

Hangzhou Hikvision Digital Technology Co., Ltd.

2017 Interim Report

January to June 2017



July 22<sup>nd</sup> 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, and will undertake individual and joint legal liabilities.

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

All directors have attended the meeting of the board to review this report.

The Company will not distribute cash dividend, distribute bonus share, or distribute share from capital reserve during the current reporting period.

### **Note:**

This document is a translated version of the Chinese version 2017 Half Year Financial Report (“2017 年半年度报告”), and the published announcements in the Chinese version shall prevail. The complete published Chinese 2017 Half Year Financial Report may be obtained at <http://www.cninfo.com>.

**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 risks

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## Definitions

Term	Definition
Reporting Period	From January 1 <sup>st</sup> 2017 to June 30 <sup>th</sup> , 2017
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
CETHIK	CETHIK Group Co., Ltd. Controlling Shareholder of the Company
Innovative Co-investment Partnership	Hangzhou Hikvision Equity Investment Partnership (Limited Partnership)
Ezviz, Ezviz Network Inc.	Hangzhou Ezviz Network Co., Ltd. (According to the context, also refers to the corresponding business)
Hikvision Robotics	Hangzhou Hikvision Robotics Technology Co., Ltd. (According to the context, also refers to the corresponding business)
Hikvision Automotive Technology	Hangzhou Hikvision Automotive Technology Co., Ltd. (According to the context, also refers to the corresponding business)
Hikvision Weiyang	Hangzhou Hikvision Weiyang Sensor Technology Co., Ltd. (According to the context, also refers to the corresponding business)
Hikvision Storage	Wuhan HIK Storage Technology Co., Ltd. (According to the context, also refers to the corresponding business)
Security Industrial Base (Tonglu)	Located in Tonglu economic development area, Hangzhou, Zhejiang province, purposes for production factories, warehousing logistics center. Initially disclosed in <i>Announcement about the Company's Investment in Tonglu to Set up Wholly Owned Subsidiary and New Hikvision Security Industry Base (Tonglu) Project</i> (《关于在桐庐投资设立全资子公司及新建海康威视安防产业基地（桐庐）项目的公告》) (NO. 2014-044).
Internet Security Industry Base	Located in Binjiang district, Hangzhou, Zhejiang province, purposes for the office building. Initially disclosed in <i>Announcement about the Company's New Construction of Internet Security Industry Base Project</i> (《关于新建海康威视互联网安防产业基地项目的公告》) (NO. 2014-035).
Innovative Business	A long investment cycle, business prospects uncertain, has the high risk and uncertainty, in need for direct or indirect investment in exploration, in order for the Company to timely enter into new areas of business. Initially disclosed in <i>Announcement about Management Measures for Core Staff Investment in Innovative Business</i> (《核心员工跟投创新业务管理办法》) ( <a href="http://www.cninfo.com">www.cninfo.com</a> )  In this report, innovative business also refers to Ezviz, Hikvision Robotics, Hikvision Automotive Technology, Hikvision Weiyang, 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 & Key Financial Data

### I. Corporate Information

Stock abbreviation	HIKVISION	Stock code	002415
Stock exchange where the shares of the Company are listed	Shenzhen Stock Exchange		
Name of the Company in Chinese	杭州海康威视数字技术股份有限公司		
Abbr. of the Company name in Chinese (if any)	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		

### 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. Other Relevant Information

#### 1. Company's contact information

Whether there is any change in the Company's registered address, office address, zip code, company website or company email address during the reporting period.

☐ Applicable ☒ Inapplicable

There is no such above mentioned change during the reporting period; please refer to 2016 Annual Report for details.

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

Whether there is alteration in information disclosure and place of the report during the reporting period.

☐ Applicable ☒ Inapplicable

The newspaper designated by the Company for information disclosure, website specified by CSRC for release of the half-year report, and the place where the half-year report is available for inspection have not changed during the reporting period, Pleaser refer to 2016 Annual Report for details.

#### IV. Key accounting data and Financial Indicators

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

☒ Yes ☐ No

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

Accountant arrangement method for business merger under the common control\

	2017 First Half Year	2016 First Half Year		YoY Change
		Before Adjustments	After Adjustments	After Adjustments
Operating income (RMB)	16,447,539,736.52	12,548,198,726.12	12,553,476,748.58	31.02%
Net profits attributable to shareholders of the Company (RMB)	3,291,546,056.70	2,606,846,455.38	2,607,821,529.43	26.22%
Net profits attributable to shareholders of the Company excluding non-recurring gains and losses (RMB)	3,189,866,218.86	2,574,202,921.09	2,575,186,685.98	23.87%
Net cash flows from operating activities (RMB)	-1,942,800,802.42	397,807,256.48	397,774,228.28	-588.42%
Basic earnings per share (RMB/share)	0.357	0.289	0.289	23.53%
Diluted earnings per share (RMB/share)	0.357	0.288	0.288	23.96%
Weighted average ROE	12.98%	12.96%	12.96%	0.02%
	At June 30 <sup>th</sup> 2017	At December 31 <sup>st</sup> 2016		Change(%) between December 31 <sup>st</sup> 2016 and June 30 <sup>th</sup> 2017
		Before Adjustments	After Adjustments	After Adjustments
Total assets (RMB)	41,524,934,461.17	41,339,007,814.83	41,348,428,750.40	0.43%
Net assets attributable to shareholders of the Company (RMB)	24,043,886,222.83	24,288,634,890.08	24,283,755,426.31	-0.99%

#### V. Differences in Accounting Data between Domestic and Overseas Accounting Standards

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

☐ Applicable ☒ Inapplicable

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

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

☐ Applicable ☒ Inapplicable

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

## VI. Items and Amounts of Non-recurring Gains and Losse

☒ Applicable ☐ Inapplicable

Unit: RMB

Item	Amount
Profit or loss from disposal of non-current assets (including the write-off for the impairment of assets)	2,226,974.55
The government subsidies <sup>1</sup> included in the current profits and losses (excluding the government subsidy closely related to regular course of business of the Company and government subsidy based on standard quota or quantitative continuous application according to the state industrial policy.)	14,130,234.67
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.	88,204,679.51
Other non-operating income and expenditures except the items mentioned above	16,422,848.73
Less: Impact of income tax	18,147,710.62
The impact of the minority interests (after tax)	1,157,189.00
Total	101,679,837.84

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

<sup>1</sup> Please refer to Note (V) 46 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

There is no significant change for the principal business of the Company during the reporting period. Please refer to 2016 Annual Report for details.

### II. Significant changes in main assets

#### 1. Major Changes in Main Assets

☒ Applicable ☐ Inapplicable

Major assets	Explanation on Major Changes
Equity Assets	Increasead by 268.92%, mainly due to investment to Maxio Technology (Hangzhou) Ltd, totaled in RMB 98.00 million.
Fixed Assets	No significant changes
Intangible Assets	No significant changes
Construction in Progress	Increased by 141.67%, mainly due to the investment to Phase 2 of Security Industrial Base (Tonglu) project and Internet Security Industry Base.

#### 2. Major Overseas Assets

☐ Applicable ☒ Inapplicable

### III. Core Competitiveness

Whether the Company has to comply with the disclosure requirements of any special industry

☐ Yes ☒ No

There is no significant change for the core competitiveness of the Company during the reporting period. Please refer to 2016 Annual Report for details.

## Section IV Operation Discussion and Analysis

### I. Overview

During the reporting period, the domestic market was steady and tended to a good prospect; the overseas market maintains volatile while affected by various uncertainties. In the first half of 2017, the Company achieved total operating income of RMB 16.45 billion, increased by 31.02% on a year-over-year basis; and net profit attributed to shareholders of the listed company of RMB 3.29 billion, increased by 26.22% on a year-over-year basis. The profitability of the Company improved continuously, resulted in an overall gross profit margin of 42.72% in the first half of 2017, increased by 1.14% comparing to 2016 overall gross profit margin.

#### 1. Continue to propel the industry layout based on the core video techonology

Relying on the accumulation in video surveillance industry, the Company has been actively exploring and commercializing AI technology into various product modules and application markets. Through internal Research and Development (R&D), investments and acquisitions, joint-venture corporation, and other methods, the Company has performed beneficial exploration in upstream of the industry chain; In order to support the expansion of the Company's products and solutions and to further extend application areas, the Company has strategically layout of uncooled infrared sensor, radar and other sensing technologys to enrich perceptual dimensions.

Supported by the traditional video surveillance business, the Company continues to explore innovative businesses such as EZVIZ Smart Home, Hikvision Robotic, Hikvision Automotive Techonology, Hikvision Storage and etc., seeking to build core competitiveness in new business areas.

#### 2. Continue to increase investments, reserve strength for sustainable development

During the reporting period, the Company continued to increase investments, further speed up the recruitments of R&D, marketing and other key productive departments. At the same time, the Company continued to optimize the talent training system, speed up the telant team development, in order to reserve strength for sustainable and healthy development.

#### 3. Continue to promote management reform, optimize organizational capability

The Company continued to promote the management reform projects, optimize organizational capability,

improve operational efficiency, and improve capability in creating value for customers. The Company has been actively promoting the construction of business culture, emphasizing value identity and building up incentive alignment between the developments of the Company and its employees.

## II. Core business analysis

### Overview

Whether consistent with the overview disclosure under Operation Discussion and Analysis

☒ yes ☐ no

Please refer to details in Section IV Operation Discussion and Analysis-I. Overview

### Year-over-Year Changes in Key financial data

Unit: RMB

	2017 first half year	2016 first half year	YoY Change (%)	Note of Change
Operating Income	16,447,539,736.52	12,553,476,748.58	31.02%	Operating Income increased with the steady increase of market demands.
Operating costs	9,420,695,024.84	7,518,216,264.30	25.30%	Increase with the operating income growth
Selling expenses	1,726,924,956.22	1,211,831,544.28	42.51%	Selling expenses increase with the Company's continuous increasing investments on domestic and overseas sales network
Administrative expenses	1,761,709,877.13	1,271,951,990.31	38.50%	The Company continues to increase investments in R&D
Financial expense	65,500,627.65	-97,182,948.36	-167.40%	Affected by fluctuation in foreign exchange rate, increase in foreign currency exchange losses
Income Tax Expenses	568,658,390.85	432,531,976.11	31.47%	Increase with the profit growth
R&D investments	1,454,783,663.94	968,001,812.80	50.29%	The Company continues to increase investments in R&D, hiring technology talents
Net Cash Flow from Operating Activities	-1,942,800,802.42	397,774,228.28	-588.42%	Payments for material procurements, tax payables, and 2016 year-end bonus
Net Cash Flow from Investment Activities	3,188,919,897.38	704,063,230.28	352.93%	Collection of matured principal-guaranteed financial products
Net Cash Flow from Financing Activities	-2,109,983,475.35	-1,288,518,254.29	-63.75%	Distribution of dividends

	2017 first half year	2016 first half year	YoY Change (%)	Note of Change
Net increase in cash and cash equivalents	-995,983,078.72	-155,121,106.09	-542.07%	Payments for material procurements, tax payables, and 2016 year-end bonus

Whether there is significant change in Company's profit structure or profit source during the reporting period

☐ Applicable ☒ Inapplicable

There is no such case during the reporting period.

### Operating income structure

	2017 first half year		2016 first half year		YoY Change (%)
	Amount	Proportion to operating income	Amount	Proportion to operating income	
Total operating income	16,447,539,736.52	100%	12,553,476,748.58	100%	31.02%
Classified by industry					
Video products and video content services	16,447,539,736.52	100.00%	12,553,476,748.58	100.00%	31.02%
Classified by product					
Front-end equipment	8,471,727,239.99	51.51%	6,601,052,833.16	52.58%	28.34%
Back-end equipment	2,581,996,973.35	15.70%	2,182,475,391.78	17.39%	18.31%
Central control equipment	1,893,438,540.55	11.51%	1,182,860,160.42	9.42%	60.07%
Construction projects	428,858,036.85	2.61%	408,576,652.08	3.25%	4.96%
Innovative business	613,825,422.23	3.73%	234,586,712.01	1.87%	161.66%
Others	2,457,693,523.55	14.94%	1,943,924,999.13	15.49%	26.43%
Classified by region					
Domestic	11,478,885,424.15	69.79%	8,959,841,363.15	71.37%	28.11%
Overseas	4,968,654,312.37	30.21%	3,593,635,385.43	28.63%	38.26%

Note: in the category classified by product, the "innovative business" includes corresponding business products of innovative business subsidiaries - EZVIZ Network, Hikvision Robotics, and Hikvision Automotive Technology. Hikvision Weiying, and Hikvision Storage, Similar hereinafter.

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

☒ Applicable ☐ Inapplicable

Unit: RMB

	Operating income	Operating cost	Gross margin	YoY Change (%) of operating income	YoY Change (%) of operating cost	YoY Change (%) of gross margin
Classified by industry						
Video products and video content services	16,447,539,736.52	9,420,695,024.84	42.72%	31.02%	25.30%	2.61%
Classified by product						
Front-end equipment	8,471,727,239.99	4,330,837,875.51	48.88%	28.34%	25.09%	1.33%
Back-end equipment	2,581,996,973.35	1,318,164,201.90	48.95%	18.31%	8.67%	4.53%
Central control equipment	1,893,438,540.55	1,035,848,060.56	45.29%	60.07%	57.66%	0.84%
Construction projects	428,858,036.85	387,677,860.96	9.60%	4.96%	-3.15%	7.57%
Innovative business	613,825,422.23	412,952,376.29	32.72%	161.66%	163.05%	-0.36%
Others	2,457,693,523.55	1,935,214,649.62	21.26%	26.43%	18.82%	5.04%
Classified by region						
Domestic	11,478,885,424.15	6,918,305,959.45	39.73%	28.11%	22.67%	2.67%
Overseas	4,968,654,312.37	2,502,389,065.39	49.64%	38.26%	33.20%	1.91%

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

Whether the Company has to comply the disclosure requirements of decorating and refurbishing industry.

No

### III. Non-Core Business Analysis

☐ Applicable ☒ Inapplicable

## IV. Analysis of assets and liabilities

### 1. Material changes of asset items

Unit: RMB

	June 30 <sup>th</sup> 2017		January 1 <sup>st</sup> 2017		YoY Change (%)	Note of significant change
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Cash and bank balances	13,179,646,367.74	31.74%	13,638,078,139.56	32.98%	-1.24%	No significant change
Accounts receivable	13,304,046,010.12	32.04%	11,243,843,324.90	27.19%	4.85%	Increase follows the increase in sales revenue
Inventory	4,935,820,439.51	11.89%	3,829,947,876.75	9.26%	2.63%	Inventory increases as sales increase
Long-term equity investment	129,122,297.95	0.31%	35,000,000.00	0.08%	0.23%	Mainly due to investments on Maxio Technology (Hangzhou)
Fixed assets	2,945,144,484.51	7.09%	2,853,908,475.49	6.90%	0.19%	Increase of fixed assets procurement for daily operation
Construction in process	764,850,814.58	1.84%	316,482,522.36	0.77%	1.07%	Mainly due to increase of investments in Security Industrial Base Project (Tonglu) Phase 2 & Internet Security Industry Base
Short-term loans	1,965,132,452.76	4.73%	32,291,324.85	0.08%	4.65%	Increase due to temporary capital turnover
Long-term loans	1,319,408,175.80	3.18%	1,722,207,584.33	4.17%	-0.99%	No significant change
Financial assets measured by fair value and their changes recognized in the gains and losses during the current period	3,004,171.92	0.01%	15,547,537.34	0.04%	-0.03%	Change in fair value of financial derivatives

	June 30 <sup>th</sup> 2017		January 1 <sup>st</sup> 2017		YoY Change (%)	Note of significant change
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Financial liabilities measured by fair value and their changes recognized in the gains and losses during the current period	18,562,128.16	0.04%	69,789,502.97	0.17%	-0.13%	Change in fair value of financial derivatives
Other Current Asset	428,103,172.17	1.03%	4,153,992,276.78	10.05%	-9.02%	Maturity of principal-guaranteed financial products
Long-term receivables	171,142,345.99	0.41%	251,588,919.15	0.61%	-0.20%	Payments received for due receivables
Note Payables	536,694,693.25	1.29%	876,804,536.72	2.12%	-0.83%	Payments of matured note payables
Payroll payable	595,071,569.87	1.43%	1,084,951,139.10	2.62%	-1.19%	Payments of year-end bonus
Dividends payable	92,407,139.16	0.22%	20,105,831.16	0.05%	0.17%	Implementation of 2016 annual profit distribution scheme, dividend payable for restricted incentive shares increased
Other payable	481,729,216.24	1.16%	1,049,164,707.44	2.54%	-1.38%	Prepaid capital for subscription of 2016 Restricted Incentive Shares scheme transferred to share capital after capital verification
Non-current liabilities due within one year	714,012,975.36	1.72%	15,340,813.03	0.04%	1.68%	Increase in portion of long-term loans that are due within one year
Other current liabilities	853,507,327.55	2.06%	300,177,750.17	0.73%	1.33%	Increase of restricted shares after registration of 2016 restricted incentive shares granting
Deferred income	16,817,902.06	0.04%	10,833,745.99	0.03%	0.01%	Deferred income increase due to cloud storage service
Share capital	9,228,865,114.00	22.22%	6,102,706,885.00	14.76%	7.46%	Increase in share capital due to 2016 annual profit distribution

	June 30 <sup>th</sup> 2017		January 1 <sup>st</sup> 2017		YoY Change (%)	Note of significant change
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Capital reserves	1,722,277,484.29	4.15%	1,050,240,853.66	2.54%	1.61%	Increase of capital reserves and treasury shares after registration of 2016 restricted incentive shares granting
Treasury shares	853,507,327.55	2.06%	300,177,750.17	0.73%	1.33%	
Other comprehensive income	-12,639,845.44	-0.03%	-41,230,777.21	-0.10%	0.07%	Affected by fluctuation in foreign exchange rate, increase in effect of foreign currency exchange difference



## 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	Cumulative fair value change charged to equity	Effect of foreign currency exchange difference	Purchase during the period	Sales during the period	Closing balance
<b>Financial assets</b>							
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)	15,547,537.34	-12,543,365.42	--	--	--	--	3,004,171.92
Subtotal of financial assets	15,547,537.34	-12,543,365.42	--	--	--	--	3,004,171.92
<b>Subtotal of above</b>	15,547,537.34	-12,543,365.42	--	--	--	--	3,004,171.92
<b>Financial Liabilities</b>	-69,789,502.97	51,095,855.83	--	131,518.98	--	--	-18,562,128.16

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

□ Yes √ No

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

Unit: RMB

Item	Closing Book Value	Reasons for being restricted
Monetary fund	653,291,749.18	Various cash deposits and deposit pledge for long-term loan
Notes receivable	584,027,766.90	Pledge for issuance of bank acceptance
Accounts receivable	70,036,733.76	Pledge for long-term loan
Total	1,307,356,249.84	

## V. Analysis of Investments

### 1. Overview

√ Applicable □ Inapplicable

Investment during 2017 first half year (RMB)	Investment during 2016 first half year (RMB)	Fluctuation (%)
809,644,383.18	330,462,791.72	145.00%

## 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	Disclosure Date (if applicable)	Disclosure reference (if applicable)
Security Industrial Base (Tonglu) phase 1	Self-built	YES	Video product and service	16,223,496.42	651,483,201.85	Company's own funds	90.48%	October 16 <sup>th</sup> 2014	<a href="http://www.cninfo.com">www.cninfo.com</a> . Announcement about the Company's Investment in Tonglu to Set up Wholly Owned Subsidiary and New Hikvision Security Industry Base (Tonglu) Project(《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).
Security Industrial Base (Tonglu) phase 2	Self-built	YES	Video product and service	16,455,373.00	19,168,601.89	Bond	2.59%		
Internet Security Industry Base	Self-built	YES	Video product and service	345,982,823.01	584,252,250.38	Bond	58.43%	September 16 <sup>th</sup> 2014	<a href="http://www.cninfo.com">www.cninfo.com</a> . Announcement about the Company's New Construction of Internet Security Industry Base Project (《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).
Total	--	--	--	378,661,692.43	1,254,904,054.12	--	--	--	--

#### 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	2,485,985,565.37	38,552,490.41	--	1,039,730,776.53	--	22,296,650.52	792,453,647.02	Company's own funds
Total	2,485,985,565.37	38,552,490.41	--	1,039,730,776.53	--	22,296,650.52	792,453,647.02	--

#### 5. Securities Investments

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

#### 6. Derivatives Investments

☒ Applicable ☐ Inapplicable

Unit: 0,000 RMB

Operation party of derivative investment	Whether Related party	Whether related transaction	Type of derivative investment	Initial investment amount of derivatives	Initial date	Termination date	Opening balance of investment amount	provisions (if apply)	closing balance of investment amount	Proportion of the Company's net assets at the end of the reporting period	Actual gain or loss during the reporting period
Bank	No	No	Foreign currency hedging	248,598.56	January 1 <sup>st</sup> 2017	December 31 <sup>st</sup> 2017	248,598.56	--	79,245.36	3.27%	2,229.67
Total				248,598.56	--	--	248,598.56	--	79,245.36	3.27%	2,229.67
Source of capital					Company's own fund						
Announcement date for approvals of derivative investment from the board of directors (if applicable)					April 14 <sup>th</sup> 2017						
Risk analysis and control measures (including but not limited to, market risk, liquidity risk, credit risk, operational risk, legal risk, etc.) of holding derivative investment					The Company's derivative investments were all foreign currency hedging transactions, for details about risk analysis and control measures, please refer to <i>Announcement of 2017 Foreign Currency Hedging Transactions</i> (《关于 2017 年开展外汇套期保值交易的公告》) disclosed on April 14 <sup>th</sup> 2017 (NO.2017-013) .						

Change of market price or fair value of invested derivatives during the reporting period; specific methods, related assumptions and parameter setting of the derivative fair value analysis should be disclosed.	The Company's accounting of derivatives' fair value was mainly about the outstanding foreign currency forwards signed with various banks; Tradable financial assets/liabilities were determined with difference between the strike rate offered in contracts and future forward exchange rate (by terms) of outstanding foreign currency forwards at the end of the reporting period.
During the current reporting period, whether there was significant changes of accounting policies and bookkeeping procedures of the Company's derivatives comparing to the prior reporting period.	No significant change
Specific opinions on risk control of the Company's derivative investments from independent directors.	Not applicable

## 7. Use of raised funds

☐ Applicable ☒ Inapplicable

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

## 8. Significant non-fundraising investment during the reporting period

☐ Applicable ☒ Inapplicable

During the reporting period, there was no such case as significant non-fundraising investment.

