11)
others	(26,887,473.69)	(79,720,627.27)
Income tax expenses	889,905,208.07	867,643,887.69

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 (Cai Shui [2016] No. 49), the Company was approved by the tax authorities in May 2016 to reduce the enterprise income tax for 2015 at the rate of 10% and the enterprise income tax for 2015 was reduced by RMB 281,468,083.87. As at the approval date of this report, the income tax benefits for 2016 have not yet been approved, and the corporate income tax for the year is still calculated at the rate of 15%.

V. Notes to items in the consolidated financial statements- continued
50. Notes to consolidated cash flow statement
50.1 Other cash receipts relating to operating activities

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Interest income	184,537,947.93	159,433,094.76
Government subsidies ¹⁴	151,794,448.39	153,047,857.74
Others	152,550,394.51	213,432,311.25
Total	488,882,790.83	525,913,263.75

50.2 Other cash payments relating to operating activities

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Office expenses and business entertainment	536,275,608.23	251,396,686.89
Advertising and Selling services	436,719,048.45	212,619,040.28
R&D expense	334,367,206.73	204,578,023.31
Shipping and transportation expense	422,076,453.97	270,734,483.38
Travelling expense	245,280,426.97	126,422,211.31
Rental expense	110,722,987.56	61,753,716.21
Taxes, Intermediary fee and other expenses	174,383,961.34	97,643,005.30
Others	59,600,100.19	211,882,168.71
Total	2,319,425,793.44	1,437,029,335.39

50.3 Other cash receipts relating to investing activities

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Receipts of finance leases	4,398,940.46	26,996,686.98
Receipts of project loan	9,000,000.00	9,000,000.00
Total	13,398,940.46	35,996,686.98

50.4 Other cash receipts relating to financing activities

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Receipts of the Company's subsidiary's borrowings	-	4,000,000.00
Receipts of subscriptions for share incentives	660,888,216.54	-
Total	660,888,216.54	4,000,000.00

¹⁴ Please refer to Note (V) 47 for details about 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.

V. Notes to items in the consolidated financial statements- continued

50.5 Other cash payments relating to financing activities

Unit: RMB

Item	Amount for the current period	Amount for the prior period
Repurchase of shares	1,602,804.35	1,894,491.15
Payment of interests on the Company's subsidiary's borrowings	-	199,500.00
Total	1,602,804.35	2,093,991.15

51. Supplementary information about cash flow statement

51.1 Supplementary information about cash flow statement

Unit: RMB

Supplementary information	Amount for the current period	Amount for the prior period
Reconciliation of net profit to cash flows from operating activities:		
Net profit	7,420,273,140.44	5,882,397,844.70
Add: Impairment of assets	317,497,358.88	338,874,649.43
Fixed assets depreciation	211,545,008.25	132,614,495.73
Amortization of intangible assets	29,127,775.78	22,864,330.36
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains expressed with "-")	736,149.02	(1,679,868.58)
Losses on discarding of fixed assets (gains expressed with "-")	-	(35,554.46)
Losses from changes in fair value (gains expressed with "-")	40,171,578.80	16,154,643.25
Financial expenses (incomes expressed with "-")	63,806,734.82	(42,631,526.31)
Investment losses (gains expressed with "-")	(40,493,287.66)	(148,673,437.25)
Equity-settled share-based payment	122,970,423.83	155,695,500.62
Change in other currency funds	(42,273,330.05)	-
Decrease in deferred income tax assets (increase expressed with "-")	(114,039,166.89)	(165,132,413.90)
Decrease in inventories (increase expressed with "-")	(1,018,145,212.13)	(541,203,699.08)
Decrease in operating receivables (increase expressed with "-")	(3,605,922,579.57)	(5,385,319,432.61)
Increase in operating payables (decrease expressed with "-")	2,817,603,821.05	2,952,796,637.27
Decrease in deferred income (increase expressed with "-")	10,833,745.99	-
Net cash flow from operating activities	6,213,692,160.56	3,216,722,169.17
Major investing and financing activities not involving cash receipts and payment:		
Net changes in cash and cash equivalents:		
Ending balance of cash	13,519,252,711.90	10,033,033,476.30
Less: Beginning balance of cash	10,033,033,476.30	7,111,254,725.60
Add: Ending balance of cash equivalents	-	-
Less: Beginning balance of cash equivalents	-	-
Net increase (decrease) in cash and cash equivalents	3,486,219,235.60	2,921,778,750.70

V. Notes to items in the consolidated financial statements- continued
51.2 Net cash payments on obtaining subsidiaries

Unit: RMB

	Amount
Payments of cash or cash equivalents for acquisition during the current period	202,268,141.07
Including : Secure Holding Limited and its subsidiaries	178,268,141.07
Hangzhou Hikvision Zhicheng Investment and Development Co., Ltd.	24,000,000.00
Less: Cash or cash equivalents held by the subsidiaries on acquisition settlement date	29,794,352.58
Including : Secure Holding Limited and its subsidiaries	99,069.36
Hangzhou Hikvision Zhicheng Investment and Development Co., Ltd.	29,695,283.22
Add: Payments of cash or cash equivalents for acquisition during the previous period	-
Net cash payments on acquisition of subsidiaries	172,473,788.49

51.3 Constituents of cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
Cash	13,519,252,711.90	10,033,033,476.30
Including: Cash on hand	748,616.60	883,558.94
Bank deposit for payment at any time	13,510,692,456.95	10,028,344,131.69
Other monetary capital for payment at any time	7,811,638.35	3,805,785.67
Cash equivalents		
Ending balance of cash and cash equivalents	13,519,252,711.90	10,033,033,476.30

Among the total of RMB 123,552,080.63 of the balance of other monetary fund(s) at the end of the period, RMB 115,740,442.28 are various guarantee deposits, not cash and cash equivalents.