## VI. Disposal of significant assets and equity

### 1. Disposal of significant assets:

☐ Applicable ☒ Inapplicable

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

### 2. Sale of significant equity:

☐ Applicable ☒ Inapplicable

## VII. Analysis of major subsidiaries and investees

☒ Applicable ☐ Inapplicable

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

Unit: RMB

Company name	Company type	Principal business	Registered capital	Total assets	Net assets	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	2,238,553,063.55	685,271,562.56	1,031,924,624.51	23,706,735.08	33,626,316.15
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	1000 million	22,452,628,980.42	1,727,048,680.71	16,097,879,917.83	173,456,062.47	204,969,378.55

Information about obtaining and disposal of subsidiaries during the reporting period

☒ Applicable ☐ Inapplicable

Company name	Equity acquisition and disposal mode	Impact on overall production results
Hangzhou Hik Ximu Intelligent Technology Co., Ltd.	Merger under common control	Business development
Hikvision New Zealand Limited	Cash contribution	Expand overseas sales channels
Wuhan HIK Storage Technology Co., Ltd.	Cash contribution	Business development
Urumchi Hai Shi Xin An Electronics Technology Co., Ltd.	Cash contribution	Business development
Chengdu Hikvision Digital Technology Co., Ltd.	Cash contribution	Business development
Hikvision Kenya (Pty) Ltd.	Cash contribution	Expand overseas sales channels
Hikvision Tashkent LLC.	Cash contribution	Expand overseas sales channels
Hikvision Hungary Kft	Cash contribution	Expand overseas sales channels
Wuhan Hikvision System Technology Co., Ltd.	Liquidation	Adjustments of organizational framework

## VIII. Structural entities controlled by the Company

☐ Applicable ☒ Inapplicable

## IX. Guidance on the Company's operational result from January 1<sup>st</sup> 2017 to September 30<sup>th</sup> 2017

Guidance on the Company's operational performance during January 1<sup>st</sup>, 2017 to September 30<sup>th</sup>, 2017: Net profits attributable to shareholders of the Company are positive, and situation of turning losses into gains is not applicable.

Estimated YoY change (%) of net profits attributable to shareholders of the Company from January 1 <sup>st</sup> , 2017 to September 30 <sup>th</sup> , 2017	15%	to	35%
Estimated variation interval of net profits attributable to shareholders of the Company from January 1 <sup>st</sup> , 2017 to September 30 <sup>th</sup> , 2017 (0,000 RMB)	557,952.68	To	654,987.92
Net profits attributable to shareholders of the Company from January 1 <sup>st</sup> , 2016 to September 30 <sup>th</sup> , 2016 (0,000 RMB) (Note)	485,176.24		
Note of change in operational results	The Company's operating performance continues to have a steady growth.		

Note: Net profits attributable to shareholders of the Company from January 1<sup>st</sup>, 2016 to September 30<sup>th</sup>, 2016 after making retroactive adjustments for business merger under common control.

## X. Risks of the Company and risk response solutions

During the reporting period, there was no major change in risk factors of the Company, please refer to Section I-Important Notes. The Company has been trying hard to identify various risk exposures, actively adapting risk response solutions to avoid and reduce risks:

- (1) Risk of technology upgrade: Through continuous R&D investments, the Company closely tracks the frontier technologies and keeps the competitiveness in core technology. Through steady and reliable R&D managements, the Company has developed efficient R&D that fit into the markets, maintained rapid response to market demand on products and technologies, and realized sustainable development.
- 2) Risk of product information security: the Company has always been dedicating to enhance the product safety through actively applying various measures. Through building up professional cybersecurity team, establishing specific cybersecurity department, and establishing a complete set of product safety guarantee system, the Company has built various cybersecurity assurance efforts such as safety demand, safety design, safety development, and safety testing into the development lifecycle of products, in order to ensure the continuous improvements on product and system safety, and provide more secure product and solutions to customers.
- 3) Risk of foreign exchange: the Company pays high attention on risk management of foreign currency exchange risk, and manages foreign exchange risk through hedging products. For exchange rate risk exposure, the Company actively uses financial hedging tools, not for the purpose of speculation, to realize reasonable risk management.

4) Risk of management: the Company continued to promote management reform and consistently improve organizational capabilities. During the reporting period, the Company continued to learn from the best practice in the industry, enhance organizational capability, and improve management level, in order to response to various potential market uncertainties through rules and procedures.

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

√ Applicable □ Inapplicable

### (1) Reception of research activities.

Time of reception	Method of reception	Type of reception object	Basic situation of the research
From January 3 <sup>rd</sup> , 2017 to January 20 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional and individual investors	CNINF, Investor Relations Activity Record: From January 3 <sup>rd</sup> , 2017 to January 20 <sup>th</sup> , 2017
From February 6 <sup>th</sup> , 2017 to February 10 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, Investor Relations Activity Record: From February 6 <sup>th</sup> , 2017 to February 10 <sup>th</sup> , 2017
From February 13 <sup>th</sup> , 2017 to February 24 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, Investor Relations Activity Record: From February 13 <sup>th</sup> , 2017 to February 24 <sup>th</sup> , 2017
From February 27 <sup>th</sup> , 2017 to March 10 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, Investor Relations Activity Record: From February 27 <sup>th</sup> , 2017 to March 10 <sup>th</sup> , 2017
April 14 <sup>th</sup> , 2017	Annual performance result Conference Call	Institutional and individual investors	CNINF, Investor Relations Activity Record: April 14 <sup>th</sup> , 2017
From April 17 <sup>th</sup> , 2017 to April 28 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, Investor Relations Activity Record: From April 17 <sup>th</sup> , 2017 to April 28 <sup>th</sup> , 2017
May 4 <sup>th</sup> , 2017	Investor Reception Day	Institutional and individual investors	CNINF, Investor Relations Activity Record: May 4 <sup>th</sup> , 2017
From May 8 <sup>th</sup> , 2017 to May 19 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, Investor Relations Activity Record: From May 8 <sup>th</sup> , 2017 to May 19 <sup>th</sup> , 2017
From May 22 <sup>nd</sup> , 2017 to May 27 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, Investor Relations Activity Record: From May 22 <sup>nd</sup> , 2017 to May 27 <sup>th</sup> , 2017

Time of reception	Method of reception	Type of reception object	Basic situation of the research
From June 5 <sup>th</sup> , 2017 to June 9 <sup>th</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From June 5<sup>th</sup>, 2017 to June 9<sup>th</sup>, 2017</i>
From June 12 <sup>th</sup> , 2017 to June 23 <sup>rd</sup> , 2017	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From June 12th, 2017 to June 23rd, 2017</i>

## (2) Participation of conferences for investor relationship activities

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



Time of conference	Location	Conference Name	Type of reception object	Method of reception
April 2017	Hangzhou	GF Securities Spring Listed Company Non-disclosure Investment Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	New York	UBS 2 <sup>nd</sup> China A-Share Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Shenzhen	Credit Suisse SZ-HK Connection Investment Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Shenzhen	HSBC Annual China Investment Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Tianjin	CLSA 2017 China Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Hongkong	BNP Paribas 8 <sup>th</sup> Asia Pacific TMT Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Hongkong	CICC TMT Summit-AI Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Hongkong	Goldman Sachs TechNet Conference Asia Pacific 2017	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2017	Beijing	Morgan Stanley's Third Annual China Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Shenzhen	Bank of America Merrill Lynch 2017 Innovative China Forum	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Beijing	J.P. Morgan Global China Summit 2017	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Singapore	Nomura Investment Forum Asia (NIFA) 2017	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Qingdao	Haitong Securities 2017 Mid-year A-share Corporation Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Guangzhou	Merchants Securities 2017 Mid-year Conference and Investment Summit	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	NYC-Chicago	USA NDR-via CITI	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Hangzhou	Huatai Securities 2017 Summer Investment Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Shanghai	CICC 2017 2 <sup>nd</sup> Half Year Investment Conferenc	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Shanghai	Industrial Securities 2017 Greater China Mid-year Investment Conference	Institutional and individual investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2017	Hongkong	DB Access China Industrials Corporate Day	Institutional and individual	One-on-One, One-on-multi, small group

Time of conference	Location	Conference Name	Type of reception object	Method of reception
			investors	Meetings, and etc.

**(3) Investor relations activity statistics during the reporting period**

Number of daily research received (Site and telephone conference)	211
Number of institutional investors received (times)	1248
Number of individual investors received (ppl)	47
Number of investor relations conference participated	31

## Section V Significant Events

### I. Annual General Meeting and Extraordinary General Meetings convened during the reporting period

#### 1. Annual General Meeting convened during the current reporting period

Meeting	Nature	Proportion of participating investors	Convened Date	Disclosure Date	Disclosure Index
2016 Annual General Meeting	Annual General Meeting	70.01%	May 4 <sup>th</sup> , 2017	May 5 <sup>th</sup> , 2017	No. 2017-022; www.cninfo.com.cn

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

☐ Applicable ☒ Inapplicable

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

☐ Applicable ☒ Inapplicable

The Company will not distribute cash dividend, bonus shares or capitalize capital reserves during for 2017 first half year.

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

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		<p>Company</p> <p>3.1 Commitment to Personnel Independence of the listed Company</p> <p>(1) Commitment that our general manager, deputy general manager, chief financial officer, secretary of the board and other members of senior management shall not assume any positions other than directors and supervisors or get any remuneration in CETHIK and/or any of its controlled entities; (2) Commitment in keeping the management of labor, human resources and issues related to remuneration of the listed Company independent from that of CETHIK;</p> <p>3.2 Commitment to the independence of the asset of the listed Company</p> <p>(1) Commitment to independent and complete asset of the listed Company</p> <p>(2) Commitment free of unlawful use of cash and asset of the listed Company by the controlling shareholders</p> <p>3.3 Commitment to financial independence of the listed Company</p> <p>(1) Commitment to an independent finance department with a team and accounting system;</p> <p>(2) Commitment to a regulated, independent accounting system and financial management system of the branches and subsidiaries</p> <p>(3) Commitment to maintaining accounts with banks independently of and not sharing any bank account with our controlling shareholders</p> <p>(4) Commitment that the financial staff shall not assume any positions in CETHIK</p> <p>(5) Commitment to paying taxes independently according to the law;</p> <p>(6) Commitment to implementing financial decisions independently</p> <p>3.4 The Company has set up an independent organizational structure which maintains its independent operations which is independent from that of CETHIK.</p> <p>3.5 Commitment to business Independence of the listed Company</p> <p>(1) The Company has the asset, personnel, aptitude and management capability for independent and complete business operation. The Company has the ability to operate independently in the market.</p> <p>(2) Commitment in independence in both business and operations</p>			

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		<p>4. Regarding plans for the development and relevant commitment for the listed Company, Haikang Group has committed as below for the subsequent development of Hikvision according to the Securities Acts and relevant laws and rules,</p> <p>4.1 Currently the Company has no plan to change or make significant adjustments for principal business in the next 12 months;</p> <p>4.2 Currently the Company has no plan to sell, merge or operate with another Company for the assets and business of the listed Company or its subsidiaries in the next 12 months.</p> <p>4.3 Currently the Company has no plan to alter the Board of the Directors and senior management and no agreement with other shareholders about the appointment and removal of the directors or senior management. The team of Board of Directors and senior management will remain unchanged for the foreseeable future.</p> <p>4.4 Currently the Company has no plan to make significant changes to the Articles of Association for the listed Company.</p> <p>4.5 Currently the Company has no plan to make significant changes to the existing employee recruitment for the listed Company.</p> <p>4.6 Currently the Company has no plan to make significant changes for the dividend distribution plan for the listed Company.</p> <p>4.7 Currently the Company has no plan to make significant changes for business and organizational structure for the listed Company.</p>			
Commitments in Initial Public Offering or re-financing	Hangzhou Weixun Investment Management Limited Partnership (later renamed as Xinjiang Weixun Investment Management Limited Partnership)	During Hu Yangzhong, Wu Weiqi, JiangHaiqing, Zhou Zhiping, Xu Lirong, Cai Dingguo, He Hongli, Zheng Yibo, Hu Dan, Jiang Yufeng, Liu Xiang, Wang Ruihong, Chen Junke's tenure of the Company's board of directors, supervisors and senior management personnel, the annual transfer of	17 May, 2010	Long term	Strict performance

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		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
	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; whthin 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	18 September,	Long term	Strict performance

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		actual controller of the Company, issued Letters of non-competition on 18 September, 2008.	2008		
	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				

#### IV. Engagement and disengagement of the CPA firm

The Company's half year report was not audited.

#### V. Explanation given by the board of directors and supervisory committee regarding the “non-standard auditor’s report” issued by the CPA firm for the current reporting period

☐ Applicable ☒ Inapplicable

#### VI. Explanation given by the board of directors regarding the “non-standard auditor’s report” issued by the CPA firm for the prior year

☐ Applicable ☒ Inapplicable



## VII. Bankruptcy and restructuring

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

## VIII. Litigations

Material litigation and arbitration

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

Other litigations

☐ Applicable ☒ Inapplicable

## IX. Media queries

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

## X. Punishments and rectifications

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

## XI. Integrity of the Company and its controlling shareholders and actual controllers

☐ Applicable ☒ Inapplicable

## XII. The implementation of an Equity Incentive Plan, Employee Stock Incentive Plan, or other incentive plan

☒ Applicable ☐ Inapplicable

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

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

the incentive conditions were repurchased and cancelled. On April 27<sup>th</sup> 2017, repurchase and cancelation of restricted shares was complete, thereafter, there are 1094 grantees left for 2014 Restricted Share Incentive Schemes, granted and locked shares left are 46,220,473 shares

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

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

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

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

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

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

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

#### 4. Share incentives for directors and senior executives in the Reporting Period

Unit: share

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

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

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

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

## 5、Impact on operating results of the Company from the accounting treatments of the Company's share incentive and costs of share incentive

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 2014 and 2016 Restricted Share Incentive Schemes are amortized over the waiting period for vesting.

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

## XIII. Significant related-party transaction

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

√ Applicable □ Inapplicable

Related party	Relationship	Type of related transaction	Content of related transaction	Valuation	Trading price	Amount (0'000 RMB)	Proportion to the amount of similar transactions.	Approved trading quota (0'000 RMB)	Whether above approved quota	Settlement	Market price of similar transaction	Disclosure date	Disclosure reference
Research institute or subsidiaries of CETC	Under the common control of the Company's actual controller.	Procurement	Purchase materials, receiving services	Agreed on price, reference market price	--	9,444.74	0.92%	40,000	No	Payment on delivery	--	April 14 <sup>th</sup> 2017	Announcement on projections on 2017 related transactions (No: 2017-012)
Shanghai Fullhan Microelectronics Co., Ltd.	The Company's director or his/her relative is the director of the related party	Procurement	Purchase materials, receiving services	Agreed on price, reference market price	--	7,206.93	0.70%	30,000	No	Payment on delivery	--		
Research institute or subsidiaries of CETC	Under the common control of the Company's actual controller.	Sales	Sellig Products	Agreed on price, reference market price	--	19,058.82	1.16%	80,000	No	Payment on delivery	--		

Related party	Relationship	Type of related transaction	Content of related transaction	Valuation	Trading price	Amount (0'000 RMB)	Proportion to the amount of similar transactions.	Approved trading quota (0'000 RMB)	Whether above approved quota	Settlement	Market price of similar transaction	Disclosure date	Disclosure reference
Total				--	--	35,710.49	--	150,000	--	--	--	--	--
Details on significant sales return				None									
Total amount of related transactions projected based on different categories, actual performance during the current reporting period (if any)				Daily related transaction amount between the Company and the related parties did not exceed the total limited amount of related transactions projected based on different categories.									
Reasons on significant difference between trading price and market referencing price(if applicable)				Not applicable									

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

☐Applicable ☒Inapplicable

No such case in the reporting period.

## 3. Significant related-party transactions arising from joint investments 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

Pursuant to the *Proposal about the Company's subsidiary Hangzhou Hikvision Automotive Technology Co., Ltd.'s acquisition of assets and equity and related transactions with CETC* 《关于控股子公司杭州海康汽车技术有限公司购买资产、收购股权暨与中电海康集团有限公司关联交易的议案》 approved by the 21st meeting of the 3rd session of the Board of Directors held on January 8<sup>th</sup> 2017, the Company's subsidiary Hangzhou Hikvision Automotive Technology Co., Ltd. is approved to acquire and integrate the Company's controlling shareholder CETHIK's automotive electronic related business subsidiary: 1) the Company's subsidiary Hangzhou Hikvision Automotive Technology Co., Ltd. acquired the asset group of CETHIK's Intelligent Automotive Department with acquisition target price of RMB 68.02 million. During the transitional period, the acquisition price was audited and adjusted up with RMB 11.39 million, and the final settlement price was RMB 79.41 million; 2) Hangzhou Hik Ximu Intelligent Technology Co., Ltd. (hereinafter refer to "Hik Ximu"), CETHIK's holding subsidiary, was acquired with RMB 16.30 million, 100% equity; of which RMB 9.78 million was for acquiring 60% shares of HIK Ximu held by CETHIK, and RMB 6.52 million was for acquiring 40% shares of HIK Ximu held by 7 individual shareholders including Yang Feng. As of the end of the reporting period, Hikvision Automotive Technology has completed the acquisition and integration of the asset group of CETHIK's Intelligent Automotive Department, and the changes in registration related to acquisition of Hik Ximu. For details, please refer to Note (VI) 1-business merger under common control.

Pursuant to the Proposal of investment and establishment of Wuhan Hik Storage Technology Co., Ltd. (temporary name) approved by the 22nd meeting of the 3rd session of the Board of Directors held on April 12<sup>th</sup> 2017, Hikvision and Co-investment Partnership enterprise will jointly invest RMB 100 million to establish Wuhan Hik Storage Technology Co., Ltd.; Hikvision will contribute cash capital of RMB 60 million, holding 60% of the equity of Hik Storage; Co-investment Partnership enterprise will contribute cash capital of RMB 40 million, holding 40% of the equity of Hik Storage. On April 17<sup>th</sup> 2017, Hik Storage's industrial and commercial establishment registration was completed.

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

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

## XIV. Significant contracts and their execution

### 1. Trusteeship, contracting and leasing

#### (1) Trusteeship

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

**(2) Contracting**

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

**(3) Leasing**

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

## 2. Significant guarantees

√Applicable □ Inapplicable

### (1) Details of gurantees

Unit: RMB'0000

Guarantees provided by the Company for subsidiaries								
Guaranteed party	Disclosue date of announcement of the guarantee cap	Guarantee Cap	Actual occurrence date (date of agreement signing)	Actual guaranteed amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Hangzhou Hikvision Science and Technologies Co. Ltd.	April 14 <sup>th</sup> 2017	750,000	December 25 <sup>th</sup> 2015	373,141.38	Joint guarantee	2015.12.15-2019.2.16	No	Yes
Hangzhou Hikvision Zhicheng Investment and Development Co. Ltd.	April 14 <sup>th</sup> 2017	10,000	June 13 <sup>th</sup> 2017	1,200	Joint guarantee	2017.6.13-2018.6.13	No	Yes
Hangzhou Hikvision System Technology Co., Ltd	April 14 <sup>th</sup> 2017	80,000	March 3 <sup>rd</sup> 2016	1,244.05	Joint guarantee	2016.3.3-2019.11.24	No	Yes
HIKVISION INTERNATIONAL CO., LTD.	April 14 <sup>th</sup> 2017	300,000	September 8 <sup>th</sup> 2016	25,163.92	Joint guarantee	2016.9.8-2017.9.8	No	Yes
Hangzhou Hikvision Electronics Co. Ltd.	April 14 <sup>th</sup> 2017	100,000	March 10 <sup>th</sup> 2017	5,452.1	Joint guarantee	2017.3.10-2017.7.30	No	Yes
Chongqing Hikvision Science and Technologies Co., Ltd.	April 14 <sup>th</sup> 2017	70,000	No such case during the reporting period					
Chongqing Hikvision System Technology Co., Ltd.	April 14 <sup>th</sup> 2017	30,000	No such case during the reporting period					
Hangzhou Hikvision Communication Technology Co., Ltd.	April 14 <sup>th</sup> 2017	10,000	No such case during the reporting period					
Urumchi Hai Shi Xin An Electronics Technology Co., Ltd.	April 14 <sup>th</sup> 2017	55,000	No such case during the reporting period					
Total guarantee cap for subsidiaries approved during the reporting period(B1)		194,200		Total actual guarantee amount for subsidiaries during the reporting period(B2)		471,201.45		
Total approved guarantee cap for subsidiaries at the end of the reporting period(B3)		1,405,000		Total actual guarantee balance for subsidiaries at		406,201.45		



Guarantees provided by the Company for subsidiaries								
Guaranteed party	Disclosue date of announcement of the guarantee cap	Guarantee Cap	Actual occurrence date (date of agreement signing)	Actual guaranteed amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
			the end of the reporting period(B4)					
Total guarantee amount provided by the Company (total of the above-mentioned kinds of guarantees) (During the reporting period, there was no such case as gurantee provided for external parties, or gurantees between subsidiaries, therefore, there is only item B, item A or C is nil)								
Total guarantee cap approved during the reporting period (A1+B1+C1)	194,200		Total actual guarantee amount during the reporting period (A2+B2+C2)		471,201.45			
Total approved guarantee cap at the end of reporting period (A3+B3+C3)	1,405,000		Total actual guarantee balance at the end of the reporting period (A4+B4+C4)		406,201.45			
Portion of the total actual guarantee amount (A4+B4+C4) in net assets of the Company			16.89%					
Of which								
Amount of guarantees provided for shareholders, the actual controller and their related parties (D)					0			
Amount of debt guarantees provided directly or indirectly for entities with a liability-to-asset ratio over 70% (E)					398,305.30			
Portion of the total guarantee amount in excess of 50% of net assets (F)					0			
Total guarantee amount of the above-mentioned 3 kinds of guarantees (D+E+F)					398,305.30			

### 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) Illegal provision of guarantees for external parties**

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

**(3) Other significant contracts**

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

**XV. 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. Significant environmental problems**

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

Not applicable

**XVI. Other significant events**

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

**XVII. 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	New Shares Issued	Bonus share	Share transferred from capital reserve	Others	Sub-total	Shares	Ratio
1. Shares subject to conditional restriction(s)	1,417,926,033	23.23%	52,326,858	657,071,365	--	-156,110,156	553,288,067	1,971,214,100	21.36%
3) Other domestic shares	580,944,783	9.50%	52,281,658	284,111,265	--	-65,003,906	271,389,017	852,333,800	9.24%
Including: held by domestic enterprises	420,578,437	6.89%	0	194,164,218	--	-32,250,000	161,914,218	582,492,655	6.31%
Including: held by domestic natural person	160,366,346	2.61%	52,281,658	89,947,047	--	-32,753,906	109,474,799	269,841,145	2.92%
4) Foreign shares	836,981,250	13.71%	45,200	372,960,100	--	-91,106,250	281,899,050	1,118,880,300	12.12%
Including: held by overseas enterprises	0	0.00%	0	0	--	0	0	0	0.00%
Including: held by overseas natural person	836,981,250	13.71%	45,200	372,960,100	--	-91,106,250	281,899,050	1,118,880,300	12.12%
2. Shares without restriction	4,684,780,852	76.77%	0	2,419,217,006	--	153,653,156	2,572,870,162	7,257,651,014	78.64%
1) RMB ordinary shares	4,684,780,852	76.77%	0	2,419,217,006	--	153,653,156	2,572,870,162	7,257,651,014	78.64%
3. Total	6,102,706,885	100.00%	52,326,858	3,076,288,371	--	-2,457,000	3,126,158,229	9,228,865,114	100.00%

Reason for the changes in share capital

☒ Applicable ☐ Inapplicable

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

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

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

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

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

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

According to the "2016 Profit Distribution Scheme" approve on 2016 Annual General Meeting, based on total capital shares of 6,152,576,743 shares, 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 ex-dividend date of this equity distribution is May 16<sup>th</sup> 2017, the total Company's capital shares were increased by 3,076,288,371 shares from 6,152,576,743 shares to 9,228,865,114 shares.

Approval for changes in share capital

☒ Applicable ☐ Inapplicable

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

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

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

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

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

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

**Transfer for changes in share capital**

☒ Applicable ☐ Inapplicable

(1) Grants of 2016 Restricted Share Incentive Scheme

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

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

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

(3) Implementation of 2016 Equity Distribution

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

Effects of changes in share capital on the basic 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

Item	2017 Half Year		2017 Quarter 1		2016	
	Before changes in share capital	After changes in share capital	Before changes in share capital	After changes in share capital	Before changes in share capital	After changes in share capital
Basic Earnings per Share(RMB/share)	0.537	0.357	0.245	0.163	1.227	0.815
Diluted Earnings per Share (RMB/share)	0.533	0.357	0.242	0.162	1.202	0.814
Item	June 30 <sup>th</sup> 2017		March 31 <sup>st</sup> 2017		December 31 <sup>st</sup> 2016	
	Before changes in share capital	After changes in share capital	Before changes in share capital	After changes in share capital	Before changes in share capital	After changes in share capital
Net assets per share attributable to common shareholders of the Company (RMB/Share)	3.940	2.605	4.192	2.796	3.980	2.632

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

Name of shareholder	Opening restricted shares	Unlocked in current period	Increased in current period	Closing restricted shares	Note for restricted shares	Date of unlocking
					executives locked shares	
Jiang Yufeng	0	0	30,375	30,375	Partial of the unlocked restricted shares turning into executives locked shares	
Cai Dingguo	0	0	30,375	30,375	Partial of the unlocked restricted shares turning into executives locked shares	
Fu Baijun	0	0	29,025	29,025	Partial of the unlocked restricted shares turning into executives locked shares	
He Hongli	0	0	29,025	29,025	Partial of the unlocked restricted shares turning into executives locked shares	
Xu Lirong	0	0	29,025	29,025	Partial of the unlocked restricted shares turning into executives locked shares	
Wang Qiuchao	0	0	11,250	11,250	Increased share holdings turning into executive locked shares	
<b>Total</b>	2,126,889,049	231,128,861	79,139,412	1,971,214,100	--	--

Note:

1. In respect of changes in shares due to the implementation of equity distribution for 2016, the number of shares at beginning balance before equity distribution, number of shares unlocked during the current period, and number of restricted shares increased during the current period have been adjusted accordingly.
2. Executives who are grantees under incentive restricted shares scheme, his/her holding incentive restricted shares are counted within the total incentive restricted shares (consolidated statistics)
3. The difference of 3,685,500 shares in total incentive restricted shares (consolidated statistics) for grantees under incentive restricted shares scheme was due to repurchasing and cancelling of 2,457,000 shares (adjusted to 3,685,500 shares in consideration of dividend distribution).

### Issuance and listing of securities

On December 23rd 2016, Resolution for granting restricted shares to planned grantees for 2016 Restricted Shares Incentive Scheme was approved by the 20th Meeting of the third board. According to the Listed Company Equity Incentive Measures and other administration or relevant laws, regulations and departmental rules and regulated documents, as well as 2016 Restricted Shares Incentive Scheme (edited draft) and authorizations approved by the 2016 2nd extraordinary general meeting, the Company has completed granting and registration of 2016 Restricted Shares Incentive Scheme, with 2936 granted personnel, and 52,326,858 granted shares which were listed on January 20<sup>th</sup> 2017. For details, please refer to in the “Indicative notice of completion of granting of 2016 Restricted Share Incentive Schemes” (No. 2017-005) issued on January 19<sup>th</sup> 2017.

## II. Total number of shareholders and their shareholdings

Unit: Share

Total number of common shareholders at the end of the reporting period		151,799				
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	39.59%	3,653,674,956	0	0	3,653,674,956
Gong Hongjia	Overseas individual	16.16%	1,491,750,000	0	1,118,812,500	372,937,500
Hong Kong Securities Clearing Company Ltd.(HKSCC)	Overseas corporation	7.46%	688,171,856	+648,596,333	0	688,171,856
Xinjiang Weixun Investment Management Limited Partnership	Domestic non-state-owned corporation	5.96%	549,720,876	-34,589,124	438,232,500	111,488,376
Xinjiang Pukang Investment Limited Partnership	Domestic non-state-owned corporation	2.08%	192,346,874	0	144,260,155	48,086,719
The 52nd Research Institute at China Electronics Technology Group Corporation	State-owned corporation	1.96%	180,775,044	0	0	180,775,044
UBS AG	Overseas corporation	1.35%	124,682,879	-60,290,627	0	124,682,879
Hu Yangzhong	Domestic Individual	1.33%	122,786,477	+160,500	92,129,982	30,656,495
Central Huijin Investment Ltd.	State-owned corporation	0.71%	65,818,800	0	0	65,818,800
Zhejiang Orient Holdings Co., Ltd.	Domestic	0.55%	50,475,000	-17,380,200	0	50,475,000

3,653,674,956



	non-state-owned corporation					
Explanation on associated relationship or/and persons acting in concert among the above-mentioned shareholders:	<p>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.</p> <p>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.</p>					
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.	3,653,674,956	RMB ordinary shares	3,653,674,956			
Hong Kong Securities Clearing Company Ltd.(HKSCC)	688,171,856	RMB ordinary shares	688,171,856			
Gong Hongjia	372,937,500	RMB ordinary shares	372,937,500			
The 52nd Research Institute at China Electronics Technology Group Corporation	180,775,044	RMB ordinary shares	180,775,044			
UBS AG	124,682,879	RMB ordinary shares	124,682,879			
Xinjiang Weixun Investment Management Limited Partnership	111,488,376	RMB ordinary shares	111,488,376			
Central Huijin Investment Ltd.	65,818,800	RMB ordinary shares	65,818,800			
Zhejiang Orient Holdings Co., Ltd.	50,475,000	RMB ordinary shares	50,475,000			
Xinjiang Pukang Investment Limited Partnership	48,086,719	RMB ordinary shares	48,086,719			
New China Life Insurance Company Ltd. – individual share dividend payout - Shenzhen No. 018L-FH002	40,170,243	RMB ordinary shares	40,170,243			

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

☐ Applicable ☒ Inapplicable

No such case during the current reporting period

### III. Particulars about change in controlling shareholder or actual controller

Change of the controlling shareholder during the reporting period

☐ Applicable ☒ Inapplicable

No such cases in the reporting period.

Change of the actual controller during the reporting period

☐ Applicable ☒ Inapplicable

No such cases in the reporting period.

## **Section VII Information of Preferred Shares**

☐ Applicable ☒ Inapplicable

No such cases in the Reporting Period.

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

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

√Applicable □ Inapplicable

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Granted restricted shares at the beginning of the reporting period (shares)	Granted restricted shares during the reporting period (shares)	Granted restricted shares at the end of the reporting period (shares)
Chen Zongnian	Chairman	Incumbent	0	0	0	0	0	0	0
Gong Hongjia	Vice Chairman	Incumbent	1,491,750,000	0	0	1,491,750,000	0	0	0
Liu Xiang	Director	Incumbent	0	0	0	0	0	0	0
Hu Yangzhong	Director, General Manager	Incumbent	122,625,977	160,500	0	122,786,477	292,500	160,500	336,000
Wu Weiqi	Director, Standing Deputy General Manager	Incumbent	11,222,889	148,500	0	11,371,389	261,000	148,500	305,100
Cheng Tianzong	Independent Director	Incumbent	0	0	0	0	0	0	0
Lu Jianzhong	Independent Director	Incumbent	0	0	0	0	0	0	0

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Granted restricted shares at the beginning of the reporting period (shares)	Granted restricted shares during the reporting period (shares)	Granted restricted shares at the end of the reporting period (shares)
Wang Zhidong	Independent Director	Incumbent	0	0	0	0	0	0	0
Hong Tianfeng	Independent Director	Incumbent	0	0	0	0	0	0	0
Cheng Huifang	Supervisor Chairman	Incumbent	0	0	0	0	0	0	0
Wang Qiuchao	Supervisor	Incumbent	0	15,000	0	15,000	0	0	0
Chen Junke	Supervisor	Incumbent	0	0	0	0	0	0	0
Jiang Haiqing	Deputy General Manager	Incumbent	11,187,882	123,000	0	11,310,882	225,000	123,000	258,000
Zheng Yibo	Deputy General Manager	Incumbent	202,500	0	-33,600	168,900	202,500	0	121,500
Cai Dingguo	Deputy General Manager	Incumbent	202,500	109,500	0	312,000	202,500	109,500	231,000
He Hongli	Deputy General Manager	Incumbent	193,500	138,000	0	331,500	193,500	138,000	254,100
Fu Baijun	Deputy General Manager	Incumbent	193,500	196,500	0	390,000	193,500	196,500	312,600

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Granted restricted shares at the beginning of the reporting period (shares)	Granted restricted shares during the reporting period (shares)	Granted restricted shares at the end of the reporting period (shares)
Xu Lirong	Deputy General Manager	Incumbent	193,500	109,500	0	303,000	193,500	109,500	225,600
Zhou Zhiping	Deputy General Manager	Incumbent	7,295,376	109,500	0	7,404,876	193,500	109,500	225,600
Jiang Yufeng	Deputy General Manager	Incumbent	202,500	123,000	0	325,500	202,500	123,000	244,500
Jin Duo	Deputy General Manager	Incumbent	0	109,500	0	109,500	0	109,500	109,500
Jin Yan	Deputy General Manager, Chief Finance	Incumbent	0	174,000	0	174,000	0	174,000	174,000
Jia Yonghua	Deputy General Manager	Incumbent	5,491,744	109,500	0	5,601,244	0	109,500	109,500
Li Pan	Deputy General Manager	Incumbent	5,390,568	109,500	0	5,500,068	0	109,500	109,500
Cai Changyang	Deputy General Manager	Incumbent	0	109,500	0	109,500	0	109,500	109,500
Huang Fanghong	Deputy General Manager Board Secretary Internal audit director	Incumbent	292,500	0	0	292,500	247,500	0	247,500

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Granted restricted shares at the beginning of the reporting period (shares)	Granted restricted shares during the reporting period (shares)	Granted restricted shares at the end of the reporting period (shares)
Xu Ximing	Deputy General Manager	Incumbent	0	0	0	0	0	0	0
Bi Huijuan	Deputy General Manager	Incumbent	0	150,000	0	150,000	0	150,000	150,000
Total	--	--	1,656,444,936	1,995,000	-33,600	1,658,406,336	2,407,500	1,980,000	3,523,500

Note:

- (1) Number of shares held by directors, supervisors, and seniormanagement personnel above are all shares directly held by them accordingly.
- (2) During the reporting period, in respect of changes in the number of shares due to the implementation of equity distribution for 2016, the number of shares at the beginning before equity distribution, increased, reduced, and granted have been adjusted accordingly.

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

☐Applicable ☒Inapplicable

There is no such changes during the reporting period, please refer to 2016 annual report for details.

## **Section IX Coporate 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 half-year report authorized disclosure date.

☐ Applicable ☒ Inapplicable



## **Section X Financial Report**

### **I. Audit report**

Whether audit has been performed on this interim financial report

☐ Yes ☒ No

The Company's 2017 Half year report has not been audited

June 30<sup>th</sup> 2017

### Consolidated Balance Sheet

Unit: RMB

Item	Notes	Closing balance	Opening balance
<b>Current Assets:</b>			
Cash and bank balances	(V)1	13,179,646,367.74	13,638,078,139.56
Financial assets at fair value through profit or loss	(V)2	3,004,171.92	15,547,537.34
Notes receivable	(V)3	3,281,639,420.27	2,843,404,415.52
Accounts receivable	(V)4	13,304,046,010.12	11,243,843,324.90
Prepayments	(V)5	263,755,789.85	279,023,207.91
Other receivables	(V)6	709,661,672.52	528,644,227.42
Inventories	(V)7	4,935,820,439.51	3,829,947,876.75
Other current assets	(V)8	428,103,172.17	4,153,992,276.78
<b>Total Current Assets</b>		<b>36,105,677,044.10</b>	<b>36,532,481,006.18</b>
<b>Non-current Assets:</b>			
Available-for-sale financial assets	(V)9	283,836,013.00	283,836,013.00
Long-term receivables	(V)10	171,142,345.99	251,588,919.15
Long-term equity investment	(V)11	129,122,297.95	35,000,000.00
Fixed assets	(V)12	2,945,144,484.51	2,853,908,475.49
Construction in progress	(V)13	764,850,814.58	316,482,522.36
Intangible assets	(V)14	412,552,471.29	410,456,789.63
Goodwill	(V)15	248,364,401.47	248,364,401.47
Deferred tax assets	(V)16	434,325,165.58	375,310,938.70
Other non-current assets	(V)17	29,919,422.70	40,999,684.42
<b>Total Non-current Assets</b>		<b>5,419,257,417.07</b>	<b>4,815,947,744.22</b>
<b>Total Assets</b>		<b>41,524,934,461.17</b>	<b>41,348,428,750.40</b>

June 30<sup>th</sup> 2017

### Consolidated Balance Sheet - continued

Unit: RMB

Item	Notes	Closing balance	Opening balance
<b>Current Liabilities:</b>			
Short-term borrowings	(V)18	1,965,132,452.76	32,291,324.85
Financial liabilities at fair value through profit or loss	(V)19	18,562,128.16	69,789,502.97
Notes payable	(V)20	536,694,693.25	876,804,536.72
Accounts payable	(V)21	6,155,893,782.95	7,009,322,028.13
Receipts in advance	(V)22	444,375,209.14	469,804,837.45
Payroll payable	(V)23	595,071,569.87	1,084,951,139.10
Taxes payable	(V)24	941,095,379.60	1,205,710,722.22
Dividends payable	(V)25	92,407,139.16	20,105,831.16
Other payables	(V)26	481,729,216.24	1,049,164,707.44
Non-current liabilities due within one year	(V)27	714,012,975.36	15,340,813.03
Other current liabilities	(V)28	853,507,327.55	300,177,750.17
<b>Total Current Liabilities</b>		<b>12,798,481,874.04</b>	<b>12,133,463,193.24</b>
<b>Non-current Liabilities:</b>			
Long-term borrowings	(V)29	1,319,408,175.80	1,722,207,584.33
Bonds payable	(V)30	3,099,840,000.00	2,954,449,528.77
Long-term payables		7,000,000.00	7,000,000.00
Provisions	(V)31	46,550,937.15	41,933,212.54
Deferred income	(V)32	16,817,902.06	10,833,745.99
<b>Total non-current liabilities</b>		<b>4,489,617,015.01</b>	<b>4,736,424,071.63</b>
<b>Total liabilities</b>		<b>17,288,098,889.05</b>	<b>16,869,887,264.87</b>
<b>Owner's Equity</b>			
Share capital	(V)33	9,228,865,114.00	6,102,706,885.00
Capital reserves	(V)34	1,722,277,484.29	1,050,240,853.66
Less: Treasury stock	(V)35	853,507,327.55	300,177,750.17
Other comprehensive income	(V)36	(12,639,845.44)	(41,230,777.21)
Surplus reserve	(V)37	2,615,437,822.15	2,615,437,822.15
Retained profits	(V)38	11,343,452,975.38	14,856,778,392.88
Total owners' equity attributable to owner of the Company		24,043,886,222.83	24,283,755,426.31
Minority interests		192,949,349.29	194,786,059.22
<b>Total owners' equity</b>		<b>24,236,835,572.12</b>	<b>24,478,541,485.53</b>
<b>Total liabilities and owners' equity</b>		<b>41,524,934,461.17</b>	<b>41,348,428,750.40</b>

Notes are parts of the financial statements.

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

Chief Accountant: Jin Yan

June 30<sup>th</sup>, 2017

### Balance sheet of the company

Unit: RMB

Item	Notes	Closing balance	Opening balance
<b>Current Assets:</b>			
Cash and bank balances		10,621,335,282.56	10,249,118,159.19
Financial assets at fair value through profit or loss		2,297,956.17	5,284,890.86
Notes receivable		127,954,179.12	221,542,747.41
Accounts receivable	(XV)1	12,373,590,336.16	10,128,753,520.42
Prepayments		2,360,072.95	8,256,040.04
Other receivables	(XV)2	1,273,724,398.33	417,963,245.46
Inventories		633,416,690.67	566,168,466.17
Other current assets		185,120,553.13	3,889,519,711.57
<b>Total Current Assets</b>		<b>25,219,799,469.09</b>	<b>25,486,606,781.12</b>
<b>Non-current Assets:</b>			
Available-for-sale financial assets		283,221,700.00	283,221,700.00
Long-term receivables		47,241,962.91	72,153,363.60
Long-term equity investment	(XV)3	2,702,920,830.76	1,714,688,703.42
Fixed assets		1,728,406,982.40	1,720,579,461.05
Construction in progress		595,814,508.02	248,447,641.34
Intangible assets		130,425,639.57	131,566,733.76
Deferred tax assets		194,230,198.07	177,568,964.27
Other non-current assets		10,932,858.00	10,782,858.00
<b>Total Non-current Assets</b>		<b>5,693,194,679.73</b>	<b>4,359,009,425.44</b>
<b>Total Assets</b>		<b>30,912,994,148.82</b>	<b>29,845,616,206.56</b>

June 30<sup>th</sup> 2017

### Balance sheet of the company - continued

Unit: RMB

Item	Notes	Closing balance	Opening balance
<b>Current Liabilities:</b>			
Short-term borrowings		-	-
Financial liabilities at fair value through profit or loss		2,131,355.16	58,858,697.43
Accounts payable		1,326,559,996.42	138,851,152.86
Receipts in advance		205,805,219.85	233,831,105.17
Payroll payable		472,467,008.29	811,701,475.85
Taxes payable		848,899,641.38	998,754,860.91
Dividends payable		92,407,139.16	20,105,831.16
Other payables		888,362,070.06	787,861,780.95
Non-current liabilities due within one year		14,012,975.36	-
Other current liabilities		853,507,327.55	300,177,750.17
<b>Total Current Liabilities</b>		<b>4,704,152,733.23</b>	<b>3,350,142,654.50</b>
<b>Non-current Liabilities:</b>			
Bonds payable		3,099,840,000.00	2,954,449,528.77
Provisions		34,240,710.46	28,799,848.84
<b>Total non-current liabilities</b>		<b>3,134,080,710.46</b>	<b>2,983,249,377.61</b>
<b>Total liabilities</b>		<b>7,838,233,443.69</b>	<b>6,333,392,032.11</b>
<b>Owners' Equity</b>			
Share capital		9,228,865,114.00	6,102,706,885.00
Capital reserves		1,649,408,815.34	955,687,875.52
Less: Treasury stock		853,507,327.55	300,177,750.17
Other comprehensive income		-	-
Surplus reserve		2,615,437,822.15	2,615,437,822.15
Retained profits		10,434,556,281.19	14,138,569,341.95
Total shareholders' equity attributable to shareholder of the Company		23,074,760,705.13	23,512,224,174.45
Minority interests		-	-
<b>Total owners' equity</b>		<b>23,074,760,705.13</b>	<b>23,512,224,174.45</b>
<b>Total liabilities and owners' equity</b>		<b>30,912,994,148.82</b>	<b>29,845,616,206.56</b>

For the reporting period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

## Consolidated Income Statement

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Total operating income</b>	(V)39	<b>16,447,539,736.52</b>	<b>12,553,476,748.58</b>
Less: Total operating costs	(V)39	9,420,695,024.84	7,518,216,264.30
Business taxes and surcharges	(V)40	174,232,595.70	97,421,659.98
Selling expenses		1,726,924,956.22	1,211,831,544.28
Administrative expenses		1,761,709,877.13	1,271,951,990.31
Financial expense	(V)41	65,500,627.65	(97,182,948.36)
Impairment losses of assets	(V)42	251,738,374.96	158,985,960.70
Add: Gains from changes in fair values (Losses are indicated by "—")	(V)43	38,552,490.41	(8,281,896.32)
Investment income (Loss is indicated by "—")	(V)44	49,652,189.10	26,451,500.90
Other Income	(V)45	677,411,292.41	-
<b>II. Operating profit (Loss is indicated by "—")</b>		<b>3,812,354,251.94</b>	<b>2,410,421,881.95</b>
Add: Non-operating income	(V)46	34,516,279.58	651,985,521.64
Including: Gains from disposal of non-current assets		2,798,685.80	1,320,478.05
Less: Non-operating expenses	(V)47	2,280,488.42	18,048,370.81
Including: Losses from disposal of non-current assets		571,711.25	1,619,629.70
<b>III. Total profit (total losses expressed with "-")</b>		<b>3,844,590,043.10</b>	<b>3,044,359,032.78</b>
Less: Income tax expenses	(V)48	568,658,390.85	432,531,976.11
<b>IV. Net profit (net loss expressed with "-")</b>		<b>3,275,931,652.25</b>	<b>2,611,827,056.67</b>
Net profit attributable to owners of parent company		3,291,546,056.70	2,607,821,529.43
Profit or loss attributable to minority shareholders		(15,614,404.45)	4,005,527.24
<b>V. Other comprehensive income, net of income tax</b>		<b>29,434,317.10</b>	<b>(11,281,600.95)</b>
Other comprehensive income attributable to owners of the Company, net of tax		28,590,931.77	(17,541,563.35)
(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		28,590,931.77	(17,541,563.35)
1. Exchange differences arising on conversion of financial statements denominated in foreign currencies		28,590,931.77	(17,541,563.35)
Other comprehensive income attributable to minority interests, net of tax		843,385.33	6,259,962.40
<b>VI. Total comprehensive income</b>		<b>3,305,365,969.35</b>	<b>2,600,545,455.72</b>
Total comprehensive income attributable to owners of the parent company		3,320,136,988.47	2,590,279,966.08
Total comprehensive income attributable to minority shareholders		(14,771,019.12)	10,265,489.64
<b>VII. Earnings per share</b>			
(I) Basic earnings per share	(XVI)2	0.357	0.289
(II) Diluted earnings per share	(XVI)2	0.357	0.288

There is business merger under the common control during the current reporting period, the merged party realized net profit of (209,736.97) RMB before the merge, and 1,625,123.41RMB net profit for the previous reporting period.