52. Assets with restriction in ownership or use rights

Unit: RMB

Item	Amount	Cause of restriction
Cash and bank balances	115,740,442.28	Various guarantee deposits, Collateral for obtaining long-term borrowing
Notes receivable	421,356,552.77	Collateral of bank acceptance bill
Accounts receivable	95,128,752.51	Collateral for obtaining long-term borrowing
Total	632,225,747.56	

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

V. Notes to items in the consolidated financial statements- continued
53. Monetary items of foreign currencies
53.1 foreign currencies

Unit: RMB

Item	Balance in foreign currency at the end of period	Exchange rate for conversion	Balance of RMB converted at the end of period
Monetary funds			
Including: USD	537,141,219.83	6.9370	3,726,148,641.96
EUR	60,338,825.08	7.3068	440,883,727.09
GBP	309,910.29	8.5094	2,637,150.62
JPY	408.00	0.0596	24.31
CHF	4,350.83	6.7989	29,580.86
Accounts receivable			
Including: USD	236,808,660.76	6.9370	1,642,741,679.69
EUR	2,560,554.70	7.3068	18,709,461.08
Short-term borrowing			
Including: GBP	2,500,000.00	8.7370	21,842,592.45
Accounts Payable			
Including: USD	123,741,576.65	6.9370	858,395,317.22
Bond Payable			
Including: EUR	404,342,465.75	7.3068	2,954,449,528.77

V. Notes to items in the consolidated financial statements- continued
53. Monetary items of foreign currencies-continued
53.2 Details of Overseas Operational Entities

Name of overseas subsidiaries	Main overseas operational office	Recording Currency	Basis of selection
Hikvision USA, Inc.	USA	USD	Selection based on local economic environment
HDT International Ltd.	Hongkong	HKD	Selection based on local economic environment
Prama Hikvision Indian Private Limited	India	INR	Selection based on local economic environment
Hikvision Europe BV	Netherlands	EUR	Selection based on local economic environment
Hikvision FZE	Dubai	USD	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 Italy (S.R.L.)	Italy	EUR	Selection based on local economic environment
Hikvision do Brasil Comércio de Equipamentos de Segurança Ltda.	Brazil	BRL	Selection based on local economic environment
Hikvision Australia PTY Ltd.	Australia	AUD	Selection based on local economic environment
Hikvision International Co., Limited	Hongkong	HKD	Selection based on local economic environment
Hikvision France SAS	France	EUR	Selection based on local economic environment
Hikvision Spain, S.L.	Spain	EUR	Selection based on local economic environment
ZAO Hikvision	Russia	RUB	Selection based on local economic environment
Hikvision Uk Limited	UK	GBP	Selection based on local economic environment
Hikvision Poland Spolka Z ograniczona Odpowiedzialnoscia.	Poland	PLN	Selection based on local economic environment
Cooperative Hikvision Europe U.A.	Netherlands	USD	Selection based on local economic environment
Hikvision Canada INC.	Canada	CAD	Selection based on local economic environment
Hikvision LLC	Russia	RUB	Selection based on local economic environment
Hikvision Korea Limited	Korea	KRW	Selection based on local economic environment
Ezviz Inc.	USA	USD	Selection based on local economic environment
Hikvision Kazakhstan limited liability partnership	Kazakhstan	KZT	Selection based on local economic environment
Secure Holdings limited	UK	GBP	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
Hikvision Turkey Technology And Security Systems Commerce Corporation	Turkey	TRL	Selection based on local economic environment
Hikvision Colombia SAS	Columbia	COP	Selection based on local economic environment

(VI) Changes in consolidation scope

1. Business combinations not involving enterprises under common control

(1) Business combinations not involving enterprises under common control for the 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 20 January 2016, the Company entered into a *PPP Project Investment Construction Contract on the Tonglu Wisdom Governance Information Platform* (《桐庐智慧治理信息平台PPP项目投资建设合同》) with the TongLu Wisdom Governance Information 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 26 January 2016.

Secure Holdings Limited (“SHL”)

On 19 May 2016, Cooperative Hikvision Europe U.A., one of the 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 31 May 2016.

Unit: RMB

Name of the acquiree	Time of equity acquisition	Equity acquisition cost	Equity acquisition ratio (%)	Equity acquisition mode	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	26 January 2016	Equity transfer date of acquiring the control of	-	(165,241.41)
SHL	May 2016	178,268,141.07	100	Payment in cash	31 May 2016	Equity transfer date of acquiring the control of	160,382,908.22	7,192,967.25

(2) Cost of combination and goodwill

Unit: RMB

Cost of combination	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

(VI) Changes in consolidation scope- Continued
1. Business combinations not involving enterprises under common control - Continued
(3) Acquiree's identifiable assets and liabilities at the date of acquisition

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
Assets:				
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
Liabilities:				
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

(VI) Changes in consolidation scope- continued

2. Changes of consolidation scope due to other causes

The subsidiaries newly established and incorporated in the consolidation scope for the year are as follows:

Company Name	Time of establishment	Registered capital	Amount of contribution of the Company	Ratio of contribution (%)
Hikvision Kazakhstan limited liability partnership (“哈萨克斯坦子公司”)	January 2016	KZT 250,000	KZT 250,000	100
Hangzhou Hikvision Investment Management Co., Ltd. (“Hangzhou Investment Management”)	March 2016	RMB 100,000	RMB 100,000	100
Hangzhou Hikvision Robotics Technology Co. Ltd. (“Hangzhou Robotic Technology”) (Note 1)	April 2016	RMB 31.7283 million	RMB 19.037 million	60
Hikvision Colombia SAS (“哥伦比亚子公司”)	June 2016	USD 200,000	USD 200,000	100
Hikvision Turkey Technology And Security Systems Commerce Corporation (“土耳其子公司”)	July 2016	TRL 500,000	TRL 500,000	100
Tianjin Hikvision System Technology Co., Ltd., (天津海康威视系统技术有限公司) (“Tianjin System”)(Note 2)	July 2016	RMB 50 million	RMB 50 million	100
Hangzhou Hikvision Automotive Technology Co. Ltd. (杭州海康汽车技术有限公司) (“Hangzhou Automotive Technology”) (Note3)	July 2016	RMB 150 million	RMB 90 million	60
Hangzhou Hikvision Communication Technology Co., Ltd.(杭州海康威视通讯技术有限公司) (“Hangzhou Communication”)	August 2016	RMB 10 million	RMB 7 million	70
Hangzhou Hikvision Weiyang Sensor Technology Co. Ltd (杭州海康微影传感科技有限公司) (“Hangzhou Weiyang Sensory”)	September 2016	RMB 100 million	RMB 60 million	60
Henan Hikvision Huaan Secure Electronics Co., Ltd. (河南海康华安保全电子有限公司) (“Henan Hik Hua’an”)(Note4)	October 2016	RMB 30 million	RMB 15.30 million	51