For the reporting period from January 1<sup>st</sup> 2016 to June 30<sup>th</sup> 2016

### Income statement of the Company

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Total operating income</b>	(XV)4	<b>7,509,542,127.38</b>	<b>6,979,393,516.54</b>
Less: Operating Cost	(XV)4	2,351,188,963.05	2,429,639,054.86
Business taxes and surcharges		104,526,475.97	88,273,983.62
Selling expenses		806,289,156.71	837,531,580.25
Administrative expenses		1,317,996,842.01	1,004,835,342.66
Financial expense		(104,308,868.68)	(32,972,204.31)
Impairment losses of assets		156,626,616.68	139,666,067.60
Add: Gains from changes in fair values (Losses are indicated by "—")		53,740,407.58	-
Investment income (Loss is indicated by "—")	(XV)5	33,096,969.42	30,136,515.97
Other income		645,332,167.80	-
<b>II. Operating profit (Loss is indicated by "—")</b>		<b>3,609,392,486.44</b>	<b>2,542,556,207.83</b>
Add: Non-operating income		20,288,238.99	614,892,213.56
Including: Gains from disposal of non-current assets		2,538,368.87	1,278,323.84
Less: Non-operating expenses		1,213,455.27	5,791,387.39
Including: Losses from disposal of non-current assets		213,415.55	1,284,454.85
<b>III. Total profit (Total loss is indicated by "—")</b>		<b>3,628,467,270.16</b>	<b>3,151,657,034.00</b>
Less: Income tax expenses		527,608,856.72	452,167,980.72
<b>IV. Net profit (Net loss is indicated by "—")</b>		<b>3,100,858,413.44</b>	<b>2,699,489,053.28</b>
<b>V. Other comprehensive income, net of income tax</b>		<b>-</b>	<b>-</b>
<b>VI. Total comprehensive income</b>		<b>3,100,858,413.44</b>	<b>2,699,489,053.28</b>

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

### Consolidated Cash Flow Statement

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods or rendering of services		16,056,237,726.30	12,837,986,350.20
Refund of tax and levies		1,334,775,928.53	1,354,180,574.36
Other cash received relating to operating activities	(V)49(1)	191,162,610.48	138,927,067.34
<b>Sub-total of cash inflows from operating activities</b>		<b>17,582,176,265.31</b>	<b>14,331,093,991.90</b>
Cash payments for goods purchased and services received		13,831,392,836.70	9,555,880,812.11
Cash paid to and on behalf of employees		2,562,794,533.81	1,713,828,221.06
Payments of various types of taxes		1,899,822,855.27	1,521,888,850.69
Other cash paid relating to operating activities	(V)49(2)	1,230,966,841.95	1,141,721,879.76
<b>Sub-total of cash outflows from operating activities</b>		<b>19,524,977,067.73</b>	<b>13,933,319,763.62</b>
<b>Net Cash Flow from Operating Activities</b>	(V)50(1)	<b>(1,942,800,802.42)</b>	<b>397,774,228.28</b>
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from disposals and recovery of investments		5,173,000,000.00	1,200,212,000.00
Cash receipts from investment income		53,398,372.17	26,870,969.07
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		11,061,674.71	368,676.75
Other cash received relating to investing activities	(V)49(3)	13,100,745.41	1,595,000.00
<b>Sub-total of cash inflows from investing activities</b>		<b>5,250,560,792.29</b>	<b>1,229,046,645.82</b>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		510,640,894.91	352,509,627.05
Cash paid to acquire investments		1,453,000,000.00	-
Net cash payments for acquisitions of subsidiaries and other business units		98,000,000.00	172,473,788.49
Other cash paid relating to investing activities		-	-
<b>Sub-total of cash outflows from investing activities</b>		<b>2,061,640,894.91</b>	<b>524,983,415.54</b>
<b>Net Cash Flow from Investment Activities</b>		<b>3,188,919,897.38</b>	<b>704,063,230.28</b>
<b>III. Cash flows from financing activities:</b>			
Cash receipts from capital contributions		-	-
Including: cash receipts from capital contributions from minority owners of subsidiaries		-	-
Cash receipts from borrowings		4,938,568,095.06	2,645,807,093.47
Cash receipts from bond issue		-	2,950,000,000.00
Other cash receipts relating to financing activities	(V)49(4)	1,061,515,931.39	1,258,376,312.14
<b>Sub-total of cash inflows from financing activities</b>		<b>6,000,084,026.45</b>	<b>6,854,183,405.61</b>
Cash repayments of amounts borrowed		2,723,867,188.71	3,744,679,765.37
Cash payments for distribution of dividends or profits or settlement of interest expenses		3,755,681,574.80	2,873,234,849.22
Including: payments for distribution of dividends or profits to minority owners of subsidiaries		-	-
Other cash payments relating to financing activities	(V)49(5)	1,630,518,738.29	1,524,787,045.31
<b>Sub-total of cash outflows from financing activities</b>		<b>8,110,067,501.80</b>	<b>8,142,701,659.90</b>
<b>Net Cash Flow from Financing Activities</b>		<b>(2,109,983,475.35)</b>	<b>(1,288,518,254.29)</b>
<b>IV. Net foreign exchange differences</b>		<b>(132,118,698.33)</b>	<b>31,559,689.64</b>
<b>V. Net Increase (Decrease) in Cash and Cash Equivalents</b>	(V)50(1)	<b>(995,983,078.72)</b>	<b>(155,121,106.09 )</b>
Add: Opening balance of Cash and Cash Equivalents	(V)50(1)	13,522,337,697.28	10,033,468,750.19
<b>VI. Closing Balance of Cash and Cash Equivalents</b>	(V)50(3)	<b>12,526,354,618.56</b>	<b>9,878,347,644.10</b>



For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

## Cash Flow Statements of the Company

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Cash Flows from Operating Activities::</b>			
Cash receipts from the sale of goods and the rendering of services		6,476,622,168.11	6,081,171,650.64
Refund of tax and levies		645,332,167.80	706,510,355.04
Other cash receipts relating to operating activities		163,967,938.23	121,281,683.17
<b>Sub-total of cash inflows from operating activities</b>		<b>7,285,922,274.14</b>	<b>6,908,963,688.85</b>
Cash payments for goods acquired and services received		1,741,766,982.54	2,041,784,256.82
Cash payments to and on behalf of employees		1,390,775,272.77	1,124,611,467.48
Payments of all types of taxes		1,541,060,047.84	1,164,787,793.46
Other cash payments relating to operating activities		914,241,265.56	900,643,747.02
<b>Sub-total of cash outflows from operating activities</b>		<b>5,587,843,568.71</b>	<b>5,231,827,264.78</b>
<b>Net Cash Flow from Operating Activities</b>		<b>1,698,078,705.43</b>	<b>1,677,136,424.07</b>
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from disposals and recovery of investments		5,170,000,000.00	878,000,000.00
Cash receipts from investment income		44,435,846.99	30,136,515.97
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		7,443,183.85	120,976.77
Net cash receipts from disposals of subsidiaries and other business units		70,271.21	-
Other cash receipts relating to investing activities		732,237,447.02	364,602,027.84
<b>Sub-total of cash inflows from investing activities</b>		<b>5,954,186,749.07</b>	<b>1,272,859,520.58</b>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		228,633,880.72	105,259,398.62
Cash payments to acquire investments		1,450,000,000.00	-
Net cash payments for acquisitions of subsidiaries and other business units		973,000,000.00	258,468,902.52
Other cash payments relating to investing activities		862,202,465.11	521,684,074.48
<b>Sub-total of cash outflows from investing activities</b>		<b>3,513,836,345.83</b>	<b>885,412,375.62</b>
<b>Net Cash Flow from Investment Activities</b>		<b>2,440,350,403.24</b>	<b>387,447,144.96</b>
<b>III. Cash Flows from Financing Activities</b>			
Cash receipts from borrowings		300,000,000.00	-
Cash receipts from issue of bonds		-	2,950,000,000.00
Other cash receipts relating to financing activities		41,000.00	585,123,067.48
<b>Sub-total of cash inflows from financing activities</b>		<b>300,041,000.00</b>	<b>3,535,123,067.48</b>
Cash repayments of amounts borrowed		300,000,000.00	594,840,194.74
Cash payments for distribution of dividends or profits or settlement of interest expenses		3,708,086,118.95	2,857,482,627.17
Other cash payments relating to financing activities		15,151,512.29	578,874,356.00
<b>Sub-total of cash outflows from financing activities</b>		<b>4,023,237,631.24</b>	<b>4,031,197,177.91</b>
<b>Net Cash Flow from Financing Activities</b>		<b>(3,723,196,631.24)</b>	<b>(496,074,110.43)</b>
<b>IV. Net foreign exchange differences</b>		<b>(42,974,366.35)</b>	<b>(23,219,537.14 )</b>
<b>V. Net increase in cash and cash equivalents</b>		<b>372,258,111.08</b>	<b>1,545,289,921.46</b>
Add: Beginning balance of cash and cash equivalents		10,245,969,003.13	6,548,073,680.91
<b>VI. Closing Balance of Cash and Cash Equivalents</b>		<b>10,618,227,114.21</b>	<b>8,093,363,602.37</b>

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

### Consolidated Statement of Changes in Owners' Equity

Unit: RMB

Item	Amount for 2017 first half 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		
<b>I. Closing balance of the preceding period</b>	6,102,706,885.00	1,045,440,853.66	300,177,750.17	(41,230,777.21)	2,615,437,822.15	14,866,457,856.65	198,039,035.07	24,486,673,925.15
Add: Business merger under common control	-	4,800,000.00	-	-	-	(9,679,463.77)	(3,252,975.85)	(8,132,439.62)
<b>II. Opening balance of the current period</b>	6,102,706,885.00	1,050,240,853.66	300,177,750.17	(41,230,777.21)	2,615,437,822.15	14,856,778,392.88	194,786,059.22	24,478,541,485.53
<b>III. Increase or decrease in the current period</b>	3,126,158,229.00	672,036,630.63	553,329,577.38	28,590,931.77	-	(3,513,325,417.50)	(1,836,709.93)	(241,705,913.41)
(I) Total comprehensive income	-	-	-	28,590,931.77	-	3,291,546,056.70	(14,771,019.12)	3,305,365,969.35
(II) Owners' contributions and reduction in capital	49,869,858.00	677,420,939.82	645,736,716.54	-	-	-	10,000,000.00	91,554,081.28
1. Capital contribution from shareholders	52,326,858.00	608,561,358.54	660,888,216.54	-	-	-	10,000,000.00	10,000,000.00
2. Share-based payment recognised in owners' equity	-	97,854,081.28	-	-	-	-	-	97,854,081.28
3. Others (Note(V)33)	(2,457,000.00)	(28,994,500.00)	(15,151,500.00)	-	-	-	-	(16,300,000.00)
(III) Profit distribution	3,076,288,371.00	-	(92,407,139.16)	-	-	(6,804,871,474.20)	(2,450,000.00)	(3,638,625,964.04)
1. Transfer to surplus reserve	-	-	-	-	-	-	-	-
2. Distributions to shareholders	-	-	(92,407,139.16)	-	-	(3,728,583,103.20)	(2,450,000.00)	(3,638,625,964.04)
3. Others	3,076,288,371.00	-	-	-	-	(3,076,288,371.00)	-	-
(IV) Transfers within owners' equity	-	-	-	-	-	-	-	-
1. Capitalisation of capital reserve	-	-	-	-	-	-	-	-
2. Others	-	-	-	-	-	-	-	-
(V) Others	-	(5,384,309.19)	-	-	-	-	5,384,309.19	-
<b>III. Closing balance of the current period</b>	<b>9,228,865,114.00</b>	<b>1,722,277,484.29</b>	<b>853,507,327.55</b>	<b>(12,639,845.44)</b>	<b>2,615,437,822.15</b>	<b>11,343,452,975.38</b>	<b>192,949,349.29</b>	<b>24,236,835,572.12</b>

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

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

Unit: RMB

Item	Amount for 2016 first half 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		
<b>I. Closing balance of the preceding period</b>	4,068,772,253.00	1,639,607,652.22	518,074,596.90	(27,660,017.70)	1,895,061,004.09	12,196,097,444.07	43,647,140.92	19,297,450,879.70
Add: Business merger under common control	-	4,800,000.00	-	-	-	(12,049,426.69)	(4,832,951.13)	(12,082,377.82)
<b>II. Opening balance of the current period</b>	4,068,772,253.00	1,644,407,652.22	518,074,596.90	(27,660,017.70)	1,895,061,004.09	12,184,048,017.38	38,814,189.79	19,285,368,501.88
<b>III. Increase or decrease in the current period (decrease indicated with "-")</b>	2,034,386,126.00	(742,135,842.76)	-	(17,541,563.35)	-	(1,420,146,635.87)	10,265,489.64	(135,172,426.34)
(I) Total comprehensive income	-	-	-	(17,541,563.35)	-	2,607,821,529.43	10,265,489.64	2,600,545,455.72
(II) Owners' contributions and reduction in capital	-	71,618,607.24	-	-	-	-	-	71,618,607.24
1. Capital contribution from shareholders	-	-	-	-	-	-	-	-
2. Share-based payment recognised in owners' equity	-	71,618,607.24	-	-	-	-	-	71,618,607.24
3. Others	-	-	-	-	-	-	-	-
(III) Profit distribution	1,220,631,676.00	-	-	-	-	(4,027,968,165.30)	-	(2,807,336,489.30)
1. Transfer to surplus reserve	-	-	-	-	-	-	-	-
2. Distributions to shareholders	-	-	-	-	-	(2,807,336,489.30)	-	(2,807,336,489.30)
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)	-	-	-	-	-	-
2. Others	-	-	-	-	-	-	-	-
(V) Others	-	-	-	-	-	-	-	-
<b>III. Closing balance of the current period</b>	<b>6,103,158,379.00</b>	<b>902,271,809.46</b>	<b>518,074,596.90</b>	<b>(45,201,581.05)</b>	<b>1,895,061,004.09</b>	<b>10,763,901,381.51</b>	<b>49,079,679.43</b>	<b>19,150,196,075.54</b>

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

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

Unit: RMB

Item	Amount for 2017 first half year					
	Share capital	Capital reserves	Less: Treasury share	Surplus reserve	Retained profits	Total owners' equity
<b>I. Closing balance of the preceding year</b>	6,102,706,885.00	955,687,875.52	300,177,750.17	2,615,437,822.15	14,138,569,341.95	23,512,224,174.45
<b>II. Increase or decrease in the current year (decrease indicated with “-”)</b>	3,126,158,229.00	693,720,939.82	553,329,577.38	-	(3,704,013,060.76)	(437,463,469.32)
(I) Total comprehensive income	-	-	-	-	3,100,858,413.44	3,100,858,413.44
(II) Owners' contributions and reduction in capital	49,869,858.00	693,720,939.82	645,736,716.54	-	-	97,854,081.28
1. Capital contribution from owners	52,326,858.00	608,561,358.54	660,888,216.54	-	-	-
2. Share-based payment recognised in owners' equity	-	97,854,081.28	-	-	-	97,854,081.28
3. Others	(2,457,000.00)	(12,694,500.00)	(15,151,500.00)	-	-	-
(III) Profit distribution	3,076,288,371.00	-	(92,407,139.16)	-	(6,804,871,474.20)	(3,636,175,964.04)
1. Transfer to surplus reserve	-	-	-	-	-	-
2. Distributions to owners (or shareholders)	-	-	(92,407,139.16)	-	(3,728,583,103.20)	(3,636,175,964.04)
3. Others	3,076,288,371.00	-	-	-	(3,076,288,371.00)	-
(IV) Transfers within owners' equity	-	-	-	-	-	-
1. Capitalisation of capital reserve	-	-	-	-	-	-
2. others	-	-	-	-	-	-
<b>III. Closing balance of the current year</b>	<b>9,228,865,114.00</b>	<b>1,649,408,815.34</b>	<b>853,507,327.55</b>	<b>2,615,437,822.15</b>	<b>10,434,556,281.19</b>	<b>23,074,760,705.13</b>
Item	Amount for 2016 first half year					
	Share capital	Capital reserves	Less: Treasury share	Surplus reserve	Retained profits	Total owners' equity
<b>I. Closing balance of the preceding year</b>	4,068,772,253.00	1,647,623,212.04	518,074,596.90	1,895,061,004.09	11,686,702,731.96	18,780,084,604.19
<b>II. Increase or decrease in the current year (decrease indicated with “-”)</b>	2,034,386,126.00	(742,135,842.76)	-	-	(1,328,479,112.02)	(36,228,828.78)
(I) Total comprehensive income	-	-	-	-	2,699,489,053.28	2,699,489,053.28
(II) Owners' contributions and reduction in capital	-	71,618,607.24	-	-	-	71,618,607.24
1. Share-based payment recognised in owners' equity	-	71,618,607.24	-	-	-	71,618,607.24
2. Others	-	-	-	-	-	-
(III) Profit distribution	1,220,631,676.00	-	-	-	(4,027,968,165.30)	(2,807,336,489.30)
1. Transfer to surplus reserve	-	-	-	-	-	-
2. Distributions to shareholders	-	-	-	-	(2,807,336,489.30)	(2,807,336,489.30)
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)	-	-	-	-
<b>III. Closing balance of the current year</b>	<b>6,103,158,379.00</b>	<b>905,487,369.28</b>	<b>518,074,596.90</b>	<b>1,895,061,004.09</b>	<b>10,358,223,619.94</b>	<b>18,743,855,775.41</b>

**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 28<sup>th</sup> 2010, the Company was listed on the Shenzhen Stock Exchange.

The registration procedures for 2016 restricted shares incentive scheme was completed on February 9th 2017. Pursuant to the Articles of Association of the Company revised by the resolution of 20th Meeting of the 3rd session Board of Directors authorized by the 2nd extraordinary general meeting in 2016, the Company granted 2936 personnels, including Hu Yangzhong, with 52,326,858 granted shares (A-share), adjusted the Company's total capital share to 6,155,033,743 shares.

As of April 20th 2017, authorized by the first Extraordinary General Meeting in 2014, the Company repurchased and cancelled 2,457,000.00 granted but restricted treasury shares by cash, and the total share capital of the Company was adjusted to 6,152,576,743 shares.

On May 4th 2017, "2016 Profit Distribution Scheme" was approved on 2016 Annual General Meeting. Based on total capital shares of 6,152,576,743 shares, the Company proposed to bonus issue of 5 shares for each 10 ordinary shares; the total Company's capital shares were increased by 3,076,288,371 and adjusted to 9,228,865,114 shares.

As of June 30th 2017, the Company's total registered capital is RMB 9,228,865,114, with total capital shares of 9,228,865,114 shares(face value RMB 1per share), of which restricted A-shares were 1,971,214,100 shares, A-shares without restrictions are 7,257,651,014 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 23<sup>rd</sup> meeting of the third session Board of Directors of the Company on July 21<sup>st</sup> 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****1. 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.

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.

**2. Sustainability concern**

The Group has evaluated the sustainable operation ability within 12 months from June 30<sup>th</sup> 2017, 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 June 30<sup>th</sup> 2017, the Company and consolidated operating results as well as the Company and consolidated cash flow during first half year of 2017.

**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**

## Notes on Financial Statements

For reporting period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

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

## Notes on Financial Statements

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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;

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- (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 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 waived 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.

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 Obligees 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 bed-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 proving 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.

### 12.3.2 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 receivable or received amount. Government subsidy fund that with conclusive evidence to fulfill relevant conditions prescribed by the government financial support policy and expected to be received, should be recognized under receivables; otherwise, recognized with actual received amount. For government subsidy which is non-monetary assets shall be calculated by fair value; if no reliable fair value available, calculated with nominal value of RMB 1.

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

Asset-related government subsidy refers to government subsidies that the Group obtained and used in the acquisition or construction, or formed the long-term assets by other means. Except for above situations, government subsidies shall be defined as income-related. Asset-related government subsidy shall offset the book value of related assets, or shall be booked as deferred income. Asset-related government subsidy recognized as deferred income, shall be evenly booked into profit or loss by terms, according to the service life of the related-assets. Government subsidies calculated based on nominal value shall be recognized in the current period profit or loss directly. Related assets that are sold, transferred, obsoleted, or damaged before the end of service life, the undistributed deferred income balance shall be transferred into current profit/loss from disposal of assets.

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

Government subsidies that are not related to assets shall be defined as government subsidies related to income. The income-related government subsidies that used for compensating the related expenses and losses incurred shall be included into the current profit and loss directly; those used to compensate the relevant expenses and losses in the later period shall be booked as deferred income first and included into the current profit and loss in the period of confirming the related expenses/losses.

For government subsidies related to both assets and income, distinguish between different parts for accounting process respectively; for situations that are hard to distinguish different parts, shall be categorized as government subsidy related to income as a whole.

Government subsidies related to daily operations shall be booked into other income or offset related expenses; for those not related to daily operations, shall be booked into non-operating income/expense.

**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 financing lease 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.

24.2.2 The Group will record financing lease 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. Repurchase the company's 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.

## 27. Significant alternation in accounting policy and accounting estimations

Pursuant to edied regulations of Accounting Standards for Enterprises No. 16 - Government Subsidies

(Accounting (2017) No.15, since January 1st 2017, government subsidies related to the enterprise's daily operation shall be recognized other "Other Income" or offset related cost/expense; for those not related to daily operations, shall be booked into non-operating income. During the current reporting period, the Company booked RMB 677,411,292.4 of VAT Rebate under Other Income.

## IV. Taxes

### 1. 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 input tax.	6%, 11%, 17% and simple collection rate of 3% (Note 2)
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.

### 2. Tax Preference

- (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, the Company was identified as the high-tech enterprise with a valid term of 3 years from 2014 to 2016. According to the *Announcement of implementation of high-tech enterprise income tax preferential policy* issued by state administration of taxation, within one year after the high-tech qualification expires, before re-recognition, the enterprise income tax could be temporarily paid in advance with a tax rate of 15%.
- (2) In accordance with the Letter of Reply on Publishing the Registration of First Batch of High-tech Enterprises of Zhejiang Province in 2016 (GKH ZI [2016] No. 149) issued by Zhejiang high-tech enterprise identification management work leading group on December 9, 2016, this Company was

## Notes on Financial Statements

For reporting period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

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 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%.

## Notes on Financial Statements

For reporting period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

## 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
<b>Cash:</b>						
RMB	-	-	181,497.38	-	-	72,198.75
USD	258,537.93	6.7744	1,751,439.35	54,518.00	6.9370	378,191.37
EUR	38,612.98	7.7496	299,235.15	9,914.76	7.3665	73,036.78
GBP	42,477.63	8.8144	374,414.82	3,194.57	8.5094	27,183.87
ZAR	20,000.00	0.5208	10,416.00	20,000.00	0.5083	10,165.18
INR	-	-	-	648,250.61	0.1023	66,308.91
RUB	-	-	-	700,327.10	0.1151	80,584.44
AED	1,437.81	1.8445	2,652.04	22,038.00	1.8876	41,599.39
<b>Bank balance:</b>						
RMB	-	-	6,754,002,999.78	-	-	9,012,033,851.31
USD	772,342,355.90	6.7744	5,232,156,055.84	557,895,047.74	6.9370	3,870,112,669.33
EUR	29,602,740.91	7.7496	229,409,400.98	63,105,958.57	7.3086	461,213,364.03
GBP	1,247,825.21	8.8144	10,998,830.49	1,162,906.87	8.5162	9,903,554.55
JPY	408.04	0.0605	24.68	408.00	0.0596	24.31
CHF	4,350.90	7.0888	30,842.66	4,350.83	6.7989	29,580.86
ZAR	15,779,608.31	0.5208	8,218,020.01	479,939.35	0.5083	243,938.69
INR	608,165,494.36	0.1049	63,816,629.82	741,278,806.84	0.1023	75,824,667.94
RUB	890,058,303.33	0.1142	101,644,658.24	376,048,117.90	0.1149	43,219,734.70
HKD	51,493,186.84	0.8679	44,690,936.86	113,182.52	0.8945	101,242.90
AUD	686,452.93	5.2099	3,576,351.12	358,996.02	5.0157	1,800,616.34
AED	12,658,350.68	1.8445	23,348,327.83	8,811,007.21	1.8876	16,631,825.02
BRL	8,281,430.57	2.0536	17,006,745.82	8,453,226.09	2.1336	18,035,803.19
SGD	532,848.44	4.9135	2,618,150.81	34,035.93	4.7995	163,355.45
PLN	2,195,578.21	1.8271	4,011,434.07	1,403,342.82	1.6569	2,325,147.58
KRW	-	-	-	120,990,676.00	0.0058	696,509.57
CAD	800,551.39	5.2144	4,174,395.17	42,307.32	5.1406	217,485.01
KZT	20,606,680.35	0.0210	433,691.09	27,890,915.57	0.0207	577,341.95
COP	20,290,312.14	0.0222	450,447.69	261,841,960.55	0.0023	604,226.04
TRY	1,191,712.76	1.9217	2,290,114.42	21,242.60	1.9702	41,851.47
SEK	317,290,452.24	0.0059	1,880,263.22	-	-	-
NZD	293,093.09	4.9569	1,452,833.16	-	-	-
HUF	3,761,879.86	0.3997	1,503,740.00	-	-	-
<b>Other currency funds:</b>						
RMB	-	-	306,041,493.26	-	-	102,586,217.99
USD	53,500,000.00	6.7744	362,430,400.00	3,019,477.89	6.6811	20,173,564.54
EUR	108,383.14	7.7496	839,925.98	108,432.98	7.3068	792,298.10
<b>Total</b>			13,179,646,367.74			13,638,078,139.56
including: deposited in overseas banks			557,929,832.30			565,682,133.09

As of June 30th 2017, other currency funds book value of the Group in RMB totalled RMB 669,311,819.24, including a RMB closing balance of RMB 306,041,493.26 (opening balance: RMB 102,586,217.99). The balance of other currency funds mainly includes cash deposit guaranteed for letter of guarantee of RMB 7,800,907.01 (opening balance: RMB



## Notes on Financial Statements

For reporting period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

4,659,173.02), cash deposit guaranteed for forward foreign exchange transaction of RMB 3,100,000.00 (opening balance RMB 3,100,000.00), cash deposit guaranteed for bank acceptance bill of RMB 243,520,516.19 (opening balance RMB 57,015,406.62), Cash deposit guaranteed for letter of credit of RMB 600,000.00 (opening balance: USD 3,019,477.89, equivalent to RMB 20,173,564.54), bank deposit of RMB 35,000,000.00 (opening balance: RMB 30,000,000.00) pledged for long-term borrowing. Other currency funds book value in US Dollar totaled USD 53,500,000.00 (equivalent to RMB 362,430,400.00) (Opening balance: nil), pledged for short-term borrowing.

## 2. Financial assets as fair value through profit and loss

Unit: RMB

Item	Closing Balance	Opening Balance
Held-for-trading financial assets	3,004,171.92	15,547,537.34
including: derivative financial assets	3,004,171.92	15,547,537.34
Total	3,004,171.92	15,547,537.34

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

### (1) Categories of notes receivable

Unit: RMB

Category	Closing Balance	Opening Balance
Bank acceptance bill	3,185,981,920.01	2,762,741,337.04
Commercial acceptance bill	95,657,500.26	80,663,078.48
Total	3,281,639,420.27	2,843,404,415.52

### (2) Notes receivable pledged at the closing of the reporting period

Unit: RMB

Category	Pledged amount by June 30 <sup>th</sup> 2017
Bank acceptance bill	584,027,766.90
Commercial acceptance bill	-
Total	584,027,766.90

### (3) Notes receivable discounted or endorsed at the closing of the reporting period

Unit: RMB

Category	Derecognised amount (Note)	Not Derecognised amount
Bank acceptance bill	115,108,297.43	-
Commercial acceptance bill	-	-
Total	115,108,297.43	-

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.

(4) As of June 30<sup>th</sup>, 2017, there is no such case the Group has to transfer the defaulted note receivable into account receivable.



## Notes on Financial Statements

For reporting period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

**4. Account Receivable**
**(1) Disclosure of accounts receivable by categories**

Unit: RMB

Category	Closing Balance					Beginning Balance				
	Carrying amount		Bad debt provision		Carrying Value	Carrying amount		Bad debt provision		Carrying Value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	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 for credit risk	14,351,244,174.53	100	1,047,198,164.41	7.30	13,304,046,010.12	12,105,157,539.88	100	861,314,214.98	7.12	11,243,843,324.90
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually						-	-	-	-	-
Total	14,351,244,174.53	100	1,047,198,164.41	7.30	13,304,046,010.12	12,105,157,539.88	100	861,314,214.98	7.12	11,243,843,324.90

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	12,707,954,069.05	635,397,703.45	5.00
More than 1 year but not exceeding 2 years	932,922,441.86	93,292,244.19	10.00
More than 2 year but not exceeding 3 years	405,799,534.20	121,739,860.26	30.00
More than 3 year but not exceeding 4 years	167,015,619.45	83,507,809.72	50.00
More than 4 year but not exceeding 5 years	121,459,815.88	97,167,852.70	80.00
More than 5 years	16,092,694.09	16,092,694.09	100.00
Subtotal	14,351,244,174.53	1,047,198,164.41	7.30

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

**(2) Provision, re-collection, or reverse of the bad debt allowance in current reporting period**

In the current reporting period, the Company recorded a bad debt allowance of RMB 191,073,904.14; recovered bad debts of 192,000.00 RMB.

**(3) Actual write-off of account receivable during current reporting period**

In the current reporting period, the amount of accounts receivable write-off is RMB 5,381,954.71.

**(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 (%)
Company A	3 <sup>rd</sup> party	433,808,155.64	21,690,407.78	3.02
Related party A	Related Party	247,324,689.92	5,029,000.00	1.72
Company B	3 <sup>rd</sup> party	170,013,497.62	100,778,387.06	1.18
Company C	3 <sup>rd</sup> party	85,675,854.30	4,283,792.72	0.60
Related party B	Related Party	85,557,593.00	4,277,879.65	0.60
Total		1,022,379,790.48	136,059,467.21	7.12

(5) As of June 30, 2017, there is no termination of account receivable booking due to transfer of a financial asset.

(6) As of June 30, 2017, 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**

(1) Aging analysis of prepayments is as follows

Unit: RMB

Aging	Closing Balance		Opening Balance	
	Carrying amount	Proportion (%)	Carrying amount	Proportion (%)
Within 1 year	226,606,771.94	85.92	259,870,967.78	93.14
More than 1 year but not exceeding 2 years	36,515,492.31	13.84	16,963,621.71	6.08
More than 2 year but not exceeding 3 years	257,148.00	0.10	137,873.42	0.05
More than 3 years	376,377.60	0.14	2,050,745.00	0.73
Total	263,755,789.85	100.00	279,023,207.91	100.00

(2) Closing balances of top five prepayments parties

As of June 30<sup>th</sup> 2017, the Group's top five balances of prepayments amounted to RMB 186,157,547.85, accounting for 70.58% of total closing balance of prepayments.

Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

## 6. Other receivables

### (1) Disclosure of other receivables by categories

Unit: RMB

Category	Closing Balance					Opening Balance				
	Carrying amount		Bad debt provision		Carrying Value	Carrying amount		Bad debt provision		Carrying Value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	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 for credit risk	774,367,945.00	100.00	64,706,272.48	8.36	709,661,672.52	572,247,211.16	100.00	43,602,983.74	7.62	528,644,227.42
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Total	774,367,945.00	100.00	64,706,272.48	8.36	709,661,672.52	572,247,211.16	100.00	43,602,983.74	7.62	528,644,227.42

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	591,451,980.82	29,572,599.04	5
More than 1 year but not exceeding 2 years	121,980,205.93	12,198,020.59	10
More than 2 year but not exceeding 3 years	41,792,138.85	12,537,641.66	30
More than 3 year but not exceeding 4 years	16,585,633.75	8,292,816.87	50
More than 4 year but not exceeding 5 years	2,263,956.65	1,811,165.32	80
More than 5 years	294,029.00	294,029.00	100
Total	774,367,945.00	64,706,272.48	8.36

#### (2) Provision, re-collection, or reverse of the bad debt allowance in current reporting period

During the reporting period, the Company recorded a bad debt allowance of RMB 21,104,888.74, there is no such case as reversed bad debt allowance or recovered bad debts.

#### (3) Actual write-off of other receivables during current reporting period

In current reporting period, the actual write-off of other receivables is RMB 1,600.00.

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

## (4) Nature of other receivables

Unit: RMB

Nature of other receivables	Closing balance	Beginning balance
Other receivables for interim payments	482,014,732.57	397,044,897.11
Guarantee deposits	141,025,042.33	120,485,983.73
Tax rebate	131,327,417.62	17,096,975.74
Others	20,000,752.48	2,619,354.58
Investment intention fund	-	35,000,000.00
Total	774,367,945.00	572,247,211.16

## (5) Top five debtors based on corresponding closing balance of other receivables

Unit: RMB

Entities	Nature	Carrying amount	Aging	Proportion of total (%)	Bad debt Provision
The government tax authorities	Tax refund	131,327,417.62	Within 1 year	16.96	6,566,370.88
Company D	Guarantee deposits	20,873,680.00	Within 2 years	2.70	2,075,128.00
Company E	Other receivables for interim payments	20,699,153.07	Within 1 year	2.67	1,034,957.65
Company F	Other receivables for interim payments	18,986,564.70	Within 1 year	2.45	949,328.24
Company G	Other receivables for interim payments	16,054,560.00	Within 3 years	2.07	4,816,368.00
Total		207,941,375.39		26.85	15,442,152.77

(6) As of June 30<sup>th</sup> 2017, the Group does not have other receivables related to government subsidies.

(7) As of June 30<sup>th</sup> 2017, there is no termination of other receivables booking due to transfer of a financial asset.

(8) As of June 30<sup>th</sup> 2017, the Group has no assets/liabilities booked due to any transferred other receivable that the Group still keep recourse or retain part of the corresponding rights or interests.

## 7. Inventories

## (1) Categories of inventories

Unit: RMB

Category	Closing Balance			Opening Balance		
	Carrying amount	Provision for decline in value of inventories	Carrying value	Carrying amount	Provision for decline in value of inventories	Carrying value
Raw materials	1,212,317,055.77	2,353,324.00	1,209,963,731.77	874,786,611.19	1,516,317.17	873,270,294.02
Work-in-progress	534,939,035.22	-	534,939,035.22	159,844,928.42	-	159,844,928.42
Finished goods	3,059,979,848.55	103,432,184.68	2,956,547,663.87	2,680,562,932.70	86,718,096.08	2,593,844,836.62
Completed but unsettled assets formed by construction contracts	234,370,008.65	-	234,370,008.65	202,987,817.69	-	202,987,817.69
Total	5,041,605,948.19	105,785,508.68	4,935,820,439.51	3,918,182,290.00	88,234,413.25	3,829,947,876.75

## (2) Provision for decline in value of inventories

Unit: RMB

Category	Opening balance	Increase in the current period	Decrease in the current period		Effect of foreign currency exchange difference	Closing Balance
			Reversals	write-offs		
Raw materials	1,516,317.17	1,339,124.71	-	502,117.87	-	2,353,324.01
Finished goods	86,718,096.08	38,220,457.37	-	21,200,265.93	(306,102.85)	103,432,184.67
Subtotal	88,234,413.25	39,559,582.08	-	21,702,383.80	(306,102.85)	105,785,508.68

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

At the closing of the reporting period, 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 reporting period, the reversals or write-of of provision for inventories is due to those inventories being used or sold.

(3) Completed but unsettled assets formed by construction contracts at the end of June 30<sup>th</sup>, 2017

Unit: RMB

Item	Amount
Accumulated occurred costs of construction	544,342,448.43
Accumulated booked gross profit margin	18,083,801.89
Less: estimated losses	-
Settled amounts	328,056,241.67
Completed but unsettled assets formed by construction contracts	234,370,008.65

## 8. Other current assets

Unit: RMB

Item	Closing balance	Opening balance
Principal-garanteed bank finance products (Note)	100,000,000.00	3,820,000,000.00
Deductible VAT input	285,333,990.28	293,158,008.82
Prepaid income tax	42,769,181.89	40,834,267.96
Total	428,103,172.17	4,153,992,276.78

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.

## 9. Available-for-sale financial assets

(1) Available-for-sale financial assets

Unit: RMB

Item	Closing Balance			Opening Balance		
	Carrying amount	Provision for decline in value	Carrying Value	Carrying amount	Provision for decline in value	Carrying Value
Available-for-sale equity instruments	283,836,013.00	-	283,836,013.00	283,836,013.00	-	283,836,013.00
Cost method	283,836,013.00	-	283,836,013.00	283,836,013.00	-	283,836,013.00
Total	283,836,013.00	-	283,836,013.00	283,836,013.00	-	283,836,013.00

(2) Closing balance of available-for-sale financial assets using cost method

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

Unit: RMB

The invested entity (Note 1)	Carrying Balance				Provision for decline in value				Proportion of shareholding in the invested entity (%)	Cash Dividend in the current reporting period
	Opening balance	Increase	Decrease	Closing balance	Opening balance	Increase	Decrease	Closing balance		
Zhejiang Tuxun Technology Co., Ltd. (浙江图讯科技股份有限公司)	28,800,000.00	-	-	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	8,505,842.42
Total	283,836,013.00	-	-	283,836,013.00	-	-	-	-	-	8,505,842.42

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 ultimate controlling shareholder.

## 10. Long-term receivables

### (1) Details of long-term receivables

Unit: RMB

Item	Closing balance			Opening balance			Range of discount rate
	Carrying amount	Provision for decline in value	Carrying value	Carrying amount	Provision for decline in value	Carrying value	
Financial leases receivables	61,887,821.73	-	61,887,821.73	74,504,325.33	-	74,504,325.33	2.08% - 2.52%
including: Unrealized income from financing	1,029,448.82	-	1,029,448.82	1,513,690.63	-	1,513,690.63	
Borrowings for project	18,000,000.00	-	18,000,000.00	18,000,000.00	-	18,000,000.00	
Installment payment for selling products	91,254,524.26	-	91,254,524.26	159,084,593.82	-	159,084,593.82	
Total	171,142,345.99	-	171,142,345.99	251,588,919.15	-	251,588,919.15	

As of June 30<sup>th</sup>, 2017, there is no termination of long-term receivables booking due to transfer of a financial asset.

As of June 30<sup>th</sup>, 2017, the Group has no assets/liabilities booked due to any transferred long-term receivable that the Group still keep recourse or retain part of the corresponding rights or interests.

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

**11. Long-term equity investment**

Unit: RMB

The invested entity	Opening Balance	Decrease/Increase in the current period								Closing Balance	Closing Blance For Provision for decline in value
		Additional Investments	Investment reduction	Investment Profit/Loss confirmed under the Equity Method	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	-	-	(1,409,148.78)	-	-	-	-	-	33,590,851.22	-
Maxio Technology (Hangzhou) Ltd.	-	98,000,000.00	-	(2,468,553.27)	-	-	-	-	-	95,531,446.73	-
Subtotal	35,000,000.00	98,000,000.00	-	(3,877,702.05)	-	-	-	-	-	129,122,297.95	-
Total	35,000,000.00	98,000,000.00	-	(3,877,702.05)	-	-	-	-	-	129,122,297.95	-

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

Note: According to the equity transfer agreement signed between the Company and Hangzhou Lingqi Technology Co., Ltd, the Company's subsidiary, Hangzhou Hikvision Science and Technology Co., Ltd acquired 26.68% equity of Maxio Technology (Hangzhou) Co., Ltd. (hereinafter refers to as "Maxio Technology") with RMB 50 million. Payment for equity transfer was paid in January 2017, and relevant property rights transfer was processed. According to the *Equity Capital Increase Agreements* signed between the Company and Maxio Technology and its shareholders, the Company increase capital investment of RMB 48 million on Maxio Techonology, and increased capital has been paid in May 2017. After this capital increment, the Company and its subsidiary together are holding 41.63% equity of Maxio Techonology.

## 12. Fixed Aseets

### (1) Details

Unit: RMB

Items	Building	Office and other equipment	Machinery and Equipment	Transportation vehicles	Total
<b>Total original carrying amount</b>					
1. Opening balance	2,557,263,629.24	153,875,892.42	634,591,114.67	61,860,747.84	3,407,591,384.17
2. Increased	17,641,729.41	34,484,534.90	207,573,141.96	3,212,496.64	262,911,902.91
1) purchase	17,641,729.41	34,484,534.90	185,821,460.76	3,212,496.64	241,160,221.71
2) transferred from construction in progress	-	-	21,751,681.20	-	21,751,681.20
3. Decrease	5,328,312.71	3,730,649.72	4,325,102.02	2,268,366.81	15,652,431.26
1) disposal or write-off	5,328,312.71	3,730,649.72	4,325,102.02	2,268,366.81	15,652,431.26
4. Effect of foreign currency exchange difference	(1,656,941.04)	589,585.35	200,980.64	610,329.50	(256,045.55)
5. Closing Balance	2,567,920,104.90	185,219,362.95	838,040,135.25	63,415,207.17	3,654,594,810.27
<b>Accumulated depreciation</b>					
1. Opening blance	275,060,799.95	59,217,137.26	173,740,268.29	45,664,703.18	553,682,908.68
2. Increased	58,077,078.09	18,258,632.77	82,770,437.77	3,201,860.53	162,308,009.16
(1) provided	58,077,078.09	18,258,632.77	82,770,437.77	3,201,860.53	162,308,009.16
3. Decreased	1,518,569.11	2,544,510.56	700,280.68	2,041,775.20	6,805,135.55
(1) disposal or write-off	1,518,569.11	2,544,510.56	700,280.68	2,041,775.20	6,805,135.55
4. Effect of foreign currency exchange difference	(62,719.76)	(161,726.46)	287,001.59	201,988.10	264,543.47
5. Closing balance	331,556,589.17	74,769,533.01	256,097,426.97	47,026,776.61	709,450,325.76
<b>Provision for decline in value</b>					
1. Opening balance	-	-	-	-	-
2. Increased	-	-	-	-	-
3. Decreased	-	-	-	-	-
4. Closing balance	-	-	-	-	-
<b>Total carrying amount</b>					
1. Closing balance	2,236,363,515.73	110,449,829.94	581,942,708.28	16,388,430.56	2,945,144,484.51
2. Opening balance	2,282,202,829.29	94,658,755.16	460,850,846.38	16,196,044.66	2,853,908,475.49

(2) As of June 30<sup>th</sup> 2017, the Group does not have any idle fixed assets.

(3) As of June 30<sup>th</sup> 2017, the Group has not leased any fixed asset through financial leasing.

(4) As of June 30<sup>th</sup> 2017, the Group has not rent out any fixed asset through operating leasing

(5) Fixed assets of which certificates of title have not been granted as of June 30<sup>th</sup> 2017

Unit: RMB

Item	Carrying amount	Reason for certificates of title not granted
Office building for branches	149,433,978.73	In the process of obtaining the real estate certificates
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	766,589,148.67	



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For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

### 13. Construction in progress

#### (1) Details of construction in progress

Unit: RMB

Item	Closing balance			Opening balance		
	Carrying amount	Provision	Carrying value	Carrying amount	Provision	Carrying value
Security industrial (Tonglu) base (Phase 1)	34,328,031.91	-	34,328,031.91	18,104,535.49	-	18,104,535.49
Security industrial (Tonglu) base (Phase 2)	19,168,601.89	-	19,168,601.89	2,713,228.89	-	2,713,228.89
Internet Security Industry Base	584,252,250.38	-	584,252,250.38	238,269,427.37	-	238,269,427.37
Public Security Monitoring Site Project	81,785,245.91	-	81,785,245.91	42,542,379.61	-	42,542,379.61
Others	45,316,684.49	-	45,316,684.49	14,852,951.00	-	14,852,951.00
Total	764,850,814.58	-	764,850,814.58	316,482,522.36	-	316,482,522.36

#### (2) Changes in significant construction in progress

Unit: RMB

Item	Budget (RMB 0,000)	Opening balance	Increased	Transferred to fixed assets during the current period	Transferred to long-term receivables during the current period	Closing balance	Amount invested as a proportion of budget amount (%)	Constructio n Progress (%)	Accumulated capitalized interest and profit/loss on exchange (Note)	Including: capitalized interest and profit/loss on exchange for the current period	Capitalizati on rate for the current period (%)	Source of funds
Security industrial (Tonglu) base (Phase 1)	72,000.00	18,104,535.49	16,223,496.42	-	-	34,328,031.91	90.48	90.48	-	-		Self-financing
Security industrial (Tonglu) base (Phase 2)	74,100.00	2,713,228.89	16,455,373.00	-	-	19,168,601.89	2.59	2.59	-	-		Bond
Internet Security Industry Base	100,000.00	238,269,427.37	345,982,823.01	-	-	584,252,250.38	58.43	58.43	107,883,858.92	212,883,858.92	1.25%	Bond
Others	-	57,395,330.61	91,822,469.04	21,751,681.20	364,188.05	127,101,930.40	-	-	-	-		Self-financing
Total	-	316,482,522.36	470,484,161.47	21,751,681.20	364,188.05	764,850,814.58	-	-	-	-		

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 June 30th 2017, the Group dose not have any sign of impairment of projects under construction, therefore, no provision for impairment loss was booked.