Note:

- (1) At the end of the year, the paid-up capital of Hangzhou Robot Technology was RMB 16,666,667.00, of which, RMB 10,000,000.00 was contributed by the Company who holds 60% equity interests.
- (2) At the end of the year, Tianjin System has not completed capital contribution yet, therefore its paid-up capital was nil.
- (3) At the end of the year, the paid-up capital of Hangzhou Automotive Technology was RMB120,000,000.00, of which, RMB 72,000,000.00 was contributed by the Company who holds 60% equity interests.
- (4) At the end of the year, Henan Hik Hua’an has not completed capital contribution yet, therefore its paid-up capital was nil.

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

(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 System Technology Co., Ltd.	Hangzhou	Hangzhou, Zhejiang	System integration, Technology development	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 under 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	Manufacturing	100.00		Establishment
Beijing Hikvision Security Technology Services Co., Ltd.	Beijing	Beijing	Services	100.00		Establishment
Hangzhou Fuyang Hikvision 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a 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	Manufacturing	100.00		Business combination not under common control
ZAO Hikvision	Russia	St. Peterburg	Sales		100.00	Business combination not under common control
Beijing Brinaire Storage Technology Co., Ltd.	Beijing	Beijing	Manufacturing	100.00		Business combination not under common control
Wuhan Hikvision System Technology Co., Ltd.	Wuhan	Wuhan, Hubei	Technology development	100.00		Business combination not under common control
Henan Hua'an Intelligence	Zhengzhou	Zhengzhou	Construction	51.00		Business

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

Development Co., Ltd.						combination not under common control
Henan Hua'an Security Services Co., Ltd. (Note 2)	Zhengzhou	Zhengzhou	Services		90.00	Business combination not under common control
Hundure Technology (Shanghai) Co., Ltd.	Shanghai	Shanghai	Manufacturing	100.00		Business combination not 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	Manufacturing	71.30		Establishment
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.	USD	Los Angeles	Sales		100.00	Establishment
Hangzhou Hikvision Zhicheng Investment Development Co., Ltd	Hangzhou	Hangzhou	System integration	80.00		Business combination not 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 Co., Ltd.	Hangzhou	Hangzhou	Technology development	70.00		Establishment
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	Manufacturing		100.00	Business combination not under common control
Pyronix Limited	British	Sheffield	Manufacturing		100.00	Business combination not under common control
Microwave Solutions Limited	British	Sheffield	Manufacturing		100.00	Business combination not under common control

(VII) Interest in other entities - continued
1、Equity in subsidiaries - continued

Note 1: Hangzhou Fuyang Hikvision 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, the dividend payout ratio of Hangzhou Hikvision Systems Co., Ltd. was 50% in the said company.

Note 2: Henan Hua'an Security Services Co., Ltd. is a subsidiary controlled by Henan Hua'an Intelligence Development Co., Ltd.

Note 3: The remaining 29.70% equity interests of Hangzhou Hikvision Electronics Co., Ltd. is held by China Development Bank Fund. Please refer to Note (V), 29 for details.

2. Changes in share of shareholders' equity of the subsidiary and still control over the subsidiary
(1) Changes in share of shareholders' equity of the subsidiary

On 26 July 2016, the Company passed the *Resolution on Increasing Capital Contribution to and the Connected Transactions with Hangzhou EZVIZ Network Co., Ltd. and Hangzhou Hikvision Robotic Technology Co., Ltd.* at the 14th meeting of the third session of the Board of Directors held by the Company, pursuant to which, the Company and Hangzhou Hikvision Equity Investment Partnership (limited partnership) ("Hangzhou Equity Investment") jointly increased capital contribution to Hangzhou EZVIZ Network Co., Ltd. ("Hangzhou EZVIZ") and Hangzhou Hikvision Robotic Technology Co., Ltd. ("Hangzhou Robotic Technology"), two wholly-owned subsidiaries of the Company. Following the completion of the capital increase, the registered capital of Hangzhou EZVIZ and Hangzhou Robotic Technology amounted to RMB 2.06 million and RMB 31.73 million, respectively, and the Company and Hangzhou Equity Investment held 60% and 40% in the abovementioned companies, respectively. The above transaction was completed on August 2016.

(2) Impact on equity interest of minority shareholders and attributable to the owner's equity

Unit: RMB

	Hangzhou EZVIZ	Hangzhou Robotic Technology
Purchase of cost consideration - cash	-	-
Less: Net assets proportion of subsidiary calculated by equity proportion acquired	79,570,259.77	18,198,278.19
Balance	79,570,259.77	18,198,278.19
Including: Capital reserves adjusted	79,570,259.77	18,198,278.19

3. Equity in joint ventures or associates
(1) Aggregated financial information of insignificant joint ventures or associates

Unit: RMB

	Closing balance / amount for the current period	Opening balance / amount for the prior period
Associates:		
The aggregate carrying amount of investments in associates	35,000,000.00	-
The aggregate amount of its share percentage of the associates		
--Total net profit and comprehensive income	-	-

(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 analyse 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 and RUB.

As at 31 December 2016, except for monetary items of foreign currencies set out in Note (V), 53, 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 translated into RMB) as follows may affect the operating results of the Group.

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

Unit: RMB

Currencies	Assets		Liabilities	
	Closing balance	Opening balance	Closing balance	Opening balance
USD	5,368,890,321.65	2,965,032,142.69	858,395,317.22	3,329,034,880.88
EUR	459,593,188.17	103,749,600.32	2,954,449,528.77	58,524,378.39

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	This year		Prior year	
	Effect on profit	Effect on shareholders' equity	Effect on profit	Effect on shareholders' equity
5% appreciation of USD against functional currency	225,524,750.22	225,524,750.22	(18,200,136.91)	(18,200,136.91)
5% depreciation of USD against functional currency	(225,524,750.22)	(225,524,750.22)	18,200,136.91	18,200,136.91
5% appreciation of EUR against functional currency	(124,742,817.03)	(124,742,817.03)	2,261,261.10	2,261,261.10
5% depreciation of EUR against functional currency	124,742,817.03	124,742,817.03	(2,261,261.10)	(2,261,261.10)

(VIII) Risks associated with financial instrument - continued

1. Objectives and policies of risk management-continued

1.1 Market risks – continued

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.

Sensitivity analysis on interest rate risk

The sensitivity analysis on interest rate risk is carried out based on following assumptions:

- Changes in market interest rate have influence on the interest revenue or cost of financial instruments with variable rate;
- For the financial instruments with fixed rate and measured with fair value, changes in market interest rate only have influence on their interest revenue or cost;

Based on the above assumptions, with other variables unchanged, the interest 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	This year		Prior year	
	Effect on profit	Effect on shareholders'	Effect on profit	Effect on profit
Increase by 50 basis points of the borrowing rates	(8,772,494.55)	(8,772,494.55)	(7,761,772.04)	(7,761,772.04)
Decrease by 50 basis points of the borrowing	8,772,494.55	8,772,494.55	7,761,772.04	7,761,772.04

1.2 Credit risk

As at 31 December 2016, 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 deposit 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.

(VIII) Risks associated with financial instrument - continued

1. Objectives and policies of risk management-continued

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

31 December 2016				
	Within one year	1-5 years	More than five years	Total
Non-derivative financial liabilities				
Short-term borrowings	32,766,082.38	-	-	32,766,082.38
Notes payables	876,804,536.72	-	-	876,804,536.72
Accounts payables	7,008,335,023.47	-	-	7,008,335,023.47
Other payables	1,033,169,123.84	-	-	1,033,169,123.84
Other current liabilities	300,177,750.17	-	-	300,177,750.17
Bonds payable	36,534,000.00	2,995,788,000.00	-	3,032,322,000.00
Dividends payable	20,105,831.16	-	-	20,105,831.16
Long-term borrowings	61,262,121.69	1,584,004,441.99	182,040,000.00	1,827,306,563.68
Long-term payables	-	7,466,200.00	-	7,466,200.00
Derivative financial liabilities				
Forward foreign exchange contracts- settled in the gross				
- Cash inflow	524,641,699.49	1,644,330,386.16	-	2,168,972,085.65
- Cash outflow	538,124,140.45	1,704,998,092.28	-	2,243,122,232.73
- Net cash outflow	13,482,440.96	60,667,706.12	-	74,150,147.08

(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
I. Continuous fair value measurement	-	(54,241,965.63)	-	(54,241,965.63)
(I) Financial assets designated as fair value through profit and loss				
1. Financial assets available for sale	-	15,547,537.34	-	15,547,537.34
-- Derivative financial assets	-	15,547,537.34	-	15,547,537.34
Total assets measured continuously at fair value	-	15,547,537.34	-	15,547,537.34
(II) Financial liabilities available for sale		69,789,502.97		69,789,502.97
Derivative financial liabilities	-	69,789,502.97	-	69,789,502.97
Total liabilities measured continuously at fair value	-	69,789,502.97	-	69,789,502.97

(IX) Fair value disclosure -continued
2. Information on the estimation technique and important parameters adopted as for continuous Level 2 fair value measurement items

	Fair value at 31 December 2016	Estimation technique	Inputs
Forward Foreign Exchange Contracts (Assets)	14,956,812.38	Discounted cash flow approach	Forward exchange rate discounted rate that reflects the credit risk of counterparties
Interest rate swap contracts (Assets)	590,724.96	Discounted cash flow approach	Forward exchange rate discounted rate that reflects the credit risk of counterparties
Forward Foreign Exchange Contracts (Liabilities)	(4,152,936.67)	Discounted cash flow approach	Forward exchange rate discounted rate that reflects the credit risk of counterparties
Foreign exchange structural options (Liabilities)	(65,636,566.30)	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 year. There was no estimation technique change for the year.

4. Fair values of financial assets and financial liabilities that not measured at fair value

Our 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 small.

(X) Related parties and related 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	Investment and asset management	RMB 660 million	39.91	39.91

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) 11.

(X) Related parties and related transactions –continued
4. Information on other related parties

Name	Relationship
Gong Hongjia	Director of the company, holds 16.30% 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)
Beijing Woqi Co., Ltd. (“Beijing Woqi”)	Gong Hongjia or his relative(s) serve(s) as the director(s)
The 52nd Research Institute at China Electronics Technology Group Corporation (“The 52nd Institute”)	Under common control of the ultimate controlling party of the Company
Subsidiaries of CETE	Under common control of the ultimate controlling party of the Company

5. Related party transactions
(1) 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 the current year	Amount for the prior year
Subsidiaries of CETE	Purchase of materials and receiving of services	254,200,197.75	234,499,687.16
Shanghai Fullhan	Purchase of materials and receiving of services	125,473,819.16	58,420,461.61
Beijing Woqi	Purchase of materials	3,910,029.08	510,256.42
Total		383,584,045.99	293,430,405.19

Sales of commodities/rendering of services:

Unit: RMB

Related party	Transaction content	Amount for the current year	Amount for the prior year
Subsidiaries of CETE	Sales of products	383,212,609.06	87,703,472.80
Total		383,212,609.06	87,703,472.80

The above transactions are executed at market prices.