## 14. Intangible assets

### (1) Details of Intangible assets

Unit: RMB

Item	Land use right	Intellectual property right	Software	Total
<b>Total original carrying amount</b>				
1. Opening balance	323,531,470.36	27,923,432.16	143,092,986.87	494,547,889.39
2. Increased	2,611,200.00	889,118.71	18,896,994.95	22,397,313.66
(1) Purchase	2,611,200.00	889,118.71	18,896,994.95	22,397,313.66
3. Decreased	-	-	-	-
(1) Disposal or write-off	-	-	-	-
4. Effect of foreign currency exchange	-	1,196,147.85	-	1,196,147.85
5. Closing balance	326,142,670.36	30,008,698.72	161,989,981.82	518,141,350.90
<b>Total accumulated amortization</b>				
1. Opening balance	12,088,524.92	9,121,583.99	62,880,990.85	84,091,099.76
2. Increased	3,236,766.72	1,810,515.68	16,068,501.11	21,115,783.51
(1) Provided	3,236,766.72	1,810,515.68	16,068,501.11	21,115,783.51
3. Decreased	-	-	-	-
(2) Disposal or write-off	-	-	-	-
4. Effect of foreign currency exchange	-	381,996.34	-	381,996.34
5. Closing balance	15,325,291.64	11,314,096.01	78,949,491.96	105,588,879.61
<b>Provision for decline in value</b>				
1. Opening balance	-	-	-	-
2. Increased	-	-	-	-
3. Decreased	-	-	-	-
4. Closing balance	-	-	-	-
<b>Total carrying amount</b>				
Closing balance	310,817,378.72	18,694,602.71	83,040,489.86	412,552,471.29
Opening balance	311,442,945.44	18,801,848.17	80,211,996.02	410,456,789.63

## 15. Goodwill

### (1) Goodwill book value

Unit: RMB

The invested entity	Opening balance	Increased	Decreased	Closing balance
		Business combination not under common control	Disposal	
ZAO Hikvision	67,349.64	-	-	67,349.64
Beijing Brainaire Storage Technology Co., Ltd. (北京邦诺存储科技有限公司)	42,695,573.44	-	-	42,695,573.44
Henan HuaAn Intelligence Development Co., Ltd. (河南华安保全智能发展有限公司) and its subsidiaries	61,322,871.63	-	-	61,322,871.63
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	248,364,401.47	-	-	248,364,401.47

### (2) Provision of decline in value for goodwill

The Group performed impairment test at the end of the reporting period. 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.

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

### (1) Deferred tax assets that are not presented at net off basis

Unit: RMB

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for impairment losses of assets	1,065,338,332.12	214,297,107.80	857,050,100.60	183,020,355.82
Payroll payables	174,795,783.91	26,219,367.59	174,795,783.91	26,219,367.59
Share-based compensation	234,532,772.22	32,796,191.15	136,678,690.94	18,118,078.96
Provisions	46,550,937.15	6,982,640.58	28,799,848.84	4,319,977.33
Unrealized profit from inter-group transactions	1,017,081,996.99	151,536,034.90	918,416,162.13	137,762,424.32
Changes in the fair value of derivative financial instruments	18,562,128.16	2,944,449.35	60,459,998.68	9,229,129.93
<b>Total</b>	<b>2,556,861,950.55</b>	<b>434,775,791.37</b>	<b>2,176,200,585.10</b>	<b>378,669,333.95</b>

### (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	3,004,171.92	450,625.79	15,547,537.34	3,358,395.25
<b>Total</b>	<b>3,004,171.92</b>	<b>450,625.79</b>	<b>15,547,537.34</b>	<b>3,358,395.25</b>

### (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	450,625.79	434,325,165.58	3,358,395.25	375,310,938.70
Deferred tax liabilities	450,625.79	-	3,358,395.25	-

## 17. Other non-current assets

Unit: RMB

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For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

Item	Closing balance	Opening balance
Prepayments for acquisition of real estate	10,932,858.00	10,782,858.00
Prepayments for purchase of equipments	18,986,564.70	30,216,826.42
Total	29,919,422.70	40,999,684.42

## 18. Short-term borrowings

### (1) Categories of short-term loans

Unit: RMB

Item	Closing balance	Opening balance
Fiduciary loan	10,044,523.17	1,448,732.40
Guaranteed loans	1,593,386,873.62	21,842,592.45
Secured loans (pledged)	361,701,055.97	9,000,000.00
Total	1,965,132,452.76	32,291,324.85

(2) As of June 30<sup>th</sup> 2017, the Group did not have any overdue short-term loans that were failed to repay.

## 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	18,562,128.16	69,789,502.97
Including: derivative financial liabilities	18,562,128.16	69,789,502.97
total	18,562,128.16	69,789,502.97

Derivative financial assets includes forwards and foreign currency structured contracts.

## 20. Notes payable

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance Bill	536,694,693.25	876,804,536.72
Total	536,694,693.25	876,804,536.72

As of June 30<sup>th</sup> 2017, the Group did not have any unpaid matured notes payables.

## 21. Accounts payable

### (1) List of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Loans	6,150,299,056.87	6,944,209,175.02
Payment for construction	5,594,726.08	65,112,853.11
Total	6,155,893,782.95	7,009,322,028.13

As of June 30<sup>th</sup>, 2017, the Group did not have any significant account payable with aging above one year.

## 22. Receipts in advance

### 1. List of receipts in advance

Unit: RMB

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For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

Item	Closing balance	Opening balance
Advanced payments from sales of goods	366,062,570.34	357,102,290.89
Advanced payments from construction contracts	78,312,638.80	112,702,546.56
Total	444,375,209.14	469,804,837.45

As of June 30<sup>th</sup> 2017, the Group did not have any significant receipts in advance with aging above one year

## 23. Payroll payable

### (1) Details of payroll payables

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Short-term remuneration	1,084,423,286.90	1,953,579,173.11	2,445,180,248.45	592,822,211.56
Dismissal benefits – defined contribution scheme	527,852.20	119,335,791.47	117,614,285.36	2,249,358.31
Total	1,084,951,139.10	2,072,914,964.58	2,562,794,533.81	595,071,569.87

### (2) List of Short-term remuneration

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
1.Wages or salaries, bonuses, allowances and subsidies	1,049,466,834.71	1,687,793,714.26	2,192,427,673.07	544,832,875.90
2.Staff welfare	2,967,561.72	77,250,760.29	73,213,181.75	7,005,140.26
3.Social insurance contributions	225,829.18	89,958,289.94	89,705,859.74	478,259.38
Including: medical insurance	208,370.79	79,249,412.46	78,994,755.04	463,028.21
injury insurance	2,635.97	4,097,137.71	4,097,106.22	2,667.46
maternity insurance	14,822.42	6,611,739.77	6,613,998.48	12,563.71
4.Housing funds	812,400.00	78,578,246.76	78,035,109.76	1,355,537.00
5.Labor union and education fund	30,950,661.29	19,998,161.86	11,798,424.13	39,150,399.02
subtotal	1,084,423,286.90	1,953,579,173.11	2,445,180,248.45	592,822,211.56

### (3) Defined contribution scheme (Note)

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Basic pension insurance	472,261.07	111,959,526.54	110,393,061.60	2,038,726.01
Unemployment insurance	55,591.13	7,376,264.93	7,221,223.76	210,632.30
Subtotal	527,852.20	119,335,791.47	117,614,285.36	2,249,358.31

#### 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.

**24. Taxes payable**

Unit: RMB

Item	Closing balance	Opening balance
Enterprise income tax	788,850,622.73	898,545,866.96
Value-added tax	104,391,785.87	229,179,164.71
City construction and maintenance tax	19,224,829.95	28,164,970.24
Local education surcharges	11,072,061.70	8,216,807.76
Education surcharges	9,978,050.97	15,154,496.86
Others	7,578,028.38	26,449,415.69
Total	941,095,379.60	1,205,710,722.22

**25. Dividends payable**

Unit: RMB

Item	Closing balance	Opening balance
Dividends of restricted shares (Share Incentive Scheme)	92,407,139.16	20,105,831.16
Total	92,407,139.16	20,105,831.16

**26. Other payables**
**(1) List of other payables according to the nature of the payment**

Unit: RMB

Item	Closing balance	Opening balance
Collection and payment on behalf	232,204,209.43	101,627,498.81
Accrued expenses	101,590,445.51	127,849,041.50
Guarantee and deposit fees	88,799,182.25	110,171,087.75
Others	59,135,379.05	48,628,862.84
Subscription proceeds for restricted shares		660,888,216.54
Total	481,729,216.24	1,049,164,707.44

(2) As of June 30<sup>th</sup> 2017, 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)	700,000,000.00	15,340,813.03
Bond Interest Payable due within one year	14,012,975.36	-
Total	714,012,975.36	15,340,813.03

**28. Other current liabilities**

Unit: RMB

Item	Closing balance	Opening balance
Payment for subscription of restricted shares	853,507,327.55	300,177,750.17
Total	853,507,327.55	300,177,750.17

**29. Long-term borrowings**

Unit: RMB

Item	Closing balance	Opening balance
Pledged loan (Note 1)	20,947,334.00	31,421,001.00
Guaranteed loans	1,800,000,000.00	1,500,000,000.00
Fiduciary loan	8,460,841.80	16,127,396.36
Other borrowing (Note 2)	190,000,000.00	190,000,000.00
Less: Long-term loans due within one year (Note (V) 27)	700,000,000.00	15,340,813.03
Total	1,319,408,175.80	1,722,207,584.33

As of June 30<sup>th</sup> 2017, the GBP loans, with book value RMB 8,300,291.68, carry annual interest rate ranging from 2.1% to 3.45% (as of December 31<sup>st</sup> 2016: 1.20% to 3.50%); the RMB loans, with book value RMB 1,310,947,334.00, carry annual interest rate ranging from 2.65% to 5.00% (as of December 31<sup>st</sup> 2016: range from 2.65% to 5.00%).

Note 1: The Group pledged RMB 70,036,733.76 account receivables for this pledged loan, maturity date September 21<sup>st</sup> 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 June 30<sup>th</sup> 2017, CDBDF has aggregately invested RMB 190 million (December 31<sup>st</sup> 2016: RMB 190 million).

## Notes on Financial Statements

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**30. Bonds payable**
**(1) Bonds payable**

Unit: RMB

Item	Closing balance	Beginning balance
Euro Bond (Note)	3,099,840,000.00	2,954,449,528.77
Total	3,099,840,000.00	2,954,449,528.77

**(2) Change in bond payable balance**

Note: On February 3<sup>rd</sup>, 2016, the Company publicaly issued the bond with nominal value amounting to Euro 400 million ("Euro Bond"); and the bond was settled, listed and traded on the Irish Stock Exchange on February 18<sup>th</sup>, 2016. The Euro bond has a maturity term for 3 years, maturity date is February 18<sup>th</sup>, 2019, the issuance price of the bond is 99.959% of the nominal value, and interest rate is 1.25% per annum, with interest payment date of February 18<sup>th</sup> 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 security industry base construction.

Unit: RMB

Item	Face value	Issue Date	Maturity	Issuance	Opening blance	Issuance in current period	Foreign exchange effects	Interests expenses accrued based on the principal amount	Less: interest paid in the current year	Interests due within one year	Amortization of premiums or discounts	Payments in the current reporting period	Closing balance
Irish Euro Bond (Note)	Euro 400,000,000.00	February 18 <sup>th</sup> 2016	3 years	2,903,120,000.00	2,954,449,528.77	-	177,120,000.00	25,519,995.30	43,236,548.71	14,012,975.36	-	-	3,099,840,000.00
Total	Euro 400,000,000.00			2,903,120,000.00	2,954,449,528.77	-	177,120,000.00	25,519,995.30	43,236,548.71	14,012,975.36	-	-	3,099,840,000.00



## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

**31. Provisions**

Unit: RMB

Item	Closing balance	Beginning balance
Sales warranty	46,550,937.15	41,933,212.54
Total	46,550,937.15	41,933,212.54

**32. Deferred income**

Unit: RMB

Item	Beginning balance	Increase in current Period	Decrease in current period	Closing balance	Details
Cloud storage service income	10,833,745.99	20,609,104.65	14,624,948.58	16,817,902.06	Note
Total	10,833,745.99	20,609,104.65	14,624,948.58	16,817,902.06	

As of June 30<sup>th</sup> 2017, 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

	Opening balance	Changes for the period ("-" represents decrease)				Closing balance
		New issue of shares (Note 1)	Bonus issue (Note 2)	Others (Note 3)	Subtotal	
2017.6.30:						
Total shares	6,102,706,885.00	52,326,858.00	3,076,288,371.00	(2,457,000.00)	3,126,158,229.00	9,228,865,114.00

Note 1: Pursuant to the Articles of Association of the Company revised by the resolution of 20<sup>th</sup> Meeting of the 3<sup>rd</sup> session Board of Directors authorized by the 2<sup>nd</sup> extraordinary general meeting in 2016, the company was approved to grant 53,557,028 shares RMB common shares (A-share) to Hu Yangzhong and other grantees totaled in 2989, with face value RMB 1 and issuing price of RMB 12.63 per share. In the payment process of capital, 1 grantee left the company and became unqualified, part of the grantees partially or completely renounce the subscription of the incentive shares because of personal reasons, 3 grantees were postponed, resulted in an actual granted 2936 personnels, with 52,326,858 actual granted shares., increased paid-in capital of RMB 52,326,858.00, resulted in capital reserve of RMB 608,561,358.54. The above Change in Equity has been inspected by Tianjian Accounting Firm (special general partnership), and the capital verification report was issued on December 31<sup>st</sup> 2016 (TianJian Verification (2016) No.556). The registration procedures were completed on February 9<sup>th</sup> 2017.

Note 2: Pursuant to shareholder's resolution of 2016 annual General Meeting dated on May 4<sup>th</sup> 2017, based upon the total capital share of 6,152,576,743 shares, the company proposed to distribute bonus 5 shares for each 10 ordinary shares (tax inclusive), As a result, 3,076,288,371 shares were distributed, with face value RMB 1, and a total increase in capital share of RMB 3,076,288,371.00.

Note 3: Pursuant to the Articles of Association of the Company revised by the resolution of 19<sup>th</sup> General Meeting of 3<sup>rd</sup> session Board of Directors authorized by the first Extraordinary General Meeting in 2014, the Company repurchased and cancelled 2,457,000.00 granted but restricted treasury shares by cash, and the total share capital of the Company decreased by RMB 2,457,000.00, capital reserve decreased by RMB 12,694,500. The registration procedures were completed on April 20<sup>th</sup> 2017.

### 34. Capital reserves

Unit: RMB

Item	Opening balance	Increased in the current period (Note 1)	Decreased in the current period (note 2)	Closing balance
2017.06.30				
Share premium	907,959,832.49	608,561,358.54	34,378,809.19	1,482,142,381.84
Other capital reserves	142,281,021.17	97,854,081.28	-	240,135,102.45
Total	1,050,240,853.66	706,415,439.82	34,378,809.19	1,722,277,484.29

Note 1: The increase of RMB 608,561,358.54 in share premium is due to the Company's new issued restricted shares, please refer to Note (V) 33; The increase of RMB 97,854,081.28 in other capital reserves is due to recognition of equity investment payments into capital reserve, please refer to Note (XI).

Note 2: The decrease of RMB 12,694,500.00 in share premium was due to the Company's repurchase and cancel of 2,457,000.00 granted but restricted treasury shares by cash, please refer to Note (V) 33-Note 3. The decrease of RMB 19,559,953.47 in share premium was due to business merger under common control for Hangzhou Hikvision Ximu Intelligent Technology Co., Ltd. (of which RMB 16,300,000 was acquisition payment, RMB 3,259,953.47 was payments for acquiring minority's equity and increase capital reserves). The decrease of RMB 2,124,355.72 in share premium was due to restricted shares distributed to subsidiaries.

### 35. Treasury shares

Unit: RMB

Item	Opening Balance	Increased in the current year (Note 1)	Decreased in the current year (Note 2)	Closing balance
2017.06.30				
Restricted shares incentive scheme	300,177,750.17	660,888,216.54	107,558,639.16	853,507,327.55
Total	300,177,750.17	660,888,216.54	107,558,639.16	853,507,327.55

Note 1: Treasury shares increased of RMB 660,888,216.54 due to granted 52,326,858 shares RMB common shares (A-share) to Hu Yangzhong and other grantees totaled in 2936, with issuing price of RMB 12.63 per share.

Note 2: Treasury shares decreased of RMB 107,558,639.16, including a decrease of RMB 15,151,500 due to the repurchase and cancellation of 2,457,000.00 restricted ordinary shares of 2014 Restricted Share Incentive Scheme; And a decrease of RMB 92,407,139.16 due to provision of cash dividend allocated to restricted shareholders.

### 36. Other comprehensive income

Unit: RMB

Item	Opening balance	Change for the period					Closing balance
		Before tax balance	Less: transfer to current period P/L from previous other comprehensive income	Less: income tax expense	Attributable to the owner of the Company (after tax)	Attributable to minority interest (after tax)	
2017.06.30							
Items that may be reclassified subsequently to profit or loss	(41,230,777.21)	29,434,317.10	-	-	28,590,931.77	843,385.33	(12,639,845.44)
Included: Effect on conversion of financial statements denominated in foreign currencies	(41,230,777.21)	29,434,317.10	-	-	28,590,931.77	843,385.33	(12,639,845.44)
Other comprehensive income	(41,230,777.21)	29,434,317.10	-	-	28,590,931.77	843,385.33	(12,639,845.44)

### 37. Surplus reserve

Unit: RMB

Item	Surplus reserve	Increased in the current period	Decreased in the current period	Closing balance
2017.06.30				
Statutory surplus reserve (Note)	2,615,437,822.15	-	-	2,615,437,822.15
Total	2,615,437,822.15	-	-	2,615,437,822.15

### 38. Retained earnings

Unit: RMB

Item	First half-year of 2017	First half-year of 2016
Retained Earnings at the close of previous reporting period before adjustment	14,866,457,856.65	12,196,097,444.07
Adjustment of initial retained earnings under the common control	(9,679,463.77)	(12,049,426.69)
Retained earnings at the beginning of the year	14,856,778,392.88	12,184,048,017.38
Add: Net profit attributable to owners of the Company for the current period	3,291,546,056.70	2,607,821,529.43
Less: Appropriation to statutory surplus reserve		
Dividends on ordinary shares (Note)	3,728,583,103.20	2,807,336,489.30
Share bonus (Note)	3,076,288,371.00	1,220,631,676.00
Retained earnings at the end of the period	11,343,452,975.38	10,763,901,381.51

Note: Pursuant to the 2016 shareholder's equity distribution scheme approved by 2016 annual General Meeting dated on May 4<sup>th</sup> 2017, based upon the total capital share of 6,152,576,743 shares, for each 10 ordinary shares, the company proposed distributing cash dividends of RMB 6 (tax inclusive), and distributing 5 bonus shares for each 10 ordinary shares to all shareholders, the rest of retained earnings were all carried forward for future distributions.

### 39. Operating income/operating cost

Unit: RMB

Item	2017 first half year		2016 first half year	
	Revenue	Cost	Revenue	Cost
Operating income	16,190,840,525.65	9,290,852,501.98	12,346,411,908.82	7,355,238,670.80
Other operating income	256,699,210.87	129,842,522.86	207,064,839.76	162,977,593.50
Total	16,447,539,736.52	9,420,695,024.84	12,553,476,748.58	7,518,216,264.30

### 40. Business Taxes and Surcharges

Unit: RMB

Items (Note)	Amount recognized in 2017 first half-year	Amount recognized in 2016 first half-year
Business tax	1,889,150.09	6,584,762.49
City construction and maintenance tax	81,381,228.77	52,958,623.11
Education surcharges	36,835,581.00	22,705,021.67
Local education surcharges	28,681,113.91	15,173,252.71
Real estate tax	15,144,057.60	-
Stamp duty	8,924,393.79	-
Tax on use of land	1,104,700.47	-
Vehicle and vessel tax	272,370.07	-
Total	174,232,595.70	97,421,659.98

Note: According to the *Value-added Tax Accounting Regulations* (《增值税会计处理规定》) issued by Ministry of Finance (*Finance and Accounting [2016] no. 22*), the company accounted real estate tax, tax on use of land, and stamp duty under “Business taxes and Surcharges” starting from May 1<sup>st</sup>, 2016

**41. Financial Expenses**

Unit: RMB

Items	Amount recognized in 2017 first half-year	Amount recognized in 2016 first half-year
Interest expenses	81,683,226.19	61,229,707.83
Less: Interest income	159,445,016.70	117,541,491.86
Effect on foreign exchange	346,869,555.21	(48,838,147.23)
Less : Foreign exchange effect on specific loan and the capitalization of specific loan interests	212,883,858.92	-
Others	9,276,721.87	7,966,982.90
Total	65,500,627.65	(97,182,948.36)

**42. Impairment losses of assets**

Unit: RMB

Items	Amount recognized in 2017 first half-year	Amount recognized in 2016 first half-year
Bad debt provision	212,178,792.88	140,744,360.17
Inventory provision	39,559,582.08	18,241,600.53
Total	251,738,374.96	158,985,960.70

**43. Gains from changes in fair values (losses)**

Unit: RMB

Sources of gains/losses from changes in fair values	Amount recognized in 2017 first half-year	Amount recognized in 2016 first half-year
Financial assets measured by fair value and their changes recognized in the gains and losses during the current period	(12,543,365.42)	(8,281,896.32)
Including: Profits or losses on the changes in fair value of derivative financial asset	(12,543,365.42)	(8,281,896.32)
Financial liabilities measured by fair value and their changes recognized in the gains and losses during the current period	51,095,855.83	-
Including: Profits or losses on the changes in fair value of derivative financial asset	51,095,855.83	-
Total	38,552,490.41	(8,281,896.32)

**44. Investment income**

Unit: RMB

Item	Amount recognized in 2017 first half-year	Amount recognized in 2016 first half-year
Disposal G/L of financial assets measured by fair value and their changes recognized in the gains and losses during the current period	22,296,650.52	(4,317,198.97)
Investment income on matured financial product redemption	22,727,398.21	30,768,699.87
Long-term equity investment gains (losses) based on equity method	(3,877,702.05)	-
Investment gains (losses) for available-for-sale financial assets during the holding period	8,505,842.42	-
Total	49,652,189.10	26,451,500.90

**45. Other income**

Unit: RMB

Government Subsidy Item	Amount recognized in 2017 first half-year	Amount recognized in 2016 first half-year	Pertinent to assets / Pertinent to incomes
VAT Refund	677,411,292.41	-	Pertinent to incomes

#### 46. Non-operating income

Unit: RMB

Item	Amount recognized in 2017 first half-year	Amount recognized in 2016 first half-year	Amount incurred in nonrecurring gains and loss in the current period
Profits from disposal of non-current assets	2,798,685.80	1,320,478.05	2,798,685.80
Government subsidies	14,130,234.67	641,245,222.90	14,130,234.67
Fines and confiscations	10,498,710.41	5,794,336.34	10,498,710.41
Others	7,088,648.70	3,625,484.35	7,088,648.70
<b>Total</b>	<b>34,516,279.58</b>	<b>651,985,521.64</b>	<b>34,516,279.58</b>

#### Government subsidies recognized in current period P/L:

Unit: RMB

Item	Amount recognized in 2017 first half-year	Amount recognized in 2016 first half-year	Pertinent to assets or Pertinent to incomes
VAT Refund <sup>2</sup>	-	629,279,468.11	Pertinent to incomes
Grants and subsidies <sup>3</sup>	12,859,922.90	11,943,630.07	Pertinent to incomes
Refund of tax and levies <sup>4</sup>	1,270,311.77	22,124.72	Pertinent to incomes
<b>Total</b>	<b>14,130,234.67</b>	<b>641,245,222.90</b>	<b>/</b>

#### 47. Non-operating expenses

(4) Unit: RMB

Item	Amount recognized in 2017 first half-year	Amount recognized in 2016 first half-year	Amount recorded into the current period non-recurring profits (losses)t
Total losses from disposal of non-current assets	571,711.25	1,619,629.70	571,711.25
Local water conservancy construction fund	544,266.79	15,952,521.87	-
Others	1,164,510.38	476,219.24	1,164,510.38
<b>Total</b>	<b>2,280,488.42</b>	<b>18,048,370.81</b>	<b>1,736,221.63</b>

#### 48. Income tax expenses

Unit: RMB

Item	Amount for 2017 first half-year	Amount for 2016 first half-year
Current income tax	627,672,617.73	497,553,186.34
Deferred income tax	(59,014,226.88)	(65,021,210.23)
<b>Total</b>	<b>568,658,390.85</b>	<b>432,531,976.11</b>

#### 49. Notes to consolidated cash flow statement

##### (1) Other cash receipts relating to operating activities

Unit: RMB

Item	Amount for 2017 first half-year	Amount for 2016 first half-year
Interest income	159,445,016.70	117,541,491.86
Government subsidies <sup>5</sup>	14,130,234.67	11,965,754.79
Others	17,587,359.11	9,419,820.69
<b>Total</b>	<b>191,162,610.48</b>	<b>138,927,067.34</b>

<sup>2</sup> VAT Refund: Standard VAT tax rebate regulated by Ministry of Finance and State Administration of Taxation. (Finance and Tax No.[2011]100)

<sup>3</sup> Grants and subsidies: local government incentives provided to businesses (including foreign-owned businesses) that promote employment and economic development.

<sup>4</sup> Refund of tax and levies: Standard tax rebate, such as tax rebate for local water conservancy constructions.

<sup>5</sup> Please refer to Note (V) 46 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.

## (2) Other cash payments relating to operating activities

Unit: RMB

Item	Amount for 2017 first half-year	Amount for 2016 first half-year
Office expenses and business expenses	201,114,049.99	209,942,116.75
Advertising and Selling services	350,742,415.17	296,680,515.19
R&D expense	232,735,332.67	242,322,051.41
Shipping and transportation expense	220,925,130.08	153,119,230.11
Travelling expense	110,284,099.64	67,269,016.25
Rental expense	57,015,437.63	36,637,946.55
Others	58,150,376.77	135,751,003.50
Total	1,230,966,841.95	1,141,721,879.76

## (3) Other cash receipts relating to investing activities

Unit: RMB

Item	Amount for 2017 first half-year	Amount for 2016 first half-year
Receipts of financing leases	13,100,745.41	1,595,000.00
Total	13,100,745.41	1,595,000.00

## (4) Other cash receipts relating to financing activities

Unit: RMB

Item	Amount for 2017 first half-year	Amount for 2016 first half-year
Bank acceptance deposit	1,037,596,477.69	933,662,704.53
Letter of Credit Deposit	20,817,664.54	-
Guarantee deposit	3,101,789.16	2,754,149.98
Guarantee deposit for Forwards settlement and sale	-	321,959,457.63
Total	1,061,515,931.39	1,258,376,312.14

## (5) Other cash payments relating to financing activities

Unit: RMB

Item	Amount for 2017 first half-year	Amount for 2016 first half-year
Repurchase of shares	15,151,500.00	-
Payments for merger under the common control	16,300,000.00	-
Short-term borrowing deposit	362,430,400.00	-
Long-term borrowing deposit	5,000,000.00	-
Letter of Credit deposit	1,244,100.00	-
Bank acceptance deposit	1,224,149,215.14	1,512,537,047.82
Guarantee Deposit	6,243,523.15	12,083,933.16
Guarantee deposit for Forwards settlement and sale	-	166,064.33
Total	1,630,518,738.29	1,524,787,045.31

## 50. Supplementary information about cash flow statement

### (1) Supplementary information about cash flow statement

Unit: RMB

Supplementary information	Amount for 2017 first half-year	Amount for 2016 first half-year
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	3,275,931,652.25	2,611,827,056.67
Add: Impairment of assets	251,738,374.96	158,985,960.70
Fixed assets depreciation	162,308,009.16	90,401,370.71
Amortization of intangible assets	21,115,783.51	16,502,102.99
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains expressed with "-")	(2,226,974.55)	299,151.65
Losses on discarding of fixed assets (gains expressed with "-")	-	-
Losses from changes in fair value (gains expressed with "-")	(38,552,490.41)	8,281,896.32
Financial expenses (incomes expressed with "-")	215,668,922.48	12,391,560.60
Investment losses (gains expressed with "-")	(49,652,189.10)	(26,451,500.90)
Share-based payment based on equity	97,854,081.28	-
Decrease in deferred income tax assets (increase expressed with "-")	(59,014,226.88)	(65,021,210.23)
Decrease in inventories (increase expressed with "-")	(1,145,432,144.84)	(773,634,492.70)
Decrease in operating receivables (increase expressed with "-")	(2,803,131,577.53)	(1,541,366,267.97)
Increase in operating payables (decrease expressed with "-")	(1,875,392,178.82)	(94,441,399.56)
Decrease in deferred income (increase expressed with "-")	5,984,156.07	-
<b>Net cash flow from operating activities</b>	<b>(1,942,800,802.42)</b>	<b>397,774,228.28</b>
<b>2. Significant investing and financing activities not involving cash receipts and payments:</b>		
<b>3. Net changes in cash and cash equivalents:</b>		
Ending balance of cash	12,526,354,618.56	9,878,347,644.10
Less: Beginning balance of cash	13,522,337,697.28	10,033,468,750.19
Add: Ending balance of cash equivalents	-	-
Less: Beginning balance of cash equivalents	-	-
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(995,983,078.72)</b>	<b>(155,121,106.09)</b>

### (2) Constituents of cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
<b>Cash</b>	12,526,354,618.56	13,522,337,697.28
Including: Cash on hand	2,619,654.74	748,616.60
Bank deposit for payment at any time	12,507,714,893.76	13,513,777,442.33
Other monetary capital for payment at any time	16,020,070.06	7,811,638.35
<b>Cash equivalents</b>	-	-
<b>Ending balance of cash and cash equivalents</b>	<b>12,526,354,618.56</b>	<b>13,522,337,697.28</b>

Among the total balance of RMB 669,311,819.24 of the other monetary fund(s) at the end of the period, RMB 653,291,749.18 are various guarantee deposits, not cash and cash equivalents.

## 51. Assets with restriction in ownership or use rights

Unit: RMB

Item	Amount	Cause of restriction
Cash and bank balances	653,291,749.18	Various guarantee deposits, pledged for obtaining long-term borrowing
Notes receivable	584,027,766.90	Pledged for bank acceptance bill
Accounts receivable	70,036,733.76	Pledged for obtaining long-term borrowing
<b>Total</b>	<b>1,307,356,249.84</b>	



## 52. Monetary items of foreign currencies

### (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
<b>Monetary funds</b>			
Including: USD	758,578,206.92	6.7744	5,138,912,204.98
EUR	7,592,210.06	7.7496	58,836,565.39
GBP	49,984.27	8.8144	440,581.33
CHF	4,350.90	7.0888	30,842.66
JPY	408.00	0.0605	24.68
<b>Accounts receivable</b>			
Including: USD	220,083,935.04	6.7744	1,490,936,609.54
EUR	4,147,353.93	7.7496	32,140,334.02
<b>Short-term borrowing</b>			
Including: GBP	2,500,000.00	8.8144	22,036,000.00
<b>Accounts Payable</b>			
Including: USD	122,316,676.82	6.7744	828,622,095.45
<b>Bond Payable</b>			
Including: EUR	400,000,000.00	7.7496	3,099,840,000.00

### (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 Comercio de Equipamentos de Segurana Ltd.	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



## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

Name of overseas subsidiaries	Main overseas operational office	Recording Currency	Basis of selection
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
Hikvision Hungary Kft	Hungary	HUF	Selection based on local economic environment
Hikvision New Zealand Limited	New Zealand	NZD	Selection based on local economic environment
Hikvision Tashkent LLC.	Uzbekistan	UZS	Selection based on local economic environment
Hikvision Kenya (Pty) Ltd	Kenya	KES	Selection based on local economic environment

## VI. Changes in consolidation scope

### 1. Business merger involving enterprises under common control

#### (1) Business merger involving enterprises under common control during the reporting period

Hangzhou Hik Ximu Intelligent Technology Co., Ltd. (杭州海康希牧智能科技有限公司)

Pursuant to the resolution approved by the 21st meeting of the 3rd session of the Board of Directors held on January 18<sup>th</sup> 2017, the Company's subsidiary Hangzhou Hikvision Automotive Technology Co., Ltd., CETHIK and 7 individual shareholders including Yang Feng signed the agreement to 100% acquire CETHIK's subsidiary Hangzhou Hik Ximu Intelligent Technology Co., Ltd. (hereinafter refer to as "HIK Ximu") with RMB 16.3 million, of which RMB 9.78 million was for acquiring 60% shares of HIK Ximu held by CETHIK, and RMB 6.52 million was for acquiring 40% shares of HIK Ximu held by 7 individual shareholders including Yang Feng. The acquisition was completed on May 24<sup>th</sup> 2017.

Unit: RMB

Name of the acquiree	Equity acquisition ratio (%)	Basis for Business merger under common control	Date of acquisition	Basis for determining date of acquisition	Income of acquiree from beginning of the year to the date of acquisition	Net profit of acquiree from beginning of the year to the date of acquisition	Income of acquiree from beginning of the prior year to the date of acquisition in prior year	Net profit of acquiree from beginning of the prior year to the date of acquisition in prior year
HIK Ximu	100	Both parties are under the common control of CETHIK before and after the business combination, which is not temporary	April 12 <sup>th</sup> 2017	Equity transfer date of acquiring the control of acquiree	6,146.76	(209,736.97)	5,278,022.46	1,625,123.41

#### (2) Cost of business merger

Unit: RMB

Cost of business merger	HIK Ximu
- Cash	16,300,000.00

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

## (3) Acquiree's book value of assets and liabilities at the date of acquisition

Unit: RMB

	HIK Ximu	
	On date of acquisition	Ending balance at the end of prior year
<b>Assets:</b>		
Cash and bank balances	2,462,383.90	382,694.41
Accounts receivable	919,422.04	3,191,155.73
Inventories	4,788,664.47	4,755,416.17
Prepayments	16,557.43	15,103.89
Fixed assets	123,067.64	237,137.87
Intangible assets	197,649.60	216,346.18
Deferred income tax asset	55,862.09	39,137.72
<b>Liabilities:</b>		
Accounts payable	867,089.36	3,105,113.00
Other payables	15,927,658.68	15,693,470.53
<b>Net assets</b>	(8,174,510.52 )	(18,457,254.41)
less: minority interests		
Net assets acquired	(8,174,510.52)	(18,457,254.41)

## 2. Changes of consolidation scope due to other causes

## (1) The subsidiaries newly established and incorporated in the consolidation scope during the current period as follows:

Company Name	Time of establishment	Registered capital	Amount of contribution of the Company	Ratio of contribution (%)
Hikvision New Zealand Limited (New Zealand Subsidiary)	March 2017	NZD 300,000	NZD 300,000	100
Wuhan HIK Storage Technology Co., Ltd. ("Wuhan Storage") Note 1	April 2017	RMB 100 million	RMB 60 million	60
Urumchi Hai Shi Xin An Electronics Technology Co., Ltd. (乌鲁木齐海视新安电子技术有限公司) ("Hai Shi Xin An")	April 2017	RMB 120 million	RMB 108 million	90
Chengdu Hikvision Digital Technology Co., Ltd. ("Chengdu Hikvision") Note 2	April 2017	RMB 80 million	RMB 80 million	100
Hikvision Kenya (Pty) Ltd ("Kenya Subsidiary") Note 3	April 2017	KES 26 million	KES 26 million	100
Hikvision Tashkent LLC. ("Uzbekistan Subsidiary") Note 4	April 2017	USD 130,000	USD 130,000	100
Hikvision Hungary Kft ("Hungary Subsidiary")	May 2017	HUF 58 million	HUF 58 million	100

Note 1: At the end of the reporting period, the actual paid-up capital of Wuhan Storage was RMB 25,000,000.00, of which, RMB 15,000,000.00 that resulted in 60% equity holding percentage was contributed by the Company,

Note 2: At the end of the reporting period, Chengdu Hikvision has not completed capital contribution yet; therefore, its actual paid-up capital was nil.

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

Note 3: At the end of the reporting period, Kenya Subsidiary has not completed capital contribution yet; therefore, its actual paid-up capital was nil.

Note 4: At the end of the reporting period, Uzbekistan Subsidiary has not completed capital contribution yet; therefore, its actual paid-up capital was nil.

## (2) Cancellation of the Company's Subsidiary during the current reporting period:

Company Name	Method of equity Disposition	Data of equity disposition	Net asset on the date of equity disposition	Net profit from beginning of 2017 to the date of equity disposition
Wuhan Hikvision System Technology Co., Ltd.	Liquidation	March 2017	9,929,719.62	16,361.84

## VII. Interest in other entities

### 1. Equity in subsidiaries

#### (1) Composition of corporate group

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
Hangzhou Hikvision System Technology Co., Ltd.	Hangzhou	Hangzhou, Zhejiang	System integration, Technology development	100.00		Establishment
Hangzhou Hikvision Science and Technology Co., Ltd.	Hangzhou	Hangzhou, Zhejiang	manufacture	100.00		Establishment
Hangzhou Hikvision Security Equipment Leasing Services Ltd.	Hangzhou	Hangzhou, Zhejiang	Finance lease	100.00		Establishment
Chongqing Hikvision System Technology Co., Ltd.	Chongqing	Chongqing	System integration	100.00		Establishment
Hikvision USA, Inc.	USA	Los Angeles	Sales	100.00		Establishment
HDT International Ltd.	Hong Kong	Hong Kong	Sales	95.00	5.00	Establishment
Prima 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	Manufacture	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 Seguranca Ltda.	Brazil	Brazil	Sales	95.00	5.00	Establishment
Hikvision Australia PTY Ltd.	Australia	Australia	Sales	100.00		Establishment
Hikvision International Co., Limited	Hong Kong	Hong Kong	Sales	100.00		Establishment
Hikvision France SAS	France	France	Sales		100.00	Establishment
Hikvision Spain,S.L.	Spain	Spain	Sales		100.00	Establishment
Shanghai Goldway Intelligent Traffic System Co., Ltd.	Shanghai	Shanghai	Manufacture	100.00		Business combination not under common control
ZAO Hikvision	Russia	St. Peterburg	Sales		100.00	Business combination not under common control
Beijing Brainaire Storage Technology Co., Ltd.	Beijing	Beijing	Manufacture	100.00		Business combination not under common control

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
						control
Henan Hua'an Intelligence Development Co., Ltd.	Zhengzhou	Zhengzhou	Construction	51.00		Business 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	Manufacture	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	Manufacture	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.	USA	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	Manufacture		100.00	Business combination not under common control
Pyronix Limited	British	Sheffield	Manufacture		100.00	Business combination not under common control
Microwave Solutions Limited	British	Sheffield	Manufacture		100.00	Business combination not under common control
Tianjin Hikvision System Technology Co., Ltd.	Tianjin	Tianjin	System integration	100.00		Establishment
Hikvision Hungary Kft	Hungary	Hungary	Sales		100.00	Establishment
Hikvision New Zealand Limited	New Zealand	Auckland	Sales		100.00	Establishment
Wuhan HIK Storage Technology Co., Ltd.	Wuhan	Wuhan	Technology development	60.00		Establishment
Urumchi Hai Shi Xin An Electronics Technology Co., Ltd.	Urumchi	Urumchi, Xinjiang	Construction		90.00	Establishment
Hangzhou Hik Ximu Intelligent Technology Co., Ltd	Hangzhou	Hangzhou, Zhejiang	Manufacture		60.00	Business combination under common control
Hikvision Tashkent LLC.	Uzbekistan	Tashkent	Sales		100.00	Establishment
Hikvision Kenya (Pty) Ltd	Kenya	Kenya	Sales		100.00	Establishment

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 of the

Company, the dividend payout ratio of Hangzhou Hikvision Systems Co., Ltd. was 50% in the said company (Fuyang Baotai).

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. Equity in joint ventures or associates

### (1) Aggregated financial information of insignificant joint ventures or associates

Unit: RMB

	Closing balance / amount for 2017 first half-year	Opening balance / amount for 2016 first half year
Associates:		
The aggregate carrying amount of investments in associates	133,000,000.00	35,000,000.00-
The aggregate amount of its share percentage of the associates	-	-
--Total net profit and comprehensive income	(3,877,702.05)	-

## 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 of June 30<sup>th</sup> 2017, 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.

Unit: RMB

Currencies	Assets		Liabilities	
	Closing balance	Opening balance	Closing balance	Opening balance
USD	6,629,848,814.52	5,368,890,321.65	828,622,095.45	858,395,317.22
EUR	90,976,899.41	459,593,188.17	3,099,840,000.00	2,954,449,528.77

The Company has been paying close attention to the effect of fluctuation in exchange rate on the foreign exchange risks of the Group and has purchased forward foreign exchange contracts to mitigate the foreign exchange risk exposure.

### Sensitivity analysis on exchange rate risk

With other variables unchanged, the exchange rate might float within a reasonable range, and has the following before tax effect on profit or loss and shareholders' equity for the current period:

Unit: RMB

Change in interest rates	2017 first HY		2016 first HY	
	Effect on profit	Effect on shareholders' equity	Effect on profit	Effect on shareholders' equity
5% appreciation of USD against functional currency	290,061,335.95	290,061,335.95	128,413,114.07	128,413,114.07
5% depreciation of USD against functional currency	(290,061,335.95)	(290,061,335.95)	(128,413,114.07)	(128,413,114.07)
5% appreciation of EUR against functional currency	(150,443,155.03)	(150,443,155.03)	(136,377,609.77)	(136,377,609.77)
5% depreciation of EUR against functional currency	150,443,155.03	150,443,155.03	136,377,609.77	136,377,609.77

### 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	2017 first HY		2016 first HY	
	Effect on profit	Effect on shareholders'	Effect on profit	Effect on profit
Increase by 50 basis points of the borrowing rates	199,227,031.43	199,227,031.43	46,421,647.15	46,421,647.15
Decrease by 50 basis points of the borrowing rates	(199,227,031.43)	(199,227,031.43)	(46,421,647.15)	(46,421,647.15)

## 1.2 Credit risk

As at June 30<sup>th</sup> 2017, the biggest credit risk exposure that may cause financial loss suffered by the Group was mainly due to the other party's inability to fulfill obligations that caused the loss on the Group's financial assets, which include:

The book value of a confirmed financial asset in the consolidated balance sheet : for those financial instruments that are measured by fair value, the book value reflects its risk exposure rather than its biggest risk exposure, the biggest risk exposure will change as the future fair value changes.

In order to minimize credit risk, the Group has established a team responsible for formulating credit limit, credit approval and implementing other monitoring procedures to ensure necessary follow-up measures are carried out to recover the overdue debts. In addition, the Group reviews the recovery of each individual receivable at each balance sheet date to ensure that sufficient provision for bad debts is made for uncollectible funds. As such, the management of the Group believes that the Group's exposure to credit risk has been significantly lowered.

The Group only deposits cash and cash equivalents into banks with relatively high level of credit rating; as such the risk of cash and cash equivalents is low.

The Group has adopted necessary policies to ensure that all the sales customers have good credit records. Since the Group's risk exposure exists in several parties to the contract and certain customers, the Group has no other significant concentration of credit risk.



### 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

June 30 <sup>th</sup> 2017				
	Within one year	1-5 years	More than five years	Total
<b>Non-derivative financial liabilities</b>				
Short-term borrowings	1,994,061,514.71	-	-	1,994,061,514.71
Notes payables	536,694,693.25	-	-	536,694,693.25
Accounts payables	6,155,893,782.95	-	-	6,155,893,782.95
Other payables	481,729,216.24	-	-	481,729,216.24
Other current liabilities	853,507,327.55	-	-	853,507,327.55
Bonds payable	24,735,024.64	3,138,588,000.00	-	3,163,323,024.64
Dividends payable	92,407,139.16	-	-	92,407,139.16
Long-term borrowings	30,829,735.04	1,152,834,814.08	194,165,808.22	1,377,830,357.34
Long-term payables	-	7,466,200.00	-	7,466,200.00
Non-current liabilities due within one year	730,275,989.06	-	-	730,275,989.06
<b>Derivative financial liabilities</b>				
Forward foreign exchange contracts- settled in the gross amount				
- Cash inflow	707,652,770.72	-	-	707,652,770.72
- Cash outflow	727,049,704.21	-	-	727,049,704.21
- Net cash outflow	19,396,933.49	-	-	19,396,933.49

## IX. Fair value disclosure

### 1. The financial assets and financial liabilities measured at fair value at the balance sheet date:

Unit: RMB

Items	Closing fair value			
	Level 1	Level 2	Level 3	Total
<b>I. Continuous fair value measurement</b>		(15,557,956.24)		(15,557,956.24)
(I) Financial assets designated as fair value through profit and loss		-		
1. Tradable Financial Assets		3,004,171.92		3,004,171.92
-- Derivative financial assets		3,004,171.92		3,004,171.92
<b>Total assets measured continuously at fair value</b>		3,004,171.92		3,004,171.92
(II) Tradable Financial Liabilities		18,562,128.16		18,562,128.16
- Derivative financial liabilities		18,562,128.16		18,562,128.16
<b>Total liabilities measured continuously at fair value</b>		18,562,128.16		18,562,128.16

## 2. Information on the estimation technique and important parameters adopted as for continuous Level 2 fair value measurement items

	Fair value at June 30 <sup>th</sup> 2017	Estimation technique	Inputs
Forward Foreign Exchange Contracts (Assets)	2,297,956.17	Discounted cash flow approach	Forward exchange rate discounted rate that reflects the credit risk of counterparties
Interest rate swap contracts (Assets)	706,215.75	Discounted cash flow approach	Forward exchange rate discounted rate that reflects the credit risk of counterparties
Forward Foreign Exchange Contracts (Liabilities)	(18,562,128.16)	Discounted cash flow approach	Forward exchange rate discounted rate that reflects the credit risk of counterparties

## 3. Items measured at continuous fair value. There were no transfers between levels for the current reporting period. There was no estimation technique change for the current reporting period

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

The Company's management believes that the carrying amounts of financial assets and financial liabilities stated in current assets and current liabilities in financial statements approximate to their respective fair values.