(2) Guaranteed by the related party

The CETE (as guarantor) and the wholly-owned subsidiary of the Company, Chongqing Hikvision System Technology Co., Ltd. (“Chongqing System”) (as contractor) entered into a principal contractor agreement (the “Chongqing Framework Agreement”) with Chongqing Municipal Public Security Bureau in respect of the projects carried out in that location (the “Chongqing Project”). Pursuant to the Chongqing Framework Agreement, the CETE provided joint liability guarantee for the total responsibilities and obligations of the contractor under the Chongqing Principal Contractor Agreement. The Company, therefore, provided counter-guarantee to CETE for the before mentioned guarantee.

(3) Remuneration of key management personnel

Unit: RMB

Item	Amount for the current year	Amount for the prior year
Compensation of key management personnel	39,400,274.73	31,822,802.42

(X) Related parties and related transactions –continued
(4) Other related party transactions

In the current period, the Company made a capital contribution of RMB 227.79 million to CETC Finance Co., Ltd. (“Finance Co.”), therefore, the Company held the increased registered capital of Finance Co. of RMB 153.2 million. Upon completion of the Capital Increase, the shareholding of the Company in Finance Co. is 3.83%. For details, please see Note (V) 9.

6. Amounts due from & to related parties
(1) Amounts due 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	417,423,058.74	21,711,986.75	74,575,642.07	4,162,116.30
Total		417,423,058.74	21,711,986.75	74,575,642.07	4,162,116.30

(2) Amounts due to related parties

Unit: RMB

Item	Related Party	Closing balance	Opening balance
Accounts payable	Subsidiaries of CETE	144,521,684.68	47,605,386.38
Accounts payable	Shanghai Fullhan	40,115,748.45	41,807,051.41
Accounts payable	Beijing Woqi	888,807.70	515,564.11
Total		185,526,240.83	89,928,001.90
Receipts in advance	Subsidiaries of CETE	22,293,294.23	280,421.80
Total		22,293,294.23	280,421.80
Other payables	Subsidiaries of CETE	13,328,829.07	11,185,580.98
Total		13,328,829.07	11,185,580.98

(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. (關於杭州海康威視數位技術股份有限公司實施限制性股票激勵計劃的批復)” (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. (關於杭州海康威視數位技術股份有限公司限制性股票激勵計劃的意見)” (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 25th 2012 and the first extraordinary general meeting for 2012 on August 13th 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 Participants 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 Participants 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 the 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 Participants their 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 Participants 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 23 August 2012, after consideration and approval by the general meeting, the Company granted 8,611,611 restricted shares to Participants 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 Participants 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 Participants 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.

On 24 October 2014, after consideration and approval by the general meeting, the Company granted 52,910,082 restricted shares to Participants 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 Participants 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 Participants 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 23 December 2016, after consideration and approval by the general meeting, the Company granted 52,326,858 restricted shares to Participants 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 Participants 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 Participants 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. The registration of restricted shares under 2016 Share Incentive Scheme was completed on 20 January 2017.

Unit: share

2012 Share Incentive Scheme	Current year	Prior year
Total of equity instruments outstanding at the beginning of the year	5,381,472	10,973,713
Total of equity instruments granted in the year	2,690,736	-
Total of equity instruments vested in the year	7,620,714	5,236,468
Total of equity instruments forfeited in the year	451,494	355,773
Total of equity instruments outstanding at the end of the year	-	5,381,472
The exercise price and the remaining period of the contract of the outstanding Share-based payments of the Company (ex-rights) issued at the end of the year	N/A	RMB 5.33 per share and 20 months

Unit: share

2014 Share Incentive Scheme	Current year	Prior year
Total of equity instruments outstanding at the beginning of the year	52,910,082	52,910,082
Total of equity instruments granted in the year	26,455,041	-
Total of equity instruments exercised in the year	30,687,650	-
Total of equity instruments forfeited in the year	2,457,000	-
Total of equity instruments outstanding at the end of the year	46,220,473	52,910,082
The exercise price and the remaining period of the contract of the outstanding Share-based payments of the Company (ex-rights) issued at the end of the year	RMB 6.17 per share and 34 months	RMB 9.25 per share and 46 months

Unit: share

2016 Share Incentive Scheme	本年	上年
Total of equity instruments outstanding at the beginning of the year	-	-
Total of equity instruments granted in the year	52,326,858	-
Total of equity instruments exercised in the year	-	-
Total of equity instruments forfeited in the year	-	-
Total of equity instruments outstanding at the end of the year	52,326,858	-
The exercise price and the remaining period of the contract of the outstanding Share-based payments of the Company (ex-rights) issued at the end of the year	RMB 12.63 per share and 60 months	N/A

2. Information of the equity settled share-based payment

Unit: RMB

	2012 Share Incentive Scheme	2014 Share Incentive Scheme	2016 Share Incentive Scheme
Method of determining 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	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 vested equity instruments	Determined based on the results estimation of each release period	Determined based on the results estimation of each release 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	N/A	N/A	N/A
Accumulative amount of the equity settled share-based payment and included in the capital reserve	142,306,946.24	290,321,524.41	-
Total amount of the expenses recognized according to the equity settled share-based payment in the current year	4,071,205.43	118,899,218.40	-

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 recognised in financial statements		
- Commitment on acquisition and construction of long-term assets	490,098	630,128
Total	490,098	630,128

(2) Operating lease commitments

At the balance sheet date, the Group had the following 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 from the balance sheet date	61,829	39,789
Second year from the balance sheet date	40,469	22,041
Third year from the balance sheet date	23,452	11,523
Subsequent years	42,010	23,536
Total	167,760	96,889

(3) As of 31 December 2016, the Group has no other commitments to be disclosed.

2. Contingencies

The Group has no important 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. Profits distribution

Pursuant to the proposal of 22nd meeting of the 3rd session Board of Directors of the Company dated April 12th, 2017, all shareholders will receive a cash dividend of RMB 6 (tax inclusive) per each 10 shares; and the Company proposed to bonus issue of 5 shares (tax inclusive) for each 10 ordinary shares; The profit distribution plan is yet to be approved by the general meeting of shareholders.

(XIV) Other significant events

1. Management Measures for Core Staff's Co-Investment in Innovative Business

According to *Management Measures for Core Staff's Investment in Innovative Business (Draft)* approved by The fifth meeting of the third board and the second provisional shareholders' meeting in 2015, core employees can invest at the innovation business of Company via Hangzhou Hikvision Equity Investment Partnership (Limited Partnership). The Group will assess the fair values of the investee companies before employees make investments at the fair values. Hangzhou Hikvision Equity Investment Partnership (Limited Partnership) was established in the year, 99.9983% of which is hold by core employees. Hangzhou Hikvision Equity Investment Partnership (Limited Partnership) holds 40% of its subsidiaries Hangzhou EZVIZ, Hangzhou Robotic

Technology Co., Ltd., Hangzhou Hikvision Automotive Technology Co., Ltd., and Hangzhou Hikvision Weiying Sensory Technology Co., Ltd., respectively.

2. Segment information

2.1 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 i.e. the development, production and sales of security products.

2.2 Segment reporting

External revenue by product or business

Unit: RMB

Item	Amount for the current year	
	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
Construction project(s)	1,451,424,275.00	1,328,601,510.98
Innovative business	647,651,465.10	394,446,839.95
Others	4,365,947,709.16	3,725,704,716.05
Total	31,532,624,321.90	18,409,762,817.40

Unit: RMB

Item	Amount for the prior year	
	Operating income	Operating cost
Front-end equipment	13,317,160,183.14	7,021,910,915.24
Back-end equipment	4,355,419,527.94	2,362,654,134.89
Central control equipment	2,355,593,484.09	1,230,092,234.52
Construction project(s)	1,690,863,504.02	1,588,821,153.01
Innovative business	221,928,671.32	167,322,253.16
Others	2,963,940,987.21	2,552,883,680.39
Total	24,904,906,357.72	14,923,684,371.21

External revenue by geographical area of source and non-current assets by geographical location

Unit: RMB

Item	Amount for the current year	Amount for the prior year
External revenue generated in PRC	22,563,636,220.37	18,614,982,772.42
External revenue generated in foreign countries	9,360,384,652.07	6,656,407,501.00
Total	31,924,020,872.44	25,271,390,273.42

Unit: RMB

Item (Note)	Closing balance	Opening balance
External revenue generated in PRC	3,524,816,425.20	3,119,825,230.34
External revenue generated in foreign countries	345,030,264.81	91,107,491.90
Total	3,869,846,690.01	3,210,932,722.24

Note: the non-current assets above exclude available-for-sale financial assets, long-term receivables, long-term equity investment and deferred tax assets.

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

(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	10,908,625,274.90	100	779,871,754.48	7.15	10,128,753,520.42	9,788,537,454.70	100.00	667,995,850.66	6.82	9,120,541,604.04
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Total	10,908,625,274.90	100	779,871,754.48	7.15	10,128,753,520.42	9,788,537,454.70	100.00	667,995,850.66	6.82	9,120,541,604.04

The Group recognizes accounts receivable of over RMB 4 million (representing over 10% of balance in total) as accounts receivables that are individually significant.

(XV) Notes to major items of financial statements of the parent company -continued
1. Accounts receivable -continued

(1) Accounts receivable disclosed by categories: -continued

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	10,139,343,508.72	506,967,175.44	5.00
1-2 years	302,585,218.30	30,258,521.83	10.00
2-3 years	147,228,938.41	44,168,681.52	30.00
3-4 years	196,861,164.57	98,430,582.28	50.00
4-5 years	112,798,257.48	90,238,605.99	80.00
Over 5 years	9,808,187.42	9,808,187.42	100.00
Total	10,908,625,274.90	779,871,754.48	7.15

(2) Bad debt provision provided, recovered or reversed during the year

The amount of bad debt provision provided by the Company in the current year was RMB 125,127,719.89, and there was no recovered or reversed bad debt provision.

(3) Accounts receivable actually written off in this year

The Company's accounts receivable actually written off in this year was RMB 13,251,816.07.

(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	8,183,835,087.36	409,191,754.37	75.02
Subsidiary B	Subsidiary	199,792,635.48	96,999,530.67	1.83
Company D	Third party	68,263,870.00	9,010,073.50	0.63
Company I	Third party	54,237,512.53	10,004,272.85	0.50
Company J	Third party	52,098,683.71	36,336,484.77	0.48
Total		8,558,227,789.08	561,542,116.16	78.46

(5) At the end of the year, there are no accounts receivable derecognised due to the transfer of financial assets.

(6) At the end of the year, there are no assets or liabilities formed by continuing involvement in derecognised accounts receivables.

(XV) Notes to major items of financial statements of the parent company -continued
2. Other receivables

(1) Other receivables disclosed by category

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	449,863,926.01	100	31,900,680.55	7.09	417,963,245.46	384,713,774.78	100.00	39,768,818.24	10.34	344,944,956.54
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Total	449,863,926.01	100	31,900,680.55	7.09	417,963,245.46	384,713,774.78	100.00	39,768,818.24	10.34	344,944,956.54

The Group determined that a single other receivable in an amount of RMB 4 million or more and representing more than 10% of the total amount was considered individually significant.