The financial liabilities which are not subsequently measured at fair values by the Group include long-term borrowings, bonds payable and long-term payables, and the differences between their carrying amounts and their respective fair values are 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	39.59	39.59

The ultimate controlling party of the Company is China Electronics Technology Group Corporation ("CETE").

### 2. Information on the subsidiaries of the Company

For details of the subsidiaries of the Company, see Note (VII).

### 3. Information on the joint ventures and associated companies of the Company

For details of the associated companies of the Company, see Note (V) 11.

### 4. Information on other related parties

Name	Relationship
Gong Hongjia	Director of the company, holds 16.16% 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) (Note)
Subsidiaries of CETE	Under common control of the ultimate controlling party of the Company
Zhejiang Tuxun Technology Co., Ltd. ("Tuxun Technology")	Joint-stock corporation, the Company's senior management serve(s) as director(s)
Wuhu Sensor Technology Co., Ltd. ("SensorTech")	Associated company, the Company's senior management serve(s) as director(s)
Maxio Technology (Hangzhou) Ltd. ("Maxio Technology")	Associated company, the Company's senior management serve(s) as director(s)

Note: Mr Gong Hongjia left Beijing Woqi as a director on November, 2016.

## 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 2017 first half year	Amount for 2016 first half year
Subsidiaries of CETE	Purchase of materials and receiving of services	94,447,392.66	56,328,655.64
Shanghai Fullhan	Purchase of materials and receiving of services	72,069,293.64	55,709,889.89
Beijing Woqi	Purchase of materials	2,058,082.38	1,471,794.90
SensorTech	Purchase of materials	4,489,736.27	-
Maxio Technology	receiving of services	23,584,904.76	-
Total		196,649,409.71	113,510,340.43

### 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	190,588,282.71	28,171,629.23
Tuxun Technology	Sales of products	419,664.11	-
Total		191,007,946.82	28,171,629.23

The above transactions are executed at market prices.

- (2) Guaranteed by the related party

As required by the project owner, China Electronics Technology Group Corporation has provided a joint guarantee to responsibility and duties of 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.

- (3) Other related party transactions

During the current reporting period, the Company’s subsidiary Hangzhou Hikvision Automotive Technology Co., Ltd. acquired the asset group of CETHIK’s Intelligent Automotive Department with acquisition target price of RMB 68.02 million. During the transitional period, the acquisition price was audited and adjusted up with RMB 11.39 million, and the final settlement price was RMB 79.41 million; Hangzhou Hik Ximu Intelligent Technology Co., Ltd., CETHIK’s holding subsidiary, was acquired by the Company with RMB 16.30 million, holding 100% equity, please refer to Note (VI) 1 for details.

As of June 6<sup>th</sup> 2017, the Company made a one-year saving of RMB 200.00 million into CETC Finance Co., Ltd. As of June 30<sup>th</sup> 2017, the balance of the saving account is 200.00 million.

## 6. Receivables from related parties and Payable to related parties

### (1) Receivables from related parties

Unit: RMB

Item	Related Party	Closing balance		Opening balance	
		Carrying balance	Bad debt provision	Carrying balance	Bad debt provision
<b>Accounts receivable</b>	Subsidiaries of CETE	440,236,780.92	22,599,774.54	417,423,058.74	21,711,986.75
	Tuxun Technology	905,290.01	45,264.50		
Total		441,142,070.93	22,645,039.04	417,423,058.74	21,711,986.75
<b>Prepayments</b>	SensorTech	445,487.19	-	-	-
	Maxio Techonology	5,419,526.77	-	-	-
Total		5,865,013.96	-	-	-
<b>Other Receivables</b>	Subsidiaries of CETE	23,553,271.93	1,177,663.60	-	-
Total		23,553,271.93	1,177,663.60	-	-

### (2) Payables to related parties

Unit: RMB

Item	Related Party	Closing balance	Opening balance
<b>Accounts payable</b>	Subsidiaries of CETE	134,900,796.42	144,521,684.68
<b>Accounts payable</b>	Shanghai Fullhan	64,682,871.01	40,115,748.45
<b>Accounts payable</b>	Beijing Woqi	1,272,000.00	888,807.70
Total		200,855,667.43	185,526,240.83
<b>Receipts in advance</b>	Subsidiaries of CETE	-	22,293,294.23
Total		-	22,293,294.23
<b>Other payables</b>	Subsidiaries of CETE	32,343,298.26	29,057,883.21
Total		32,343,298.26	29,057,883.21

## XI. Share-based payments

### 1. Overview of share-based payments

According to the “Approval of the Implementation of the Restrictive Share Incentive Scheme of Hangzhou Hikvision Digital Technology Co., Ltd. (关于杭州海康威视数字技术股份有限公司实施限制性股票激励计划的批复)” (Guo Zi Fen Pei [2012] No. 426) issued by the State-owned Assets Supervision and Administration Commission of the State Council and the “Opinion the Restrictive Share Incentive Scheme of Hangzhou Hikvision Digital Technology Co., Ltd. (关于杭州海康威视数字技术股份有限公司限制性股票激励计划的意见)” (Shang Shi Bu Han [2012] No. 353) issued by China Securities Regulatory Commission, the Company convened the ninth meeting of the second session of the Board of Directors on July 25<sup>th</sup> 2012 and the first extraordinary general meeting for 2012 on August 13<sup>th</sup> 2012, whereat the Proposal Relating to the Restrictive Share Scheme (Amendments to the Draft) of the Company and Highlights was reviewed and passed. The purpose of the Share Incentive Scheme is to: further improve the Company’s governance structure to establish a good and balanced value allocation system; establish a profit-sharing and restriction mechanism among shareholders, the Company and its employees, so as to provide shareholders with sustainable return; fully mobilize the positivity of core employees to support the Company in realizing its strategies and long-term sustainable development; attract and retain core employees to ensure the Company’s long-term development.

The Scheme shall be effective for a term of 10 years commencing from the date of approval by general meeting of the Company, during which the Company may grant restricted shares to 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 one trading day prior to publication of the summary Share Incentive Scheme draft;
- (II) The average closing price of the subject shares of the Company for 30 trading days prior to publication of the summary Share Incentive Scheme draft;
- (III) The average price of the subject shares of the Company for 20 trading days prior to publication of the summary Share Incentive Scheme draft; or
- (IV) The unit nominal value of the subject shares of the Company.

Each batch of restricted shares shall not be unlocked unless fulfilling, each time, by the Company its unlock performance criteria, including net asset yield and operating income growth rate, and by 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 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.

Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

Unit: share

2014 Share Incentive Scheme	Current reporting period
Total of equity instruments outstanding at the beginning of the year	46,220,473
Total of equity instruments granted (share dividend) during the current reporting period	23,110,236
Total of equity instruments vested during the current reporting period	-
Total of equity instruments forfeited during the current reporting period	-
Total of equity instruments outstanding at the end of the reporting period	69,330,709
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 4.11 per share and 28 months.

Unit: share

2016 Share Incentive Scheme	Current reporting period
Total of equity instruments outstanding at the beginning of the year	52,326,858
Total of equity instruments granted (share dividend) during the current reporting period	26,163,429
Total of equity instruments vested during the current reporting period	-
Total of equity instruments forfeited during the current reporting period	-
Total of equity instruments outstanding at the end of the reporting period	78,490,287
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 8.42 per share an 54 months

## 2. Information of the equity settled share-based payment

Unit: RMB

	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
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
Reasons of the significant difference between the estimates of the current year with that of the prior year	None	None
Accumulative amount of the equity settled with share-based payment and included in the capital reserve	318,752,215.19	69,423,390.50
Total amount of the expenses recognized according to the equity settled with share-based payment in the current reporting period	28,430,690.78	69,423,390.50

## 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 construction of long-term assets	908,924	490,098
<b>Total</b>	<b>908,924</b>	<b>490,098</b>

#### (2) Operating lease commitments

At the balance sheet date, the Group had the following external commitments in respect of non-cancellable operating leases:

Unit: RMB'000

	Closing balance	Opening balance
Minimum lease payments under non-cancellable operating leases:		
First year from the balance sheet date	67,003	61,829
Second year from the balance sheet date	72,087	40,469
Third year from the balance sheet date	33,183	23,452
Subsequent years	34,544	42,010
<b>Total</b>	<b>206,817</b>	<b>167,760</b>

(3) As of June 30<sup>th</sup> 2017, 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.

## 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., Hangzhou Hikvision Weiying Sensory Technology Co., Ltd., and Wuhan HIK Storage Technology Co., Ltd. respectively.

### 2. Segment information

#### 2.1 Report segment determining and accounting policy



## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

According to the Group's internal organization structure, management requirements and internal report principles, the Group has only one operating segment i.e. the research and development, production and sales of security products.

## 2.2 Segment financial reporting

### External revenue by product or business segments

Unit: RMB

Item	Amount for 2017 first half-year	
	Operating income	Operating cost
Front-end equipment	8,471,727,239.99	4,330,837,875.51
Back-end equipment	2,581,996,973.35	1,318,164,201.90
Central control equipment	1,893,438,540.55	1,035,848,060.56
Construction project(s)	428,858,036.85	387,677,860.96
Innovative business	613,825,422.23	412,952,376.29
Others	2,200,994,312.68	1,805,372,126.76
Total	16,190,840,525.65	9,290,852,501.98

Unit: RMB

Item	Amount for 2016 first half-year	
	Operating income	Operating cost
Front-end equipment	6,601,052,833.16	3,462,274,282.21
Back-end equipment	2,182,475,391.78	1,212,978,813.40
Central control equipment	1,182,860,160.42	657,013,996.25
Construction project(s)	408,576,652.08	400,274,058.19
Innovative business	234,586,712.01	156,985,171.41
Others	1,736,860,159.37	1,465,712,349.34
Total	12,346,411,908.82	7,355,238,670.80

### External revenue by geographical area and non-current assets by geographical location

Unit: RMB

Item	Amount for 2017 first half year	Amount for 2016 first half year
External revenue generated in domestic area	11,478,885,424.15	8,959,841,363.15
External revenue generated in overseas area	4,968,654,312.37	3,593,635,385.43
Total	16,447,539,736.52	12,553,476,748.58

Unit: RMB

Item (Note)	Closing balance	Opening balance
Non-current assets in domestic area	4,233,625,800.15	3,524,816,425.20
Non-current assets in overseas area	167,205,794.40	345,030,264.81
Total	4,400,831,594.55	3,869,846,690.01

Note: the non-current assets above did not include available-for-sale financial assets, long-term receivables, long-term equity investment and deferred tax assets.



## XV. Notes to major items of financial statements of the parent company

### 1. Accounts receivable

(1) Accounts receivable disclosed by categories:

Unit: RMB

Category	Closing balance					Opening balance				
	Carrying balance		Bad debt provision		Carrying value	Carrying balance		Bad debt provision		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)		Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivable that are individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Accounts receivable with provision accrued collectively on a portfolio basis for credit risk.	13,220,744,215.33	100	847,153,879.17	6.41	12,373,590,336.16	10,908,625,274.90	100	779,871,754.48	7.15	10,128,753,520.42
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Total	13,220,744,215.33	100	847,153,879.17	6.41	12,373,590,336.16	10,908,625,274.90	100	779,871,754.48	7.15	10,128,753,520.42

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

**Accounts receivable with bad debt provision provided by aging analysis on portfolio basis:**

Unit: RMB

Aging	Closing balance		
	Amount	Bad debt provision	Percentage (%)
Within 1 year	12,490,500,098.43	624,525,004.92	5.00
1–2 years	346,250,470.11	34,625,047.01	10.00
2–3 years	190,112,808.12	57,033,842.44	30.00
3–4 years	88,853,019.38	44,426,509.69	50.00
4–5 years	92,421,720.90	73,937,376.72	80.00
Over 5 years	12,606,098.39	12,606,098.39	100.00
Total	13,220,744,215.33	847,153,879.17	6.41

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

The amount of bad debt provision in the current reporting period was RMB 67,090,124.69, and the recovered bad debt provision was RMB 192,000.00.

(3) Accounts receivable actually written off in the current reporting period.

The accounts receivable actually written off in the current reporting period was nil.

(4) The five largest accounts receivable assembled by debtors

Unit: RMB

Company name	Relationship with the Company	Carrying balance	Ending balance of bad debt provision	Proportion of ending balance of accounts receivables in total (%)
Subsidiary A	Subsidiary	10,979,742,688.75	548,987,134.44	83.05
Company B	Third party	73,311,121.80	50,431,328.89	0.55
Company H	Third party	67,606,358.90	3,380,317.95	0.51
Subsidiary B	Subsidiary	56,318,865.55	11,569,524.33	0.43
Company I	Third party	48,285,230.00	7,167,535.70	0.37
Total		11,225,264,265.00	621,535,841.31	84.91

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

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

## 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 for credit risk	1,356,649,784.14	100.00	82,925,385.81	6.11	1,273,724,398.33	449,863,926.01	100.00	31,900,680.55	7.09	417,963,245.46
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Total	1,356,649,784.14	100.00	82,925,385.81	6.11	1,273,724,398.33	449,863,926.01	100.00	31,900,680.55	7.09	417,963,245.46

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.

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

**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	1,262,042,816.79	63,102,140.84	5.00
1–2 years	55,517,977.00	5,551,797.70	10.00
2–3 years	28,122,124.50	8,436,637.35	30.00
3–4 years	9,795,609.20	4,897,804.60	50.00
4–5 years	1,171,256.65	937,005.32	80.00
Total	1,356,649,784.14	82,925,385.81	6.11

- (2) The provision, recovery and reversal of bad debt allowance for the current reporting period

The amount of bad debt provision in the current reporting period was RMB 51,024,705.26.

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

No write-off of other receivables was recorded for the current reporting period.

- (4) Other receivables by nature

Unit: RMB

Nature	Closing balance	Opening balance
Guarantee deposit	44,511,291.46	31,242,843.36
Other lending	1,029,782,567.45	149,296,781.06
Temporary receivables	276,484,294.96	232,789,859.54
Investment deposit	-	35,000,000.00
Others	5,871,630.27	1,534,442.05
Total	1,356,649,784.14	449,863,926.01

- (5) Top 5 debtors of other receivables in terms of closing balance

Unit: RMB

The name of entity	Nature	Closing balance	Aging	Percentage to total other receivables (%)	Bad debt provision
Subsidiary B	Other lending	485,209,165.76	Within 1 year	35.77	24,260,458.29
Subsidiary C	Other lending	451,047,563.85	Within 1 year	33.25	22,552,378.19
Subsidiary A	Other lending	45,752,855.06	Within 1 year	3.37	2,287,642.75
Company J	Temporary receivables	20,699,153.07	Within 1 year	1.53	1,034,957.65
Company K	Temporary receivables	7,017,000.00	Within 1 year	0.52	350,850.00
Total		1,009,725,737.74		74.43	50,486,286.88

- (6) At the end of the reporting period, there were no other receivables derecognized due to the transfer of financial assets.

- (7) At the end of the reporting period, there were no assets or liabilities formed by continuing involvement in derecognised other receivables.

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

### 3. Long-term equity investment

Details of long-term equity investment:

Unit: RMB

Name of investee	Accounting method	Opening balance	Increase during the current reporting period		Decrease during the current reporting period		Closing balance	Provision for impairment losses	Provision for impairment losses for the year
			Additional investment	Increase due to the grant of share options	Investment Income recognized based on equity method	Cancellation of subsidiary			
Hikvision System Technology Co. Ltd.	Cost method	233,378,669.31	-	17,942,647.96	-	-	251,321,317.27	-	-
Hangzhou Hikvision Science and Technologies Co. Ltd.	Cost method	108,430,558.84	900,000,000.00	3,387,738.78	-	-	1,011,818,297.62	-	-
Hangzhou Hikvision Security Equipment Leasing Services Ltd.	Cost method	200,000,000.00	-	-	-	-	200,000,000.00	-	-
Chongqing Hikvision System Technology Co., Ltd.	Cost method	200,000,000.00	-	-	-	-	200,000,000.00	-	-
Hikvision USA, Inc.	Cost method	1,546,160.00	-	-	-	-	1,546,160.00	-	-
HDT International Ltd.	Cost method	87,786.14	-	-	-	-	87,786.14	-	-
Prama Hikvision Indian Private Limited	Cost method	1,585,696.80	-	-	-	-	1,585,696.80	-	-
Hikvision Dubai FZE	Cost method	1,870,351.40	-	-	-	-	1,870,351.40	-	-
Hikvision Singapore Pte. Ltd	Cost method	1,900,590.00	-	-	-	-	1,900,590.00	-	-
Chongqing Hikvision Science and 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 ça Ltda.	Cost method	4,579,750.50	-	-	-	-	4,579,750.50	-	-
Hikvision Australia PTY Ltd.	Cost method	2,866,850.00	-	-	-	-	2,866,850.00	-	-
Hikvision International Co., Limited	Cost method	79,423.52	-	-	-	-	79,423.52	-	-
Hundure Technology (Shanghai) Co., Ltd.	Cost method	37,247,790.28	-	-	-	-	37,247,790.28	-	-
Hangzhou Hikvision Electronics Co. Ltd.	Cost method	397,745,645.00	-	-	-	-	397,745,645.00	-	-
Cooperative Hikvision Europe U.A.	Cost method	65,485.53	-	-	-	-	65,485.53	-	-
Hikvision Canada inc.	Cost method	994,442.54	-	-	-	-	994,442.54	-	-
Hikvision LLC	Cost method	647,249.19	-	-	-	-	647,249.19	-	-
HIKVISION Korea Limited	Cost method	1,535,850.00	-	-	-	-	1,535,850.00	-	-

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

Name of investee	Accounting method	Opening balance	Increase during the current reporting period		Decrease during the current reporting period		Closing balance	Provision for impairment losses	Provision for impairment losses for the year
			Additional investment	Increase due to the grant of share options	Investment Income recognized based on equity method	Cancellation of subsidiary			
Hangzhou EZVIZ Network Co., Ltd.	Cost method	1,000,000.00	-	2,520,069.08	-	-	3,520,069.08	-	-
Hangzhou Hikvision Zhicheng Investment and Development Co., Ltd.	Cost method	24,000,000.00	-		-	-	24,000,000.00	-	-
Hangzhou Hikvision robotic Technology Co., Ltd.	Cost method	10,000,000.00	-	1,617,565.00	-	-	11,617,565.00	-	-
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	-	1,173,255.30	-	-	73,173,255.30	-	-
Hangzhou Hikvision Communication Technology Co. Ltd.	Cost method	7,000,000.00	-	-	-	-	7,000,000.00	-	-
Hangzhou Hikvision Weiyang Sensory Technology Co., Ltd.	Cost method	60,000,000.00	-	-	-	-	60,000,000.00	-	-
Hikvision Turkey Technology And Security Systems Commerce Corporation	Cost method	1,148,115.83	-	-	-	-	1,148,115.83	-	-
Hikvision Colombia SAS	Cost method	1,337,440.00	-	-	-	-	1,337,440.00	-	-
Hikvision Kazakhstan limited liability partnership	Cost method	4,758.69	-	-	-	-	4,758.69	-	-
Wuhu Sensor Technology Co. Ltd.	Equity method	35,000,000.00	-	-	(1,409,148.78)	-	33,590,851.22	-	-
Tianjin Hikvision System Technology Co., Ltd.	Cost method	-	10,000,000.00	-	-	-	10,000,000.00	-	-
Wuhan HIK Storage Technology Co., Ltd.	Cost method	-	15,000,000.00	-	-	-	15,000,000.00	-	-
Maxio Technology (Hangzhou) Ltd.	Equity method	-	48,000,000.00	-	-	-	48,000,000.00	-	-
Total		1,714,688,703.42	973,000,000.00	26,641,276.12	(1,409,148.78)	10,000,000.00	2,702,920,830.76	-	-

As of June 30<sup>th</sup> 2017, there were no restrictions on the capability of transferring fund to the Company from investees in which the Company held long-term equity investment.

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

**4. Operating income and operating cost**

Unit: RMB

Item	2017 first half year		2016 first half year	
	Income	Cost	Income	Cost
Operating income	6,798,573,690.37	2,251,271,391.25	6,340,292,309.26	1,861,474,489.65
Other operating income	710,968,437.01	99,917,571.80	639,101,207.28	568,164,565.21
Total	7,509,542,127.38	2,351,188,963.05	6,979,393,516.54	2,429,639,054.86

**5. Investment income**

## (1) Details of investment income

Unit: RMB

Item	Amount for 2017 first half year	Amount for 2016 first half year
Long-term equity investment income measured by equity method	(1,409,148.78)	-
Long-term equity investment income measured by cost method	(7,379,719.62)	-
Disposal G/L of financial assets measured by fair value and their changes recognized in the gains and losses during the current period	4,064,470.64	30,136,515.97
Investment gains (losses) for available-for-sale financial assets during the holding period	8,505,842.42	-
Investment income from redemption of finance products of banks upon expiry	29,315,524.76	-
Total	33,096,969.42	30,136,515.97

**XVI. Supplementary information**
**1. Details of current non-recurring gains and losses**

Unit: RMB

Item	Amount	Description
Profit or loss from disposal of non-current assets	2,226,974.55	
The government subsidies included in the current profits and losses (excluding the government subsidy <sup>6</sup> closely related to regular course of business of the Company and government subsidy based on standard quota or quantitative continuous enjoyment according to the state industrial policy)	14,130,234.67	
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	88,204,679.51	
Other non-operating income and expense except the items mentioned above	16,422,848.73	
Impact of income tax	(18,147,710.62)	
The impact of minority interests	(1,157,189.00)	
<b>Total</b>	<b>101,679,837.84</b>	

<sup>6</sup> Please refer to Note (V) 46 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.

## Notes on Financial Statements

For fiscal year period from January 1<sup>st</sup> 2017 to June 30<sup>th</sup> 2017

## 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	12.98%	0.357	0.357
Net profit excluding non-recurring items of profit or loss attributable to ordinary shareholders of the Company	12.55%	0.346	0.346



## **Section XI Documents Available for Reference**

1. The financial report was signed a by the Company's legal representative.
2. The financial report was signed and sealed by the person in charge of the Company, responsible person in charge of accounting work and person in-charge of accounting organization.
3. Original copy of all the Company's documents and announcements were published on the newspapers designated by CSRC within the Reporting Period.

The above documents are completely placed at the company's board of directors' office.

Hangzhou Hikvision Digital Technology Co., Ltd.

Chairman: Chen Zongnian

July 22<sup>nd</sup> 2017