(XV) Notes to major items of financial statements of the parent company -continued
2. Other receivables - continued
(1) Other receivables disclosed by category - continued

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	361,848,764.55	18,092,438.23	5.00
1-2 years	64,282,406.25	6,428,240.63	10.00
2-3 years	22,431,879.52	6,729,563.86	30.00
3-4 years	1,300,875.69	650,437.83	50.00
4-5 years	-	-	80.00
Over 5 years	-	-	100.00
Total	449,863,926.01	31,900,680.55	7.09

(2) The provision, recovery and reversal of bad debt allowance for the year

No provision or recovery of bad debt allowance was recorded for the year. The reversal of bad debt allowance for the year amounted to RMB 7,868,137.69.

(3) The write-off of other receivables for the year

No write-off of other receivables was recorded for the year.

(4) Other receivables by nature

Unit: RMB

Nature	Closing balance	Opening balance
Guarantee deposit	31,242,843.36	22,791,711.87
Other lending	149,296,781.06	160,656,207.98
Temporary receivables	232,789,859.54	184,614,836.14
Investment deposit	35,000,000.00	-
Others	1,534,442.05	16,651,018.79
Total	449,863,926.01	384,713,774.78

(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 C	Other lending	119,088,800.98	Within 1 year	26.47	5,954,440.05
Company E	Investment deposit	35,000,000.00	Within 1 year	7.78	1,750,000.00
Company G	Temporary receivables	7,945,422.84	Within 2 years	1.77	505,765.95
Subsidiary B	Other lending	7,551,407.03	Within 1 year	1.68	377,570.35
Company K	Temporary receivables	6,663,076.00	Within 1 year	1.48	333,153.80
Total		176,248,706.85		39.18	8,920,930.15

(6) At the end of the year, the Group has no other receivables derecognized due to the transfer of financial assets.
(7) At the end of the year, the Group has no assets or liabilities formed by continuing involvement in derecognised other receivables.

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

(XV) Notes to major items of financial statements of the parent company -continued
3. Long-term equity investment

Details of long-term equity investment:

Unit: RMB

Name of investee	Accounting method	Opening balance	Change for the year		Closing balance	Provision for impairment losses	Provision for impairment losses for the year
			Additional investment	Increase due to the grant of share options			
Hikvision System Technology Co. Ltd.	Cost method	206,316,540.02	-	27,062,129.29	233,378,669.31	-	-
Hangzhou Hikvision Science and Technologies Co. Ltd.	Cost method	104,939,871.48	-	3,490,687.36	108,430,558.84	-	-
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	-	-
Prima 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 Technologies 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 Brainaire Storage Technology Co., Ltd.	Cost method	96,482,439.85	-	-	96,482,439.85	-	-
Hikvision South Africa (Pty) Ltd.	Cost method	1,578,650.00	-	-	1,578,650.00	-	-
Wuhan Hikvision System Technologies Co., Ltd.	Cost method	10,000,000.00	-	-	10,000,000.00	-	-
Henan Hua'an Intelligence Development Co., Ltd.	Cost method	67,475,000.00	-	-	67,475,000.00	-	-
Hikvision do Brasil Comercio de Equipamentos de Seguran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	100,000,000.00	297,745,645.00	-	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	-	-
OOO 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	-	-	1,000,000.00	-	-
Hangzhou Hikvision	Cost	-	24,000,000.00	-	24,000,000.00	-	-

Notes on Financial Statements

For fiscal year period from January 1st 2016 to December 31st 2016

Zhicheng Investment and Development Co., Ltd.	method						
Hangzhou Hikvision robotic Technology Co., Ltd.	Cost method	-	10,000,000.00	-	10,000,000.00	-	-
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	-	72,000,000.00	-	-
Hangzhou Hikvision Communication Technology Co. Ltd.	Cost method	-	7,000,000.00	-	7,000,000.00	-	-
Hangzhou Hikvision Weiying 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	-	-
Wuhu Sensor Technology Co. Ltd.	Equity method	-	35,000,000.00	-	35,000,000.00	-	-
Total		1,175,799,927.25	508,335,959.52	30,552,816.65	1,714,688,703.42	-	-

As at 31 December 2016, there were no restrictions on the capability of transferring fund to the Company from investees in which the Company held long-term equity investment.

(XV) Notes to major items of financial statements of the parent company -continued
4. Operating income and operating cost

Unit: RMB

Item	Amount for the current year		Amount for the previous year	
	Income	Cost	Income	Cost
Operating income	15,892,497,158.98	5,715,197,290.78	13,683,833,283.76	5,484,902,791.62
Other operating income	1,272,952,152.29	251,941,586.05	563,548,888.30	150,975,929.91
Total	17,165,449,311.27	5,967,138,876.83	14,247,382,172.06	5,635,878,721.53

5. Investment income

(1) Details of investment income

Unit: RMB

Item	Amount for the current year	Amount for the previous year
Long-term equity investment income measured by cost method	959,775.84	205,259,854.04
Derivatives not designated as hedging instruments	8,026,616.63	659,100.00
Including: net income (loss) from settlement of forward exchange contract upon expiry	8,026,616.63	659,100.00
Investment income from redemption of finance products of banks upon expiry	48,205,009.12	140,592,535.89
Total	57,191,401.59	346,511,489.93

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 previous year
Subsidiaries of Hikvision (note)	Purchase of materials and receiving of services	6,792,502,379.98	5,423,542,705.52
Subsidiaries of CETE	Purchase of materials and receiving of services	253,499.98	-
Shanghai Fullhan	Purchase of materials and receiving of services	-	1,776,844.10
Total		6,792,755,879.96	5,425,319,549.62

Note: Subsidiaries of Hikvision are subsidiaries of the Company. See Note (VII) for details.

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	11,103,336,262.90	8,358,561,098.74
Subsidiaries of CETE	Sales of products	21,567,521.50	25,032,230.90
Total		11,124,903,784.40	8,383,593,329.64

Those transactions above were effected at the prices agreed by both parties.

(XV) Notes to major items of financial statements of the parent company -continued
6. Related party transactions - continued
(2) Guarantee with related parties

During the year, the Company has provided guarantee for its wholly-owned subsidiaries in an amount not exceeding an equivalent of RMB 10.5 billion or 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 or USD 40 million and the joint liability guarantee for the general credit limit applied from commercial banks and other financial institutions or financing through other agreed methods in an amount not exceeding an equivalent of RMB 9.3 billion or USD 210 million.

See Note (X) 5 for details in relation to the guarantee provided for Safe Chongqing Project by the Company.

(3) Transfer of assets with related parties

Unit: RMB

Related party	Transaction type	Amount for the current year	Amount for the previous year
Subsidiaries of Hikvision	Transfer of fixed assets	-	14,641,912.09
Total		-	14,641,912.09

7. Amounts due from & to related parties
(1) Amounts due from related parties

Unit: RMB

Item	Related party	Closing balance		Opening balance	
		Carrying balance	Provision	Carrying balance	Provision
Accounts receivable	Subsidiaries of Hikvision	8,421,896,636.50	508,104,730.72	7,320,578,476.79	525,062,573.54
Accounts receivable	Subsidiaries of CETE	16,029,332.62	1,171,983.59	14,561,824.12	970,634.51
Total		8,437,925,969.12	509,276,714.31	7,335,140,300.91	526,033,208.05
Other receivables	Subsidiaries of Hikvision	149,296,781.06	7,569,789.81	147,609,644.21	12,956,333.63
Total		149,296,781.06	7,569,789.81	147,609,644.21	12,956,333.63

(2) Amounts due to related parties

Unit: RMB

Item	Related party	Closing balance	Opening balance
Accounts payable	Subsidiaries of Hikvision	20,487,397.93	51,573,521.62
Accounts payable	Subsidiaries of CETE	152,222.25	199,700.00
Accounts payable	Shanghai Fullhan	100,000.00	2,178,907.60
Total		20,739,620.18	53,952,129.22
Receipts in advance	Subsidiaries of Hikvision	32,447,875.96	49,069,223.93
Receipts in advance	Subsidiaries of CETE	23,208.01	38,953.00
Total		32,471,083.97	49,108,176.93
Other payables	Subsidiaries of Hikvision	35,388,680.03	14,559,685.90
Other payables	Subsidiaries of CETE	146,300.00	-
Total		35,534,980.03	14,559,685.90

(XV) Notes to major items of financial statements of the parent company -continued
8. Supplementary information to the cash flow statement
(1) Supplementary information to the cash flow statement

Unit: RMB

Supplementary information	Amount for the current year	Amount for the previous year
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	7,203,768,180.57	5,554,634,200.66
Add: Assets impairment	151,838,196.39	310,847,916.44
Depreciation of fixed assets	123,434,024.41	102,821,241.01
Amortization of intangible assets	18,916,588.53	14,499,107.28
Losses on disposal of fixed assets, intangible assets and other long-term assets (incomes expressed with "-")	215,830.09	(1,733,903.11)
Losses on retirement of fixed assets (incomes expressed with "-")	-	-
Losses from change in fair value (incomes expressed with "-")	53,573,806.57	-
Financial expenses (incomes expressed with "-")	51,935,968.50	36,493,662.93
Investment losses (incomes expressed with "-")	(57,191,401.59)	(346,511,489.93)
Equity settled share-based payment	92,417,607.18	158,773,879.84
Change in other monetary funds	3,401,969.85	-
Decrease (increase) in deferred income tax assets	(24,131,101.49)	(73,855,655.06)
Decrease (increase) of inventories	(246,139,724.71)	(38,987,241.13)
Decrease (increase) in operating receivables	(1,168,908,965.92)	(5,819,679,324.00)
Increase (decrease) in operating payables	559,668,153.67	544,396,711.14
Net cash flow from operating activities	6,762,799,132.05	441,699,106.07
2. Major investing and financing activities not involving cash receipt and payment:	-	-
3. Net change in cash and cash equivalents:		
Closing balance of cash	10,245,969,003.13	6,548,073,680.91
Less: Opening balance of cash	6,548,073,680.91	5,115,461,297.75
Add: Closing balance of cash equivalents	-	-
Less: Opening balance of cash equivalents	-	-
Net increase (decrease) in cash and cash equivalents	3,697,895,322.22	1,432,612,383.16

(2) Composition of cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
I. Cash	10,245,969,003.13	6,548,073,680.91
Including: Cash on hand	384,972.67	623,698.24
Bank deposit for payment at any time	10,245,584,030.46	6,543,644,197.00
Other monetary funds for payment at any time	-	3,805,785.67
II. Cash equivalents	-	-
III. Closing balance of cash and cash equivalents	10,245,969,003.13	6,548,073,680.91

The Company's closing balance of other monetary funds was RMB 3,149,156.06, all of which were various guarantee deposits, not cash and cash equivalents.

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	(736,149.02)	
The government subsidies included in the current profits and losses (excluding the government subsidy ¹⁵ 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)	171,321,088.31	
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	321,708.86	
Other non-operating income and expense except the items mentioned above	18,276,871.37	
Impact of income tax	(36,000,258.26)	
The impact of minority interests	(1,664,040.58)	
Total	151,519,220.68	

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	34.56%	1.227	1.221
Net profit excluding non-recurring items of profit or loss attributable to ordinary shareholders of the Company	33.86%	1.202	1.196

¹⁵ Please refer to Note (V) 47 for details about 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.

Section XII Documents Available for Reference

1. The financial statements signed and sealed by the Company's legal representative, responsible person in charge of accounting work and person in-charge of accounting organization.
2. The original copy of the auditor's report with the seal of the Certified Public Accountants Firm, and signed and stamped by Certified Public Accountants.
3. Original copy of all the Company's documents and announcements 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

14 April 2017